NEW ISSUE **RATINGS: Moody's: A3**
Book-Entry Only **S&P: A-**

In the opinion of Nixon Peabody LLP, New York, New York, Bond Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the Issuer and the Institution described herein, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Bond Counsel is further of the opinion that interest on the Series 2016 Bonds is exempt from personal income taxation imposed by the State of New York or any political subdivision of the State of New York, including The City of New York, assuming compliance with tax covenants and the accuracy of the representations and certifications described herein. See "TAX MATTERS" herein regarding certain other tax considerations.

HEALTHQUEST

$28,080,000
DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION
REVENUE REFUNDING BONDS, SERIES 2016A
(HEALTH QUEST SYSTEMS, INC. PROJECT)

$350,000,000
DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION
REVENUE BONDS, SERIES 2016B
(HEALTH QUEST SYSTEMS, INC. PROJECT)

Dated: Date of Delivery **Due:** July 1, as shown below

On the issuance date, the Dutchess County Local Development Corporation, Dutchess County, New York (the "Issuer") will issue its $28,080,000 aggregate principal amount of Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) (the "Series 2016A Bonds") and $350,000,000 Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project) (the "Series 2016B Bonds", and collectively with the Series 2016A Bonds, the "Series 2016 Bonds"). The Series 2016 Bonds are issuable only as fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") under the book-entry only system maintained by DTC, only through brokers and dealers who are, or act through, DTC Participants. Purchases by Beneficial Owners will be made in book-entry only form in the denominations of $5,000, or any integral multiple thereof. Beneficial Owners will not be entitled to receive physical delivery of the Series 2016 Bonds. Interest on the Series 2016 Bonds is payable on each January 1 and July 1, commencing January 1, 2017. So long as Cede & Co. is the registered owner of the Series 2016 Bonds, payments of principal or redemption price of and interest on the Series 2016 Bonds are required to be made to Beneficial Owners by DTC through its participants. See "THE SERIES 2016 BONDS – Book-Entry Only System" herein.

The Series 2016 Bonds are issued pursuant to an Indenture of Trust dated as of July 1, 2016 (the "Indenture"), by and between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"). The proceeds of the Series 2016 Bonds will be loaned by the Issuer to Health Quest Systems, Inc. (the "Institution") and applied by the Institution as described herein.

The Series 2016 Bonds will be secured by (a) certain funds and accounts established under the Indenture; (b) any and all other Property (as defined in the Indenture), by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred, by the Issuer or by anyone on its behalf or with its written consent or by the Institution in favor of the Trustee; and (c) Obligation No. 19 delivered with respect to the Series 2016A Bonds (the "Series 2016A Obligation") and Obligation No. 20 delivered with respect to the Series 2016B Bonds (the "Series 2016B Obligation", and collectively with the Series 2016A Obligation, the "Series 2016 Obligations") issued under the Master Trust Indenture, dated as of September 1, 2007 (the "Master Indenture"), by and among Members of the Obligated Group (as defined herein) and The Bank of New York Mellon, formerly known as The Bank of New York, as master trustee (the "Master Trustee"), and under the Supplemental Indenture for Obligation No. 19 and the Supplemental Indenture for Obligation No. 20, respectively, each dated as of July 1, 2016 described herein (collectively, the "Supplemental Indentures") by and among the Members of the Obligated Group and the Master Trustee. The Series 2016 Obligations are secured by a mortgage on the principal hospital campuses of certain Members of the Obligated Group.

AN INVESTMENT IN THE SERIES 2016 BONDS INVOLVES A DEGREE OF RISK. A PROSPECTIVE SERIES 2016 BONDHOLDER IS ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO. SPECIAL REFERENCE IS MADE TO THE SECTIONS ENTITLED "SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS" AND "CERTAIN BONDHOLDERS' RISKS" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2016 BONDS.

THE SERIES 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE ISSUER NOR A DEBT OR INDEBTEDNESS OF DUTCHESS COUNTY OR THE STATE OF NEW YORK AND NEITHER DUTCHESS COUNTY, NOR THE STATE OF NEW YORK SHALL BE LIABLE THEREON. THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE BY THE ISSUER SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT UNDER AND PURSUANT TO THE INDENTURE. THE ISSUER HAS NO TAXING POWER.

MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND CUSIP NUMBERS
(See Inside Cover)

The Series 2016 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity, including redemption and purchase at par under certain circumstances, as described herein under "THE SERIES 2016 BONDS."

The Series 2016 Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approving opinion of Nixon Peabody LLP, New York, New York, as Bond Counsel to the Issuer. Certain legal matters will be passed upon for the Issuer by its counsel, Cappillino & Rothschild LLP, Pawling, New York; for the Members of the Obligated Group by their counsel, Chapman and Cutler LLP, New York, New York; and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Series 2016 Bonds will be available for delivery in definitive form to DTC in New York, New York on or about July 7, 2016.

BofA Merrill Lynch **Cain Brothers**

Dated: June 16, 2016

$28,080,000
DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION
REVENUE REFUNDING BONDS, SERIES 2016A
(HEALTH QUEST SYSTEMS, INC. PROJECT)

SERIAL BONDS

Due (July 1)	Principal Amount	Interest Rate	Price	CUSIP Number†	Due (July 1)	Principal Amount	Interest Rate	Price	CUSIP Number†
2017	$1,325,000	3.000%	102.210	267045FH0	2028	$1,755,000	5.000%	124.770[c]	267045FU1
2018	520,000	3.000	104.078	267045FJ6	2029	1,845,000	5.000	124.264[c]	267045FV9
2019	240,000	3.000	105.651	267045FK3	2030	1,505,000	5.000	123.659[c]	267045FW7
2020	1,090,000	5.000	114.653	267045FL1	2031	1,180,000	5.000	123.058[c]	267045FX5
2021	1,285,000	5.000	117.375	267045FM9	2032	1,235,000	5.000	122.560[c]	267045FY3
2022	1,350,000	5.000	119.767	267045FN7	2033	1,300,000	3.000	100.000	267045FZ0
2023	1,420,000	5.000	121.789	267045FP2	2034	1,340,000	3.000	99.448	267045GA4
2024	1,490,000	5.000	123.612	267045FQ0	2035	1,380,000	3.000	99.140	267045GB2
2025	1,560,000	5.000	125.208	267045FR8	2036	1,420,000	3.000	98.812	267045GC0
2026	1,645,000	5.000	126.406	267045FS6	2037	1,465,000	3.125	99.617	267045GD8
2027	1,730,000	2.000	97.770	267045FT4					

$350,000,000
DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION
REVENUE BONDS, SERIES 2016B
(HEALTH QUEST SYSTEMS, INC. PROJECT)

SERIAL BONDS

Due (July 1)	Principal Amount	Interest Rate	Price	CUSIP Number†	Due (July 1)	Principal Amount	Interest Rate	Price	CUSIP Number†
2021	$ 430,000	4.000%	112.575	267045GE6	2029	$ 8,420,000	3.000%	103.318[c]	267045GN6
2022	455,000	4.000	114.070	267045GF3	2030	9,100,000	5.000	123.659[c]	267045GP1
2023	1,760,000	5.000	121.789	267045GG1	2031	11,060,000	5.000	123.058[c]	267045GQ9
2024	1,850,000	5.000	123.612	267045GH9	2032	11,620,000	5.000	122.560[c]	267045GR7
2025	4,190,000	5.000	125.208	267045GJ5	2033	12,200,000	5.000	122.065[c]	267045GS5
2026	7,220,000	5.000	126.406	267045GK2	2034	12,810,000	4.000	110.113[c]	267045GT3
2027	7,635,000	5.000	125.177[c]	267045GL0	2035	14,595,000	5.000	121.179[c]	267045GU0
2028	8,020,000	5.000	124.770[c]	267045GM8	2036	15,335,000	3.000	98.812	267045GV8

$93,440,000 4.00% Term Bonds due July 1, 2041 - Price 108.841[c] CUSIP 267045GW6†
$129,860,000 5.00% Term Bonds due July 1, 2046 - Price 120.106[c] CUSIP 267045GX4†

† Copyright 2016. American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, the Institution or the Underwriters and are included solely for the convenience of the owners of the Series 2016 Bonds. Neither the Issuer, the Institution nor the Underwriters is responsible for the selection or uses of these CUSIP numbers and no representation is made as to their correctness on the Series 2016 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2016 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Series 2016 Bonds.

[c] Priced to the July 1, 2026 call date.

Rendering of future Vassar Brothers Medical Center

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No dealer, broker, salesman or other person has been authorized by the Issuer, the Institution, the Members of the Obligated Group, DTC, or the Underwriters to give any information or to make any representations with respect to this offering, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2016 Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinions contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Institution since the date hereof.

The Issuer makes no representation with respect to the information in this Official Statement, other than under the headings "INTRODUCTORY STATEMENT – The Issuer", "THE ISSUER" and "LITIGATION – The Issuer".

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE SERIES 2016 BONDS TO CERTAIN DEALERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE SERIES 2016 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

This Official Statement contains a general description of the Series 2016 Bonds, the Issuer, the Institution, the Members of the Obligated Group, and the plan of financing, and sets forth certain provisions of the Indenture, the Loan Agreement, the Master Indenture and the Supplemental Indentures. The description and summaries herein do not purport to be complete. Persons interested in purchasing the Series 2016 Bonds should review carefully the Appendices attached hereto as well as copies of such documents, which are held by the Trustee at its principal office.

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

Under no circumstances shall the delivery of this Official Statement or any sale made after its delivery create any implication that the affairs of the Issuer, the Institution or the Obligated Group have remained unchanged after the date of this Official Statement.

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

TABLE OF CONTENTS

Page No.

INTRODUCTORY STATEMENT 1
THE ISSUER 2
THE OBLIGATED GROUP 3
THE SERIES 2016 BONDS 3
DEBT SERVICE SCHEDULE 9
SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS 10
ESTIMATED SOURCES AND USES OF FUNDS 13
PLAN OF FINANCE 13
CERTAIN BONDHOLDERS' RISKS 14
LITIGATION 39
INDEPENDENT ACCOUNTANTS 40
AFFILIATES INCLUDED IN AUDITS 40
VERIFICATION 40
LEGAL MATTERS 40
UNDERWRITING 40
RATINGS 41
TAX MATTERS 41
CONTINUING DISCLOSURE 43
MISCELLANEOUS 44

APPENDIX A – INFORMATION CONCERNING HEALTH QUEST SYSTEMS, INC. AND THE OBLIGATED GROUP A-1
APPENDIX B – FINANCIAL STATEMENTS OF HEALTH QUEST SYSTEMS, INC. AND SUBSIDIARIES B-1
APPENDIX C – SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT C-1
APPENDIX D – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES D-1
APPENDIX E – PROPOSED FORM OF OPINION OF BOND COUNSEL E-1
APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT F-1

OFFICIAL STATEMENT

Relating to:

$28,080,000 **DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION** **REVENUE REFUNDING BONDS, SERIES 2016A** **(HEALTH QUEST SYSTEMS, INC. PROJECT)**	**$350,000,000** **DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION** **REVENUE BONDS, SERIES 2016B** **(HEALTH QUEST SYSTEMS, INC. PROJECT)**

INTRODUCTORY STATEMENT

Purpose of this Official Statement

This Official Statement, including the front cover page, inside cover page and appendices, provides certain information with respect to the issuance and sale by the Dutchess County Local Development Corporation (the "Issuer") of $28,080,000 aggregate principal amount of its Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) (the "Series 2016A Bonds") and $350,000,000 Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project) (the "Series 2016B Bonds", and collectively with the Series 2016A Bonds, the "Series 2016 Bonds"). The Series 2016 Bonds are to be issued by the Issuer under an Indenture of Trust dated as of July 1, 2016 (the "Indenture") between the Issuer and The Bank of New York Mellon, as trustee (the "Trustee"). Certain capitalized terms used herein are defined in Appendix C or D, as applicable.

The Issuer

The Issuer is a not-for-profit local development corporation formed under Article 14 of the New York Not-For-Profit Corporation Law (the "Act") and is authorized and empowered under the Act to issue the Series 2016 Bonds for the purposes described in this Official Statement. See "THE ISSUER" herein.

The Institution and the Obligated Group

Health Quest Systems, Inc. (the "Institution") is the sole member of Vassar Brothers Hospital (d.b.a Vassar Brothers Medical Center) ("VBMC"), a 365-licensed bed acute care hospital located in Poughkeepsie, Dutchess County, approximately 80 miles north of New York City; Northern Dutchess Hospital ("NDH"), a 68-licensed bed acute care hospital, located approximately 18 miles to the north of VBMC in Rhinebeck, Dutchess County; and Putnam Hospital Center ("PHC"), a 164-licensed bed acute care hospital, located approximately 34 miles to the south of VBMC in Carmel, Putnam County. The Institution exercises active management powers over VBMC, NDH and PHC (collectively, with the Institution, the "Members of the Obligated Group" or the "Obligated Group"). See "THE OBLIGATED GROUP" herein and Appendix A hereto for a more detailed discussion of the Institution and the Obligated Group.

Security for the Series 2016 Bonds

The Series 2016 Bonds and any Additional Bonds that may be issued under the Indenture are limited obligations of the Issuer, equally and ratably payable solely from payments to be made by the Institution pursuant to the Loan Agreement, dated as of July 1, 2016 (the "Loan Agreement"), by and between the Issuer and the Institution.

As security for the Bonds, the Members of the Obligated Group have entered into the Supplemental Indenture for Obligation No. 19 (the "2016A Supplement") with respect to the Series 2016A Bonds and have issued Obligation No. 19 thereunder (the "Series 2016A Obligation") and have entered into the Supplemental Master Trust Indenture for Obligation No. 20 (the "2016B Supplement" and collectively with the 2016A Supplement, the "Supplemental Indentures") with respect to the Series 2016B Bonds and have issued Obligation No. 20 thereunder (the "Series 2016B Obligation" and collectively with the Series 2016A Obligation, the "Series 2016 Obligations"). The Series 2016 Obligations are further secured by a Gross Receipts (as defined in the Master Indenture) pledge

under the Master Indenture and the Mortgages (as defined in the Master Indenture) on the principal inpatient hospital campuses of VBMC, NDH and PHC and certain other facilities of the Members of the Obligated Group. VBMC, NDH and PHC have each represented in their respective Mortgages that each has fee title to their respectively owned Mortgaged Property that is described in the Mortgage signed by such Member of the Obligated Group; however, no title insurance company has issued a title insurance policy insuring the Master Trustee's mortgage lien under the Mortgage on each such Mortgaged Property in connection with the issuance of the Series 2016 Bonds. As a result, a defect in VBMC's, NDH's and/or PHC's title to the Mortgaged Property owned by such Member of the Obligated Group may adversely impact its use of all or a portion of such Mortgaged Property and/or the operations of such Member and/or the value of such Mortgaged Property and any proceeds that may be recovered by the Master Trustee in the event that the Master Trustee seeks to foreclose on the Mortgage related to such Mortgaged Property or to pursue its rights in accordance with the Master Indenture and the Supplemental Indentures.

Plan of Financing

The proceeds of the Series 2016A Bonds will be applied, together with other available funds, for (i) the advance refunding of the Dormitory Authority of the State of New York Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007B (the "Series 2007B Bonds") the proceeds of which were used to refinance certain construction, renovation and equipment acquisition costs associated with the facilities owned by certain Members of the Obligated Group (collectively, the "Series 2016A Facility") as further described herein (See "PLAN OF FINANCE") and (ii) to pay certain costs of issuance of the Series 2016A Bonds and the refunding of the Series 2007B Bonds. The proceeds of the Series 2016B Bonds will be applied to (i) the demolition of an approximately 16,615 square foot building on the VBMC campus and the construction, installation, equipping and furnishing of an approximately 696,000 square foot, seven story building containing 264 private medical, surgical beds, 30 intensive care unit beds, a 66 bay emergency department, a 12 room operating room suite, a new receiving dock, helipad, expanded power plant, conference facilities, cafeteria and below grade parking; (ii) the renovation, installation, furnishing, equipping and improving of an existing 13,800 square foot space in the existing VBMC hospital for use as operating room support space, (consisting primarily of a waiting room and a post-acute care unit) (collectively, the "Series 2016B Facility" and together with the Series 2016A Facility, the "Facility"); (iii) fund capitalized interest on the Series 2016B Bonds; and (iv) pay all or portion of the costs incidental to the issuance of the Series 2016B Bonds (together with the refinancing of the Series 2007B Bonds, the "Project"). See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS".

THE ISSUER

The Dutchess County Local Development Corporation

The Issuer is a not-for-profit local development corporation formed under the Act and is authorized and empowered under the Act to issue the Series 2016 Bonds for the purposes described in this Official Statement. The Issuer is comprised of seven members. The following are the members of the Issuer:

Name	Title
Charles Daniels	Chairman
Timothy Dean	Vice Chairman
Phyllis DiStasi Keenan	Secretary/Treasurer
Mark Doyle	Member
Angela E. Flesland	Member
Edward Summers	Member
Alfred D. Torreggiani	Member

THE SERIES 2016 BONDS ARE NEITHER A GENERAL OBLIGATION OF THE ISSUER, NOR A DEBT OR INDEBTEDNESS OF DUTCHESS COUNTY OR THE STATE OF NEW YORK AND NEITHER DUTCHESS COUNTY NOR THE STATE OF NEW YORK SHALL BE LIABLE THEREON. THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE BY THE ISSUER SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT UNDER AND PURSUANT TO THE

INDENTURE. THE ISSUER HAS NOT VERIFIED, REVIEWED OR APPROVED, AND DOES NOT REPRESENT IN ANY WAY, THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION SET FORTH HEREIN OTHER THAN INFORMATION SET FORTH UNDER THIS HEADING AND THE INFORMATION CONCERNING THE ISSUER UNDER THE HEADINGS "INTRODUCTORY STATEMENT" AND "LITIGATION".

THE OBLIGATED GROUP

The Institution is the sole member of VBMC, a 365-licensed bed acute care hospital located in Poughkeepsie, Dutchess County, approximately 80 miles north of New York City; NDH, a 68-licensed bed acute care hospital, located approximately 18 miles to the north of VBMC in Rhinebeck, Dutchess County; and PHC, a 164-licensed bed acute care hospital, located approximately 34 miles to the south of VBMC in Carmel, Putnam County. In 2001, these hospitals were joined under the Institution as a common parent, and a unified management structure was created by virtue of the affiliation to take advantage of cost efficiencies and to access new markets in northern Dutchess County, the greater Kingston area, across the Hudson River in Ulster County, and in southern Columbia County, and to the south in southern Dutchess County, Putnam County, and northern Westchester County. While NDH and PHC retain their capacity as primary and secondary care providers, they serve as feeders of secondary and tertiary services to VBMC. The Institution exercises active management powers over VBMC, NDH and PHC (collectively, with the Institution, the "Members of the Obligated Group" or the "Obligated Group" and each a "Member"). See Appendix A hereto for a more detailed discussion of the Institution.

THE SERIES 2016 BONDS

General Description

The Series 2016 Bonds are issuable only as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to ultimate purchasers ("Beneficial Owners") under the book-entry only system maintained by DTC, only through brokers and dealers who are, or act through, DTC Participants. Purchases by Beneficial Owners will be made in book-entry only form in denominations of $5,000, or any integral multiple thereof. Beneficial Owners will not be entitled to receive physical delivery of the Series 2016 Bonds. So long as the Series 2016 Bonds are held in DTC's book-entry only system, DTC (or a successor securities depository) or its nominee will be the registered owner of the Series 2016 Bonds for all purposes of the Indenture, the Series 2016 Bonds and this Official Statement, and payments of principal or redemption price of and interest on the Series 2016 Bonds will be made solely through the facilities of DTC. See "Book-Entry Only System" herein.

Interest on the Series 2016 Bonds is payable on each January 1 and July 1, commencing January 1, 2017. So long as Cede & Co. is the registered owner of the Series 2016 Bonds, payments of principal or redemption price of and interest on the Series 2016 Bonds are required to be made to Beneficial Owners by DTC through its participants.

The regular record date for interest due on the Series 2016 Bonds on any Debt Service Payment Date is the fifteenth day of the preceding month (whether or not a Business Day). Notwithstanding the foregoing, interest which is due and payable on any Debt Service Payment Date, but cannot be paid on such date from available funds under the Indenture, shall thereupon cease to be payable to the registered owners otherwise entitled thereto as of such date. Such defaulted interest will be payable to the person in whose name such Series 2016 Bond is registered at the close of business on a special record date established by the Trustee. The Trustee shall mail a notice specifying the special payment date and special record date so established to each registered owner of the Series 2016 Bonds, such notice to be mailed at least 15 days prior to the special record date.

Redemption Prior to Maturity

Optional Redemption.

The Series 2016 Bonds maturing after July 1, 2026, are subject to redemption by the Issuer, at the option of the Institution, on or after July 1, 2026, in whole or in part at any time, at par plus accrued interest to the Redemption Date. See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT".

The Institution shall give the Bond Trustee written notice of its intention to prepay the Series 2016 Bonds under the Indenture in sufficient time to enable the Bond Trustee to give notice of such prepayment in the manner provided below.

Extraordinary Redemption.

The Series 2016 Bonds are subject to redemption in whole or in part at any time, without premium or penalty, at a Redemption Price equal to 100% of the principal amount of the Series 2016 Bonds to be prepaid plus interest accrued thereon to the Redemption Date, upon the occurrence of any of the following events:

(i) The Facility or any material portion of the Facility shall have been damaged or destroyed to such extent that, in the opinion of an Authorized Representative of the Institution (expressed in a certificate filed with the Issuer and the Trustee within sixty (60) days after such damage or destruction), (A) the Facility or any such portion of the Facility cannot be reasonably restored within a period of eighteen (18) consecutive months after such damage or destruction to the condition thereof immediately preceding such damage or destruction, or (B) the Institution, NDH, VBMC or PHC, as applicable, is thereby prevented or is reasonably expected to be thereby prevented from carrying on their respective normal operations within the Facility or any such portion of any of the Facility for a period of eighteen (18) consecutive months after such damage or destruction, or (C) the cost of restoration of any of the Facility or such portions of the Facility would exceed the Net Proceeds of insurance carried thereon, plus the amount for which the Institution, NDH, VBMC or PHC, as applicable, is self-insured, if any, as the result of permitted deductible amounts under the Loan Agreement; or

(ii) Title to, or the use of, all or any material part of the Facility shall have been taken by Condemnation such that, in the opinion of an Authorized Representative of the Institution (expressed in a certificate filed with the Issuer and the Trustee within sixty (60) days after the date of such taking), the Institution, NDH, VBMC or PHC, as applicable, is thereby prevented from carrying on their respective normal operations therein for a period of eighteen (18) months after such taking.

Mandatory Sinking Fund Redemption.

The Series 2016B Bonds are subject to mandatory redemption in part by lot by operation of Sinking Fund Payments on July 1 of each of the years set forth in the tables below in at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. The amounts and due dates of the Sinking Fund Payments are set forth in the following table:

Series 2016B Bonds

Bonds Due July 1, 2041	Principal Amount Subject to Redemption	Bonds Due July 1, 2046	Principal Amount Subject to Redemption
2037	$15,785,000	2042	$22,540,000
2038	17,930,000	2043	23,670,000
2039	18,650,000	2044	24,855,000
2040	19,400,000	2045	28,680,000
2041†	21,675,000	2046†	30,115,000

† Maturity

Purchase in Lieu of Redemption

The Institution shall have the option to cause any Series 2016 Bonds to be purchased by the Institution, or its designee, in lieu of optional redemption. Such option may be exercised by delivery to the Trustee of written notice of the Institution specifying that the Series 2016 Bonds shall not be redeemed, but instead shall be subject to purchase. Upon delivery of such notice, the Series 2016 Bonds shall not be redeemed but shall be purchased at a price equal to the applicable redemption price. The Series 2016 Bonds purchased as described in this paragraph are not required to be cancelled, and if not so cancelled (subject to the requirements of the Loan Agreement), shall, prior to any resale by or on behalf of the Institution, not be deemed Outstanding in connection with any subsequent partial optional redemption solely for purposes of those provisions of the Indenture relating to the selection of the Series 2016 Bonds in a partial redemption.

Purchases in lieu of an optional redemption is permitted under the Indenture, with the consent of the Issuer, upon the delivery to the Issuer and the Trustee of (i) an opinion of Bond Counsel addressed to the Issuer and the Trustee substantially to the effect that (A) such purchases in lieu of optional redemption comply with the provisions of the Indenture and (B) neither such purchases in lieu of an optional redemption nor any transaction directly related thereto will adversely affect the exclusion from gross income of interest on the Series 2016 Bonds then Outstanding for purposes of federal income taxation, and (ii) such other opinions, certificates or documentation as the Issuer may require.

Notice of Redemption.

The Trustee shall call Series 2016 Bonds for optional redemption or extraordinary redemption upon receipt of notice from the Issuer or the Institution directing such redemption, which notice shall be sent to the Trustee at least twenty-five (25) days prior to the Redemption Date specified in such notice and shall specify (i) the principal amount of Series 2016 Bonds and their maturities so to be called for redemption, (ii) the applicable Redemption Price, and (iii) the provision or provisions of the Indenture under which such Series 2016 Bonds are to be called for redemption. The Trustee shall call the Series 2016 Bonds for redemption for the applicable Sinking Fund Payment Dates without need for direction from the Institution or Issuer.

When the Series 2016 Bonds are to be redeemed pursuant to the Indenture, the Trustee shall give notice of the redemption of the Series 2016 Bonds in the name of the Issuer stating: (i) the Series 2016 Bonds to be redeemed; (ii) the Redemption Date; (iii) that such Series 2016 Bonds will be redeemed at the Office of the Trustee; (iv) that on the Redemption Date there shall become due and payable upon each Series 2016 Bond to be redeemed the Redemption Price thereof, together with interest accrued to the Redemption Date; and (v) that from and after the Redemption Date interest thereon shall cease to accrue. Any notice of optional redemption may be conditioned on sufficient funds being on deposit with the Trustee to effect such redemption and if sufficient funds are not on deposit, the redemption shall be rescinded and be of no further force and effect.

Notice shall be given by mail at least twenty (20) days and not more than sixty (60) days prior to said redemption to the Owner of each Series 2016 Bond to be redeemed at the address shown on the registration books; but failure to give such notice by mail, or any defect therein, shall not affect the validity of any proceeding for the redemption of the Series 2016 Bonds.

Payment of Redeemed Bonds.

After notice of redemption has been provided in the manner described above, the Series 2016 Bonds or portions thereof called for redemption shall become due and payable on the Redemption Date so designated (except as described in the last sentence of the second paragraph under the subcaption "Notice of Redemption" above). Upon presentation and surrender of such Series 2016 Bonds at the Office of the Trustee, such Series 2016 Bonds shall be paid at the Redemption Price, plus accrued interest to the Redemption Date.

If, on the Redemption Date, moneys for the redemption of all the Series 2016 Bonds or portions thereof to be redeemed, together with interest thereon to the Redemption Date, shall be held by the Trustee so as to be available therefor on such date, the Series 2016 Bonds or portions thereof so called for redemption shall cease to bear interest, and such Series 2016 Bonds or portions thereof shall no longer be Outstanding under the Indenture or be secured by or be entitled to the benefits of the Indenture except with respect to payment of the Redemption Price thereof and accrued interest thereon to the Redemption Date. If such moneys shall not be so available on the Redemption Date, such Series 2016 Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption and shall continue to be secured by and be entitled to the benefits of the Indenture.

In the event of optional redemption of less than all Outstanding Series 2016 Bonds, the series and maturity to be redeemed shall be selected by the Institution. In the event of redemption of less than all Outstanding Series 2016 Bonds of the same maturity, the principal amount of such Series 2016 Bonds to be redeemed shall be selected by the Trustee by lot within such maturity.

Additional Bonds and Permitted Debt

The Indenture provides for the issuance, under certain conditions, of Additional Bonds by the Issuer on a parity with the Series 2016 Bonds. In addition, pursuant to the Master Indenture, the Institution may issue additional long term Indebtedness upon satisfaction of the respective provisions set forth therein.

See Appendix C – "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT" under the heading "THE INDENTURE – Additional Bonds" for a description of Additional Bonds and "Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES – Limitations on Indebtedness" for a description of permitted indebtedness and encumbrance provisions.

Book-Entry Only System

THE INFORMATION PROVIDED IN THIS SECTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUER, THE INSTITUTION, THE TRUSTEE OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

General

The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the Series 2016 Bonds, payment of interest and principal on the Series 2016 Bonds to DTC Participants or Beneficial Owners of the Series 2016 Bonds, confirmation and transfer of beneficial ownership interest in the Series 2016 Bonds and other related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2016 Bonds is based solely on information furnished by DTC to the Issuer for inclusion in this Official Statement. Accordingly, neither the Issuer nor the Institution makes any representations concerning these matters.

The Depository Trust Company ("DTC") will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully

registered Series 2016 Bond certificate will be issued for each maturity of the Series 2016 Bonds of each series, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of the Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016 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. Beneficial Owners of Series 2016 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016 Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, interest and principal payments on the Series 2016 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 Issuer or the Trustee on a payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, interest and principal payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2016 Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016 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 Issuer believes to be reliable, but neither the Issuer, the Institution nor the Underwriters take responsibility for the accuracy thereof.

NONE OF THE ISSUER, THE MEMBERS OF THE OBLIGATED GROUP OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE SERIES 2016 BONDS IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT, THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OF, REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2016 BONDS, ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS UNDER THE INDENTURE, THE SELECTION BY DTC OR ANY DTC PARTICIPANT OR ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2016 BONDS, OR ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2016 BONDS, AS NOMINEE OF DTC, REFERENCES IN THIS OFFICIAL STATEMENT TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE SERIES 2016 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016 BONDS.

Certificated Bonds

DTC may discontinue providing its services as securities depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the Issuer and the Trustee. In addition, the Issuer may terminate the services of DTC if the Issuer determines that continuation of the system of book-entry transfers through DTC is not in the best interests of the Beneficial Owner. If the Book Entry Only System is discontinued, Series 2016 Bond certificates will be delivered as described in the Indenture and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the owner.

DEBT SERVICE SCHEDULE*

The following table sets forth the debt service schedule for the Series 2016 Bonds and existing long term indebtedness of the Members of the Obligated Group, including the principal of the Series 2016 Bonds to be redeemed by mandatory sinking fund redemption, for each twelve (12) month period ending December 31.

	Series 2016A Bonds		Series 2016B Bonds			
Year	Principal	Interest	Principal	Interest	Existing Indebtedness[1]	Total[2]
2017	$1,325,000	$1,154,562	-	$15,687,658	$22,618,033	$40,785,253
2018	520,000	1,134,381	-	15,953,550	22,614,156	40,222,087
2019	240,000	1,118,781	-	15,953,550	21,106,355	38,418,687
2020	1,090,000	1,111,581	-	15,953,550	15,934,959	34,090,090
2021	1,285,000	1,057,081	$ 430,000	15,953,550	12,896,956	31,622,587
2022	1,350,000	992,831	455,000	15,936,350	12,886,157	31,620,338
2023	1,420,000	925,331	1,760,000	15,918,150	11,600,523	31,624,004
2024	1,490,000	854,331	1,850,000	15,830,150	11,600,489	31,624,971
2025	1,560,000	779,831	4,190,000	15,737,650	9,356,822	31,624,303
2026	1,645,000	701,831	7,220,000	15,528,150	6,526,414	31,621,395
2027	1,730,000	619,581	7,635,000	15,167,150	6,473,155	31,624,886
2028	1,755,000	584,981	8,020,000	14,785,400	6,474,830	31,620,211
2029	1,845,000	497,231	8,420,000	14,384,400	6,473,530	31,620,161
2030	1,505,000	404,981	9,100,000	14,131,800	6,481,768	31,623,549
2031	1,180,000	329,731	11,060,000	13,676,800	5,378,205	31,624,736
2032	1,235,000	270,731	11,620,000	13,123,800	5,373,205	31,622,736
2033	1,300,000	208,981	12,200,000	12,542,800	5,368,705	31,620,486
2034	1,340,000	169,981	12,810,000	11,932,800	5,369,468	31,622,249
2035	1,380,000	129,781	14,595,000	11,420,400	4,095,655	31,620,836
2036	1,420,000	88,381	15,335,000	10,690,650	4,088,248	31,622,279
2037	1,465,000	45,781	15,785,000	10,230,600	4,093,550	31,619,931
2038			17,930,000	9,599,200	4,090,443	31,619,643
2039			18,650,000	8,882,000	4,089,008	31,621,008
2040			19,400,000	8,136,000	4,088,625	31,624,625
2041			21,675,000	7,360,000	2,588,795	31,623,795
2042			22,540,000	6,493,000	2,590,185	31,623,185
2043			23,670,000	5,366,000	2,585,940	31,621,940
2044			24,855,000	4,182,500	2,586,060	31,623,560
2045			28,680,000	2,939,750	-	31,619,750
2046			30,115,000	1,505,750	-	31,620,750
Total	$28,080,000	$13,180,688	$350,000,000	$355,003,108	$229,430,236	$975,694,032

[1] Includes debt service on the Series 2005 Bonds, the Series 2007A Bonds, the Series 2007C Bonds, the Series 2010 Bonds, the Series 2012 Bonds and the Series 2014 Bonds (each as defined below) and other various capital leases, loans and notes payable outstanding in the principal amount of $26,350,000 as of December 31, 2016. Certain of such existing indebtedness bears interest at variable rates of interest which are reset periodically. For purposes of this presentation, interest is assumed at the average interest rate on such indebtedness for the previous 12 months. Future interest rates may be higher.

[2] Debt service prior to net debt service adjustments associated with funding of capitalized interest through July 2019.

* Numbers may not foot due to rounding.

SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS

THE SERIES 2016 BONDS ARE NOT A GENERAL OBLIGATION OF THE ISSUER NOR A DEBT OR INDEBTEDNESS OF DUTCHESS COUNTY OR THE STATE OF NEW YORK AND NEITHER DUTCHESS COUNTY NOR THE STATE OF NEW YORK SHALL BE LIABLE THEREON. THE SERIES 2016 BONDS ARE LIMITED OBLIGATIONS OF THE ISSUER PAYABLE BY THE ISSUER SOLELY FROM THE REVENUES AND FUNDS PLEDGED FOR THEIR PAYMENT UNDER AND PURSUANT TO THE INDENTURE AND THE LOAN AGREEMENT. THE ISSUER HAS NO TAXING POWER.

General

The Series 2016 Bonds are to be issued pursuant to the Indenture and, together with any Additional Bonds which may be issued from time to time under the Indenture, will be equally and ratably secured thereby. Pursuant to the Indenture, a Bond Fund shall be established with the Trustee. Payments by the Institution in respect of the Debt Service Payments on the Series 2016 Bonds shall be deposited into the Bond Fund, and shall be applied on each payment date for the Series 2016 Bonds to the payment of the principal, including sinking fund installments, of and interest on the Series 2016 Bonds.

The Master Indenture

Payment when due on the Series 2016 Bonds, and payment when due of the payment obligations of the Institution to the Issuer under the Loan Agreement, are secured by the Series 2016A Obligation with respect to the Series 2016A Bonds and the Series 2016B Obligation with respect to the Series 2016B Bonds, both issued pursuant to the Master Indenture and the respective Supplemental Indenture. The Master Indenture constitutes a joint and several obligation of each Member of the Obligated Group to repay all obligations issued under the Master Indenture (each an "Obligation" and collectively, the "Obligations"), including the Series 2016 Obligations. The obligation of current and any future Members of the Obligated Group to make the payments required by the Master Indenture with respect to the Series 2016 Obligations is secured by a security interest in the Gross Receipts of the initial Members and any future Member of the Obligated Group and by the Mortgages (as defined in the Master Indenture). Gross Receipts do not include, among other things, revenue derived from Property that does not constitute Health Care Facilities (*i.e.*, Excluded Property) under the Master Indenture. See "Security Interest in Gross Receipts" below. The Series 2016 Obligations will be registered in the name of the Issuer. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Master Indenture which bind all Members of the Obligated Group. As security for the Series 2016 Obligations, Members of the Obligated Group have granted the Mortgages on the land and buildings that include the primary hospital campuses of VBMC, PHC and NDH (the "Mortgaged Property"); however, other facilities of the Members of the Obligated Group are not subject to the Mortgages and are excluded from the Mortgaged Property. See "PLAN OF FINANCE" herein for a description of such facilities. Also see Appendix A under the caption "GENERAL AND HISTORICAL INFORMATION – Facilities".

The respective rights of the holders of the Series 2016 Obligations and certain other indebtedness of the Members of the Obligated Group are governed by a Third Amended and Restated Intercreditor Agreement, as amended by the First Amendment to the Third Amended and Restated Intercreditor Agreement dated as of December 22, 2015 (the "Intercreditor Agreement"). See "Other Indebtedness and the Intercreditor Agreement" herein.

The Members of the Obligated Group, upon compliance with the terms and conditions and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a joint and several obligation of the Members of the Obligated Group on a parity with the Series 2016 Obligations and all other Obligations outstanding under the Master Indenture with respect to the Gross Receipts and if such Obligation is designated by the Obligated Group as a Covered Obligation, some or all of the Mortgaged Property. Such other Indebtedness, if not so evidenced by an Obligation issued under the Master Indenture, would constitute a debt solely of the individual Member of the

Obligated Group incurring such Indebtedness, and not a joint and several obligation of the entire Obligated Group and, therefore, would not be entitled to the benefits of the Master Indenture.

Security Interest in Gross Receipts

As security for its obligations under the Master Indenture, each Member of the Obligated Group must pledge and grant to the Master Trustee a security interest in such Member's Gross Receipts. Gross Receipts are defined to include all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including, without limitation, contributions, donations, and pledges whether in the form of cash, securities or other personal property, and the rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, health-care insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (A) paying debt service on an Obligation or (B) meeting any commitment of a Member of the Obligated Group under any loan agreement, lease agreement, sublease agreement or any similar instrument relating to the loan or other provision of proceeds of related bonds to a Member of the Obligated Group; (ii) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care insurance receivables and the proceeds thereof, as such terms are presently or hereafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property; and (iii) insurance proceeds relating to assets subject to a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee. Excluded Property means any real property that is not now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Any facility whose primary function or functions is other than providing health care services and which has incidental health care services provided on its premises, constitutes Excluded Property.

The Master Indenture provides that upon the occurrence of an Event of Default thereunder relating to the failure of a Member of the Obligated Group to make any payments on any Obligations issued and Outstanding under the Master Indenture when and as the same become due and payable, the Master Trustee shall, and upon the occurrence of any other Event of Default thereunder, the Master Trustee may, and upon written request of the holders of 25% in aggregate principal amount of Obligations Outstanding or upon the request of one or more providers of credit enhancement of not less than 25% in the aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, if any, and subject to the provisions of the Intercreditor Agreement, shall direct each Member of the Obligated Group to deliver or cause to be delivered to the Master Trustee all Gross Receipts until such Event of Default is cured. Such Gross Receipts shall be applied in accordance with the Intercreditor Agreement for the benefit of all Obligations and all indebtedness governed by the terms thereof if the Intercreditor Agreement is then in effect or under the Master Indenture if the Intercreditor Agreement is no longer in effect. See "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES – Events of Default" and "– Additional Remedies and Enforcement of Remedies" in Appendix D attached hereto.

The Mortgages

The Institution's payment obligations on the Series 2016 Obligations will be secured by the Mortgages granted by the Members of the Obligated Group excluding the Institution. The Mortgages granted to the Master Trustee will include a security interest in certain fixtures, furnishings and equipment now or hereafter owned by such Members of the Obligated Group and affixed or used in connection with the Mortgaged Property. The Master Trustee is permitted to release or subordinate certain portions of the Mortgaged Property from the lien of the Mortgages under certain conditions set forth in the Master Indenture and the Supplemental Indenture. The Institutions have granted, and in the future may grant, liens on the Mortgaged Property on a parity with the Mortgages to the Master Trustee under the Master Indenture. VBMC, NDH and PHC have each represented in their

respective Mortgages that each has fee simple title to their respectively owned Mortgaged Property that is described in the Mortgage signed by such Member of the Obligated Group; however, no title insurance company has issued a title insurance policy insuring the Master Trustee's mortgage lien under the Mortgages on each such Mortgaged Property in connection with the issuance of the Series 2016 Bonds. As a result, a defect in VBMC's, NDH's and/or PHC's title to the Mortgaged Property owned by such Member of the Obligated Group may adversely impact its use of all or a portion of such Mortgaged Property and/or the operations of such Member and/or the value of such Mortgaged Property and any proceeds that may be recovered by the Master Trustee in the event that the Master Trustee seeks to foreclose on the Mortgage of such Mortgaged Property or pursue its rights in accordance with the Master Indenture and the Supplemental Indentures. Title insurance can insure, subject to what is specially excluded or excepted in the title policy itself, (a) that title is vested in the fee owner, (b) against a defect in or lien or encumbrance on the title including hidden defects such as forgery, (c) unmarketablity of title, (d) against statutory liens for service, labor or materials furnished prior to the policy date, (e) against invalidly or unenforceability of the mortgage lien, and (f) priority of the lien of the mortgage. As noted in the Master Indenture, there are Permitted Liens that may encumber the Mortgaged Property that title insurance would not insure against. Prior bond issuances have required title insurance for their mortgages securing the Obligations associated with those prior bond issuances. There can be no assurances that should there be a claim on the title insurance in those bond issuances, that there will be sufficient funds to cover all potential losses under those bond issuances or the issuance of the Series 2016 Bonds. Moreover, title insurance coverage for the Mortgages associated with prior bond issuances may terminate with the repayment or defeasance of those prior bond issuances.

Other Indebtedness and Intercreditor Agreement

The Liens on Gross Receipts and the mortgage Liens on the Mortgaged Property are subject to the terms of the Intercreditor Agreement. The Intercreditor Agreement is by and among the Dormitory Authority of the State of New York ("DASNY"), the Dutchess County Industrial Development Agency (the "IDA"), the Issuer, the Master Trustee, the bond insurer and the bond trustee for the IDA's Civic Facility Revenue Bonds, Series 2005 (Vassar Brothers Medical Center Facility) (the "Series 2005 Bonds"), the bond insurer and the bond trustee for the DASNY Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007A (the "Series 2007A Bonds") and the DASNY Health Quest Systems, Inc. Group Revenue Bonds, Series 2007C (the "Series 2007C Bonds" and, collectively with the Series 2007A Bonds and the Series 2007B Bonds, the "Series 2007 Bonds"), the bond trustee and the bond insurer for the Issuer's Revenue Bonds, Series 2010A (Health Quest Systems, Inc. Project), the bond trustee for the Issuer's Revenue Bonds, Series 2010B (Taxable) (Health Quest System, Inc. Project) (collectively, the "Series 2010 Bonds"), the bond trustee and the bond insurer for the Issuer's Revenue Bonds, Series 2012 (Taxable) (Health Quest Systems, Inc. Project) (the "Series 2012 Bonds"), the bond trustee for the Issuer's Revenue Bonds, Series 2014A (Health Quest Systems, Inc. Project) and Revenue Bonds, Series 2014B (Taxable) (Health Quest System Project) (collectively, the "Series 2014 Bonds"), the Members of the Obligated Group, and The Bank of New York Mellon, as security agent (the "Security Agent"). The Intercreditor Agreement governs the ability of the parties thereto, including the Trustee, to exercise foreclosure and other remedies under and to receive proceeds realized upon the collateral securing the Issuer's Series 2010 Obligations, issued in connection with the Series 2010 Bonds, the Series 2012 Obligations, issued in connection with the Series 2012 Bonds, the Series 2014 Obligations, issued in connection with Series 2014 Bonds, and the Series 2016 Obligations. See "Appendix A – INFORMATION CONCERNING HEALTH QUEST SYSTEMS, INC. AND THE OBLIGATED GROUP" under the caption "FINANCIAL INFORMATION – Historical and Pro-Forma Debt Service Coverage" for a listing of this indebtedness.

It is not anticipated that the Intercreditor Agreement will be amended in conjunction with the Series 2016 Bonds. The interest in the holders of the Series 2016 Bonds will be recognized in the Intercreditor Agreement by virtue of the issuance of the Series 2016 Obligations.

The Members of the Obligated Group may issue additional Obligations under the Master Indenture that are secured on a parity with outstanding Obligations including the Series 2016 Obligations by the pledge of Gross Receipts. The Master Indenture further provides that the Obligated Group may issue additional Obligations secured by a mortgage on some or all of the Mortgaged Property. Obligations secured by a mortgage are designated by the Master Indenture as Covered Obligations. See "Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES – Master Indenture – Limitations on

Creation of Liens" for a description of the conditions under which the Members of the Obligated Group may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Members of the Obligated Group may incur debt in the form of Indebtedness incurred by the Members of the Obligated Group individually that is not evidenced or secured by an Obligation issued under the Master Indenture. Such borrowing may be secured by Liens on Property permitted under the Master Indenture, including without limitation Liens on Excluded Property, or, with limitations, accounts receivable. See "Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES – Master Indenture – Limitations on Creation of Liens".

The Members of the Obligated Group have certain Indebtedness outstanding in addition to that described above. See "Appendix A – INFORMATION CONCERNING HEALTH QUEST SYSTEM, INC. AND THE OBLIGATED GROUP" under the caption "FINANCIAL INFORMATION – Historical and Pro-Forma Capitalization". See "Appendix B – FINANCIAL STATEMENTS OF HEALTH QUEST SYSTEMS, INC. AND SUBSIDIARIES."

Certain Covenants of the Obligated Group

Each Member of the Obligated Group has agreed to comply with certain financial covenants under the Master Indenture. Certain of those financial covenants are amended, supplemented or otherwise modified for the benefit of the bond insurer of certain outstanding Related Bonds so long as such bonds are outstanding. For a description of such financial covenants applicable to the Members of the Obligated Group for the benefit of the bond insurer, see "Appendix D – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES – Bond Insurer Covenants" attached hereto.

ESTIMATED SOURCES AND USES OF FUNDS

The following is an estimate of the sources and uses of funds in connection with the issuance of the Series 2016 Bonds.

	Series 2016A	Series 2016B	Total
Estimated Sources of Funds:			
Bonds	$28,080,000	$350,000,000	$378,080,000
Net Original Issue Premium	3,911,566	56,680,960	60,592,526
Released Funds	7,473,596	--	7,473,596
Investment Earnings	--	5,720,030	5,720,030
Total Sources of Funds	$39,465,162	$412,400,990	$451,866,152
Estimated Uses of Funds:			
Refunding of the Series 2007B Bonds	$38,944,670	--	$ 38,944,670
Project Costs	--	$361,369,570	361,369,570
Capitalized Interest	--	46,777,319	46,777,319
Costs of Issuance[1]	520,492	4,254,101	4,774,593
Total Uses of Funds	$39,465,162	$412,400,990	$451,866,152

[1] Includes Underwriters' discount, Trustee, legal, accounting and other professional fees, Issuer fees, printing and other miscellaneous expenses relating to the issuance and sale of the Series 2016 Bonds.

PLAN OF FINANCE

The proceeds from the sale of the Series 2016 Bonds and certain other available moneys will be used to finance (i) the advance refunding of the Series 2007B Bonds, the proceeds of which were used to refinance the construction, renovation, expansion and equipment acquisition costs related to the Series 2016A Facility including the construction of an operating room, maternity unit and a 3-story addition at NDH, construction of a 5-story

addition and expansion of a parking lot, each at PHC and acquisition of medical service equipment at NDH, PHC and VBMC; and (ii) the payment of certain costs of issuance of the Series 2016A Bonds.

The proceeds of the Series 2016B Bonds will be applied to finance the Project which consists of the demolition of an approximately 16,615 square foot building on the VBMC campus and the construction, installation, equipping and furnishing of an approximately 696,000 square foot, seven story building containing 264 private medical, surgical beds, 30 intensive care unit beds, a 66 bay emergency department, a 12 room operating room suite, a new receiving dock, helipad, expanded power plant, conference facilities, cafeteria and below grade parking; the renovation, installation, furnishing, equipping and improving of an existing 13,800 square foot space in the existing VBMC hospital for use as operating room support space (consisting primarily of a waiting room and a post-acute care unit); to fund capitalized interest on the Series 2016B Bonds; and to pay all or portion of the costs incidental to the issuance of the Series 2016B Bonds, including issuance costs of the Bonds. See Appendix A under the caption "THE PROJECT" for a description of the Project.

CERTAIN BONDHOLDERS' RISKS

AN INVESTMENT IN THE SERIES 2016 BONDS INVOLVES A DEGREE OF RISK. A PROSPECTIVE PURCHASER OF THE SERIES 2016 BONDS IS ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO. REFER TO THE SECTION "SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS" AND THIS SECTION FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2016 BONDS. The factors listed below, among others, could adversely affect the Obligated Group's operations, revenues and expenses, the Obligated Group's ability to make payments on the Series 2016 Obligations and the Project to an extent and in a manner which cannot be determined at this time.

General

The Series 2016 Bonds are limited obligations of the Issuer payable solely from the amounts payable under the Series 2016 Obligations, certain payments under the Loan Agreement, the Master Indenture and other funds held pursuant to the Indenture (excluding the Rebate Fund). The Issuer has no taxing power.

The Series 2016 Bonds may be redeemed earlier or later than described above under "THE SERIES 2016 BONDS - Redemption Prior to Maturity" due to various factors.

Adequacy of Revenues

Except to the extent otherwise noted herein, the Series 2016 Bonds are payable solely from the payments required to be made by the Institution to the Issuer under the Loan Agreement. No representation or assurance can be made that revenues will be realized by the Institution in amounts sufficient to pay maturing principal of, redemption premium, if any, and interest on the Series 2016 Bonds. The ability of the Institution to make payments under the Loan Agreement and the ability of the Issuer to make payments on the Series 2016 Bonds under the Indenture depends, among other things, upon the capabilities of management of the Institution and the other Members of the Obligated Group and the ability of the Institution and the other Members of the Obligated Group to maximize revenues under various third party reimbursement programs and to minimize costs and to obtain sufficient revenues from their operations to meet such obligations. Revenues and costs are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below should be considered in evaluating the ability of the Institution and other Members of the Obligated Group to make payments in amounts sufficient to meet their obligations under the Loan Agreement, the Master Indenture and the Series 2016 Obligations. This discussion is not, and is not intended to be, exhaustive.

The ability of the Members of the Obligated Group to make required payments on the Series 2016 Obligations is subject to, among other things, the capabilities of the management of the Members of the Obligated Group and future economic and other conditions, which are unpredictable and which may affect revenues and costs and, in turn, the payment of principal of, premium, if any, and interest on the Series 2016 Bonds. Future revenues and expenses of the Obligated Group will be affected by events and conditions relating generally to, among other

things, demand for the Obligated Group's services, its ability to provide the services required by patients, physicians' relationships with the Obligated Group, patient and physician satisfaction with the Obligated Group and its facilities, management capabilities, the design and success of the Obligated Group's strategic plans, demographic, financial and economic developments in the United States, the State and the Obligated Group's service area, the Obligated Group's ability to control expenses, maintenance by the Members of the Obligated Group of relationships with managed care organizations ("MCOs") and PPOs (as defined herein), competition, rates, costs, third party reimbursement, legislation and governmental regulation. The ability of the Obligated Group to operate successfully over the life of the Series 2016 Bonds may also be dependent upon its ability to finance, acquire and support additional capital replacements and improvements, which ability will be affected by legislation, regulations and applicable principles of reimbursement. Federal and state statutes and regulations are the subject of intense legislative debate and are likely to change, and unanticipated events and circumstances may occur which cause variations from the Obligated Group's expectations, and the variations may be material. The Issuer has not made any independent investigation of the extent to which any such factors may have an adverse impact on the financial condition of the Members of the Obligated Group. THERE CAN BE NO ASSURANCE THAT THE REVENUES OF THE MEMBERS OF THE OBLIGATED GROUP OR UTILIZATION OF THEIR FACILITIES WILL BE SUFFICIENT TO ENABLE THE MEMBERS OF THE OBLIGATED GROUP TO MAKE PAYMENTS ON THE SERIES 2016 OBLIGATIONS.

None of the provisions, covenants, terms and conditions of the Master Indenture or the Loan Agreement will afford the Trustee any assurance that the principal and interest owing under the Series 2016 Obligations (which, except for money held under the Indenture and the other collateral securing the Series 2016 Bonds, constitute the sole source of funds for the payment of the Series 2016 Bonds) will be paid as and when due, if the financial condition of the Obligated Group deteriorates to a point where the Members of the Obligated Group are unable to pay their debts as they come due, or otherwise become insolvent.

Event of Taxability of Series 2016 Bonds

If the Institution does not comply with certain covenants set forth in the Loan Agreement or if certain representations or warranties made by the Institution and the Members of the Obligated Group in the Loan Agreement or in certain certificates of the Institution are false or misleading, the interest paid or payable on the Series 2016 Bonds may become subject to inclusion in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016 Bonds, regardless of the date on which such noncompliance or misrepresentation is ascertained. In the event that the interest on the Series 2016 Bonds becomes subject to inclusion in gross income for federal income tax purposes, the Indenture does not provide for payment of any additional interest on the Series 2016 Bonds, the redemption of the Series 2016 Bonds or the acceleration of the payment of principal on the Series 2016 Bonds.

Maintenance of 501(c)(3) Status

The federal tax-exempt status of the Series 2016 Bonds presently depends upon maintenance by the Institution, NDH, PHC and VBMC of their status as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Institution, NDH, PHC and VBMC have been determined to be tax-exempt organizations described in Section 501(c)(3) of the Code. To maintain such status, such entities must conduct their operations in a manner consistent with representations previously made to the Internal Revenue Service (the "IRS") and with current and future IRS regulations and rulings governing tax-exempt healthcare facilities.

Compliance with current and future regulations and rulings of the IRS could adversely affect the ability of the Members of the Obligated Group to charge and collect revenues, finance or refinance indebtedness on a tax-exempt basis or otherwise generate revenues necessary to provide for payment of the Series 2016 Bonds. Although the Members of the Obligated Group have covenanted to maintain their status as tax-exempt organizations, loss of tax-exempt status would likely have a significant adverse effect on such organizations and their operations and could result in the includability of interest on the Series 2016 Bonds in gross income for federal income tax purposes retroactive to their date of issue. See "TAX MATTERS" herein.

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.

There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Obligated Group by requiring them to pay income, real estate or other taxes.

The status of the Institution and the other Members of the Obligated Group as organizations described under Section 501(c)(3) of the Code is one of the bases for the exemption afforded the Series 2016 Bonds from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). Should the Institution or any other Member of the Obligated Group lose its status under Section 501(c)(3) of the Code, the holder of the Series 2016 Bonds could be precluded from selling the Series 2016 Bonds absent the application of a separate exemption from the registration requirements of the Securities Act.

Economic Conditions

The health care sector can be adversely affected by economic conditions. To the extent that employers reduce their workforces or budgets for employee health care coverage or insurers seek to reduce payments to health care providers or limit utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to health care providers to increase free care. Furthermore, economic downturns and lower funding of Medicare and Medicaid and other government programs may increase the number of patients who are unable to pay for their medical and hospital services. These conditions can give rise to increases in uncollectible accounts or "bad debts" and, consequently, to reductions in operating income. Declines in investment portfolio values can reduce or eliminate non-operating revenue. Losses in pension and benefit funds can result in increased funding requirements. Philanthropic support may also decrease or be delayed.

Health Care Reform

As a result of the Patient Protection and Affordable Care Act, enacted in March 2010, as amended by the Health Care and Education Reconciliation Act (the "ACA"), substantial changes have occurred and are anticipated in the United States health care system. The ACA will continue to affect the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers, employers and consumers. Some provisions of the ACA took effect immediately, while others will take effect at later dates or will be phased in at specified times until approximately 2022. Therefore, the full consequences of the ACA on the health care industry will not be immediately realized. Due to the complexity of the ACA, its ramifications may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the ACA may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of the ACA create unpredictability for the strategic and business planning efforts of health care providers, which in itself constitutes a risk factor.

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Members of the Obligated Group. For example, the projected increase in the numbers of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the penalty on certain individuals who do not purchase insurance could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. A negative impact to the hospital industry overall will likely result from scheduled cumulative reductions in Medicare payments; such reductions are substantial. The legislation's cost-cutting provisions to the Medicare program, which include reductions in Medicare market basket updates to hospital reimbursement rates under the inpatient PPS (as hereinafter defined) through 2019, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions, will likely result in a significant negative impact to the hospital industry overall. Industry experts also expect that government cost reduction actions may be followed by

private insurers and payors. Because approximately 47% of the patient service revenues of the Obligated Group for the fiscal year ended December 31, 2015 were from Medicare spending, the reductions may have a material impact, and could offset any positive effects of the ACA.

Health care providers may be further subjected to decreased reimbursement as a result of the implementation of recommendations of the Independent Payment Advisory Board ("IPAB"). The ACA directs the IPAB to make recommendations to reduce Medicare cost growth if such growth exceeds legislated targets. The IPAB's recommended reductions will be automatically implemented unless Congress adopts alternative legislation that meets equivalent savings targets. While hospitals are largely exempted from the recommendations from the IPAB, the impact on providers may filter up to hospitals, and industry experts also expect that government cost reduction actions may be followed by private insurers and payors. The IPAB was to begin submitting its annual recommendations no later than January 15, 2014. However, President Obama has yet to appoint the members of the IPAB. On March 30, 2015, the Supreme Court declined to review *Coons v. Lew*, a decision by the U.S. Court of Appeals for the Ninth Circuit, holding that the plaintiffs' challenge to the IPAB was not ripe. This action leaves the IPAB in place. Bills repealing the IPAB have been introduced since 2011, including a House bill during the 2015 legislative session. Hospitals are not subject to cost reductions proposed by the IPAB until after 2019. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors.

Beginning in 2014, the ACA created "health insurance exchanges" to provide consumers with improved access to health insurance. The ACA provides that such exchanges may be either state-sponsored or federally-facilitated exchanges. Beginning January 1, 2015, health insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance the quality of care. The health insurance exchanges may have positive impact for hospitals by increasing the availability of health insurance to individuals who were previously uninsured. Conversely, employers or individuals may shift their purchase of health insurance to new plans offered through the exchanges, which may or may not reimburse providers at rates equivalent to rates the providers currently receive. The exchanges could alter the health insurance markets in ways that cannot be predicted, and exchanges might, directly or indirectly, take on a rate-setting function that could negatively impact providers. Because the exchanges are still so new, the effects of these changes upon the financial condition of any third-party payor that offers health insurance, rates paid by third-party payors to providers and, thus, the revenues, results of operations and financial condition of the Members of the Obligated Group, cannot be predicted. See Appendix A hereto under the caption "REIMBURSEMENT METHODOLOGIES – New York State of Health" for a more detailed discussion of the New York State health insurance exchange marketplace.

High deductible insurance plans have become more common in recent years and the ACA is expected to continue the increase in high deductible insurance plans as the health care exchanges include a variety of plans, several of which offer lower monthly premiums in return for higher deductibles. Many plans offered on the exchanges have high deductibles. High deductible plans may contribute to lower inpatient volumes as patients may forgo or choose less expensive medical treatment to avoid having to pay the costs of the high deductibles. There is also a potential concern that some patients with high deductible plans will not be able to pay their medical bills as they may not be able to cover their high deductible resulting in increased levels of bad debt.

The ACA will likely affect some health care organizations more than others, depending, in part, on how each organization adapts to the legislation's emphasis on directing more federal health care dollars to integrated provider networks and providers with demonstrable achievements in quality care. The ACA created a hospital value-based purchasing system under which a percentage of Medicare inpatient PPS reimbursement is contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The ACA also funds various demonstration programs and pilot projects and other voluntary programs to evaluate and encourage new provider delivery models and payment structures, including "accountable care organizations" and bundled provider payments. Many private commercial insurers have adopted similar programs with risk-bearing, shared-savings opportunities for providers that can meet certain performance targets.

On January 26, 2015, the Department of Health and Human Services ("DHHS") announced a timetable for transitioning Medicare payments from the traditional fee-for-service model to a value-based payment system. While very few Medicare payments were tied to value prior to 2011, the schedule calls for tying 30% of traditional

Medicare fee-for-service payments to quality or value through alternative payment models, such as accountable care organizations or bundled payment arrangements, by the end of 2016, increasing to 50% by the end of 2018. On March 3, 2016, DHHS announced that it had reached its 30% goal almost a year ahead of schedule, evidencing a rapid volume-to-value evolution within the Medicare program.

The outcomes of these projects and programs, including the likelihood of their revision or expansion or their effect on health care organizations' revenues or financial performance cannot be predicted.

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

Broadly speaking, the provisions of the ACA that encourage or mandate health care coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that the Members of the Obligated Group provide. However, revisions to the Medicare reimbursement program could reduce revenues. Therefore, the impact of the ACA on the operations of the Obligated Group cannot be currently ascertained, but such impact may be materially adverse to the Obligated Group.

Efforts to repeal or substantially modify provisions of the ACA continue. On June 28, 2012, the Supreme Court upheld most provisions of the ACA, while limiting the power of the federal government to penalize states for refusing to expand Medicaid. The Supreme Court ruled on various legal challenges to portions of the ACA, finding that its individual mandate was constitutional as a valid exercise of Congress's taxing power but that its Medicaid expansion provisions were improperly coercive on the states to the extent existing Medicaid funding was put at risk if a state opted out of the ACA's expansion of the current Medicaid program. In July 2014, two federal appeals courts issued conflicting rulings with respect to the ACA on whether the federal government could subsidize health insurance premiums in states that use the federal health insurance exchange. On June 25, 2015, the Supreme Court of the United States issued its opinion in *King v. Burwell* holding that the tax credit subsidies provided in the ACA apply equally to state-run exchanges and the federal exchange, obviating the potential disparate treatment of program participants nationally. Efforts to repeal or delay the implementation of the ACA continue in Congress. The ultimate outcomes of legislative attempts to repeal or amend the ACA and other legal challenges to the ACA are unknown and their impact on the Obligated Group's operations cannot be determined at this time.

The Obligated Group is analyzing the ACA and will continue to do so in order to assess its effects on current and projected operations, financial performance and financial condition. However, management of the Obligated Group cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

New York State Department of Health Regulations

The Members of the Obligated Group are subject to regulations issued by the New York State Department of Health ("DOH"). Compliance with such regulations may require substantial expenditures for administrative or other costs. Regulations of DOH could change, requiring the Obligated Group to admit or maintain more indigent patients than is currently required. DOH could decide to revoke, suspend or limit the hospital operating certificate of a Member of the Obligated Group for failure to comply with regulatory requirements. The Obligated Group's ability to provide services or maintain beds or to modify certain existing services is also subject to DOH review and approval. Approval can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Obligated Group's ability to make changes to their services and respond to changes in the competitive environment may be limited.

Nonprofit Healthcare Environment

The Members of the Obligated Group are nonprofit corporations, exempt from federal income taxation as organizations described in Section 501(c)(3) of the Code. As nonprofit tax-exempt organizations, the Members of

the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organizations and operations, including their operations for charitable purposes.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in some cases are an attempt to examine core business practices of healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Bond Audits. The IRS has sent several hundred post-issuance compliance questionnaires with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the obligor's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, thousands more will be sent.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed against various nonprofit health care providers in federal and state courts across the country regarding billing and collection practices relating to the uninsured. The lawsuits are premised on the notion that federal and state laws require nonprofit health care providers to provide certain levels of free or discounted health care to the uninsured. Thus, the plaintiffs in those lawsuits have alleged, among other things, that the defendants violated federal and state law by billing the uninsured at undiscounted rates, that the medical bills the defendants sent to the uninsured are inflated, and that the defendants engaged in unfair debt collection practices.

Charity Care. Hospitals are permitted to qualify for tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, when charitable donations were required to fund the health care provided to the sick and disabled. Some commentators and others have taken the position that, with the onset of employer health insurance and governmental reimbursement programs, there is no longer any justification for special tax treatment for the health care industry, and the availability for tax-exempt status should be eliminated. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits. Charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients.

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

Compensation Practices and Community Benefit. In addition to the redesigned Form 990, the ACA places additional requirements on tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is

required to (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs, (ii) adopt, implement and widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination, (iii) limit charges to individuals who qualify for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals, and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy. In addition, the U.S. Treasury Department is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs, and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations. In addition, on June 26, 2012, the IRS proposed regulations providing guidance on the requirements for Section 501(c)(3) hospitals, under Section 501(r) of the Code, relating to financial assistance and emergency care policies, charges for certain care proved to individuals eligible for financial assistance, and billing and collections, by, among other things, limiting extraordinary collection actions by Section 501(c)(3) hospitals.

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

Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities.

Risks Related to Rules Governiug Reimbursement for Healthcare Services

Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare is administered by the Centers for Medicare and Medicaid Services ("CMS") of DHHS. Medicaid is funded jointly by the federal government and the states and provides medical assistance to certain needy individuals and families. Significant changes have been and may be made in the Medicare and Medicaid programs that could have a material adverse impact on the financial condition of the Obligated Group, for example, by decreasing the amount of reimbursement for services. In addition, the requirements for Medicare and Medicaid certification are subject to change, and to remain qualified for participation in such programs, it may be necessary for the Members of the Obligated Group to effect changes from time to time in their facilities, equipment, personnel, billing processes, policies and services.

Medicare

Medicare reimburses acute care hospitals for services provided on an inpatient basis according to the inpatient prospective payment system ("IPPS"). IPPS pays hospitals a pre-determined amount for services. The

amount of the payment is the product of a nationally determined base payment rate, which is adjusted for a variety of factors on a hospital-specific basis, and a relative weight that reflects the anticipated costs of care in a particular clinical category compared with a national average of all cases. The base rate is designed to provide some reimbursement to hospitals for both inpatient operating and capital related costs. The base rate is adjusted by factors related to market conditions of a hospital's geographic location and other circumstances of a particular hospital, such as whether it is a teaching hospital. The relative weight factor of an IPPS calculation depends on the clinical category of services rendered to a patient. The clinical category is determined by how a patient's case is classified at discharge under one of hundreds of Medicare Severity Diagnosis Related Groups ("MS-DRGs") defined by the CMS.

The IPPS standardized base rates are updated annually based on a statistical estimate of the increase (the "update factor") in the cost of goods and services used by hospitals in providing care (the "market basket"). Currently, the update factor equals the percentage increase in the market basket, but from time to time Congress has set updates legislatively that are less than the market basket. CMS annually analyzes and in some cases proposes rules to rebase and revise the manner in which the market basket is calculated.

Hospitals receive additional payment for cases that exceed MS-DRGs-specific cost thresholds, referred to as "outlier payments". In addition, hospitals that satisfy specific program requirements may be eligible to receive additional revenue to defray the costs of organ procurement and treatments that use new technologies.

Medicare also reimburses providers for inpatient psychiatric services on an IPPS basis. Under that system, Medicare pays for the *per diem* routine, ancillary, and capital costs associated with those services. A base *per diem* payment is adjusted to account for differences in the cost of care related to patient characteristics (*e.g.*, age, diagnosis, and length of stay) and facility characteristics (*e.g.*, location and teaching status).

Teaching hospitals receive increases to their Medicare IPPS reimbursement for costs related to training physicians and other medical professionals (graduate medical education ("GME") payments), as well as for providing care to a high level of Medicaid and disabled patients (disproportionate share payments or "DSH payments"). There are two forms of payment for GME: Direct Graduate Medical Education ("DGME") and Indirect Medical Education ("IME") payments. DGME payments support the direct costs of training (*e.g.*, resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and the extensive "stand-by" capabilities of teaching hospitals. While a MedPAC recommendation and CMS proposed rule both have suggested reducing the level of IME adjustments, such reduction has not yet been implemented.

Hospital outpatient services also are reimbursed by Medicare according to a prospective payment system for hospital outpatient services ("OPPS"). Under OPPS, most outpatient services are grouped into one of approximately 800 Ambulatory Patient Classifications and paid a uniform national payment amount adjusted for area wage differences and the average amount of resources required to provide the service (*e.g.*, visit, chest x-ray, surgical procedure). OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Hospitals can receive three additional payments in addition to the amount determined under the standard OPPS rule: pass-through payments for certain new technologies; outlier payments for unusually costly cases; and special payments to certain children's and cancer hospitals. Outpatient services not covered by OPPS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

Medicare Advantage. Medicare Advantage plans are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program these private companies agree to accept a fixed, per-beneficiary payment from the Medicare program to cover all care that the beneficiary may require. Hospitals receive payment for caring for a Medicare Advantage beneficiary from the private insurer rather than the Federal government. In recent years, a similar program involving private insurers providing coverage to Medicare beneficiaries, known as the Medicare+Choice program, failed after changes were made to its funding methodologies and many private managed care companies discontinued their participation. The result was that the beneficiaries who were covered by the now-discontinued

Medicare+Choice plans shifted back into the traditional Medicare fee-for-service program or into a Medicare cost plan.

Future legislation or regulations may decrease the financial incentives available to private insurers who offer Medicare Advantage plans and cause some of them to no longer offer those plans. This would likely increase the burdens of the traditional Medicare program as payment obligations revert from private insurers to the federal government. Other legislative or regulatory changes to the Medicare Advantage program could occur that might increase or decrease its popularity and level of acceptance among Medicare beneficiaries. The effect of such future legislation/regulation is unknown but could materially and adversely affect the Obligated Group.

The costs of providing a unit of care may exceed the revenues realized from Medicare for providing that service. Additionally, the aggregate costs to a hospital of providing care to Medicare Advantage beneficiaries may exceed aggregate Medicare Advantage revenues received during the relevant fiscal period.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Reimbursement of Hospital Capital Costs. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital related payments will be sufficient to cover the actual capital related costs of the Obligated Group's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Payment for Physician Services. Physicians may elect to "participate" or enroll in the Medicare program as a provider. Medicare Part B provides reimbursement for physician services, including employed and provider based physicians, based upon a national fee schedule called the Resource Based Relative Value Scale ("RBRVS"). The RBRVS system encourages a shift towards greater reimbursement for the provision of primary care, and a reduction of technology based diagnostic procedures and surgical procedures. Under the RBRVS system, payments for services are determined by the "resource costs" necessary to provide such services. Payments also are adjusted for geographical differences. The costs have three components: physician work, practice expense and professional liability insurance. Payments are calculated by multiplying the combined costs of a service by a conversion factor. The conversion factor previously was determined by CMS's Sustainable Growth Rate ("SGR") system, which system annually accounted for changes in the Medicare fee for services enrollment, input prices, spending due to law and regulation and gross domestic product, effectively changing the RBRVS. The Medicare Access and Children's Health Insurance Program Reauthorization Act ("MACRA"), adopted in 2015, repealed the SGR system and instead provides predictable payment increases. MACRA will increase physician Medicare reimbursement by 0.5% annually until 2019 and then will provide for no additional increases to base physician reimbursement until 2025. MACRA also requires CMS to implement a new two-track payment system for physicians and other eligible professionals by 2019. The two tracks seek to tie an increased percentage of physicians' Medicare fee-for-service payments to outcomes through a new Merit based Incentive Payment System or through the adoption of "Alternative Payment Models" ("APMs"), which move payment away from fee-for-service reimbursement, and instead pay providers based on the quality and cost of care for particular episodes or defined patient populations.

Management of the Obligated Group is unable to predict what impact changes to physician reimbursement under MACRA may have on the financial condition of the Obligated Group, but such changes may be material. This continued shift in payment emphasis may affect the relationship between the Members of the Obligated Group and their related medical staffs and may increase pressure on hospitals to enter into bundled or global payment models, risk based delivery models, or increase demands by physicians for payment from hospitals. Additionally, there is no guarantee that physician reimbursement will cover the Obligated Group's actual costs of providing physician services to Medicare beneficiaries.

Physicians who opt not to participate in the Medicare program also may provide care to Medicare beneficiaries, but will be reimbursed at a lower fee schedule. Regardless of physician enrollment status, physicians

who furnish health care services to Medicare beneficiaries must meet all applicable federal coding, documentation, and other compliance requirements.

On March 8, 2016, CMS issued a proposed rule to test new payment models for Medicare Part B prescription drugs (outpatient drugs administered by physicians and hospital outpatient departments). According to CMS, the five-year pilot program is intended to test the effectiveness of strategies that remove the profit motive from using more expensive drugs over cheaper alternatives. The Medicare program currently pays providers the average sales prices of the Medicare Part B drug, plus a 6% "add-on". Among other initiatives, the proposed payment model experiment would lower the 6% add-on payment to 2.5%, plus a flat fee of $16.80 per drug per day. CMS accepted comments on the proposed rule through May 9, 2016. If adopted in its current form, the proposed rule may result in drug reimbursement below average drug sales prices, which could have a material adverse effect on the financial condition and results of operations of the Members of the Obligated Group.

Medicare Trust Funds. Two trust funds are maintained as part of the Medicare Program. Hospital Insurance ("HI") or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled (including certain individuals with end stage renal disease) and is financed primarily by payroll taxes paid by workers and employers. Supplementary Medical Insurance ("SMI") consists of Medicare Part B and Part D. Part B helps pay for physician, outpatient, and other services for the aged and disabled who have voluntarily enrolled. Part D provides subsidized access to drug insurance coverage on a voluntary basis for beneficiaries.

The Social Security Act requires that the Medicare Board of Trustees deliver an annual report to Congress evaluating the financial and actuarial status of the Medicare Trust Funds. Prior annual reports highlighted inadequate funding of the Trust Funds and expressed the need for timely action to address Medicare's financial challenges and promoted health care law reform. The 2015 Annual Report states that notwithstanding recent favorable developments such as cost savings achieved by the ACA and MACRA, current financial projections indicate that the Medicare Trust Funds still face a substantial financial shortfall that will need to be addressed with future legislation. Accordingly, it is likely that statutory and regulatory attempts to further contain increases in Medicare costs will continue in the future.

Reimbursement Under the Medicaid Program

Under Medicaid, the federal government provides grants to states that have medical assistance programs that meet federal standards. Competing pressures on the federal budget and the State's attempt to address its own budgetary needs have also resulted in uncertainty with respect to Medicaid spending. Such decreases in spending may have a material adverse impact on the future financial condition of the Obligated Group.

Under federal law, Medicaid coverage is mandatory for persons receiving assistance from Temporary Assistance for Needy Families (previously known as Aid to Families With Dependent Children) or the federal Supplemental Social Security ("SSI") program and for certain categories of children and pregnant women. Implementation of the Medicaid program falls to each state, however, and there are significant variations in virtually all aspects of the Medicaid program across states. State specific variations arise from the fact that the Medicaid statute allows for optional benefits and categories of beneficiaries, as well as waivers of general statutory requirements to implement specific programs or demonstration projects.

Audits and Withholds

Participating providers are subject to audits and retroactive audit adjustments with respect to the Medicare and Medicaid programs. Such adjustments could exceed reserves and could be substantial. Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. Any withholds that may occur could have a material adverse impact on the future financial condition of the Obligated Group. Management of the Obligated Group is not aware of audits or any material payment withhold by either Medicare or Medicaid.

State Children's Health Insurance Program

The State Children's Health Insurance Program ("SCHIP") provides federal matching funds to states that cover 65% to 84% of the costs of health care coverage, primarily for low-income children. CMS administers SCHIP, but each state creates its own program based on minimum federal guidelines, or the state may apply for a waiver, which allows the state to create its own program using the federal funds, but often with different criteria for eligibility. New York's SCHIP program, known by its marketing name Child Health Plus, was created by the New York Legislature in 1990.

While generally considered to be beneficial for both patients and providers because it reduces the number of uninsured children, it is difficult to assess the fiscal impact of SCHIP payments on the Members of the Obligated Group. Moreover, each state must periodically submit its SCHIP plan to CMS for review to determine if it meets the federal requirements. If a state does not meet the federal requirements, it may lose its federal funding for its program. From time to time Congress and/or the President seek to expand or contract SCHIP. Under MACRA, federal funding for SCHIP was extended through September 30, 2017. The loss of federal approval for a state's SCHIP program or a reduction in the amounts available under SCHIP could have an adverse impact on the financial condition of the Obligated Group.

Private Health Plans and Insurers

Certain private insurance companies contract with hospitals and other providers on an "exclusive" or a "preferred" provider basis and have introduced plans known as "preferred provider organization plans" ("PPOs"). Under such PPOs, there generally are financial incentives for enrollees to use those contracted, *i.e.*, participating, providers. Under certain MCO plans, private payers may direct patients away from non-participating hospitals and physicians by limiting coverage for services provided by them.

Many MCOs and PPOs currently pay participating hospitals based on a negotiated fee schedule for services provided, such as a per diem or case rate, which usually is discounted from the typical charges for the services provided. As a result, the discounts offered to MCOs and PPOs may result in payment to a hospital that is less than its actual charges. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Often, payer contracts are enforceable for a stated term, regardless of a hospital's losses and may require a hospital to care for MCO and PPO enrollees for a certain time period, regardless of whether the MCO or PPO is able to pay the hospital. Hospitals from time to time have disputes with payers concerning payment and contract interpretation issues.

Legislative and Regulatory Actions Affecting Health Care Facilities

Federal and state governments have enacted health care fraud and abuse laws to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to those beneficiaries. These laws penalize individuals and organizations for submitting claims for services (i) they did not provide, (ii) that were not medically necessary, (iii) provided by an improper person, (iv) that involved an illegal inducement to utilize or refrain from utilizing a service or product, or (v) billed in a manner that does not comply with applicable government requirements. The scope of certain federal and state fraud and abuse laws has been expanded to include non-governmental, private health care plans.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including imposing civil money penalties, suspending payments and excluding the provider from participating in the federal and state health care programs. One or more government entities and/or private individuals can prosecute fraud and abuse cases, and courts and/or regulators can impose more than one of the available penalties for each violation.

Laws governing fraud and abuse apply to virtually all individuals and entities with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, MCOs, PPOs, third party administrators, physicians, physician groups and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on any of these entities, which can result in a material adverse impact on the financial condition of other entities in the same health care delivery system.

Federal Laws and Regulations

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

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

Federal and State False Claims Acts. The federal criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act ("civil FCA"), is one of the government's primary weapons against health care fraud. Under the civil FCA, those who knowingly submit, or cause another person or entity to submit, false claims for payment of government funds are liable for three times the government's damages plus civil penalties ranging from $5,500 to $11,000 per false claim.

On May 20, 2009, the Fraud Enforcement and Recovery Act of 2009 ("FERA") was signed into law. It included significant amendments to the civil FCA. Among other items, FERA expanded the scope of potential civil FCA liability, increased the Attorney General's power to delegate authority to investigate a civil FCA case prior to intervening in a civil FCA action and increased protections for whistleblower plaintiffs beyond employees. The ACA also amended the civil FCA by expanding the numbers of activities that are subject to enforcement as violations of the civil FCA including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due. Whether valid or not, such cases require significant resources for defense.

The State of New York also has a False Claims Act which closely tracks the federal civil FCA. It imposes penalties and fines on individuals and entities that file false or fraudulent claims for payment from any state or local government, including health care programs such as Medicaid. The civil FCA and the New York State False Claims Act also permit individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA and the New York State False Claims Act, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund

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

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

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

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

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

Violations of Stark can result in denial or refund of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the civil FCA or criminal FCA. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider.

"Patient Dumping" or EMTALA Requirements. Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA") in response to concerns regarding inappropriate hospital refusals to care for patients and subsequent transfers of emergency patients based on the patient's inability to pay for the services provided. EMTALA requires hospitals with emergency rooms to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to

stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to $50,000 per violation. In addition, a hospital will be liable for any claim by an individual who has suffered harm as a result of such violation. This is a complaint-driven process, so any patient or family member could allege an EMTALA violation.

Civil Monetary Penalty Act. The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. CMPA authorizes imposition of a civil money penalty and treble damages. The ACA amended CMPA to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Health care providers may be found liable under CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient and ignorance of the Medicare regulations is no defense. The imposition of civil monetary penalties on a health care provider could have a material adverse impact on the provider's financial condition.

The Health Insurance Portability Act and Accountability Act of 1996. HIPAA established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers that conduct certain financial and administrative transactions electronically (the "Privacy Rule") and standards relating to the security of such health information. Compliance with the requirements of the Privacy Rule and other HIPAA requirements has required the Obligated Group to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the privacy procedures and practices of the Obligated Group and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties are in four tiers, the highest of which would impose a fine of $50,000 per violation and up to $1,500,000 for all such violations of an identical requirement or prohibition during a calendar year. A civil monetary penalty is not imposed if the violation was due to reasonable cause and was corrected within 30 days. In addition, under the American Recovery and Reinvestment Act adopted in February, 2009 state Attorneys General are permitted to bring a civil action in federal district court against individuals who violate the HIPAA privacy and security standards, in order to enjoin further such violation and seek damages of up to $100 per violation, capped at $25,000 for all violations of an identical requirement or prohibition in any calendar year. In the event of a successful action, the court would be permitted to award the costs of the action and reasonable attorneys' fees to the state.

In addition to provisions governing the portability of health insurance and health care fraud, HIPAA includes administrative simplification provisions ("AS Provisions") intended to reduce costs and administrative burdens in the health care industry by standardizing the electronic transmission of many administrative and financial transactions that currently are carried out manually on paper or in many different electronic formats. The AS Provisions also impose privacy and security requirements on entities covered by HIPAA ("Covered Entities") as well as mandate other standards such as national identifiers. Covered Entities are health plans, health care

clearinghouses, and health care providers, such as the Obligated Group, that engage in covered transactions. Additionally, Covered Entities must enter into contracts with their business associates with whom they share protected health information to assure that such information is appropriately safeguarded and that other HIPAA requirements are met.

Under the final transaction and code set regulations promulgated by DHHS, Covered Entities must use the prescribed standards for designated electronic transactions. The final HIPAA privacy regulations impose requirements on the use and disclosure of protected health information, create individual rights, and mandate certain administrative requirements for Covered Entities. Covered Entities were expected to be in compliance with the privacy regulations. Additionally, security regulations require Covered Entities to assess risks and develop and implement appropriate security measures to protect individually identifiable health information, with particular focus on administrative procedures, physical safeguards, technical security services, and technical security mechanisms. Covered Entities such as the Obligated Group must comply with the security regulations as well.

Penalties for noncompliance with the AS Provisions include civil monetary penalties of up to $100 for any violation not to exceed $25,000 in any calendar year for identical violations. Criminal penalties include up to $50,000 in fines and/or one year imprisonment for wrongful disclosure of individually identifiable health information; $100,000 and/or imprisonment of not more than five years for wrongful disclosure under false pretenses; and up to $250,000 and/or 10 years imprisonment for wrongful disclosure with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain, or malicious harm.

The HITECH Act. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, in particular by: (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals' rights with respect to protected health information, (v) increasing penalties for violations and (vi) providing for enforcement of violations by State attorneys general.

During the summer of 2015, the DHHS Office for Civil Rights ("OCR") sent pre-audit screening surveys to a pool of covered entities that may be selected for a second phase of audits ("Phase 2 Audits") of compliance with the HIPAA Privacy, Security and Breach Notification Standards, as required by the HITECH Act. The OCR's first phase of audits ("Phase 1 Audits") were part of a pilot program, which included only covered entities and was conducted between 2011 and 2012. Unlike the Phase 1 Audits, which focused on covered entities, the Phase 2 Audits will include both covered entities and business associates. The Phase 2 Audit will focus on areas of greater risk to the security of protected health information ("PHI") and on pervasive non-compliance based on OCR's Phase I Audit findings and observations, rather than a comprehensive review of all of the HIPAA standards. OCR also intends for the Phase 2 Audits to identify best practices and uncover risks and vulnerabilities that OCR has not identified through other enforcement activities. OCR has stated that it will use the Phase 2 Audit findings to identify technical assistance that it should develop for covered entities and business associates. In circumstances where an audit reveals a serious compliance concern, OCR may initiate a compliance review of the audited organization that could lead to civil monetary penalties.

The HITECH Act also provides for almost $20 billion in federal incentives for health care providers to adopt electronic health records and health information technology ("EHR/HIT") with the goal of improving patient outcomes and efficiency of delivery of medical care. The HITECH Act encourages adoption of EHR/HIT through federal loans and grants to providers to implement adopt "meaningful use" of this technology. Adoption of the software, hardware and infrastructure necessary to comply with these "meaningful use" criteria could represent a significant additional capital expense for health care providers.

CMS's final 2016 IPPS rule modifies the "meaningful use" program to encourage electronic submission of clinical quality measures and to further align it with other rules and programs. The final IPPS rule, released July 31, 2015, changes the reporting obligations and timelines to better align the "meaningful use" program with the Inpatient Quality Reporting program, which was created under independent statutory authorities and uses payment adjustments depending not only on whether a hospital was a "meaningful user" but also whether it submitted its quality reports.

While the incentive to adopt EHR/HIT is initially provided through additional reimbursement under Medicare and matching funds under Medicaid for qualified entities that comply with the "meaningful use" adoption criterion, beginning in 2015 and 2016, Medicare payment reductions are set to begin for entities and individuals that fail to adopt these systems.

Two-Midnight Rule. Effective October 1, 2013, CMS adopted a policy known as the Inpatient Hospital Prepayment Review (or the "Two-Midnight" rule). The Two-Midnight rule specifies that hospital stays spanning two or more midnights after the patient is admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. Stays lasting less than two midnights must be treated and billed as outpatient. In addition, the rule implemented a 0.2 percent reduction in IPPS payments to hospitals.

The American Hospital Association and several hospitals filed lawsuits against DHHS contending that the rule deprives hospitals of proper Medicare reimbursement for caring for patients. In its fiscal year 2017 Inpatient Prospective Payment System Proposed Rule published on April 27, 2016, CMS has proposed to (i) reverse the Two-Midnight Rule's 0.2 percent reduction in hospital payments, and (ii) implement a temporary one-time increase of 0.6 percent in fiscal year 2017 payments to offset cuts made in the three preceding fiscal years. If adopted as a final rule, inpatient hospitals across the country will see an increase in their reimbursement rates. However, there is no guarantee CMS's proposed rule will be adopted as a final rule. Accordingly, management of the Obligated Group is currently unable to predict what effect the Two-Midnight rule will have on hospital revenues.

Exclusions from Medicare or Medicaid Participation. The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion of a Member of the Obligated Group from governmental program participation could have a material, adverse effect on the Obligated Group.

Enforcement. Enforcement activity against health care providers has increased and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many health care providers will be subject to investigation, audit or inquiry regarding the health care fraud laws mentioned above. As with other health care providers, the Institution (or the other Members of the Obligated Group) may be the subject of Office of the Inspector General, U.S. Attorney General and/or Justice Department investigations, audits or inquiries in the future. Because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries is increasing and could result in enforcement action against the Institution or the other Members of the Obligated Group.

Enforcement authorities are in a position to compel settlements by providers charged with kickback, referral, billing practice or false claims violations by imposing or threatening to withhold Medicare, Medicaid and/or similar payments and/or exclusion and/or criminal action. In addition, the cost of defending such investigations or litigation, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, any one or more of the Members of the Obligated Group could experience materially adverse settlements and/or litigation costs. Prolonged and publicized investigations could be damaging to the reputation, business and credit of any one or more of the Members of the Obligated Group, regardless of the outcome, and could have material adverse consequences on the financial condition of any one or more of the Members of the Obligated Group. In addition, the IRS has stated that violations by a tax exempt entity of certain of the fraud and abuse laws may also result in revocation of the entity's tax-exempt status. Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

Voluntary Corporate Compliance. The Institution and the other Members of the Obligated Group have adopted and implemented a voluntary corporate compliance program ("Compliance Plan") designed in light of the applicable compliance guidance offered by the DHHS Office of the Inspector General. The purpose of a Compliance Plan is to detect and deter violations of law. One of the major goals of such a plan is to identify and address issues involving the submission of claims to governmental payers such as Medicare and Medicaid and whether those claims comply with statutes, regulations and other guidance provided by the programs. Integral components of the Compliance Plan include a code of conduct, adoption of written standards, education, policies and procedures, auditing and monitoring, remediation of identified issues, and encouraging employees to identify potential issues.

It is possible that the Compliance Plan may bring to the attention of the Institution issues with respect to prior practices and payments. Depending upon the nature of the issue and whether an overpayment has occurred, such a discovery may result in either voluntary or involuntary refunds to governmental payers. Enforcement authorities take into account the existence and efficacy of a provider's voluntary compliance efforts in assessing the application and severity of penalties for a violation of federal or state rules governing reimbursement to or business relationships among providers of medical services; however, the decision of whether and how much weight to attach to voluntary compliance efforts is solely within the enforcement authorities' discretion.

Other Federal, State and Local Legislation

General. The Institution (and the other Members of the Obligated Group) is subject to a wide variety of additional federal, state and local regulatory actions and legislative and policy changes that could have a significant impact on the Institution and the other Members of the Obligated Group. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Obligated Group, including the Medicare and Medicaid programs. In addition, such entities may enact legislation that imposes significant new burdens on the operations of the Obligated Group. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that have adverse effects upon the ability of the Obligated Group to generate revenues or upon the favorable utilization of their facilities.

Certificate of Need. The State employs a certificate of need program, whereby health care facilities are required to obtain approval from the State before undertaking certain projects, including constructing or developing a new health care facility, selling, purchasing or leasing part or all of any existing hospital, changing bed capacity in a manner which increases the total number of licensed beds or redistributes beds, and/or offering a new tertiary health service.

Environmental Laws Affecting Health Care Facilities. Hospitals and other healthcare facilities 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. Among the types of regulatory requirements faced by hospitals are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, hospital, medical and infectious waste, polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for worker safety and training employees in the proper handling and management of hazardous materials and waste; and other requirements. In their role as owners and operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical healthcare operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, healthcare facility 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 or increase their costs or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions.

Antitrust. Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, joint venture, merger, virtual merger, formation of provider networks, diversification of hospitals into nontraditional hospital services and affiliation and acquisition activities. At various times, health care providers may be subject to an investigation by a federal or State governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or State agency or a private party. The Department of Justice may bring criminal and civil actions to enforce the antitrust laws. Private litigants may bring actions for treble damages.

Indigent Care. Tax exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, urban, inner city hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Federal law and regulations reduced the amount of funding available in the future for DSH payments under the Medicare and Medicaid programs under the theory that the ACA will result in more insured patients, and therefore, there will be less of a need to make funds available to hospitals that provide care to the uninsured. However, Management cannot predict whether the anticipated increased revenue to the Members of the Obligated Group resulting from more insured patients will offset the loss of DSH payments.

Employment and Labor Issues. As with all large employers, the Members of the Obligated Group bear a wide variety of risks in connection with their employees. These risks include strikes and other related work actions, contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Institution believes that the Obligated Group's retirement plans are in material compliance with the Employee Retirement Income Security Act of 1974, as amended, the Code and other applicable laws.

Physician, Nursing and Staff Shortages. In recent years, the health care industry has suffered from a scarcity of physician specialists and sub specialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital specific shortages. To the extent that any Member of the Obligated Group is unable to maintain adequate staff levels, utilization and, thus, financial performance may be adversely affected.

Competition. Competition from other hospitals may adversely affect revenues. Development of health maintenance and other alternative delivery programs and future medical and scientific advances could result in decreased usage of the Obligated Group's facilities.

Insurance. In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less available coverage. Professional liability and other actions alleging wrongful conduct are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in

whole or in part, be a liability of the Institution or any other Member of the Obligated Group if determined or settled adversely.

Many hospitals and health care providers are having difficulty renewing or obtaining all types of commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are mandating lower amounts of coverage, requiring greater deductibles, and charging more in premium.

Cost Increases. Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology, inflation or future legislation which would prevent or limit the ability of the Obligated Group to increase revenues from operating the Obligated Group's facilities. In that regard, in April of 2016 the State of New York passed legislation providing for increases in the minimum wage over a five-year period, specific to workers not in New York City, Nassau, Suffolk and Westchester counties: $9.70 by December 31, 2016; and $0.70 each year after until reaching $12.50 in 2020.

State Budget and the New York Medicaid Redesign Team

In January 2011, Governor Andrew M. Cuomo issued Executive Order No. 5 creating the Medicaid Redesign Team and setting in motion a process of substantial reform of New York's Medicaid program. The Medicaid Redesign Team, comprised of health care professionals, stakeholders in the industry and legislators, was charged with reducing Medicaid costs and improving patient care. On February 24, 2011, the Medicaid Redesign Team issued a report containing findings and recommendations for cost reductions of over $2.3 billion to the Governor for consideration in the budget negotiation process. The majority of these recommendations (so-called "Phase I" proposals) were included in the 2011-2012 Final Budget and passed by the New York legislature on March 31, 2011. The 2012-2013 Final Budget, passed by the New York legislature on March 30, 2012, included a number of proposals designed to continue the reformation of Medicaid within New York (so-called "Phase II" proposals). Each of the 2013-2014 Final Budget, passed by the New York legislature on March 28, 2013, the 2014-2015 Final Budget, passed by the New York legislature on March 31, 2014, and the 2015-2016 Final Budget, passed by the New York legislature on March 31, 2015, includes additional recommendations for building on Medicaid reformation efforts and encouraging a shift to value-based payments, as described in more detail below.

The 2011-2012 Final Budget (implementing Phase I) included a series of changes and cost-containment measures such as: programmatic reforms to Medicaid payments and program structures; the elimination of annual statutory inflation factors for hospitals, nursing homes and home and personal care providers; a 2% across-the-board rate reduction and other industry-specific measures; the acceleration of certain payments to take advantage of additional enhanced Federal Medical Assistance Percentage payments; mandatory managed care enrollment of previously exempt population; changes in the benefit package and reimbursement for certain overused benefits; and creation of new integrated care models anticipated to save Medicaid dollars in the long term by improving patient care. The 2012-2013 Final Budget (implementing Phase II) continued the work of the Medicaid Redesign Team and included provisions: calling for further redesign of the basic benefit package; additional initiatives to provide integrated care; and a state takeover of Medicaid administration from local governments. The 2013-2014 Final Budget included further expansion of eligibility for and the scope of services provided by managed care plans and acceleration of several cost-saving Medicaid Redesign Team initiatives to offset the cost of creating a Mental Hygiene Stabilization Fund. The 2014-2015 Final Budget included further provisions implementing the work of the Medicaid Redesign Team, including integration of physical and behavioral health services through Behavioral Health Organizations and Health and Recovery Plans, an increase in funding available for affordable housing and an increase in payments to essential community providers. The 2015-2016 Final Budget included a recently awarded $100 million in Federal monies over four years to implement the State Health Innovation Plan, which extends Medicaid reform efforts to the State's public and private health care system, as well as a five-year, $8 billion Federal Medicaid waiver to implement the new Delivery System Reform Incentive Payment, a pay-for-performance program with the goal of reducing avoidable hospital use by 25% over the program's duration. The 2015-2016 Final Budget also continues the implementation of the Medicaid Redesign Team and provides for $1.4 billion in new complimentary capital investments to make infrastructure improvements and provide additional tools to stabilize health care providers to advance health care transformation goals.

Each of the Final Budgets for 2011-2012 through 2015-2016 assumes a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index (currently 3.6%) and grant the DOH and the State Department of Budget ("DOB") authority to hold Medicaid spending to this rate. If spending is projected to exceed the budget cap, DOH and DOB are authorized to develop and implement a plan of action to bring spending in line with the cap, which could include modifying or reducing reimbursement methods or program benefits. The 2014-2015 Final Budget permits DOB to adjust the budget cap to allow for increased spending due to natural disasters. The 2015-2016 Final Budget permanently extended the Medicaid global spending cap, and provides for a cap increase of 3.6% in the coming fiscal year. For 2011-2012, the budget cap required DOH to achieve savings of $2.2 billion, which grew to $3.3 billion in 2012-2013. For 2013-2014 the global spending cap was increased to $16.5 billion, for 2014-2015 the global spending cap was further increased to $17.0 billion and for 2015-2016 the global spending cap was further increased to $17.7 billion. Over the last several years, the State budget year has ended with Medicaid spending below the global spending cap: the 2011-2012 budget year ended with Medicaid spending $14 million below the global spending cap; the 2012-2013 budget year ended with Medicaid spending $2 million below the global spending cap; the 2013-2014 budget year ended with Medicaid spending $39 million below the global spending cap; and the 2014-2015 budget year ended with Medicaid spending $8 million below the global spending cap. Although successful in meeting the budget cap in the first four years, higher-than-average Medicaid enrollment threatens the ability of DOH to continue to meet the savings goal in future years.

The effect of the Medicaid redesign process on the Obligated Group will depend significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years. There can be no assurance that the anticipated gap-closing savings will be achieved or that the rate of annual growth in DOH State Funds Medicaid spending will be limited. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

Medicaid Partnership Plan 1115 Waiver

New York State's program for mandatory Medicaid managed care enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory Medicaid managed care enrollment programs were instituted throughout New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. Prior amendments to the Partnership Plan 1115 Waiver further extended the groups eligible and required to enroll in Medicaid managed care, which resulted in an increase in Medicaid managed care admissions. Additionally, following a July 2015 approval of the State's value based purchasing "roadmap" under the 1115 Waiver's new value based purchasing requirements, managed care plan incentives for meeting value based purchasing goals were added in order to encourage the development of integrated delivery systems within the State. Specific expected improvements include: (i) reducing avoidable readmissions; (ii) improving community health by expanding access to preventive and disease management programs; (iii) implementing programs aimed at improving access to preventive services; and (iv) encouraging community involvement to encourage health and wellness. Since 1997, the Partnership Plan 1115 Waiver has been extended several times, most recently as of August 2011, effective through December 31, 2014, New York currently is in the process of requesting approval from CMS to extend the Partnership Plan 1115 Waiver for an additional five years, from January 1, 2015 through December 31, 2019, and has requested permission for the state to reinvest federal savings generated by the state's Medicaid Redesign Team reform efforts. A series of temporary extensions have been granted while CMS continues to evaluate the extension application, the most recent of which is effective through June 15, 2016.

New York State Executive Order

On January 18, 2012, Governor Cuomo signed an Executive Order limiting spending for administrative costs and executive compensation at State-funded service providers. The Obligated Group may be subject to the limitations contained in the Executive Order. The Executive Order limits reimbursement with State funds for executive compensation to $199,000 annually per executive and requires that 85% of State-authorized payments be utilized for direct care or services, rather than administrative costs. In March 2013, DOH published a third version of proposed regulations to implement the Executive Order, which became effective July 1, 2013.

In April 2014, a New York trial-level court in Nassau County found that the Executive Order violated the New York State Constitution. A trial-level court in Suffolk County in a different case upheld the Executive Order in July 2014. In December 2015, the appellate court with jurisdiction over the trial courts in both of these counties upheld the Executive Order, reversing the decision from the Nassau County court and affirming the decision of the Suffolk County court. A recent decision in the Albany County Supreme Court, also a trial-level court, found the Executive Order to be constitutional, for the most part. The appellate court decision and the decision of the Albany court remain subject to review by higher courts. Accordingly, whether the Executive Order will remain in effect and the way in which the final regulations may impact the Obligated Group remains unclear. It is impossible at this time to predict what changes in accounting or practices might be required of the Obligated Group as a result of these regulations.

Construction Risks

Construction of the Project is subject to the usual risks associated with construction projects including, but not limited to, delays in issuance of required building permits or other necessary approvals or permits, strikes, labor disputes, shortages of materials and/or labor, transportation delays, adverse weather conditions, fire, casualties, war, terrorism, orders of any kind of federal, state, county, city or local government, adverse conditions not reasonably anticipated or other causes beyond the control of the Obligated Group or its contractors. Such events could result in delays in completion, and/or occupancy of the Project. In addition, the completion and occupancy of the Project may be delayed by reason of changes authorized by the Obligated Group and delays due to acts or neglect of the contractors employed by the Obligated Group.

Enforceability of Remedies

The Series 2016 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2016 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement, the Mortgages and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreement, the Mortgages and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinion to be delivered concurrently with the delivery of the Series 2016 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and Federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

Enforceability of Lien on Gross Receipts

The Loan Agreement provides that the Institution shall make payments to the Trustee sufficient to pay the Series 2016 Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments is secured by the Series 2016 Obligations, which, in turn, is secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Obligated Group. The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Indenture. Gross Receipts paid by the Members of the Obligated Group to other parties in the ordinary course might no longer be subject to the lien on the Master Indenture and might therefore be unavailable to the Master Trustee. In addition, the Master Trustee has certain authority under the Master Indenture to partially release the lien on Gross Receipts as to specific property.

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

of the Lien on Gross Receipts of the Obligated Group, where such Gross Receipts are derived from the Medicare and Medicaid programs.

In the event of bankruptcy of a Member of the Obligated Group, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court, may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Members of the Obligated Group before paying debt service on the Series 2016 Bonds.

Pursuant to the New York Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if such proceeds are not paid over to the Master Trustee by a Member of the Obligated Group under certain circumstances. If any required payment of principal of, premium, if any, or interest on any Obligation is not made when due or if any other Event of Default has occurred, the Members of the Obligated Group must transfer or pay over immediately to the Master Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by a Member of the Obligated Group be transferred to the Master Trustee without such Gross Receipts being commingled with other funds of the Obligated Group, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment.

The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Series 2016 Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Series 2016 Bonds.

Enforceability of the Master Indenture

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the security interest granted by a Member and the joint and several obligation of a Member to make payments due under an Obligation, relating to indebtedness issued for the benefit of another Member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a Member or a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested. An obligation may be voided under the Federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency", "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, a Member's joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be a "transfer" which makes such Member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members may be deemed to have received less than "fair consideration" for such obligation because none or only a portion of the proceeds of the indebtedness is to be used to finance projects occupied or used by such Member. While the Members may benefit generally from the projects financed from the indebtedness for the other Members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Master Indenture.

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

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

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

Exercise of Remedies under Master Indenture

"Events of Default" under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as the Series 2016 Obligations) and may include nonpayment related defaults under documents such as the Loan Agreement, the Indenture or the Mortgages. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately except as provided in the Master Indenture, and if applicable, subject to the terms of the Intercreditor Agreement. Consequently, upon the occurrence of an "Event of Default" under the Indenture with respect to the Series 2016 Bonds and an acceleration of the maturity of the Series 2016 Bonds, the Master Trustee may not be required to accelerate all Obligations Outstanding under the Master Indenture.

Affiliation, Merger, Acquisition and Divestiture

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

Competition

Payments to the hospital industry have undergone rapid and fundamental changes triggered by the deregulation of the acute care hospital reimbursement system and the requirement to negotiate, all nongovernment contracts and prices. In New York, hospital systems continue to consolidate, increasing competitive pressures on acute care hospitals, including the Obligated Group. The Obligated Group faces and will continue to face increased competition from other hospitals, integrated delivery systems, ambulatory care providers, rehabilitation facilities, freestanding independent diagnostic treatment facilities and increasingly sophisticated physician group practices, among others that offer similar health care services as well as expanded preventive medicine treatment.

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

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

Limitation on Value of Mortgaged Property

The Mortgaged Property of the Members of the Obligated Group is pledged as security for the Series 2016 Bonds. Such Mortgaged Property is not comprised of general-purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the Mortgaged Property, and, upon any default, the Master Trustee may not obtain an amount equal to the amount of the outstanding Series 2016 Bonds and other indebtedness secured by the Mortgaged Property from the sale or lease of such Mortgaged Property if it were necessary to proceed against the Mortgaged Property, whether pursuant to a judgment, if any, against the Members of the Obligated Group or otherwise.

VBMC, NDH and PHC have each represented in their respective Mortgages that each has fee title to their respectively owned Mortgaged Property that is described in the Mortgage signed by such Member of the Obligated Group; however, no title insurance company has issued a title insurance policy insuring the Master Trustee's mortgage lien under the Mortgage in each such Mortgaged Property in connection with the issuance of the Series 2016 Bonds. As a result, a defect in VBMC's, NDH's and/or PHC's title to the Mortgaged Property owned by such Member of the Obligated Group may adversely impact its use of all or a portion of such Mortgaged Property and/or the operations of such Member and/or the value of such Mortgaged Property and any proceeds that may be recovered by the Master Trustee in the event that the Master Trustee seeks to foreclose on the Mortgage of such Mortgaged Property or pursue its rights in accordance with the Master Indenture and the Supplemental Indentures. Title insurance can insure, subject to what is specially excluded or excepted in the title policy itself, (a) that title is vested in the fee owner, (b) against a defect in or lien or encumbrance on the title including hidden defects such as forgery, (c) unmarketablity of title, (d) against statutory liens for service, labor or materials furnished prior to the policy date, (e) against invalidly or unenforceability of the mortgage lien, and (f) priority of the lien of the mortgage. As noted in the Master Indenture, there are Permitted Liens that may encumber the Mortgaged Property that title insurance would not insure against. Certain prior bond issuances have required title insurance for their mortgages securing the Obligations associated with those prior bond issuances. There can be no assurances that should there be a claim on the title insurance in those bond issuances, that there will be sufficient funds to cover all potential losses under those or the issuance of the Series 2016 Bonds. Moreover, title insurance coverage for these mortgages associated with prior bond issuances may terminate with the repayment or defeasance of those prior bond issuances and unavailable in the event of a default with respect to the Series 2016 Bonds.

Bankruptcy

The rights and remedies of the holders of the Series 2016 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If a Member of the Obligated Group were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against that Member of the Obligated Group and its property, including the commencement of foreclosure proceedings under the Mortgages. Such Member of the Obligated Group would not be permitted or required to make payments of principal or interest under the Loan Agreement and the Obligations, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court, the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Indenture from being applied in accordance with the provisions of the Indenture, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2016 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Indenture would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of such Member of the Obligated Group, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Master Trustee's continuing security interest in the Obligated Group's Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all

amounts payable by such Member of the Obligated Group under the Obligations, the Master Indenture, the Mortgages, and the Loan Agreement, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

The Obligated Group could file a plan for the adjustment of its debts in a proceeding under the Bankruptcy Code, which plan could include provisions modifying or altering the rights of creditors generally, or any class of them, whether secured or unsecured. The plan, when confirmed by the United States Bankruptcy Court, would bind all creditors who have notice or knowledge of the plan and could discharge all claims against the Obligated Group provided for in the bankruptcy plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been (except as set forth below) accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Intercreditor Agreement

Pursuant to the provisions of the Intercreditor Agreement, the exercise of certain rights and remedies of the Issuer and the Trustee for the Series 2016 Bonds may be restricted or limited for certain periods. No assurance can be given that amounts realized by the Issuer or the Trustee upon the exercise of certain remedies in accordance with the Intercreditor Agreement will be sufficient to pay the principal of and the interest on the Series 2016 Bonds as the same shall become due and payable.

Considerations Relating to Additional Debt

Subject to the coverage and other tests set forth therein, the Indenture and the Master Indenture, as amended and supplemented, permit the Members of the Obligated Group to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2016 Bonds.

Cybersecurity

Like many other large organizations, the Members of the Obligated Group rely on digital technologies to conduct their customary operations. In the past several years, a number of entities have sought to gain unauthorized access to digital systems of large organizations for the purposes of misappropriating assets or information or causing operational disruption. These attempts include highly sophisticated efforts to electronically circumvent network security as well as more traditional intelligence gathering and social engineering aimed at obtaining information necessary to gain access. The Members of the Obligated Group maintain a network security system designed to stop "cyber-attacks" by third parties, and minimize their impact on operations; however, no assurances can be given that such network security systems will be completely successful.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2016 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group, or the market value of the Series 2016 Bonds, to an extent that cannot be determined at this time:

- Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates.

- Increased unemployment or other economic conditions in the service area of the Obligated Group, which could increase the proportion of patients who are unable to pay fully for the cost of their care.

- Competition in the Obligated Group's service area could increase from alternative modes of care, including life care, assisted living facilities, and home care.

- Efforts by insurers and governmental agencies to limit the cost of hospital and physician services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or attempts by third-party payors to control or restrict the operations of certain health care facilities.

- Reduced demand for the services of the Obligated Group that might result from decreases in population or innovations in technology.

- Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

- The occurrence of a natural or man-made disaster, including but not limited to acts of terrorists, that could damage the facilities of the Obligated Group, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the operations and the generation of revenues from the Obligated Group's facilities.

- Adoption of a so-called "flat" Federal income tax, a reduction in the marginal rates of Federal income taxation or replacement of the Federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2016 Bonds and the level of charitable donations to the Obligated Group.

- Increases in cost and limitations in the availability of any insurance, such as fire, and/or business interruption, automobile and comprehensive general liability, that the Obligated Group generally carries.

- Developments affecting the Federal or state tax-exempt status of not-for-profit hospitals.

LITIGATION

The Issuer

The Issuer is unaware of any litigation restraining or enjoining the issuance or delivery of their Series 2016 Bonds, or questioning or affecting the validity of the Series 2016 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present members or other officers of the Issuer to their respective offices, is known to be contested or questioned. There is no known litigation pending against the Issuer which in any manner questions the right of the Issuer to enter into the Indenture, the Loan Agreement or to secure the Series 2016 Bonds in the manner provided in the Indenture.

The Obligated Group

No action, suit, proceeding or investigation is pending against the Institution or any Member of the Obligated Group or, to the Institution's knowledge, threatened which might, in the opinion of the management of the Members of the Obligated Group, materially adversely affect the business or properties or financial condition of the Institution and the other Members of the Obligated Group, or in which an unfavorable decision, ruling or finding would adversely affect the validity or enforceability of the Loan Agreement, the Master Indenture, the Mortgages, or

any other documents executed by the Institution in connection therewith, the performance by the Institution or any other Member of the Obligated Group of any of their obligations thereunder, or the consummation of any of the transactions contemplated thereby.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries as of December 31, 2015 and 2014 and for the years then ended appearing in Appendix B of this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing in Appendix B to this Official Statement.

AFFILIATES INCLUDED IN AUDITS

The audited consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries are included in Appendix B to this Official Statement and are consolidated in accordance with accounting principles generally accepted in the United States. The audited financial statements include affiliates of the Institution which are not Members of the Obligated Group and are not obligated on the Series 2016 Obligations. The Institution, VBMC, PHC and NDH are currently the only Members of the Obligated Group under the Master Indenture. In fiscal year 2015, the Members of the Obligated Group represented 90.4% of the operating revenue and 99% of the net assets of Health Quest Systems, Inc. and Subsidiaries. The Obligated Group's operating income was $76.7 million.

VERIFICATION

The Arbitrage Group, Inc. (the "Verification Agent"), will deliver, on or before the settlement date of the Series 2016 Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the escrowed government obligations, to pay, when due, the maturing principal of, and interest on, the Series 2007B Bonds. The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the Underwriters of the Series 2016 Bonds, and its representatives.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Series 2016 Bonds are subject to the approving opinion of Nixon Peabody LLP, New York, New York, as Bond Counsel to the Issuer, a form of which is attached as Appendix E. A signed copy of such opinion will be available at the time of original delivery of the Series 2016 Bonds. Certain legal matters will be passed upon for the Issuer by their counsel, Cappillino & Rothschild LLP, Pawling, New York; for the Members of the Obligated Group by their counsel, Chapman and Cutler LLP, New York, New York; and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, New York, New York.

UNDERWRITING

The Series 2016 Bonds are being purchased by the underwriters set forth on the cover of this Official Statement (the "Underwriters"). The Underwriters have agreed to purchase the Series 2016 Bonds at an aggregate underwriting discount of $2,600,482.63. The purchase contract for the Series 2016 Bonds provides that the Underwriters will purchase all of the Series 2016 Bonds. The Institution and each other Member of the Obligated Group have agreed to indemnify the Underwriters and the Issuer against losses, claims, damages and liabilities arising out of any incorrect statement or information contained in or information omitted from this Official Statement to the extent set forth in the purchase contract.

The initial public offering prices set forth on the front cover page hereof may be changed from time to time by the Underwriters, and the Underwriters may offer to sell Series 2016 Bonds to certain dealers and others at prices lower than the offering prices stated on the front cover page hereof.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Institution, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Institution. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Division of McGraw-Hill Corporation ("S&P") have assigned the ratings of "A3" (negative outlook) and "A-" (stable outlook), respectively, to the Series 2016 Bonds.

Explanations of the significance of each rating may be obtained from Moody's at 7 World Trade Center, 250 Greenwich Street, New York, New York and from S&P at 55 Water Street, New York, New York. Each such rating reflects only the views of the respective rating agency, and an explanation of the significance of the ratings may be obtained from the rating agency. Generally, ratings agencies base their ratings on information and material furnished by the Obligated Group and on investigations, studies and assumptions made by the rating agencies. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by one or more of the rating agencies, if in the judgment of any such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2016 Bonds. Neither the Issuer nor the Underwriters have agreed to take any action with respect to any proposed rating change or to bring such rating change, if any, to the attention of the owners of the Series 2016 Bonds.

TAX MATTERS

Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements that must be met subsequent to the issuance and delivery of the Series 2016 Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2016 Bonds. Pursuant to the Indenture, the Loan Agreement and the Tax Regulatory Agreement, the Issuer and the Institution have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2016 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Issuer and the Institution have made certain representations and certifications in the Indenture, the Loan Agreement and the Tax Regulatory Agreement. Bond Counsel will also rely on the opinion of Chapman and Cutler, LLP as to certain matters concerning the status of the Members of the Obligated Group as organizations described in Section 501(c)(3) of the Code and exempt from federal income tax

under Section 501(a) of the Code. Bond Counsel will not independently verify the accuracy of those representations and certifications or that opinion.

In the opinion of Nixon Peabody LLP, Bond Counsel, under existing law and assuming compliance with the aforementioned covenants, and the accuracy of certain representations and certifications made by the Issuer and the Institution described above, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2016 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

State Taxes

Bond Counsel is also of the opinion that interest on the Series 2016 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision of the State of New York, including The City of New York, assuming compliance with the tax covenants and the accuracy of the representations and certifications described above under "Federal Income Taxes." Bond Counsel expresses no opinion as to other state or local tax consequences arising with respect to the Series 2016 Bonds nor as to the taxability of the Series 2016 Bonds or the income therefrom under the laws of any state other than the State of New York.

Original Issue Discount

Bond Counsel is further of the opinion that the excess of the principal amount of a maturity of the Series 2016 Bonds over the price at which price a substantial amount of such maturity of the Series 2016 Bonds was sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a "Discount Bond" and collectively the "Discount Bonds") constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2016 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment. Owners of the Discount Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Discount Bonds.

Original Issue Premium

The Series 2016 Bonds sold at prices in excess of their principal amounts are "Premium Bonds". An initial purchaser with an initial adjusted basis in a Premium Bond in excess of its principal amount will have amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Bond based on the purchaser's yield to maturity (or, in the case of Premium Bonds callable prior to their maturity, over the period to the call date, based on the purchaser's yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation with an amortizable bond premium is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Series 2016 Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Bonds.

Ancillary Tax Matters

Ownership of the Series 2016 Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States,

property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Series 2016 Bonds may also result in other federal tax consequences to taxpayers (including banks, thrift institutions and other financial institutions) who may be deemed to have incurred or continued indebtedness to purchase or to carry the Series 2016 Bonds. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Series 2016 Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. In addition, interest on the Series 2016 Bonds may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner's taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Bond Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinions attached as Appendix E. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Series 2016 Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events

Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Series 2016 Bonds for federal or state income tax purposes, and thus on the value or marketability of the Series 2016 Bonds. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Series 2016 Bonds from gross income for federal or state income tax purposes, or otherwise.. Bond Counsel notes that each year since 2011, President Obama released legislative proposals that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2016 Bonds) for taxpayers whose income exceeds certain thresholds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Series 2016 Bonds may occur. Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors regarding the impact of any change in law on the Series 2016 Bonds.

Bond Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Series 2016 Bonds may affect the tax status of interest on the Series 2016 Bonds. Bond Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Series 2016 Bonds, or the interest thereon, if any action is taken with respect to the Series 2016 Bonds or the proceeds thereof upon the advice or approval of other counsel.

CONTINUING DISCLOSURE

Because the Series 2016 Bonds are limited obligations of the Issuer, payable solely from amounts received from the Obligated Group, financial or operating data concerning the Issuer is not material to an evaluation of the offering of the Series 2016 Bonds or to any decision to purchase, hold or sell the Series 2016 Bonds. Accordingly, the Issuer is not providing any such information. The Obligated Group has undertaken all responsibilities for any continuing disclosure to Holders of the Series 2016 Bonds, as described below, and the Issuer shall have no liability to the Holders of the Series 2016 Bonds or any other Person with respect to Rule 15c2-12, referred to in this Official Statement as the "Rule", promulgated under the Securities Exchange Act of 1934 by the Securities and Exchange Commission.

The Obligated Group has covenanted to provide (a) certain financial information and operating data relating to the Institution by not later than 150 days after the end of the Institution's fiscal year (which fiscal year currently ends on December 31), commencing with the report for the fiscal year ending December 31, 2016 (the "Annual Report"), (b) certain financial information relating to the Institution by not later than 60 days after the end of each quarter of the Institution's fiscal year, commencing in the fiscal quarter ending June 30, 2016 and (c) notices

of the occurrence of certain enumerated events. The Institution will file, or cause to be filed, the Annual Report and quarterly information with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system for municipal securities disclosures. Any notice of an event required to be disclosed as a significant event under Rule 15c2-12 is also required to be filed by the Obligated Group with the MSRB through its EMMA system. The specific nature of the information to be contained in the Annual Report, the quarterly reports and the notices of material events is described in Appendix F – FORM OF CONTINUING DISCLOSURE AGREEMENT. These covenants have been made in order to assist the Underwriters in complying with the Rule. With respect to existing undertakings in place with respect to outstanding bonds, the Obligated Group has historically posted the required information within the time frame required by such undertakings; however, the information was not properly indexed to all applicable CUSIP numbers. The Obligated Group has addressed the issue and has procedures in place with respect to future filings.

MISCELLANEOUS

All estimates, assumptions, statistical information and other statements contained herein, while taken from sources considered reliable, are not guaranteed. To the extent that any statement herein includes matters of opinion, or estimates of future expenses and income, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The agreement of the Issuer with the holders of Series 2016 Bonds is fully set forth in the Indenture, and neither any advertisement of the Series 2016 Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2016 Bonds.

The information contained herein should not be construed as representing all conditions affecting the Issuer, the Institution, the Obligated Group or the Series 2016 Bonds. The foregoing statements relating to the Indenture, the Loan Agreement, the Mortgages, the Master Indenture, the Supplemental Indentures and other documents are summaries of certain provisions thereof, and in all respects are subject to and qualified in their entirety by express reference to the provisions of such documents in their complete forms.

The attached Appendices A through F are integral parts of this Official Statement and should be read in their entirety together with all of the foregoing statements.

It is anticipated that CUSIP identification numbers will be printed on the Series 2016 Bonds, but neither the failure to print such numbers on any Series 2016 Bond nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of or pay for any Series 2016 Bonds.

The Issuer has furnished only the information included herein under the section entitled "THE ISSUER" and information concerning the Issuer under the headings "INTRODUCTORY STATEMENT" and "LITIGATION."

The Issuer and the Institution have authorized the distribution of this Official Statement.

DUTCHESS COUNTY LOCAL DEVELOPMENT CORPORATION

By: */s/ Sarah Lee*
Name: Sarah Lee
Title: Chief Executive Officer

HEALTH QUEST SYSTEMS, INC.

By: */s/ Gary Zmrhal*
Name: Gary Zmrhal
Title: Senior Vice President and Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING HEALTH QUEST SYSTEMS, INC. AND THE OBLIGATED GROUP

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GENERAL AND HISTORICAL INFORMATION

Introduction

Health Quest Systems, Inc. ("HQ" or "Health Quest") is a corporation organized under the not-for-profit corporation laws of the State of New York. HQ is the sole member of (i) Vassar Brothers Hospital, d/b/a Vassar Brothers Medical Center ("VBMC"), a 365-licensed bed acute care hospital located in Poughkeepsie, Dutchess County, approximately 80 miles north of New York City, (ii) Northern Dutchess Hospital ("NDH"), a 68-licensed bed acute care hospital, located approximately 18 miles to the north of VBMC in Rhinebeck, Dutchess County, and (iii) Putnam Hospital Center ("PHC" and together with VBMC and NDH, the "HQ Hospitals"), a 164-licensed bed acute care hospital, located approximately 34 miles to the south of VBMC in Carmel, Putnam County. HQ and the HQ Hospitals collectively form the Obligated Group under the Master Indenture (as such terms are defined in the forepart of this Official Statement. All members of the Obligated Group are exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Health Quest was formed in 1999, with the affiliation of VBMC and NDH. In 2001, PHC also affiliated with Health Quest, creating the largest system of nonprofit hospitals in the Mid-Hudson Valley (the "System"). In 2007, Health Quest further extended the System by establishing a physician employment vehicle, Health Quest Medical Practice.

VBMC opened in 1887, with four wards of 10 beds, a labor and delivery ward, a nursery, a children's ward, three private rooms and two isolation rooms. It is the oldest and most comprehensive hospital in the Mid-Hudson Valley. The Mid-Hudson Valley is located on the eastern edge of downstate New York and encompasses Dutchess, Ulster, Orange and Putnam counties (the "Mid-Hudson Valley"). Since 1887, VBMC has grown, expanded and developed new programs, added new buildings and provided additional services for the community.

NDH began as a 14 bed infirmary in 1903 funded by the Thomas Thompson Trust. In 1930, a new hospital was built and opened with 30 beds. Over the years, NDH continued to expand, and was the first to open an intensive care/critical care unit in the area, and the first to open a birth center featuring nine birthing suites. In February of 2016, NDH opened an approximately 87,000 square foot patient pavilion, consisting of private rooms, state-of-the-art surgical suites equipped with minimally invasive technology and primary and specialized physician practices.

PHC opened its doors in 1964 as a 66 bed voluntary hospital. In 2001, a new building opened adding an ambulatory surgery unit, MRI center, pain management program, radiology, physical therapy and physician offices. In 2008, PHC opened the Camarda Care Center, an approximately 113,000 square foot patient building, consisting of a new cancer center, private patient rooms, physician offices and a hospital/community use conference center.

Services and Programs

The HQ Hospitals offer a variety of inpatient and outpatient services. In addition to general medical and surgical services, they provide specialized clinical services in the areas of cardiac surgery, oncology, orthopedics, inpatient rehabilitation, psychiatry, wound care and women's and children's health.

As of December 31, 2015, the licensed bed complement of the HQ Hospitals is allocated as follows (all of which were staffed):

SERVICE	VBMC	NDH	PHC	TOTAL
Medical/Surgical	276	40	110	426
Intensive Care	14	7	10	31
Cardiac Care	10	0	0	10
Maternity	32	11	14	57
Neonatal Intensive Care	15	0	0	15
Pediatrics	18	0	10	28
Rehabilitation	0	10	0	10
Psychiatric	0	0	20	20
TOTAL	365	68	164	597

Vassar Brothers Hospital, d/b/a Vassar Brothers Medical Center

VBMC provides a full range of primary and secondary, and selected tertiary acute care services on an inpatient and outpatient basis. VBMC has four Centers of Clinical Excellence including:

- The Heart Institute, offering open heart surgery, electrophysiology studies, cardiac catheterization, coronary angioplasty, an eight-bed Chest Pain Center and a Heart Failure Unit. The Heart Institute is led by a team of four board certified cardiothoracic surgeons and thirty-six board certified cardiologists. In 2015, the Heart Institute performed 345 cardiothoracic surgeries, 2,424 diagnostic cardiac catheterization procedures, 1,099 cardiac catheterization interventions and 1,307 electrophysiological studies.

- The Maternity Center includes the only Level III Neonatal Intensive Care Unit (the most intensive unit of care) in the Mid-Hudson Valley. In addition, the Maternity Center is the only dedicated pediatric unit in Dutchess County and provides for state-of-the-art maternity suites. VBMC is also the only hospital in the Mid-Hudson Valley to offer a maternal-fetal medicine department which specializes in high-risk pregnancies. VBMC also offers an OB/GYN Care Center to provide prenatal care for underserved populations. VBMC had 2,165 newborn discharges in 2015, more than any other hospital in the Mid-Hudson Valley.

- Oncology services are offered through the Dyson Center for Cancer Care (the "Dyson Center"), providing intensity-modulated radiation therapy, inpatient therapy, an infusion

center, radiation oncology, and a Breast Center. VBMC serves more cancer patients than any other hospital in the Mid-Hudson Valley and its cancer program is accredited by the American College of Surgeons as a Community Hospital Comprehensive Cancer Program, the highest designation by the organization that a nonacademic medical center can attain. The Dyson Center is staffed with a dedicated radiologist who specializes in the diagnosis of breast cancer and the only fellowship-trained breast surgeon in the Mid-Hudson Valley. Radiotherapy equipment includes five linear accelerators, computerized tomography-based simulation and brachytherapy. The Dyson Center is also accredited by the American College of Radiologists for its Radiation Oncology program and has received accreditation as a Medical Physics Residency program in Radiation Oncology by the Commission on Accreditation of Medical Physics Educational Programs (CAMPEP).

- Surgical services available at VBMC include general, laparoscopic, hepatobiliary, vascular, thoracic, cardiothoracic, dental, plastic, and reconstructive surgery, neurology, obstetrics/gynecology, ophthalmology, orthopedics, otolaryngology, podiatry and urology. VBMC offers expertise in the daVinci® surgical robot in gynecological and urological procedures as well as liver and kidney surgeries. In addition, VBMC also purchased a MAKOplasty® robot in 2013. MAKOplasty partial knee resurfacing is a minimally invasive treatment option for adults living with early to mid-stage osteoarthritis that has not yet progressed to all three compartments of the knee.

In addition, VBMC provides many specialized clinical services including:

- A physician intensivist program staffed by five full-time physicians board certified in critical care, pulmonary and internal medicine.

- A physician hospitalist program staffed by twenty-two full-time specialists in internal medicine who manage the care of patients referred by private practitioners. VBMC is also the only hospital in the Mid-Hudson Valley to provide a pediatric hospitalist program.

- A Level II trauma program staffed by four physicians which started in February of 2016.

- A palliative care support program for patients and their family members.

- A surgical physician assistant program providing first assist in the operating room as well as first call response to emergency room and inpatient units to aid surgical coverage.

- A stroke program that has earned The Joint Commission's Gold Seal of Approval™ by meeting The Joint Commission's national standards for health care quality and safety in disease-specific care. In 2015, VBMC opened an interventional neuroradiology lab, and is the only hospital in the Mid-Hudson Valley to offer neuro-interventional surgery to remove or dissolve blood clots using minimally invasive technology.

- The VBMC Wound Care and Hyperbaric Center which treats chronic or non-healing wounds.

- Rapid response team, emergency services, ambulatory surgery, outpatient radiology, physical, occupational and speech therapy services.

VBMC also offers ambulatory surgery, imaging, radiation oncology and sleep studies at the Vassar Brothers Medical Mall in Fishkill, New York and ambulatory surgery at the Vassar Ambulatory Surgery Center located on land adjacent to the main hospital, which opened in July, 2012.

Putnam Hospital Center

PHC offers medical, surgical, psychiatric, obstetrical/gynecological care, and 24/7 emergency services. PHC also offers expertise in the daVinci® surgical robot in colorectal and urological procedures. In addition, PHC owns and operates a MAKOplasty® robot to perform total hip replacements and partial knee resurfacing.

Other services provided by PHC include hospitalist coverage; intensivist coverage; ambulatory surgery; bariatric surgery; blood management program; cardiac and pulmonary rehabilitation programs; infusion services; oncology services including radiation oncology; coronary/intensive care; orthopedic services; pain management; renal dialysis; physical, occupational and speech therapy and rehabilitation; neurological, respiratory and cardiac diagnostic and treatment facilities; radiological services including magnetic resonance imaging ("MRI"), computed tomography scan ("CT"), positron emission tomography scan and digital mammography; and a comprehensive birthing center with board certified obstetricians, gynecologists, neonatologists and certified nurse midwives.

PHC also provides a Pain Management Program with a support team comprised of specialists in physical medicine, rehabilitation, psychiatry, psychology and physical therapy.

Outpatient services include ambulatory surgery, wound care/hyperbaric, sleep disorders, outpatient radiology and physical, occupational and speech therapy.

Northern Dutchess Hospital

NDH offers a comprehensive range of emergency, medical and surgical services through various specialty departments including the Bone and Joint Center, Neugarten Family Birth Center (with 964 births in 2015), Emergency Department, Wound Care, Dyson Center for Women's Imaging (an extension of the Dyson Center at VBMC offering digital mammography, breast MRI, image-guided breast biopsy, sonography/ultrasound and bone mineral density testing), Center for Healthy Aging, Zipser Surgical Center, Sosnoff Cardio-Diagnostic Center, Outpatient Nutrition Department, Spine Center, NDH Sleep Disorders Center, Paul Rosenthal Rehabilitation Center, Outpatient Rehabilitation Center, and a medically-based Fitness Center.

The Women's View Montgomery Street Health Annex provides diagnostic, medical and wellness services for women including: obstetrics and gynecology services, women's cardiac care, physical therapy programs, nutritional counseling, lymphedema management, therapeutic massage, acupuncture, Reiki and support and educational programs such as yoga, infant massage, cooking classes and weight management.

The Paul Rosenthal Rehabilitation Center provides comprehensive acute inpatient rehabilitation, accredited by the Commission on Accreditation of Rehabilitation for Facilities, for those who have suffered from stroke, brain injury, degenerative neurological disorders, spinal cord injury, orthopedic impairments, joint replacements, multiple traumas and fractures.

NDH holds The Joint Commission Bone and Joint Disease Specific Certification from 2013 to 2016. It currently holds the New York State Department of Health Stroke Center Designation.

Facilities

VBMC's hospital campus occupies approximately 36.5 acres in Poughkeepsie, New York. The facilities aggregate approximately 623,000 square feet, and were constructed between 1890 and 2012. The main campus consists of the main hospital with five inpatient areas, the Corridor Wing, intensive and coronary care units, the Ambulatory Care Center, the Dyson Center, the Power Plant and the Maintenance Building. One Columbia Street, LLC, a wholly-owned subsidiary of VBMC, owns a four-story, approximately 145,000 square foot medical office building and a parking garage which has approximately 700 spaces and is connected to the hospital via a pedestrian walkway. On land adjacent to the main hospital are a recently constructed Ambulatory Surgery Center, a 254 space, two-level parking deck and a 900 space parking garage. In addition, VBMC owns several other properties housing support services, including engineering, information technologies, human resources and foundation staff.

Furthermore, VBMC owns approximately 51,500 square feet in the Fishkill Medical Mall, which includes, a freestanding ambulatory surgical suite and outpatient clinical services such as radiation oncology, radiology services and sleep studies.

PHC's facilities are located approximately 18 miles from VBMC's main campus on approximately 44.4 acres on Stoneleigh Avenue in Carmel, New York. It was built on its current site in 1963 and additions were completed in 1973, 1999, 2003, 2004 and 2008. PHC's facilities presently comprise approximately 373,000 square feet. In 1990, space was renovated to construct a 20-bed adult psychiatric unit in response to the community's need for mental health services. In 1999, PHC opened a new birthing center. In 2001, an approximately 96,000 square foot medical office building opened on the PHC campus with an ambulatory surgery unit, MRI center, pain management program, outpatient radiology and physical therapy departments, 36 physician offices and administrative offices. In 2003, PHC completed a two-story, approximately 20,000 square foot addition which houses a new and expanded emergency department, ambulatory surgery center and additional physician offices. In 2008, a five-story, approximately 113,000 square foot addition was completed housing 70 single occupancy medical/surgical beds, physician offices and radiation oncology services.

NDH's facilities are located approximately 35 miles from VBMC's main campus on approximately 10 acres within the Village of Rhinebeck, New York. NDH completed a new addition of approximately 87,000 square feet in February of 2016. The addition consists of a first floor used for medical office space, a second floor with forty single inpatient rooms, a third floor with six operating rooms and a Post-Anesthesia Care Unit, and approximately 3,400 square feet of common space and a ground connector to the existing building. The existing main

building is approximately 165,000 square feet which houses the emergency room, birthing center and rehab facilities, and adjacent to the building a Wound Care Center of approximately 4,000 square feet. There are approximately 578 on-grade parking spaces on the hospital campus and NDH leases additional parking spaces for employees on an adjacent property. NDH also owns six properties adjacent to its campus consisting of approximately 22,000 square feet which it uses for support office space, a thrift shop, a women's health annex and leased space. In addition, NDH owns an approximately 13,000 square foot medical office building, which houses physician and dental offices and resides on the main campus of NDH.

Patient Safety, Quality Outcomes and Patient Satisfaction

HQ's outpatient radiation oncology services received five-star honors in the 2015 Professional Research Consultants, Inc. ("PRC") Excellence in Healthcare Awards.

Other recent recognitions and awards for the HQ Hospitals include:

VBMC:

- 2015 America's 100 Best Hospitals Award™, according to Healthgrades
- Screening Center of Excellence in 2015 by the Lung Cancer Alliance
- Five-star honors in the 2015 PRC Excellence in Healthcare Awards for mammography services
- Four-star honors in the 2015 PRC Excellence in Healthcare Awards for outpatient services
- American Heart Association/American Stroke Association's Get with the Guidelines® - Stroke Gold Plus Quality Achievement Award (2001-2015)
- Women's Choice Awards for America's Best Breast Centers in 2014
- Achievement Award and Stroke Gold Quality Achievement Award with Target: Stroke℠ Honor Roll
- Hospital of choice in 2014 (for the 11th consecutive year) according to National Research Corporation's Consumer Choice Awards

PHC:

- High Performing in Hip Replacements in Best Hospitals for Common Care ratings by U.S. World News & Report (May 2015)
- 2014 Press Ganey NDNQI® Award for Outstanding Nursing Quality
- 2014 Professional Research Consultants HCAHPS 5 Star Award for Pain Management
- 2014 Professional Research Consultants Inpatient 4 Star Award for Overall Quality of Care
- 2014 Professional Research Consultants 5 Star Award for Overall Quality of Care (Outpatient Services)

- 2014 Professional Research Consultants 5 Star Award for Overall Quality of Care (Outpatient PT-OT-ST)
- Women's Choice Awards for America's Best Hospitals for Orthopedics (2014)

NDH:

- Best Regional Hospital for the Hudson Valley and the Poughkeepsie-Newburgh-Middletown metro area, and ranked 16th in New York State, by *U.S. News & World Report* (July 2015)
- Four-star honors in the 2015 PRC Excellence in Healthcare Awards for emergency department
- Center of Distinction Award from Healogics Inc. for wound care
- Get with the Guidelines®- Stroke Gold Plus Quality Achievement Award in 2015
- Rated "high-performing" in hip and knee replacement in Best Hospitals for Common Care ratings by *U.S. World News & Report* (May 2015)
- Women's Choice Awards for America's Best Hospitals for Orthopedics (2014)
- Top Performer Award from Uniform Data System for the Paul Rosenthal Rehabilitation Center

Affiliated Entities

HQ is also the parent and sole member, unless otherwise noted, of the following affiliates who are not members of the Obligated Group and appoints all members of their boards of trustees (unless otherwise noted). All are not-for-profit corporations exempt from Federal income taxes under Section 501(c)(3) of the Code, except as otherwise indicated.

Alamo Ambulance Service, Inc. ("Alamo")'s assets were sold in September 2009 and does not have any current operations, however Alamo has maintained its license to provide transport and emergency medical services to sick, disabled, or injured persons, generally within Dutchess, Orange, Ulster and Putnam Counties, New York.

HealthServe, LLC ("HealthServe") is a limited liability for-profit company, with VBMC as the sole member. HealthServe provides limited technology services to non-affiliated healthcare organizations.

Health Quest Home Care, Inc. (Certified) provides home health care services in Dutchess County to Medicare and Medicaid patients.

Health Quest Home Care, Inc. (Licensed) provides home health care services to patients in Dutchess, Putnam and Ulster Counties. While both "certified" home health agencies and "licensed" home health agencies require establishment pursuant to Article 36 of the New York State Public Health Law, "certified" agencies must also be qualified to participate as a "home health agency" under Medicare and Medicaid programs.

Northern Dutchess Residential Health Care Facility, Inc. ("NDRHCF") operates a 100-bed skilled nursing facility in Rhinebeck on the NDH campus.

Vassar Brothers Hospital Foundation (d/b/a The Foundation for VBMC) solicits, receives, invests and administers contributions on behalf of VBMC and its affiliated tax-exempt entities. This foundation had $34 million in assets as of December 31, 2015.

NDH Foundation promotes the health of the community, solicits, receives and administers funds, gifts, bequests, contributions, grants and all other forms of property for the benefit of NDH and NDRHCF. This foundation had $11 million in assets as of December 31, 2015.

Putnam Hospital Center Foundation promotes the health of the community, solicits, receives and administers funds, gifts, bequests, contributions, grants and all other forms of property for the benefit of PHC. This foundation had $12 million in assets as of December 31, 2015.

Riverside Diversified Services, Inc. ("RDSI") is the beneficial owner of various physician practices that provide emergency and neonatal services for the residents of the Mid-Hudson Valley.

Riverside Management Services, Inc. is a for-profit corporation of which HQ is sole stockholder and currently does not have any operations.

Health Quest Medical Practice, PC ("HQMP") is the beneficial owner of various physician practices that provide a full range of hospital and outpatient services for residents of the Mid-Hudson Valley.

Health Quest Urgent Medical Care Practice, PC ("HQUMCP") is the beneficial owner of two urgent care centers that provide walk-in urgent care services for the residents of the Mid-Hudson Valley.

HQ Lab Support Services, LLC is a limited liability company, which provides diagnostic laboratory services to the Health Quest affiliated organizations.

One Columbia Street, LLC is a limited liability company, with VBMC as the sole member. It provides real estate oversight management and holds title to certain real estate interests.

Health Quest ACO, LLC is a limited liability company whose purposes include, but are not limited to, meeting the purposes and goals of the Medicare Shared Savings Program, pursuant to Section 3022 of the Affordable Care Act.

Medical Practice of Health Quest, PLLC is a professional limited liability company, of which HQMP is the sole member, and does not have any current operations.

Hudson Valley Cardiovascular Practice, PC ("HVCP") is a professional services corporation which provides invasive and noninvasive cardiovascular, diagnostic and therapeutic services and is located throughout Dutchess and Orange counties.

VBH Insurance Co. Ltd, a Barbados for-profit corporation of which HQ is the sole stockholder, provides general liability coverage for HQ and professional liability for the HQ Hospitals and some providers of HQMP and HQUMCP.

Wells Manor Housing Development Fund Corporation ("Wells Manor") is a senior citizen housing complex with 55 one-bedroom and 19 efficiency units located in Rhinebeck, NY.

Ulster Radiation Oncology Center is a joint venture with St. Mary's Campus of Health Alliance of the Hudson Valley ("Health Alliance"). VBMC and Health Alliance each own 50% interest in the joint venture.

Stoneleigh Avenue Pain Management ASC, LLC is a pain management joint venture located in Carmel, New York. PHC owns 49% of the joint venture and two physicians own the remainder.

21 Reade Place ASC, LLC is an endoscopy joint venture with KVBDA, LLC located in Poughkeepsie, New York. VBMC owns a 51% interest in the joint venture, and KVBDA, LLC, a for-profit physician limited liability company, owns the remainder.

FACS, LLC is a limited liability company providing consulting services for the Fishkill Ambulatory Surgery Center in Fishkill, New York. VBMC owns 16.5% of the company and 6 other physicians and/or physician groups hold the remainder.

See "RECENT EVENTS" herein for a discussion of potential transactions that could result in additional entities becoming affiliated with Health Quest.

Except for HQ, VBMC, PHC and NDH, no other affiliate of HQ is obligated in any respect for payment of debt service on the Series 2016 Bonds or associated Master Trust Indenture obligations (as such terms are defined in the forepart of this Official Statement).

THE PROJECT

A portion of the proceeds of the Series 2016 Bonds will be used for refinancing the Dormitory Authority of the State of New York Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007B (the "Series 2007B Bonds").

In addition, a portion of the proceeds of the Series 2016 Bonds will be used to construct a new bed tower at VBMC (the "New Patient Pavilion") and to renovate its existing main hospital (the "VBMC Project"). Over the past 18 months, VBMC has engaged in a comprehensive process to review the campus use plan, and create a long-term development roadmap and an outline of the overall design elements for a new patient pavilion. As part of the long range planning process, the campus will be reconfigured into four distinct and separate zones – (i) Inpatient, (ii) Outpatient, (iii) Emergency Services and (iv) Support Services. By delineating zones, the campus traffic patterns will be altered to ease patient access to the campus, while

allowing for future growth as the needs and capabilities of VBMC evolve. This VBMC Project will provide significant and necessary improvements to VBMC's facilities.

The New Patient Pavilion includes the demolition of an approximately 16,600 square foot building on the VBMC campus, the construction of a seven floor, approximately 696,000 square-foot patient pavilion and approximately 13,800 square feet of renovation in the existing hospital building. The New Patient Pavilion will have seven stories above grade and one level that is partially below grade. It will house 294 private patient rooms (264 medical/surgical beds and 30 intensive care beds), a 66 bay emergency department, a 12 room operating suite, loading dock, central plant expansion, interventional suite, conference center, café, new helipad, and a new hospital inpatient lobby. The existing space renovation will be a fit out of operating room supportive space, waiting rooms and a post-anesthesia care unit. All of the new inpatient rooms will be approximately 340 square foot private rooms with private bathrooms. Each room will have three distinct patient zones – patient, caregiver and family/visitor.

The New Patient Pavilion will be constructed under LEED (Leadership in Energy and Environmental Design) and performance-driven design principles, and is expected to be a model for efficiency and environmental sustainability. These features will include water efficient fixtures, run-off and rain retention systems, reduction of surface parking, and energy reduction techniques (e.g. solar shading, motion detection light systems).

Upon completion of the project, VBMC will have approximately 1.2 million square feet of operational space. The existing central plant will be integrated into and expanded within the new building. The existing plant will remain functional throughout construction. Sections of the existing plant will be demolished upon completion of the new building. The VBMC helipad will be relocated to the top of the new building.

The primary purpose of the new inpatient pavilion is to replace the nursing units which are outdated and have mostly semi-private beds. The project results in a slight reduction in the total number of beds at the facility, and no new hospital services are proposed. The table below provides the existing and proposed distribution of licensed patient beds.

VBMC Licensed Beds

Practice Area	Existing Beds	Proposed Beds
Medical/Surgical	276	264
Critical Care	24	30
Maternity	32	32
Neonatal	15	15
Pediatric	18	18
Total:	**365**	**359**

The VBMC Project will be implemented in six phases, with the first phase scheduled to begin in September 2016 and the balance of the phases expected to be completed and operational by January 2019. Stantec Consulting Services is the owner's representative. Management of the Obligated Group estimates that the total cost of the VBMC Project will be approximately $466 million, of which approximately $350 million will be for the building construction and site work

component. The VBMC Project has been sent out to bid requiring a guaranteed maximum price contract. Bids are expected to be received by July 14, 2016. $350 million of the total VBMC Project cost will be funded by the Series 2016 Bonds with the remainder funded from the Obligated Group's cash and investments $16 million of new equipment will be leased for the New Patient Pavilion.

GOVERNANCE AND MANAGEMENT

Pursuant to the bylaws of each HQ Hospital, HQ appoints all members of the Board of Trustees/Directors (the "Board") for VBMC, PHC, NDH and HQ affiliate organizations (except for certain ex officio trustees, or as may otherwise be provided for by agreement with respect to joint ventures or as may be required by applicable law otherwise). The HQ Board presently consists of fifteen voting members who are drawn from a cross section of the community.

HQ Board Members and Officers

NAME/OFFICE	YEAR FIRST APPOINTED	YEAR TERM EXPIRES	OCCUPATION
Gregory Rakow – Chair**	2008	2018	President, Fraleigh-Rakow Insurance and Real Estate
Mary Madden - Vice Chair**	2008	2018	President- Hudson Valley Federal Credit Union
Joseph DiVestea – Treasurer**	2007	2019	Senior Vice-President, Merrill Lynch
Robert R. Dyson - Immediate Past Chair	1999	2017	Chairman/Chief Executive Officer, Dyson Kissner Moran Corp.
Luke McGuinness - CEO	2013	N/A	Chief Executive Officer, HQ
Robert Friedberg – President	2015	N/A	President, HQ
Gary Zmrhal - Asst. Treasurer *	2015	N/A	Chief Financial Officer, HQ
Michael Holzhueter - Asst. Secretary *	2015	N/A	General Counsel, HQ
Cheryl Booth - Asst. Secretary *	2003	N/A	Senior Executive Assistant, HQ
Jason Cohen, MD	2013	2019	Physician, Otolaryngologist / VBMC
Francoise Dunefsky (VBMC Chair)	2016	2017	Retired/Former CEO of Gateway Industries
Karen Fleming (PHC Chair)	2015	2017	HR Director/Powers Fasteners, Inc.
Carla Gude **	2014	2017	Retired/Former IBM Executive
Steven V. Lant	2006	2018	Retired/Former CEO, CH Energy Corp.
Michael Moses, MD - Secretary	2010	2019	Physician, Anesthesiologist / NDH
Michael Nesheiwat, MD	2008	2018	Physician, Primary Care / PHC
Wayne Nussbickel**	2009	2017	Owner, N & S Supple (Plumbing)
Kevin Sheehan (NDH Chair)	2015	2017	Manager/ Central Hudson Energy Corp.
Russell Tigges, MD	2016	2017	Physician, Orthopedic / NDH

*Indicates non-voting member
**Indicates member of the Audit Committee

Conflict of Interest Policy

HQ has a conflict of interest policy, which requires any duality of interest or possible conflict of interest on the part of any governing board member, senior administrative staff member or influencing person to be disclosed to the Board and made a matter of record. If a Board member has a duality of interest or possible conflict of interest on any matter, the member is not permitted to vote or use personal influence on the matter.

Audit Committee

HQ has developed an internal audit program, which is based upon a risk-based audit plan approved by management and the Audit Committee. The program monitors and evaluates HQ's internal controls. Upon execution of internal audits, the internal audit department of HQ provides management and the Audit Committee with an independent assessment of internal controls, including recommendations for enhancement of controls where necessary.

Management

Health Quest's senior management team was reorganized in 2014 with the introduction of several highly-experienced senior executives including the HQ Chief Executive Officer, HQ President and the Presidents for HQ's two largest hospitals. These new leaders bring a broad perspective and records of execution of strategic initiatives. Summary biographical information is listed below:

LUKE McGUINNESS
Chief Executive Officer, Health Quest

Mr. McGuinness, 72, joined Health Quest as the Chief Executive Officer in November of 2013. Mr. McGuiness served in a part-time capacity at HQ in November and December of 2013 and began full-time employment with Health Quest in January of 2014. From 2011 to 2012, Mr. McGuinness served as President and Chief Executive Officer of Cadence Health in Winfield, Illinois. Prior to the formation of Cadence Health, he served as the President and Chief Executive Officer of Central DuPage Health in Winfield, Illinois from 2003 to 2011. Prior to Central DuPage Health, he served as Senior Vice President for Development at Vanguard Health Systems, President and Chief Executive Officer of MacNeal Health Network, and Chief Operating Officer for Providence Hospital in Southfield, Michigan.

Mr. McGuinness holds a Bachelor degree in Business Administration from the University of Notre Dame, and a Master of Business Administration degree from George Washington University.

Mr. McGuinness has announced his intention to retire, effective January 1, 2017. Mr. Friedberg, currently the President of HQ, has been named his successor by the HQ Board of Trustees and will become Chief Executive Officer and President on January 1, 2017.

ROBERT FRIEDBERG
President, Health Quest

Mr. Friedberg, 54, joined Health Quest as the Executive Vice President, Health Quest and President, Vassar Brothers Medical Center in January of 2014. He was promoted to HQ President on November 2, 2015. Previously, he served as Executive Vice President, Hospital Operations, and President, Delnor Hospital in the Cadence Health System from 2004 to 2013. Prior to Delnor Hospital, he held positions of Senior Administrator at Rush Presbyterian, and Vice President and Chief Operating Officer at MacNeal Health Network. Mr. Friedberg holds a Bachelor of Arts degree from the University of Rochester and a Master of Health Administration degree from Cornell University.

ANN McMACKIN
President, Vassar Brothers Medical Center

Ms. McMackin, 60, joined Health Quest in February of 2014 as Vice President of Operations of VBMC. She was promoted to President of VBMC on November 2, 2015. Ms. McMackin previously served as Vice President, Operations at Cadence Health from 2012 to 2014. Prior to Cadence Health, she was an independent healthcare consultant and Director of Operations, Lahey Clinic Medical Center in Massachusetts. Ms. McMackin holds a Bachelor of Science degree from the University of New Hampshire and a Master of Science degree from Penn State University.

JAMES CALDAS
President, Putnam Hospital Center

Mr. Caldas, 66, joined Health Quest in February of 2014. Most recently, Mr. Caldas held the position of Executive Vice President of Catholic Health Services of Long Island from 2010 to 2013, in which he acted as the President and CEO of the Eastern Division including three acute-care hospitals with a combined bed capacity of 1,000. Previously, he served as a member of the senior executive team at Med Star Health in Washington D.C., where he held the position of President and CEO of Washington Hospital Center. Prior to Med Star, he served as the Executive Vice President and COO at Christiana Care Corporation in Wilmington, Delaware. Mr. Caldas received a Bachelor of Science degree from St. Joseph's College, and holds Master of Business Administration and Master of Public Health degrees from Columbia University.

DENISE GEORGE, RN, MPA
President, Northern Dutchess Hospital and Senior Vice President, Health Quest Clinical Services

Ms. George, 61, joined Northern Dutchess Hospital in 1999 as the Vice-President of Clinical Services and Chief Nursing Officer. She was promoted to Chief Operating Officer of NDH in 2006, and President of NDH and Senior Vice President for Health Quest Clinical Services in 2007. Ms. George holds a Bachelor of Science degree from Hunter College and a Master of Public Administration degree from New York University.

GARY ZMRHAL
Senior Vice President/Chief Financial Officer

Mr. Zmrhal, 67, joined Health Quest in January 2015 as Chief Financial Officer. Mr. Zmrhal was a partner with Arthur Andersen & Company for ten years and since that time has held CFO positions at several health care organizations including Holy Cross Hospital in Chicago and MacNeal Health Network in Berwyn, Illinois. He earned his bachelor's degree in Accounting at Illinois State University and is a licensed Certified Public Accountant.

MICHAEL HOLZHUETER
Senior Vice President/General Counsel

Mr. Holzhueter, 51, joined Health Quest as General Counsel in June 2014. Previously, he served as Vice President and General Counsel at Cadence Health from 2004 to 2014. Mr. Holzhueter also practiced corporate health law in the legal departments of The University of Chicago Medical Center, Advocate Health Care and the law firm of McDermott, Will and Emery. He received his Bachelors of Arts degree from Loyola University and his Juris Doctorate (Health Law Focus) from Loyola University Chicago School of Law.

GLENN LOOMIS, MD
President of HQMP and Chief Medical Operations Officer

Dr. Loomis, 49, joined Health Quest as the President of HQMP and the Chief Medical Operations Officer for HQ on January 25, 2016. Previously, he served as the President of St. Elizabeth Physicians ("SEP") and Senior Vice President of St Elizabeth Healthcare ("SEH") in Kentucky from 2010 to 2015. Prior to SEP/SEH, he held various physician roles in administration, family medicine education and the US Air Force. He is a graduate of the Ohio State University College of Medicine and completed his residency in family medicine at Community Hospitals of Indianapolis. He is board certified in family medicine and holds an additional Master of Science degree in Healthcare Management from the University of Texas.

PATRICK BOREK
Senior Vice President, Human Resources

Mr. Borek, 51, joined Health Quest as Director of Human Resources for VBMC in 2001, became the Assistant Vice President for Human Resources for Health Quest in 2004, and assumed his current position in 2008. Previously, he directed Human Resources functions at Booth Memorial Medical Center (now New York Hospital Queens), Maimonides Medical Center in Brooklyn, New York and CentraState Healthcare System in Freehold, New Jersey. Mr. Borek holds a Bachelor of Arts degree from Queens College, City University of New York.

ROBERT DIAMOND
Senior Vice President for Information Technology and Chief Information Officer

Mr. Diamond, 54, joined Health Quest in 2007 as the Vice President and Chief Information Officer. Previously he served in the same capacity at Orange Regional Medical Center for six years and prior to that as Vice President and Chief Information Officer at Kingston Regional Health Care System. Mr. Diamond holds a Bachelor of Science degree in Computer Science from the State University of New York at New Paltz.

TIMMIAN MASSIE
Senior Vice President for Public Affairs and Government Relations

Mr. Massie, 58, joined Health Quest as the Senior Vice President for Public Affairs and Government Relations in 2014. Mr. Massie most recently served as the Director of Corporate Giving at Actavis PLC from 2012 to 2014. Previously, he was the Chief Public Affairs Officer at

Marist College, and the Director of Corporate Communications at Central Hudson Gas & Electric. Mr. Massie received a Bachelor of Arts degree from Fordham University.

DAVID PING
Senior Vice President of Strategic Planning and Business Development

Mr. Ping, 58, joined Health Quest in his present position in 2005. Previously, Mr. Ping was a consultant with Kurt Salmon Associates from 1982 to 2005. He holds a Bachelor of Arts degree from Indiana University and a Master of HealthCare Administration degree from the University of Minnesota.

MEDICAL STAFF

Health Quest maintains separate medical and dental staffs for its three hospitals. As of March 31, 2016, approximately 94% of such staffs are Board Certified and their average age was 53.

The following tables set forth the composition of the active staffs by clinical department for each hospital. Some physicians have staff privileges at more than one HQ Hospital.

VBMC Medical Staff Profile
Active Staff Composition as of March 31, 2016

Clinical Department	Number of Physicians	Average Age	Percent Board Certified
Allergy and Immunology	2	64	100%
Anesthesiology	32	50	97%
Cardiology	33	51	97%
Clinical Genetics	1	51	100%
Critical Care	13	46	100%
Dentistry, General	3	67	N/A
Dentistry, Oral Surgery	2	68	100%
Emergency Medicine	37	44	84%
Endocrinology	3	52	67%
Family Medicine	22	52	82%
Gastroenterology	21	53	91%
Hematology/Oncology	10	52	90%
Infectious Disease	8	53	100%
Internal Medicine	69	47	88%
Neonatology	2	48	100%
Neurology	12	53	67%
Obstetrics & Gynecology	36	53	92%
Oncology	2	51	100%
Ophthalmology	23	54	96%
Orthopedic Surgery	23	48	87%
Otolaryngology (ENT)	9	47	89%
Pain Management	4	47	25%
Palliative Care	3	51	100%
Pathology	4	47	100%
Pediatrics	87	52	98%
Physical Medicine and Rehabilitation	5	45	80%
Podiatry	23	48	57%
Psychiatry	9	44	100%
Pulmonary Diseases	7	56	86%
Radiation Oncology	5	55	100%
Radiology	35	54	91%
Reproductive Endocrinology & Infertility	1	55	100%
Rheumatology	3	49	67%
Sleep Medicine	1	48	100%
Surgery	36	55	94%
Urology	13	50	85%
Totals	**599**	**51**	**94%**

PHC Medical Staff Profile
Active Staff Composition as of March 31, 2016

Clinical Department	Number of Physicians	Average Age	Percent Board Certified
Allergy and Immunology	1	58	100%
Anesthesiology	27	46	96%
Bariatric Surgery	4	47	100%
Cardiology	9	55	100%
Critical Care	1	71	100%
Dentistry, General	1	55	N/A
Dentistry, Oral Surgery	3	50	67%
Dermatology	6	57	100%
Emergency Medicine	12	49	100%
Endocricrinology	4	38	100%
Family Medicine	5	59	60%
Gastroenterology	8	53	100%
Geriatric Medicine	1	56	100%
Hematology/Oncology	10	51	90%
Infectious Disease	5	63	100%
Internal Medicine	34	55	94%
Neonatology	7	49	100%
Nephrology	3	59	100%
Neurology	22	56	100%
Obstetrics & Gynecology	8	57	100%
Oncology	2	52	100%
Ophthalmology	10	59	100%
Orthopedic Surgery	12	53	100%
Otolaryngology (ENT)	3	60	67%
Pain Management	1	51	100%
Pathology	3	62	100%
Pediatrics	14	57	75%
Physical Medicine & Rehab	3	43	100%
Podiatry	5	54	60%
Psychiatry	10	53	80%
Pulmonary Diseases	6	53	100%
Radiation Oncology	5	55	100%
Radiology	32	52	88%
Reproductive Endocrinology & Infertility	1	53	100%
Rheumatology	4	52	100%
Surgery	27	58	96%
Urology	9	57	100%
Totals	**318**	**51**	**94%**

NDH Medical Staff Profile
Active Staff Composition as of March 31, 2016

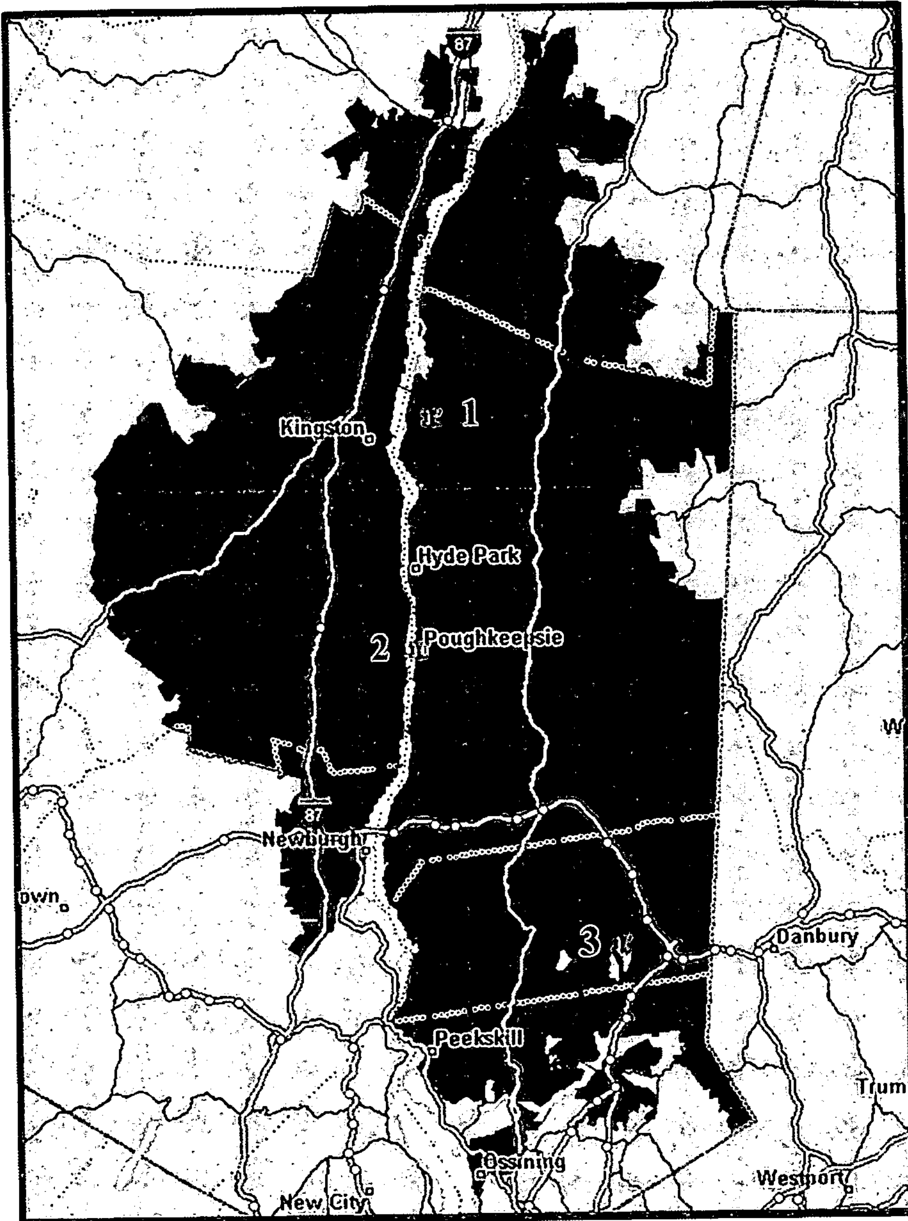
Clinical Department	Number of Physicians	Average Age	Percent Board Certified
Anesthesiology	14	47	86%
Cardiology	25	52	100%
Emergency Medicine	11	51	82%
Family Medicine	17	49	94%
Gastroenterology	4	50	100%
Hematology/Oncology	7	55	86%
Infectious Diseases	6	56	100%
Internal Medicine	13	54	85%
Neurology	8	45	75%
Obstetrics & Gynecology	8	50	75%
Ophthalmology	6	48	100%
Orthopedic Surgery	16	51	88%
Otolaryngology (ENT)	6	54	100%
Pathology	4	47	100%
Pediatrics	16	58	94%
Physical Medicine and Rehabilitation	2	44	100%
Psychiatry	3	57	100%
Radiation Oncology	5	55	100%
Radiology	26	54	92%
Sleep Medicine	1	48	100%
Surgery	16	53	94%
Urology	11	49	82%
Totals	**225**	**51**	**96%**

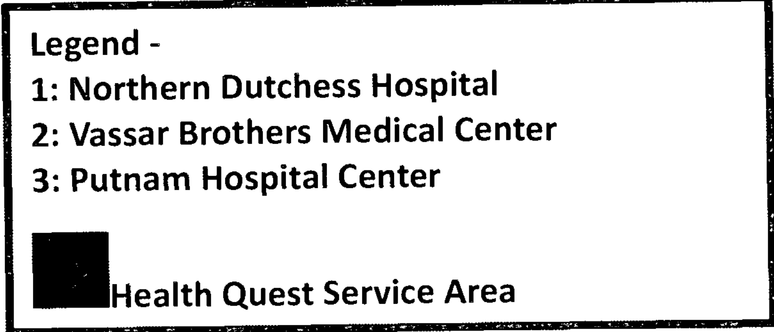
SERVICE AREA AND COMPETITION

HQ's service area consists of Dutchess and Putnam Counties, along with contiguous zip codes in Columbia, Westchester, Orange and Ulster Counties. Contained within the HQ service area are primary service areas for each hospital as well as "outlying" or secondary zip codes for the entire system. VBMC's primary service area includes the southernmost half of Dutchess County, up to and including the Town of Hyde Park, as well as the easternmost parts of Orange and Ulster counties. PHC's primary service area includes Putnam County and extends north to the southeast corner of Dutchess County and south to select bordering zip codes in northern Westchester County. NDH's primary service area includes Dutchess County from the Town of Hyde Park north and includes several adjacent zip codes in Ulster County and some of the southernmost towns in Columbia County. The following chart presents demographic data for each HQ Hospital's primary service area and for the HQ service area as a whole.

Service Area	2015 Population	Projected Growth by 2020	Average Family 2015 Income
HQ	654,694	0.4%	$94,517
VBMC	273,662	0.3%	$90,515
PHC	99,324	1.2%	$123,684
NDH	89,695	-1.0%	$80,698

Source: Truven Health Analytics


87
1
Kingston
Hyde Park
2
Poughkeepsie
87
Newburgh
3
Danbury
Peekskill
Ossining
New City
Westport
Trum


Legend -
1: Northern Dutchess Hospital
2: Vassar Brothers Medical Center
3: Putnam Hospital Center
Health Quest Service Area

Management considers VBMC's principal competitor hospitals to be Mid-Hudson Regional Medical Center, Poughkeepsie; St. Luke's Hospital in Newburgh, Orange County and Westchester Medical Center ("WMC") a tertiary care medical center in Valhalla, Westchester County.

Management considers PHC's principal competitor hospitals, in addition to VBMC's competitors, to be Hudson Valley Hospital Center in Peekskill, Westchester County; Northern Westchester Hospital in Mt. Kisco, Westchester County and WMC.

Management considers NDH's principal competitor hospitals, in addition to VBMC's competitors, to be Mid-Hudson Regional Medical Center in Dutchess County, and Health Alliance Hospitals located in Kingston, Ulster County.

In May 2014, Westchester Medical Center completed its acquisition of St. Francis Hospital from bankruptcy and renamed the hospital Mid-Hudson Regional Hospital of Westchester Medical Center ("Mid-Hudson"). In the nearly 18 months since the Mid-Hudson acquisition, WMC has also joint ventured with Bon Secours Hospitals located in Rockland County. WMC has installed a new management team at Mid-Hudson. In March of 2016, Westchester Medical Center completed its acquisition of Health Alliance in Kingston. This is a passive parent relationship.

In August of 2015, Montefiore Health System ("MHS") completed its acquisition of St. Luke's Cornwall Hospital, which operates St. Luke's Hospital in Newburgh. St. Luke Cornwall Hospital joins multiple other hospitals that have become part of MHS over the past 36 months. The MHS network now has facilities in the Bronx, Westchester County and Orange County. MHS also has Albert Einstein School of Medicine as part of its system. The St. Luke's acquisition will allow MHS to more easily expand its Care Management Organization and its Pioneer Accountable Care Organization into the Orange county region. MHS has installed a new management team at St. Luke's Hospital.

The following table sets forth each competitor hospital, their distance from the nearest HQ hospital and the current number of staffed beds, 2014 discharges, occupancy rates and the number of outpatient visits:

Hospital	Miles from Nearest HQ Hospital	Staffed Beds	2014 Discharges	Occupancy Rate (%)[1]	Outpatient Visits 2014
VBMC	N/A	365	20,322	72%	74,920
PHC	N/A	164	6,652	48%	32,419
NDH	N/A	68	4,653	71%	24,276
MH Regional	2	243	5,984	53%	59,670
Westchester Medical Center	26	652	21,017	81%	108,875
St. Luke's Hospital, Newburgh	23	242	10,331	55%	50,325
Health Alliance Broadway	11	150	7,798	45%	45,100
Health Alliance Mary's Ave	12	150	3,422	66%	9,188
Hudson Valley Hospital Center	17	128	7,734	71%	57,485
Northern Westchester Hospital	17	245	9,860	47%	70,411

[1] Occupancy rate equals average daily census divided by total staffed beds
Source: Truven Health Analytics/SPARCS

Market Share Trends for HQ Service Areas

The following tables provide major market share trend data in each service area.

VBMC Primary Service Area:

	2012	2013	2014
VBMC	52.5%	53.3%	55.6%
MH Regional	17.1%	17.4%	15.4%
PHC	4.4%	4.6%	4.2%
Westchester Med	4.3%	5.0%	5.0%
St. Luke's	3.2%	3.3%	3.4%

PHC Primary Service Area:

	2012	2013	2014
PHC	46.6%	46.5%	46.3%
N. Westchester	21.3%	20.3%	20.3%
HVHC	3.3%	2.9%	3.5%
Westchester Med	7.4%	8.7%	8.7%

NDH Primary Service Area:

	2012	2013	2014
Health Alliance	43.4%	41.7%	39.6%
NDH	18.8%	20.7%	21.9%
VBMC	16.1%	15.8%	17.0%
MH Regional	7.6%	7.8%	6.5%
Albany Med	4.3%	4.9%	5.2%

Health Quest Primary Service Area:

	2012	2013	2014
HQ	37.8%	38.7%	40.6%
Health Alliance	12.8%	12.3%	11.4%
St. Luke's	11.0%	10.5%	10.4%
MH Regional	8.2%	8.3%	7.5%
N. Westchester	5.2%	5.2%	5.0%
Westchester Med	4.3%	4.9%	4.9%
HVHC	2.7%	2.6%	2.9%

Source: Truven Health Analytics

UTILIZATION

The following table sets forth selected historical utilization data for VBMC, PHC, NDH, and HQ Hospitals consolidated for 2013, 2014 and 2015 and for the three month periods ended March 31, 2016 and 2015:

	Year Ended December 31,			3 Months ended Mar 31,	
VBMC	**2013**	**2014**	**2015**	**2015**	**2016**
Licensed beds (at year end)	365	365	365	365	365
Total Discharges (1)	16,709	17,998	19,545	4,798	5,299
Medical/Surgical	13,011	14,134	15,583	3,789	4,292
Pediatrics	888	968	1,104	331	352
Neonatal ICU	277	283	302	69	66
Maternity	2,533	2,613	2,556	609	589
Patient Days (1)	87,107	90,593	98,022	24,927	26,847
Average length of stay	5.2	5.0	5.0	5.2	5.1
Average % Occ (cert beds)	65.4%	68.0%	73.6%	75.9%	80.8%
Emergency Room Visits (2)	54,019	56,008	56,029	13,704	13,636
Ambulatory Surgery Procedures (3)	10,354	10,860	10,887	2,569	2,655
Observation Patients	2,805	2,699	2,394	570	644
Newborns	2,181	2,237	2,165	512	480
Cardiothoracic Surgeries	331	373	345	90	99
Medicare Case Mix Index	1.6914	1.6695	1.6665	1.6465	1.7695

	Year Ended December 31,			3 Months ended Mar 31,	
PHC	**2013**	**2014**	**2015**	**2015**	**2016**
Licensed beds (at year end)	164	164	164	164	164
Total Discharges (1)	6,409	6,290	6,427	1,708	1,580
Medical/Surgical	5,332	5,105	5,261	1,416	1,321
Psychiatric	608	725	700	182	158
Maternity	469	460	466	110	101
Patient Days (1)	31,358	27,676	29,140	7,781	7,380
Average length of stay	4.9	4.4	4.5	4.6	4.7
Average % Occ (cert beds)	52.4%	46.2%	48.7%	52.7%	49.5%
Emergency Room Visits (2)	21,236	21,831	22,016	5,094	5,500
Ambulatory Surgery Procedures (3)	6,141	5,731	6,215	1,402	1,529
Observation Patients	1,212	1,471	1,697	372	437
Newborns	391	409	407	100	98
Medicare Case Mix Index	1.5658	1.5643	1.5228	1.5252	1.5951

NDH	Year Ended December 31, 2013	2014	2015	3 Months ended Mar 31, 2015	2016
Licensed beds (at year end)	68	68	68	68	68
Total Discharges (1)	3,585	3,760	4,166	996	1,066
Medical/Surgical	2,489	2,632	3,001	695	798
Rehabilitation	174	191	174	38	55
Maternity	922	937	991	263	213
Patient Days (1)	15,588	15,573	16,276	4,193	4,627
Average length of stay	4.3	4.1	3.9	4.2	4.3
Average % Occ (cert beds)	62.8%	62.7%	65.6%	68.5%	74.8%
Emergency Room Visits (2)	13,708	14,777	16,508	3,654	4,330
Ambulatory Surgery Procedures (3)	3,974	3,605	3,548	823	905
Observation Patients	339	450	609	132	178
Newborns	902	918	964	257	207
Medicare Case Mix Index	1.5830	1.6116	1.5185	1.4836	1.5031

Total	Year Ended December 31, 2013	2014	2015	3 Months ended Mar 31, 2015	2016
Licensed beds (at year end)	597	597	597	597	597
Total Discharges (1)	26,703	28,048	30,138	7,502	7,945
Medical/Surgical	20,832	21,871	23,845	5,900	6,411
Maternity	3,924	4,010	4,013	982	903
All other	1,947	2,167	2,280	620	631
Patient Days (1)	134,053	133,842	143,438	36,901	38,854
Average length of stay	5.0	4.8	4.8	4.92	4.89
Average % Occ (cert beds)	61.5%	61.4%	65.8%	16.9%	17.8%
Emergency Room Visits (2)	88,963	92,616	94,553	22,452	23,466
Ambulatory Surgery Procedures (3)	20,469	20,196	20,650	4,794	5,089
Observation Patients	4,356	4,620	4,700	1,074	1,259
Newborns	3,474	3,564	3,536	869	785
Cardiothoracic Surgeries	331	373	345	90	99

(1) Excluding Newborn
(2) Treated and released without admission
(3) Includes Outpatient Endoscopy, Cystoscopy, Minor Surgery and Same Day Surgeries

Sources of Patient Service Revenue

Payments are made to HQ Hospitals on behalf of patients by the federal government under the Medicare program, the Medicaid program, certain commercial insurers, health maintenance organizations ("HMOs") and other managed care programs, third party administrators, and by patients on their own behalf.

The following table summarizes the percentage of total inpatient discharges by source of payment for VBMC, PHC and NDH for the three-year period ended December 31, 2013, 2014, and 2015.

Payor Mix

HQ Obligated Group	**2013**	**2014**	**2015**
Medicare	44%	45%	47%
Blue Cross	15%	14%	14%
Commercial	1%	1%	1%
Medicaid	15%	17%	17%
HMO	20%	19%	18%
Workers Compensation/No Fault	1%	1%	1%
Other	4%	3%	2%
Total	100%	100%	100%

VBMC	**2013**	**2014**	**2015**
Medicare	44%	45%	47%
Blue Cross	14%	14%	13%
Commercial	1%	1%	1%
Medicaid	17%	19%	19%
HMO	19%	18%	17%
Workers Compensation/No Fault	1%	0%	1%
Other	4%	3%	2%
Total	100%	100%	100%

PHC	**2013**	**2014**	**2015**
Medicare	44%	45%	47%
Blue Cross	15%	14%	14%
Commercial	1%	1%	1%
Medicaid	15%	17%	18%
HMO	20%	19%	17%
Workers Compensation/No Fault	1%	1%	1%
Other	4%	3%	2%
Total	100%	100%	100%

NDH	**2013**	**2014**	**2015**
Medicare	40%	40%	40%
Blue Cross	18%	17%	17%
Commercial	1%	2%	2%
Medicaid	13%	16%	18%
HMO	25%	22%	21%
Workers Compensation/No Fault	1%	1%	1%
Other	2%	2%	1%
Total	100%	100%	100%

FINANCIAL INFORMATION

The following tables summarize total assets, liabilities, revenues, expenses and other activity of Health Quest and Subsidiaries for the years ended 2013, 2014 and 2015. This information is derived from Health Quest and Subsidiaries' Consolidated Balance Sheets and Consolidated Statements of Operations, which is presented in conformity with accounting principles generally accepted in the United States of America. Information prior to fiscal year 2015 has been presented consistent with the fiscal year 2015 presentation. The Health Quest and Subsidiaries consolidated financial statements for the year ended December 31, 2015, together with accompanying notes and independent auditor's report, are included in Appendix B to this Official Statement. The summary should be read in conjunction with the section herein entitled "*Management's Discussion of Operating and Financial Results*". The data for the three months ended March 31, 2015 and 2016 include, in the opinion of management, all adjustments necessary to summarize fairly the results for such periods. The results for the three month period ended March 31, 2016 may not be indicative of the results for all of fiscal year 2016.

The summary financial information included below and in the consolidated audited financial statements included in Appendix B to this Official Statement also includes the financial results of various affiliated organizations. The Obligated Group consists solely of VBMC, PHC, NDH and HQ. In 2015, the members of the Obligated Group represented 90.4% of the operating revenue and 99% of the net assets. The operating income for the Obligated Group was $76,749 for 2015.

Condensed Consolidated Balance Sheet

(in thousands)	Year Ended December 31,			3 Months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
Assets					
Cash and Investments	$259,916	$285,050	$316,452	$303,471	$311,617
Patient Accounts Receivable	79,915	85,004	92,048	96,064	105,049
Assets whose use is limited	44,787	85,537	52,406	90,248	50,440
Supplies and Prepaid Expenses	23,237	25,524	27,057	22,778	27,201
Property, plant and equipment, net	356,430	362,182	412,080	372,488	425,186
Goodwill	3,259	5,264	30,747	5,176	30,669
Other Assets	58,027	63,824	54,895	57,258	51,574
Total assets	$825,571	$912,385	$985,685	$947,483	$1,001,736
Liabilities					
AP and Accrued Expenses	$92,862	$103,080	$116,298	$119,909	$114,001
Amounts due to third party payors and other liabilities	114,413	125,438	134,602	126,215	133,768
Debt payable	172,018	201,835	210,229	200,881	209,860
Post-retirement benefit obligations	46,353	75,124	75,521	76,486	77,050
Net Assets					
Unrestricted	374,314	379,374	419,234	395,422	436,782
Temporary restricted	20,220	22,145	24,417	23,180	24,891
Permanently restricted	5,391	5,389	5,384	5,390	5,384
Total liabilities and net assets	$825,571	$912,385	$985,685	$947,483	$1,001,736

Consolidated Statement of Operations

(in thousands)

HQ System (Consolidated)	Year Ended December 31, 2013	2014	2015	3 Months ended March 31 2015	2016
Operating Revenue					
Net Patient service revenue	$ 707,016	$ 793,489	$ 868,893	$ 212,653	$ 242,501
Less provision for bad debts	(30,238)	(30,352)	(25,591)	(6,685)	(6,449)
Net Patient service revenue, less provision for bad debts	676,778	763,137	843,302	205,968	236,052
Other revenue	29,931	33,500	27,493	5,100	6,427
Net assets released from restrictions used for operations	178	83	54	0	0
Total operating revenue	706,887	796,720	870,849	211,068	242,479
Operating Expenses					
Salaries & fees	313,710	362,348	395,322	91,607	102,735
Employee Benefits	101,442	107,814	112,560	27,248	30,318
Supplies	108,850	119,389	131,573	31,257	36,302
Other Expenses	118,659	133,962	136,650	35,248	40,034
Interest	8,556	8,460	9,391	2,216	2,319
Depreciation & Amortization	41,130	46,161	47,934	12,588	13,591
Total Operating Expenses	692,347	778,134	833,430	200,164	225,299
Operating income	14,540	18,586	37,419	10,904	17,180
Investment Income and other	36,293	12,039	(4,648)	5,144	365
Excess of revenue over expenses	$ 50,833	$ 30,625	$ 32,771	$ 16,048	$ 17,545
Operating Margin	2.1%	2.3%	4.3%	5.2%	7.1%

Management's Discussion of Operating and Financial Results

General

During the past three years, Health Quest has experienced substantial growth in volume and operating results. With the introduction of the new executive management team in 2014, HQ focused on improving quality outcomes, introducing new programs and improving its cost structure. HQ acquired a 25 physician cardiology practice and grew HQMP by 31 physicians since 2013, enriching the physician platform that supports the HQ Hospitals. In addition, HQ launched the following new programs: Interventional Neuroradiology, Trauma, Transcatheter Aortic Value Replacement, Hepatobiliary and Pancreatic Surgery.

Three Month Period Ended March 31, 2016 Compared to the Three Month Period Ended March 31, 2015.

For the three month period ended March 31, 2016, operating income for HQ was $17.2 million, an increase of $6.3 million (57.6%) over the comparable prior year period. Total operating revenue increased $31.4 million (14.9%) and operating expenses increased $25.1 million (12.6%). Net patient service revenue for HQ grew by $30.1 million (14.6%) driven by increased inpatient volume of 5.9% at the HQ Hospitals. NDH opened its new patient pavilion in February 2016 and saw an increase in volume for the month of March by 23% over the

comparable prior period. With the introduction of new programs (TAVR and Trauma), VBMC saw an increase in volume by 10.4%, along with an increase in Medicare case mix by 7%, over the comparable prior period. In addition, imaging revenue increased due to the acquisition of a radiology practice. Provision for bad debts decreased by $0.2 million (-3.5%), due to a decrease in self-pay patients, as a result of the exchange programs, shifting the expense to charity care which is recorded as an allowance offset of revenue. Bad debts represented 2.7% of net patient revenue for the three month period ended March 31, 2016 as compared to 3.1% in the comparable prior period.

Salaries and fees expense increased by $11.1 million (12.1%) due to the impact of newly acquired practices, the addition of new services and increased agency fees to provide coverage associated with higher volumes. Employee benefits expenses increased by $3.1 million (11.3%) due to an increase number of FTE's. Supply expense increased by $5.0 million (16.1%) due to stocking pharmacy cabinets in the new NDH patient pavilion and expense associated with new programs. Other expenses increased $4.8 million (13.6%) due to higher physician fees, consulting services, and information technology fees, all associated with new programs. Interest expense increased by $0.1 million (4.6%) due to additional debt to fund the NDH patient pavilion (see General and Historical Information – Facilities above). Depreciation and amortization expense increased by $1.0 million (8.0%).

Investment income and other income decreased by $4.8 million (-92.8%). This decrease is associated with unrealized losses in investments associated with the recent decline in the market. HQ reported an excess of revenue over expenses in the three month period ended March 31, 2016 of $17.5 million, an increase of $1.5 million compared to $16.0 million in comparable prior year period.

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014.

In 2015, operating income for HQ was $37.4 million, an increase of $18.8 million (101.3%) over the comparable prior year period. Total operating revenue increased $74.1 million (9.3%) and operating expenses increased $55.3 million (7.1%). Net patient service revenue for HQ grew by $80.2 million (10.5%) driven by increased inpatient volume of 7.5% at the HQ Hospitals. The increase is attributed to patient migration from Ulster County to NDH, the bankruptcy of St. Francis Hospital, which was acquired by Westchester Medical Center, and the introduction of new programs. HQ Hospitals experienced a 2.2% increase in ambulatory surgery procedures, with the growth of robotic technology on all campuses, and the full year impact of practices acquired in the prior year. In addition, renewals of managed care contracts were negotiated resulting in rate increases for key service lines. Provision for bad debts decreased by $4.8 million (-15.7%), due to a decrease in self-pay patients, as a result of the exchange programs, shifting the expense to charity care which is recorded as an allowance offset of revenue. Bad debts represented 2.9% of net patient revenue for 2015 as compared to 3.8% in the comparable prior period.

Salaries and fees expense increased by $33.0 million (9.1%) reflecting an increase due to the full year impact of newly acquired practices and the addition of new services provided, along with an increase in FTE's associated with higher volumes. Employee benefit expenses increased by $4.7 million (4.4%) due to an increase in payroll taxes and defined benefit pension expense,

partially offset by lower medical claims for the self-insured health benefits plan. Supply expense increased by $12.2 million (10.2%) due to increased implant expenses associated with increased orthopedic volume and higher pharmaceutical and lab expenses, offset by renegotiated supply contracts resulting in lower costs. Other expenses increased $2.7 million (2.0%) due to higher consulting services, associated with the development of HQ's strategic initiatives and increased information technology upgrade expenses, offset by lower service contracts and lower physician fees. Interest expense increased by $0.9 million (11.0%) due to additional debt incurred for the expansion at NDH. Depreciation and amortization expense increased by $1.8 million (3.8%) as a result of increased capital spending on building improvements and equipment.

Investment income and other income decreased by $16.7 million (-138.6%). This decrease is associated with unrealized losses in investments ($10.1 million) associated with market volatility. HQ reported an excess of revenue over expenses in 2015 of $32.8 million, an increase of $2.1 million compared to $30.6 million in comparable prior year period.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013.

In 2014, operating income for HQ was $18.6 million, an increase of $4.0 million (27.8%) over 2013. Total operating revenue increased $89.8 million (12.7%) and operating expenses increased $85.8 million (12.4%). Net patient service revenue for HQ grew by $86.4 million (12.8%) driven by the acquisition of a cardiology practice, a neurology practice and a primary care practice; increased inpatient volume of 5% at the HQ Hospitals (HQ continued to see migration from Ulster County); increased cardiothoracic surgeries (12.7%); and increased radiation oncology procedures (29.5%) (due to improved access to care). Provision for bad debts increased by $0.1 million (0.4%) due to an increase in self-pay patients, offset by better revenue cycle management. Bad debts represented 3.8% of net patient revenue in 2014 compared to 4.3% in 2013.

Salaries and fees expense increased by $48.6 million (15.5%) reflecting an increase primarily due to the acquisition of cardiology, neurology and primary care practices. Employee benefit expenses increased by $6.4 million (6.3%) due to an increase in payroll taxes, medical insurance and pension expense primarily associated with the increase in FTE's. Supply expense increased by $10.5 million (9.7%) due to increased implant expenses associated with increased orthopedic volume and higher pharmaceutical and lab expenses, offset by renegotiated supply contracts resulting in lower costs. Other expenses increased $15.3 million (12.9%) predominantly due to higher physician fees, consulting services, and information technology fees, offset by lower service contracts. Interest expense decreased by $0.1 million (-1.1%). Depreciation and amortization expense increased by $5.0 million (12.2%), as a result of increased capital spending on building improvements and equipment.

Investment income and other income decreased by $24.3 million (-66.8%). This decrease is associated with unrealized gains of $28.8 million in 2013, not replicated in 2014, associated with market fluctuations. HQ reported an excess of revenue over expenses in 2014 of $30.6 million, a decrease of $20.2 million compared to $50.8 million in 2013.

Capital Expenditures and Liquidity

In 2013, 2014 and 2015, HQ incurred capital expenditures of approximately $43.2 million, $44.8 million, and $95.0 million respectively, for acquisition of plant, buildings and equipment. The increase in capital spend for 2015 was related to the construction of the NDH new addition (see Facilities – Northern Dutchess Hospital above) and property acquisitions and architectural fees associated with the planning phases of VBMC's New Patient Pavilion. Not included in expenditures during fiscal year ended December 2015, is approximately $6.0 million spent on the NDH building project, financed in part with the bonds issued in 2014.

Unrestricted cash, cash equivalents and investments for HQ totaled $311.6 million at March 31, 2016, as compared to $303.5 million at March 31, 2015, representing 133.9 and 145.6 Days Cash on Hand, respectively. In addition, HQ has the ability to borrow up to $15 million under a revolving line of credit issued by JP Morgan Chase Bank, N.A. which has been and will continue to be secured by an Obligation issued under the Master Trust Indenture. HQ has seen its average daily expenses increase over the past three years due to the addition of new service lines as described above, which has caused the days cash on hand to decline as of March 31, 2016.

Critical Accounting Policies

Management of HQ considers its critical accounting policies to be those that involve accounting issues requiring the exercise of the most significant judgments and estimates in the preparation of its financial statements.

HQ has agreements with third-party payors that provide for payments to HQ at amounts different from its established rates (i.e., gross charges). Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is 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 as final settlements are determined. Patient accounts receivable are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. HQ has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payor classification and the period from which the receivables have been outstanding. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, HQ assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. HQ believes that the collectability of its receivables is

directly linked to the quality of its billing processes, most notably those related to obtaining the correct information in order to bill effectively for the services it provides.

HQ has implemented a discount policy and provides financial assistance discounts to uninsured patients. Under this policy, the discount offered to uninsured patients is reflected as a reduction to net patient service revenue at the time the uninsured billings are recorded. Federal and state law requires that hospitals provide emergency services regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow HQ to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying consolidated statements of operations.

Liquidity Position

The following table sets forth the liquidity position of HQ as of 2013, 2014, 2015 and the three month periods ended March 31, 2015 and 2016.

(in thousands)	Year Ended December 31,			3 Months ended March 31,	
	2013	**2014**	**2015**	**2015**	**2016**
Unrestricted Cash and Investments[1]	$259,916	$285,050	$316,452	$303,471	$311,617
Total Expenses	692,347	778,134	833,430	200,164	225,299
Less: Depreciation & Amortization	(41,130)	(46,161)	(47,934)	(12,588)	(13,591)
Subtotal	$651,217	$731,973	$785,496	$187,576	$211,708
Average Daily Operating Expenses[2]	$1,784.16	$2,005.41	$2,152.04	$2,084.18	$2,326.46
Days Cash on Hand[3]	145.7	142.1	147.0	145.6	133.9
Number of Days	365	365	365	90	91

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

Investment Policy

The funds of HQ, consisting of excess operating, plant replacement and long-term funds, are invested with the goal of achieving long-term capital appreciation rather than a focus on annual investment income for meeting its operating needs. HQ uses the Finance Committee of the Board to establish portfolio guidelines, including asset allocation and performance standards and to monitor investment results. HQ is engaged with SEI investments for active management of the portfolio.

The following table sets forth the composition of HQ's and its subsidiaries (on a consolidated basis) investments and Board designated and donor restricted funds as of December 31, 2013, 2014 and 2015.

(in thousands)	As of December 31, 2013	2014	2015
Cash and cash equivalents	$620	$699	$479
Equity securities	9,982	9,440	8,600
Mutual Funds - Equity Securities	142,097	154,220	133,688
Mutual Funds - Bonds	44,302	44,533	63,042
Short term investments	365	700	1,284
Total	$197,366	$209,592	$207,093

Debt Service Coverage Ratio

The following table sets forth the Obligated Group's income available for debt service for the years ended December 31, 2013, 2014 and 2015, its historical coverage of the maximum annual debt service requirement on debt outstanding as of the end of those years, and pro-forma coverage of maximum annual debt service for the years ended December 31, 2013, 2014 and 2015 assuming that the Series 2016 Bonds had been outstanding in such year in an aggregate principal amount of $378,010,000 at an assumed average interest rate of 4.0%, per annum. The following information does not necessarily correspond to the coverage requirements of the Master Indenture. However, if the calculations had been made in accordance with the Master Indenture, the results would not have been materially different from those presented below.

(in thousands)	Year Ended December 31, 2013	2014	2015
Excess of revenue over expenses	$50,833	$30,625	$32,771
Net unrealized Gains/(Losses)	(11,895)	(28,773)	10,138
Depreciation	41,130	46,161	47,934
Interest	8,556	8,460	9,391
Funds available for debt service	$88,624	$56,473	$100,234
Historical maximum annual debt service[1]	19,524	23,242	$26,677
Historical debt service coverage ratio	4.5x	2.4x	3.8x
Pro forma maximum annual debt service[2]	$34,090	$34,090	$34,090
Pro-forma debt service coverage ratio	2.60x	1.66x	2.94x

1. Fiscal year ended December 31, 2013, includes debt service on the Series 2005 Bonds, the Series 2007 Bonds, the Series 2010 Bonds and the Series 2012 Bonds (each as defined in the front part of this Official Statement) and other capital leases, various loans and note payables outstanding in the aggregate principal amount of $12,025,000. Fiscal year ended December 31, 2014 and 2015, includes debt service on the Series 2005 Bonds, the Series 2007 Bonds, the Series 2010 Bonds, the Series 2012 Bonds and the Series 2014 Bonds (as defined in the front part of this Official Statement) and other capital leases, various loans and note payables outstanding in the aggregate principal amount of $8,049,000 for 2014 and $26,350,000 for 2015.

2 Includes debt service on the Series 2005 Bonds, the Series 2007A Bonds, the Series 2007C Bonds, the Series 2010 Bonds, the Series 2012 Bonds, the Series 2014 Bonds and the Series 2016 Bonds (each as defined in the front part of this Official Statement) and other capital leases, various loans and note payables outstanding in the aggregate principal amount of $26,350,000.

Historical and Pro-Forma Capitalization

The following table sets forth HQ's and its subsidiaries (on a consolidated basis) capitalization as of December 31, 2015 and as adjusted to include the issuance of the Series 2016 Bonds, including the refunding of the Series 2007B Bonds.

(in thousands)	December 31, 2015	
	Actual	Pro-Forma
Series 2016 Bonds	---	$378,080
Series 2014 Bonds	$ 54,853	54,853
Series 2012 Bonds	20,148	20,148
Series 2010 Bonds	40,291	40,291
Series 2007A Bonds	11,180	11,180
Series 2007B Bonds	38,730	---
Series 2007C Bonds	3,500	3,500
Series 2005 Bonds	15,177	15,177
Other Long Term Debt	26,350	26,350
Total Long Term Debt	210,229	549,579
Less: Current Portion	(17,648)	(17,648)
Net Long Term Debt	192,581	531,931
Total Unrestricted Net Assets	419,234	419,234
Total Capitalization	$611,815	$951,165
Net Long Term Debt as a Percentage of Total Capitalization	31.5%	55.9%

RECENT EVENTS

On February 25, 2016, Health Quest entered into a non-binding letter of intent to acquire an approximately 78 licensed bed community hospital located just outside the Obligated Group's primary service area. Management anticipates entering into an Asset Purchase Agreement for this facility by the end of June 2016. The purchase price of the hospital is anticipated to be $7 million, however as part of the purchase Health Quest would receive up to a $9 million grant from a non-profit foundation in the community. The letter of intent is subject to the parties' entering into definitive agreements governing the terms of the acquisition. The purchase of the hospital would then be subject to, among other things, state and federal regulatory approvals, which may take up to 12 months to obtain. There can be no assurance that Health Quest will ultimately be successful in acquiring the community hospital.

Health Quest also is currently engaged in discussions with a large health care provider to establish a joint venture to operate and control certain assets of the provider as well as certain Health Quest assets related to its physician network. In addition to contributing certain Health Quest physician related assets with a book value (gross) of approximately $60 million to the joint venture, the discussions contemplate an equity contribution by Health Quest or a combination of an equity contribution and a Health Quest guaranty of a working capital line of

credit. The total contribution by Health Quest, exclusive of the contributed physician assets, would be less than $100 million, and portions of the finally determined amount would be contributed and/or made available over time. In return for these contributions, it is anticipated that Health Quest will own a minority share of the joint venture with certain governance rights to be agreed upon by the parties. The parties are in the process of negotiating a non-binding letter of intent, but have not yet finalized the letter of intent nor entered into any binding agreement with respect to this potential transaction. All equity contributions, contributions of assets, guaranties and potentially other aspects of the proposed transaction are subject to satisfaction of the tests set forth in the Master Indenture related thereto. There can be no assurance that Health Quest and the provider will achieve the joint venture under discussion.

REIMBURSEMENT METHODOLOGIES

A brief synopsis of reimbursement methodologies applicable to HQ Hospitals is as follows:

Medicare

Medicare is the federally administered health care program that provides health benefits to beneficiaries who are over 65 years of age, disabled, or who qualify for the End-Stage Renal Disease program.

Under the Medicare program, the HQ Hospitals receive reimbursement under a prospective payment system for inpatient services ("IPPS"). Under the hospital IPPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than average, providers typically will receive additional "outlier" payments. The HQ Hospitals also receive reimbursement under a prospective payment system for certain medical outpatient services ("OPPS") based on service groups called ambulatory payment classifications. Other outpatient services are based upon a fee schedule and/or actual costs.

OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. The payment for each service is comprised of a payment from the Medicare program and a coinsurance payment of the balance from the beneficiary. A limited number of services not covered by OPPS are based on fee schedules or other reimbursement methodologies.

Additional information regarding the Medicare program can be found in the forepart of this Official Statement under the heading "CERTAIN BONDHOLDERS' RISKS - *Risks Related to Rules Governing Reimbursement for Healthcare Services.*"

Medicaid and Other Third Party Payors

Medicaid is a health care program designed to pay providers for care given to the financially indigent and others who receive federal aid. Unlike Medicare, which is exclusively a federal program, Medicaid is a partially federally-funded state program. States obtain federal funds for their Medicaid programs by obtaining the approval of Centers for Medicare and

Medicaid Services ("CMS") for a "state plan" which conforms to Title XIX of the Social Security Act and its implementing regulations. Within broad federal guidelines, a state establishes its own eligibility standards, determines the type, amount, duration, and scope of services, sets the rate of payment for services, and administers its own program. Thus, the Medicaid program varies considerably from state to state. After its state plan is approved, a state is entitled to federal matching funds for Medicaid expenditures.

In New York, Medicaid is a jointly funded federal-state-local program administered by the State. The current federal share in New York is approximately 53% with State and the social services district of the patient's residence sharing the remainder of the costs. Every year the Medicaid reimbursement rates for the forthcoming year must be certified by the New York State Commissioner of Health and approved by the State Director of Budget with CMS approval. The New York Health Care Reform Act of 1996, as amended ("HCRA"), governs payments to hospitals in New York State through December 31, 2016. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates are promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs") and other managed care plans, negotiate payments rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges.

Effective December 1, 2009, New York State implemented inpatient reimbursement reform. The reform updated the data used to calculate payment rates utilizing All Payor Refined DRGs ("APR-DRGs"). APR-DRGs used Service Intensity Weights ("SIWs") to adjust each APR-DRG for patient acuity. Similar outpatient reforms were implemented effective December 1, 2008 by connecting outpatient SIWs based on types of service and resource consumption.

In addition, under HCRA, all non-Medicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payor and apply to a broader array of health care services. Also, payors are required to fund a pool used for indigent care and other state priorities through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered-lives assessment directly to the New York State Department of Health.

Managed Care

Medicare Managed Care

Medicare encourages and facilitates the development of managed care products for Medicare beneficiaries. To this end, Medicare has increased the per capita reimbursement to payers, making this line of business more appealing to offer. Managed care products for the Medicare population are typically offered by commercial insurers and HMOs, through the Medicare Advantage program.

Enrollment in a Medicare Advantage managed care product is voluntary and enrollees may dis-enroll and re-enroll in the traditional Medicare fee-for-service system at any time. Enrollees have their health care managed and paid for by the applicable insurer, HMO or similar entity (the "managed care plan"); with the enrollee often receiving increased coverage and lower co-pays and/or deductibles. The Medicare program pays the plan a monthly risk adjusted per beneficiary amount for each Medicare enrollee. The managed care plan is at full financial risk for cost overruns that exceed the per-beneficiary amounts paid to it by Medicare. Consequently, the managed care plans seek to reduce utilization and otherwise control the costs of providing care to Medicare beneficiaries. These financial pressures contribute to reduced volume and reduced per patient revenues for these patients.

There has been limited enrollment in Medicare managed care products in HQ's service area, with only 17.4% and 18.0% of those eligible enrolling in Medicare managed care plans in Putnam and Dutchess counties, respectively as of November 30, 2015. HQ has contracted with several insurers for their Medicare managed care plans including Aetna Health ("Aetna"), Emblem Health, MVP Health Plan, Inc. ("MVP"), New York State Catholic Health Plan, United Healthcare, Wellcare and Empire Blue Cross, an independently operated licensee of the Blue Cross Blue Shield Association.

In the first six months of 2015 Medicare managed care represented approximately 6.4% of HQ's total inpatient and outpatient volume.

Medicaid Managed Care

In order to control Medicaid expenditures, the State has sought to enroll large numbers of Medicaid participants in managed care plans, with managed care enrollment now at 96% of those eligible for coverage in the HQ service area. Experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such plans. Enrollment of Medicaid patients in managed care plans, payments to managed care plans for care rendered to these patients, the financial risk assumed by the managed care plan and the resulting and potential financial and other risks to HQ are similar to those for Medicare managed care programs.

Mandatory participation in managed care plans is required for all Medicaid recipients enrolling or recertifying as of 2007, unless they fall into one of a few exempt categories. The number of Medicaid participants enrolled in a managed care plan, as of November 2015 is 37,108 in Dutchess, 7,669 in Putnam and 29,640 in Ulster Counties, as compared to 32,513 in Dutchess, 6,300 in Putnam and 27,100 in Ulster counties, as of November 2014.

While the ability to negotiate reimbursement rates sometimes results in payments higher than those of traditional Medicaid, the increased reimbursement is offset by increases in administrative costs to meet the notification, authorization, and concurrent and retrospective review requirements of the payer. In the first six months of 2015 Medicaid managed care represented approximately 17.1% of HQ's total inpatient and outpatient volume.

New York State of Health

The 2010 Affordable Care Act ("ACA") called for the creation of "Health Insurance Exchange" plans which make essential coverage available as of 2014 to those that might not otherwise have access to coverage. The federal government provides subsidies for enrollees below specific income levels to assist with premium payments and tax credits to offset costs in an effort to encourage enrollment. As part of the ACA, New York opted to expand its income requirements for Medicaid, enabling many enrollees to obtain coverage without incurring monthly costs. As of February 28, 2015, enrollment in all the New York State of Health plan offerings (private and Medicaid) was 24,524 in Dutchess, 7,337 in Putnam, and 18,605 in Ulster County. Of these enrollees, 15,323 in Dutchess, 3,959 in Putnam, and 11,709 in Ulster County obtained their coverage through Medicaid. Coverage for those that do not qualify for Medicaid is available by many of the commercial and HMO plans as well as by some of the Medicaid and Medicare managed care payers. *[Source: http://www.hanys.org/insurance/data/enrollment-data/ New York State of Health]*

Effective 2016, New York added a low-income health plan program (the "Essential Program") to the New York State of Health exchange. The Essential Program offers low-income New Yorkers that do not qualify for Medicaid (those making between 150% and 200% of the federal poverty level) a health plan option with no yearly deductible and no or low ($20/month) out-of-pocket costs. New York is one of only two states (the other is Minnesota) that have received federal approval under the ACA to implement such a program under the ACA's "basic health program" provisions. Essential Program coverage is provided by a subset of plans currently offering coverage for the Exchanges. Expected enrollment is 1,965 in Dutchess, 669 in Putnam, and 1,609 in Ulster County. *[Source: http://www.hanys.org /finance/insurance/exchange_nys_health/Estimated County Level Impact of Basic Health Program]*

Traditional Managed Care and Commercial Insurance

Payments to hospitals on behalf of subscribers of HMO's and Preferred Provider Organizations ("PPOs") are generally based on contracts between the hospital and the HMO or PPO. These contracts provide for various reimbursement methodologies including per diem rates, per case rates, rates based on DRG weights and discounts from established charges for inpatient services. Outpatient reimbursement methodologies include per visit, per unit or per procedure rates and discounts from established charges.

The payers below offer HMO and PPO plans as well as administer benefits for self-funded ERISA plans. These seven payers, including their Medicare and Medicaid volume, accounted for approximately 47% of HQ's total inpatient and outpatient volume for the fiscal year 2015. Although there are separate rates for VBMC, PHC and NDH and each health plan, HQ negotiates simultaneously with each plan on the HQ Hospitals' behalf to make the most of system benefits. All of HQ's contracts with managed care organizations include provisions to negotiate rates for new technology and new services. To ensure maximum attention by HQ's management during the negotiation process, contract expiration dates between a health plan and the HQ Hospitals expire on the same date, but have been staggered as follows:

Health Plan	**Contract Expiration Date**
CDPHP	July 31, 2016
Oxford/United	February 28, 2017
Cigna	February 28, 2017
Aetna	June 30, 2017
MVP	June 30, 2017
Emblem Health/GHI	August 31, 2017
Empire Blue Cross	December 31, 2017

Commercial Insurance

Commercial insurers make direct payments to hospitals such as the HQ Hospitals based on contracted rates, commonly discounted from established hospital charges for covered services.

EMPLOYEES

As of December 31, 2015, HQ employed 4,418 FTEs. Non-union employees who work 36 hours per week receive full-time benefits that include health insurance covering hospitalization, major medical expenses, prescription drugs and dental care, life insurance, a tuition reimbursement program, and a defined benefit pension plan for certain employees of VBMC and PHC and a defined contribution plan for other employees. Employees may also participate in a voluntary tax-deferred annuity program.

HQ has collective bargaining agreements with The New York State Nurses Association ("NYSNA") that represents approximately 725 registered nurses employed at VBMC pursuant to a contract that expires April 30, 2019; and with Local 1199, National Health and Human Service Employees Union, which represents approximately 400 employees at PHC pursuant to a contract that expires September 30, 2018, and approximately 769 employees at VBMC pursuant to a contract that expires September 30, 2018.

Nursing

As of December 31, 2015, HQ employed 1,130 FTEs on its nursing staff, including registered nurses, licensed practical nurses, nurse supervisors, nurse practitioners, nurse's aides and technicians. Of the nursing staff, 892 FTEs were registered nurses at December 31, 2015. As of March 1, 2016, the turnover rate for registered nurses was approximately 5.8% at VBMC,

6.5% at PHC and 14.4% at NDH and the nursing staff vacancy rate was 7.45% at VBMC, 8.17% at PHC and 4.2% at NDH.

PENSION PLANS

VBMC maintains a noncontributory defined benefit plan (the "VBMC Plan") covering employees of VBMC who are part of the collective bargaining unit with NYSNA who have completed 5 years of service and attained 21 years of age. Contributions to the VBMC Plan are based on actuarial valuations. Benefits under the VBMC Plan are based on years of service and compensation. VBMC's policy is to contribute amounts sufficient to meet funding requirements under the Employee Retirement Income Security Act of 1974.

PHC maintains a noncontributory defined benefit plan (the "Putnam Plan") covering substantially all employees who have completed 5 years of service and attained 21 years of age. The Putnam Plan provides benefits based on the participants' year of service and compensation. PHC's policy is to fund amounts intended to provide for benefits attributed to service to date and those expected to be earned in the future. Effective December 31, 2007, the Putnam Plan was frozen.

For all other non-union employees, Health Quest maintains a defined contribution plan covering all full-time employees who have completed two years of service. Health Quest's pension contribution is up to 6% of eligible payroll for 2015 and 2014.

LICENSE AND ACCREDITATION

All HQ Hospitals (with HQ also listed as an operator) have received operating certificates from the New York State Department of Health and are accredited by The Joint Commission for a three-year period, expiring in July 2016 for PHC, August 2017 for NDH and in January 2018 for VBMC.

INSURANCE

HQ maintains comprehensive all risk property insurance, general liability and hospital professional liability coverage. The property insurance is purchased from a commercial carrier and is subject to a $50,000 deductible with various limits. The professional and general liability coverage is self-insured through a wholly owned subsidiary captive, VBH Insurance Co. Ltd. on a claims-made basis for professional liability and on an occurrence basis for general liability. The primary professional liability and general liability coverage provided by VBH Insurance Co. Ltd. provides for $2,000,000 each claim with a $10,000,000 aggregate limit for professional liability and $1,000,000 each claim and a $3,000,000 aggregate limit for general liability. Excess coverage is purchased by VBH Insurance Co. Ltd. with total limits of $30,000,000 each claim/$30,000,000 aggregate for professional and general liability including employee benefits liability. VBH Insurance Co. Ltd. purchases commercial reinsurance for 100% of the $30,000,000/$30,000,000 excess coverage that is provided to HQ. The captive program is funded substantially in accordance with actuarial funding recommendations.

All medical staff members with admitting privileges are required to maintain professional liability insurance coverage from companies approved by HQ Hospitals in the amounts of $1,300,000 per occurrence and $3,900,000 in the aggregate.

LITIGATION

The Obligated Group is involved in litigation arising in the course of its business. While the outcome of these suits cannot be determined at this time, management, based on the advice from legal counsel, currently believes, except as described below that any loss which may arise from these actions will not have a material adverse effect on the Obligated Group's financial position or results of operations. The liabilities, if accrued, might be subject to change in the future based on new developments, or changes in circumstances, which could have a material impact on the Obligated Group's results of operations, financial position, and cash flows.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions. HQ has recently made the following self disclosures of certain potential Stark Law (as defined below) violations and is currently aware of the following investigations by various governmental agencies:

Pending CMS Self-Referral Disclosure Protocol Submissions. On March 3, 2014, as a result of routine compliance activities and self-audit, VBMC and PHC each submitted a voluntary disclosure to CMS (together, the "2014 Self Disclosures") pursuant to CMS's Self-Referral Disclosure Protocol ("SRDP"). The SRDP is voluntary process mandated by the Affordable Care Act which enables health care providers to voluntarily disclose actual or potential violations of the physician self-referral law (the "Stark Law") in order to resolve potential Medicare overpayment liability relating to the non-Stark-compliant arrangement identified. Providers are incentivized to self-disclose potential Stark Law violations pursuant to the SRDP because the Affordable Care Act gives CMS the authority to reduce related Medicare overpayment liability. The 2014 Self-Disclosures estimated that the disclosed arrangements resulted in approximately $18 million in Medicare overpayments. The 2014 Self Disclosures are still under review by CMS. Accordingly, settlement timing and amount cannot be predicted. See "CERTAIN BONDHOLDERS' RISKS - Legislative and Regulatory Actions Affecting Health Care Facilities" in the forepart of this Official Statement for a description of the Stark Law.

Pending Department of Justice Investigations. On March 31, 2016, as a result of routine compliance activities and self-audit, VBMC submitted an SRDP disclosure to CMS (the "2016 VBMC Self-Disclosure"). The 2016 VBMC Self-Disclosure estimated that the disclosed arrangements implicated approximately $16.5 million in Medicare payments. On April 15, 2016, VBMC was informed that CMS would not accept the 2016 VBMC Self-Disclosure into its SRDP program because the matter would instead be consolidated into a pending investigation by the United States Department of Justice ("DOJ") (discussed below). HQ and VBMC are currently cooperating with the DOJ to resolve this matter. Resolution timing and any related financial liability cannot be predicted at this time.

On March 23, 2016, as a result of routine compliance activities and self-audit, PHC submitted a voluntary disclosure to the United States Department of Health and Human Services Office of the Inspector General (the "OIG") pursuant to the OIG's Provider Self-Disclosure Protocol (the "OIG SDP"). PHC submitted this self-disclosure (the "2016 PHC Self-Disclosure") through the OIG SDP rather than CMS's SRDP because the matters disclosed potentially implicated the Anti-Kickback Statute in addition to the Stark Law. The 2016 PHC Self-Disclosure estimated that the disclosed matters implicated approximately $21.5 million in Medicare and Medicaid payments. On April 13, 2016, the OIG informed PHC that the 2016 PHC Self-Disclosure would not be accepted into the OIG SDP. Subsequently, PHC was advised by the DOJ that the rejection reflected DOJ's prior knowledge of the disclosed matter and an impending investigation. HQ and PHC are currently cooperating with the DOJ to resolve this matter. Resolution timing and any related financial liability cannot be predicted at this time. See "CERTAIN BONDHOLDERS' RISKS - Legislative and Regulatory Actions Affecting Health Care Facilities" in the forepart of this Official Statement for a description of potential fines and penalties available under the Anti-Kickback Law.

While working with the DOJ to resolve the matters described above, the DOJ informed HQ that it is also in the process of investigating three additional provider billing matters that may implicate federal fraud and abuse laws. HQ is currently cooperating with the DOJ to resolve these additional matters. Timing and any related financial liability cannot be predicted at this time but could be significant.

On June 19, 2015, HQMP received a Civil Investigative Demand ("CID") from the United States Attorney's Office in the Northern District of New York ("USAO"). The CID requested documents relating to nine topics, several of which are matters for which HQMP previously had audited and refunded billings to Medicare and Medicaid pursuant to its regular audit work plan. In response to the CID, HQMP is cooperating with the USAO's ongoing inquiry, and the USAO has adjourned the CID. At this time, any liability or potential loss is unknown.

At this time, no criminal allegations or formal charges have been made against HQ or any Obligated Group Member with respect to any of the matters described above, and each of the DOJ matters referenced herein is being reviewed by DOJ Civil Division Attorneys. Resolution of any one of the matters described above is difficult to quantify at this time, but any one of them, or all of them in the aggregate, could have a material adverse effect on the financial condition of the Obligated Group.

HQ continues to routinely monitor its compliance with federal and state health care laws, including compliance related to physician financial relationships and billing matters. On-going review may result in additional self-disclosure to CMS, the OIG, the DOJ or other federal or state enforcement agencies. Such additional disclosures, if any, may or may not be material to the financial performance of HQ and the members of the Obligated Group.

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APPENDIX B

FINANCIAL STATEMENTS OF HEALTH QUEST SYSTEM, INC. AND SUBSIDIARIES

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Health Quest Systems, Inc. and Subsidiaries

Consolidated Financial Statements and Consolidating Information
December 31, 2015 and 2014

Page(s)

Independent Auditor's Report 1–2

Consolidated Financial Statements

Balance Sheets 3

Statements of Operations 4

Statements of Changes in Net Assets 5

Statements of Cash Flows 6

Notes to Financial Statements 7–36

Consolidating Information

Balance Sheets 37–40

Statements of Operations 41–44

Notes to Financial Statements 45

Independent Auditor's Report

To the Board of Trustees of
Health Quest Systems, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of Health Quest Systems, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Health Quest Systems, Inc. and Subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to 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 operations of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position and results of operations of the individual companies.

PricewaterhouseCoopers LLP

New York, New York
April 29, 2016

Health Quest Systems, Inc. and Subsidiaries
Consolidated Balance Sheets
December 31, 2015 and 2014

(in thousands)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	$ 109,359	$ 75,458
Restricted cash	722	708
Investments	198,240	200,560
Assets whose use is limited, required for current liabilities		
Externally restricted	2,013	2,014
Patient accounts receivable, less allowance for uncollectible accounts of $27,272 and $30,951 in 2015 and 2014, respectively	92,048	85,004
Supplies and prepaid expenses	27,057	25,524
Other current assets	7,540	10,018
Amounts due from third-party payors	8,664	9,749
Total current assets	445,643	409,035
Assets whose use is limited, net of current portion		
Externally restricted	21,595	54,756
Investments held by captive	28,076	28,059
Long-term investments	8,853	9,032
Property, plant and equipment, net	412,080	362,182
Goodwill	30,747	5,264
Other assets	38,691	44,057
Total assets	$ 985,685	$ 912,385
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt	$ 17,648	$ 13,669
Accounts payable and accrued expenses	116,298	103,080
Amounts due to third-party payors	7,673	5,899
Captive insurance loss reserve payable	8,147	7,626
Total current liabilities	149,766	130,274
Long-term debt, net of current portion	192,581	188,166
Post-retirement benefit obligations	75,521	75,124
Amounts due to third-party payors and other liabilities	118,782	111,913
Total liabilities	536,650	505,477
Net assets		
Unrestricted	419,234	379,374
Temporarily restricted	24,417	22,145
Permanently restricted	5,384	5,389
Total net assets	449,035	406,908
Total liabilities and net assets	$ 985,685	$ 912,385

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

Health Quest Systems, Inc. and Subsidiaries
Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

(in thousands)

	2015	2014
Operating revenue		
Net patient service revenue	$ 868,893	$ 793,489
Provision for bad debts	(25,591)	(30,352)
Net patient service revenue less provision for bad debts	843,302	763,137
Other revenue	27,493	33,500
Net assets released from restrictions used for operations	54	83
Total operating revenue	870,849	796,720
Operating expenses		
Salaries and fees	395,322	362,348
Employee benefits	112,560	107,814
Supplies	131,573	119,389
Other expenses	136,650	133,962
Interest	9,391	8,460
Depreciation and amortization	47,934	46,161
Total operating expenses	833,430	778,134
Operating income	37,419	18,586
Investment (loss) income	(4,900)	12,061
(Gain) loss on sale of property plant and equipment	252	(22)
Excess of revenue over expenses	32,771	30,625
Pension related changes other than net periodic pension costs	4,271	(28,016)
Grant revenue for capital expenditures	203	197
Net assets released from restrictions for capital expenditures	2,615	2,254
Increase in unrestricted net assets	$ 39,860	$ 5,060

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

Health Quest Systems, Inc. and Subsidiaries
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total Net Assets
December 31, 2013	$ 374,314	$ 20,220	$ 5,391	$ 399,925
Change in net assets				
Excess of revenue over expenses	30,625	-	-	30,625
Pension related changes other than net periodic pension costs	(28,016)	-	-	(28,016)
Contributions		4,262	(2)	4,260
Grant revenue for capital expenditures	197	-	-	197
Net assets released from restrictions used for operations and capital expenditures	2,254	(2,337)	-	(83)
Total change in net assets	5,060	1,925	(2)	6,983
December 31, 2014	379,374	22,145	5,389	406,908
Change in net assets				
Excess of revenue over expenses	32,771	-	-	32,771
Pension related changes other than net periodic pension costs	4,271	-	-	4,271
Contributions	-	4,941	(5)	4,936
Grant revenue for capital expenditures	203	-	-	203
Net assets released from restrictions used for operations and capital expenditures	2,615	(2,669)	-	(54)
Total change in net assets	39,860	2,272	(5)	42,127
December 31, 2015	$ 419,234	$ 24,417	$ 5,384	$ 449,035

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

Health Quest Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(in thousands)

	2015	2014
Cash flows from operating activities		
Change in net assets	$ 42,127	$ 6,983
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	47,934	46,161
Provision for bad debts	25,591	30,352
Loss on extinguishment of debt		-
Restricted contributions for capital	(2,615)	(2,254)
Pension related changes other than net periodic pension costs	(4,271)	28,016
Change in realized and unrealized (gain) / loss on investments	9,820	(4,228)
Changes in operating assets and liabilities		
Patient accounts receivable	(32,635)	(35,441)
Supplies and prepaid expenses	(1,533)	(2,287)
Other current assets	2,514	(5,198)
Other assets	4,965	3,158
Accounts payable and accrued expenses	11,233	9,532
Amounts due to third-party payors and other liabilities	2,219	722
Post-retirement benefit obligations	4,668	755
Insurance loss reserve payable	521	3,749
Net cash provided by operating activities	110,538	80,020
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(83,502)	(49,569)
Cash paid for radiology acquisition	(6,500)	-
Purchases of investments and assets whose use is limited	(49,778)	(133,975)
Sales of investments and assets whose use is limited	75,602	85,227
Net cash used in investing activities	(64,178)	(98,317)
Cash flows from financing activities		
Proceeds from the issuance of long term debt	-	54,615
Payments for bond issuance costs	-	(629)
Repayments of long-term debt	(15,074)	(25,035)
Restricted contributions for capital	2,615	2,254
Net cash (used in) provided by financing activities	(12,459)	31,205
Net increase in cash and cash equivalents	33,901	12,908
Cash and cash equivalents		
Beginning of year	75,458	62,550
End of year	$ 109,359	$ 75,458
Supplemental information and noncash transactions		
Cash paid for interest, net of amounts capitalized	$ 7,815	$ 8,077
Capital lease obligations incurred	-	237
Note payable for radiology acquisition	23,468	-
Increase in asset retirement obligation	7,509	-

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

(in thousands)

1. Organization

Health Quest Systems, Inc. (the "Company" or "Health Quest") is a not-for-profit corporation that is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

A summary of subsidiaries, in which the Company is the sole member, is as follows:

Vassar Brothers Medical Center ("VBMC") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. VBMC provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley. Included within VBMC is One Columbia Street, LLC, a limited liability company, which provides real estate oversight management and holds title to certain real estate interests and Healthserve, LLC, a limited liability for-profit company providing limited technology services to non-affiliated healthcare organizations.

The Foundation for Vassar Brothers Medical Center (the "Foundation for VBMC") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation for VBMC's principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of VBMC and other Section 501(c)(3) entities affiliated with VBMC.

Putnam Hospital Center ("PHC") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. PHC provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

Putnam Hospital Center Foundation, Inc. ("PHC Foundation"), is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation's principal activity is the solicitation, receipt, holding, investment, and administration of contributions on behalf of PHC. The Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities.

Northern Dutchess Hospital ("NDH") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NDH provides general acute care with a full range of inpatient and outpatient services for residents of the Mid-Hudson Valley.

Northern Dutchess Hospital Foundation ("NDH Foundation") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. NDH Foundation's principal activity is the solicitation, receipt, holding, investment and administration of contributions on behalf of NDH, Northern Dutchess Residential Health Care Facility, Inc. and other community organizations. NDH Foundation actively solicits contributions from the public through direct mailings, fund-raising programs and other activities.

VBH Insurance Co. Ltd. (the "VBH Insurance"), is a captive insurer incorporated under the laws of Barbados. The captive insurer, licensed under the Exempt Insurance Act, Cap. 308A of the laws of Barbados, provides various levels of medical malpractice insurance for VBMC, PHC, NDH, Health Quest Medical Practice and Health Quest Urgent Care Practice.

(in thousands)

Northern Dutchess Residential Health Care Facility, Inc. (the "Nursing Home") is a not-for-profit corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Nursing Home operates and maintains a residential healthcare facility for the care and treatment of persons who require medical care and related services.

Riverside Diversified Services, Inc. ("RDSI") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. RDSI is the beneficial owner of various physician practices that provide emergency and neonatal services for residents of the Mid-Hudson Valley.

Health Quest Medical Practice, PC ("HQMP") is a not-for-profit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQMP is the beneficial owner of various physician practices that provide a full range of hospital and outpatient services for residents of the Mid-Hudson Valley.

Health Quest Urgent Medical Care Practice, PC ("HQUMCP") is a not-for-profit corporation, exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQUMCP is the beneficial owner of two urgent care centers that provide walk-in urgent care services for the residents of the Mid-Hudson Valley.

Hudson Valley Cardiovascular Practice, PC ("HVCP") is a not-for-profit corporation, exempt from Federal income taxes under Section 501©(3) of the Internal Revenue Code. HVCP provides invasive and noninvasive cardiovascular, diagnostic and therapeutic services and is located throughout Dutchess and Orange counties.

Health Quest Home Care, Inc. (Licensed) and Health Quest Home Care, Inc. (Certified) ("HQHC") are not-for-profit corporations exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. HQHC was formed to operate a home health care services business, serving residents of the Mid-Hudson Valley.

Wells Manor Housing Development Fund Corporation ("Wells Manor") is a private foundation incorporated as a 501(c)(3) organization and is exempt from Federal income tax under Section 509(a) of the Internal Revenue Code. Wells Manor operates an apartment complex of 75 units under Section 202 of the National Housing Act of 1959 and Section 8 of the National Housing Act of 1937, regulated by the U.S. Department of Housing and Urban Development.

Alamo Ambulance Service, Inc. ("Alamo") is a not-for-profit corporation exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Alamo's assets were sold in September 2009, however, it has maintained its license to provide transport and emergency medical services to sick, disabled, or injured persons, generally within Dutchess, Orange, Ulster and Putnam Counties, New York.

HQ Lab Support Services, LLC. is a limited liability company which provides diagnostic laboratory services to the Health Quest affiliated organizations.

(in thousands)

Riverside Management Services, Inc. ("RMSI") was incorporated under Section 402 of the Business Corporation Law of the State of New York and manages Hillside Renovations, Inc., a renovation and construction company and Riverside Ambulance, which was created in 1992 to maintain a note receivable and payable related to the purchase of Alamo. This corporation is currently dormant.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. The consolidation of the for-profit entities and not-for-profit entities is not necessarily indicative of the legal extent of assets available to settle the liabilities of the individual entities.

Use of Estimates
The preparation of the consolidated 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 consolidated financial statements and the reported amounts of patient revenues and expenses during the reported period. The most significant estimates relate to patient accounts receivable allowances, amounts due from or due to third party payors, self-insurance reserves and assumptions related to post-retirement benefit obligations. Actual results may differ from those estimates. The consolidated statements of operations for the years ended December 31, 2015 and 2014 reflect estimated changes of approximately a decrease of $3,671 and an increase of $400, respectively.

Cash and Cash Equivalents
Cash and cash equivalents include investments in highly liquid financial instruments with original maturities of three months or less from date of acquisition, excluding amounts whose use is limited and those amounts in investments held for reinvestment.

Restricted Cash
In October 2005, PHC terminated its agreement with DaVita, Inc. for renal dialysis services. As part of the termination agreement, PHC agreed to set aside all cash received for renal dialysis services provided prior to the termination of the agreement into a separate cash account. The funds are to be used to pay any costs associated with the program, including Medicare cost report settlements.

Inventories
The Company values its inventories, included in supplies and prepaid expenses, at current cost.

(in thousands)

Investments
The Company has determined that all investments reported in the consolidated balance sheets are considered trading securities. Investments in equity securities with readily determinable fair values and investments in debt securities are measured at fair value in the consolidated balance sheets. Fair value is determined based on closing price on primary market or quotes of similar securities. Investments in equity and bond funds are measured at fair value based on the net asset value per share at year end. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Investments not traded on national exchanges are measured at net asset value, as provided by investment managers.

Long-Term Investments
Long-term investments include donor-restricted endowment gifts, other restricted funds and accumulated investment income on those funds.

Assets Whose Use is Limited
Assets whose use is limited includes externally controlled funds under bond indenture agreements and investments held by the Company's insurance captive. Amounts required to meet current liabilities of the Company have been classified as current assets in the consolidated balance sheets at December 31, 2015 and 2014.

Property, Plant and Equipment
Property, plant and equipment, including certain revenue producing equipment purchases, are carried at cost and those acquired by gifts and bequests are carried at appraised or fair market value established at date of contribution. Depreciation is provided on the straight-line method over the estimated useful lives of the assets:

Land improvement	20 years
Building and building improvement	40 years
Major moveable and equipment	3 – 15 years

Equipment under capital leases is recorded at present value at the inception of the leases and is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. The amortization of assets recorded under capital leases is included in depreciation and amortization expense in the accompanying consolidated statements of operations. When assets are retired or otherwise disposed of, the cost and the related depreciation are reversed from the accounts, and any gain or loss is reflected in current operations. Repairs and maintenance expenditures are expensed as incurred.

Asset Retirement Obligations
The Company accounts for asset retirement obligations, including asbestos related removal costs, in accordance with authoritative guidance. The Company accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. In 2015, management updated its asset retirement obligation estimates based on new information. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Company will recognize a gain or loss for any difference between the settlement amount and liability recorded. As of December 31, 2015 and 2014, $9,444 and $2,005, respectively, of conditional asset retirement obligations are included within amounts due to third-party payors and other liabilities in the consolidated balance sheets.

(in thousands)

Capitalized Interest
Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. These costs are amortized over the life of the related capital assets constructed.

Deferred Financing Costs
Deferred financing costs (approximately $3,685 and $4,153 at December 31, 2015 and 2014, respectively, included in other assets in the consolidated balance sheets) represent costs incurred to obtain financing for construction and renovation projects at VBMC, PHC and NDH. These costs are amortized over the life of the related debt. Amortization expense was approximately $468 and $442 for the years ended December 31, 2015 and 2014, respectively.

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

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

Charity Care
Effective January 1, 2007, the New York State Public Health Law required all hospitals to implement financial aid policies and procedures. The law also requires hospitals to develop a summary of its financial aid policies and procedures that must be made publicly available. All standards set forth in the law are minimum standards.

The Company provides a significant amount of partially or totally uncompensated patient care to patients who are unable to compensate the Company for their treatment either through third-party coverage or their own resources. Patients who meet certain criteria under the Company's charity care policy are provided care without charge or at amounts less than established rates. Because charity care amounts are not expected to be paid, they are not reported as revenue.

Performance Indicator
The consolidated statements of operations include excess of revenue over expenses, which is the performance indicator. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include pension related changes other than net periodic pension costs, net assets released from restriction for capital expenditures and contributions of long-lived assets.

(in thousands)

The Company differentiates its operating activities through the use of operating income as an intermediate measure of operations. For the purposes of display, investment income and other transactions, which management does not consider to be components of the Company's operating activities, are excluded from operating income and reported as non-operating revenues in the consolidated statements of operations.

Acquisition
On October 16, 2015, VBMC entered into an asset purchase agreement with DRA Imaging, P.C., to purchase the technical side of their business, in order to enhance the Radiology Department within VBMC. The total purchase price for the acquisition was $31,000 payable to DRA Imaging, P.C. over five years. The first installment of $6,500 was paid at the closing date of the transaction.

The fair value of the assets acquired was Property, Plant, and Equipment for $4,000 and Inventory for $50. The remainder of the consideration paid was allocated to Goodwill as there were no other intangible assets identified. The goodwill arising from the acquisition consists largely of the synergies from including the technical side of radiology within VBMC.

Goodwill
Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If fair value is less than carrying value, an impairment loss is recorded in the consolidated statements of operations. Management tested goodwill for impairment and concluded that no impairment existed as of December 31, 2015. In 2015, VBMC purchased the assets of a radiology practice, of which $25,916 was recorded as goodwill.

New Accounting Pronouncements
In February 2016, the Financial Accounting Standards Board ("FASB") issued the new standard, *Leases* (ASC 842). Under this guidance, lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and lease liability. This new standard is effective for fiscal years beginning after December 15, 2019, with early application permitted. The Company is evaluating the impact that this will have on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-1, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This guidance supersedes the guidance to classify equity securities with readily determinable fair values into different categories, and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This guidance, among other things, removes the requirement to disclose the methods used to calculate the fair value of debt and allows equity investments without readily determinable fair values to be remeasured at fair value either upon the occurrence of an observable price change or upon identification of an impairment and requires additional disclosures regarding these investments. This guidance is effective for fiscal years beginning on January 1, 2019, with early adoption permitted. The Company is evaluating the impact of adopting this guidance on the consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) which amends disclosure requirements of Accounting Standards Codification Topic 820, Fair Value Measurement, for reporting entities that measure the fair value of an investment using the net asset value per share (or its equivalent) as a practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016, with

(in thousands)

early application permitted. The Company is evaluating the impact that this will have on the consolidated financial statements.

In May 2014, the FASB issued a standard on Revenue from Contracts with Customers. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2018. The Company is evaluating the impact that this will have on the consolidated financial statements.

In April 2015, the FASB issued a standard on Simplifying the Presentation of Debt Issuance Costs. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2015. The Company is evaluating the impact this will have on the consolidated financial statements beginning in fiscal year 2016.

3. Net Patient Service Revenue, Accounts Receivable and Allowance for Uncollectible Accounts

The Company has agreements with third-party payors that provide for payments to the Company at amounts different from its established rates (i.e., gross charges). Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments.

Billings relating to services rendered are recorded as net patient service revenue in the period in which the service is performed, net of contractual and other allowances that represent differences between gross charges and the estimated receipts under such programs. Net patient service revenue is 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 as final settlements are determined. Patient accounts receivable are also reduced for allowances for uncollectible accounts.

The process for estimating the ultimate collection of receivables involves significant assumptions and judgments. The Company has implemented a monthly standardized approach to estimate and review the collectability of receivables based on the payor classification and the period from which the receivables have been outstanding. Past due balances over 90 days from the date of billing and over a specified amount are considered delinquent and are reviewed for collectability. Account balances are written off against the allowance when management feels it is probable the receivable will not be recovered. Historical collection and payor reimbursement experience is an integral part of the estimation process related to reserves for doubtful accounts. In addition, the Company assesses the current state of its billing functions in order to identify any known collection or reimbursement issues and assess the impact, if any, on reserve estimates. The Company believes that the collectability of its receivables is directly linked to the quality of its billing processes, most

(in thousands)

notably those related to obtaining the correct information in order to bill effectively for the services it provides.

A summary of the payment arrangements with major third-party payors follows:

- *Medicare:* Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.
- *Non-Medicare Payments*: The New York Health Care Reform Act of 1996, as updated, governs payments to hospitals in New York State. Under this system, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospital payment rates. If negotiated rates are not established, payors are billed at hospital's established charges. Medicaid, workers' compensation and no-fault payors pay hospital rates promulgated by the New York State Department of Health on a prospective basis. Adjustment to current and prior years' rates for these payors will continue to be made in the future.

There are also various other proposals at the Federal and State level that could, among other things, reduce payment rates. The ultimate outcome of these proposals, regulatory changes, and other market conditions cannot presently be determined.

The Company has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data. Additionally, certain payors' payment rates for various years have been appealed by the Company. If the appeals are successful, additional income applicable to those years will be realized.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 13%, respectively, of the Company's net patient service revenue for the year ended December 31, 2015, and 47% and 15%, respectively, of the Company's net patient service revenue, for the year ended December 31, 2014.

VBMC's Medicare cost reports have been audited through December 31, 2013 and finalized by the Medicare fiscal intermediary through December 31, 2012, with the exception of fiscal year ended December 31, 2003. PHC's Medicare cost reports have been audited and finalized by the Medicare fiscal intermediary through December 31, 2013. NDH's Medicare cost reports have been audited through December 31, 2013 and finalized by the Medicare fiscal intermediary through December 31, 2012.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Company analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data for these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Company analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and

(in thousands)

copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Company records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews and investigations. Federal and state regulations provide for certain retrospective adjustments to current and prior years' payment rates based on industry wide and hospital-specific data. The Company has estimated the potential impact of such retrospective adjustments based on information presently available and adjustments are accrued on an estimated basis in the period the services are rendered and are adjusted in future periods as additional information becomes available or final settlements are determined.

The Company has implemented a discount policy and provides financial assistance discounts to uninsured patients. Under this policy, the discount offered to uninsured patients is reflected as a reduction to net patient service revenue at the time the uninsured billings are recorded.

Federal and state law requires that hospitals provide emergency services regardless of a patient's ability to pay. Uninsured patients seen in the emergency department, including patients subsequently admitted for inpatient services, often do not provide information necessary to allow the Company to qualify such patients for charity care. Uncollectible amounts due from such uninsured patients represent the substantial portion of the provision for bad debts reflected in the accompanying consolidated statements of operations. Charity care and uncompensated care is as follows for the years ended December 31:

	2015	2014
Charity care, at estimated cost	$ 15,683	$ 13,461
Uncompensated care reported as provision for bad debts, net	25,591	30,352
Total uncompensated care provided	$ 41,274	$ 43,813

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Company's total expenses (less bad debt expense) divided by gross patient service revenue.

(in thousands)

The Company grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor arrangements. The mix of receivables (net of contractual allowances and advances from certain third-parties) from patients and third-party payors at December 31, 2015 and 2014 is as follows:

	2015	2014
Medicare	25 %	23 %
Medicaid	5	6
Blue Cross	15	14
Managed care and other	46	47
Patients	9	10
	100 %	100 %

4. Promises to Give

Unconditional promises to give that are expected to be collected in more than one year are discounted to the net present value of their estimated future cash flows. The discount rate on new pledges was 1.76% and 1.65% at December 31, 2015 and 2014, respectively. These amounts are included in other assets in the consolidated balance sheets as of December 31, 2015 and 2014.

The composition of unconditional promises to give, at December 31, 2015 and 2014 is as follows:

	2015	2014
Pledges due in less than one year	$ 2,433	$ 2,534
Pledges due in one to five years	5,948	5,681
Pledges due in more than five years	1,231	1,443
	9,612	9,658
Unamortized discount	390	377
	9,222	9,281
Allowance for uncollected pledges	614	1,359
	$ 8,608	$ 7,922

5. Concentration of Credit Risk

The Company routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds are not insured or guaranteed by the U.S. government.

At December 31, 2015 and 2014, the Company had cash and investment balances in financial institutions that exceeded Federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal. The investment balances are held at primarily one institution.

(in thousands)

6. Investments and Assets Whose Use is Limited

Investments, stated at fair value at December 31, 2015 and 2014, consist of the following:

	2015	2014
Cash and cash equivalents	$ 479	$ 699
Equity securities	8,600	9,440
Mutual funds - Equity securities	133,688	154,220
Mutual funds - Bonds	63,042	44,533
Short term investments	1,284	700
	$ 207,093	$ 209,592

The composition of assets whose use is limited, stated at fair value at December 31, 2015 and 2014, consists of the following:

	2015	2014
Externally restricted by bond indenture agreements		
Cash and cash equivalents	$ 13,063	$ 45,239
Short term investments	481	780
U.S. treasury obligations	10,064	10,751
	23,608	56,770
Less: Current portion	2,013	2,014
	$ 21,595	$ 54,756

	2015	2014
Externally restricted by captive insurer		
Equity securities	$ 904	$ 994
Mutual funds - Equity securities	11,392	11,336
Mutual funds - Bonds	15,780	15,729
	$ 28,076	$ 28,059

Investment income (loss) for the years ended December 31, 2015 and 2014 consists of the following:

	2015	2014
Interest and dividend income	$ 5,023	$ 7,971
Net realized gains on sale of securities	317	1,310
Change in unrealized gains/(losses)	(10,138)	2,918
Management fees	(102)	(138)
Investment income (loss)	$ (4,900)	$ 12,061

(in thousands)

The Company follows accounting guidance for fair value measurements. This guidance defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and requires disclosures about fair value measurements. Fair value is defined under this guidance as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement data.

The guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entities own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value under the guidance must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Company for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the whole term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the guidance. The three valuation techniques are as follows:

- Market approach - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- Cost approach - Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and
- Income approach - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

Categorization in hierarchy is based on lowest level of input that is significant to the determination of fair value.

(in thousands)

The categorization of investments and assets whose use is limited within the fair value hierarchy defined by the accounting guidance is as follows at December 31, 2015 and 2014:

		Fair Value at December 31, 2015			Valuation
	Total	**Level 1**	**Level 2**	**Level 3**	**Technique**
Cash and cash equivalents	$ 13,541	$ 9,036	$ 4,505	$ -	Market
Equity securities	9,504	9,504	-	-	Market
Mutual Funds - Equity securities	145,080	-	145,080	-	Market
Mutual Funds - Bond funds	78,822	-	78,822	-	Market
U.S. treasury obligations	10,066	10,066	-	-	Market
Short term investments	1,764	1,764	-	-	Market
Total	$ 258,777	$ 30,370	$ 228,407	$ -	

		Fair Value at December 31, 2014			Valuation
	Total	**Level 1**	**Level 2**	**Level 3**	**Technique**
Cash and cash equivalents	$ 45,938	$ 41,079	$ 4,859	$ -	Market
Equity securities	10,434	10,434	-	-	Market
Mutual Funds - Equity securities	165,556	-	165,556	-	Market
Mutual Funds - Bond funds	60,262	-	60,262	-	Market
U.S. treasury obligations	10,751	10,751	-	-	Market
Short term investments	1,480	1,480	-	-	Market
Total	$ 294,421	$ 63,744	$ 230,677	$ -	

The Company's assets with a fair value estimate using net asset value per share as a basis at December 31, 2015 and 2014 are as follows:

	Fair Value Estimated Using Net Assets Value Per Share				
	Fair Value December 31, 2015	**Fair Value December 31, 2014**	**Unfunded Commitment**	**Settlement Terms**	**Redemption Frequency**
Mutual Funds - Equity securities	$ 36,969	$ 38,415	$ -	Redemptions occur at NAV	T-2 days notification for redemption or contributions
Total	$ 36,969	$ 38,415			

(in thousands)

7. Property, Plant and Equipment

Property, plant and equipment, at cost, and accumulated depreciation and amortization at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Land	$ 7,133	$ 7,133
Land improvements	9,320	8,543
Buildings and fixed equipment	430,990	409,072
Major movable equipment	459,535	431,122
	906,978	855,870
Less: Accumulated depreciation and amortization	554,291	509,140
	352,687	346,730
Construction in progress	59,393	15,452
Net property, plant and equipment	$ 412,080	$ 362,182

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was $47,934 and $46,161, respectively. Included in construction in progress is capitalized interest of $7,039 and $5,414 at December 31, 2015 and 2014, respectively.

Construction in progress is comprised of certain projects started but not completed at December 31, 2015. The estimated cost to complete these projects is approximately $16,619, at December 31, 2015. Included in construction in progress is a building project for NDH. NDH contracted to build an approximately 87,000 square foot, four story addition on its hospital campus. The building opened in February 2016. Also included in the construction in progress is the property acquisition costs and architectural drawings for the new VBMC patient pavilion project.

VBMC's patient pavilion project is for the construction of a new 696,000 square foot patient bed tower for the adult patient population and will replace its current adult medical surgical beds (reduction from 276 to 264) and its adult critical care units (increase from 24 to 30). The project will also include the replacement and expansion of the emergency department and the replacement of the operating rooms and interventional suites. Additionally, an expanded and modernized central plant and appropriate conference rooms and capabilities will provide enhanced physician, visitor and employee amenities within the new building. This project is expected to start in June 2016 with an expected completion date of January 2019. The total estimated cost of the project is $466 million, which will be funded through cash and bond financing.

As of December 31, 2015 and 2014, there was approximately $3,799 and $1,814 of property, plant and equipment in accounts payable.

(in thousands)

8. Long-term Debt

A summary of long-term debt and capital lease obligations at December 31, 2015 and 2014 is as follows:

	2015	2014
Health Quest Systems, Inc. Obligated Group Dormitory Authority of the State of New York Revenue Bonds, Series 2007, varying rates from 4.5% to 5.0% at December 31, 2015, principal payments due in varying annual payments until 2037, collateralized by a lien on a facility mortgage and gross receipts (a)	$ 53,410	$ 55,984
Health Quest Systems, Inc. Obligated Group Dutchess County Local Development Corporation, Series 2010, varying rates from 5.0% to 6.82% at December 31, 2015, principal payments due in varying annual payments until 2040, collateralized by a lien facility mortgage and gross receipts (b)	40,291	43,642
Health Quest Systems, Inc. Obligated Group Dutchess County Local Development Corporation, Series 2012, a refinancing of the VBH 1997 Series bonds varying rates from 1.75% to 3.80% at December 31, 2015, principal payments due in varying annual payments until 2025, collateralized by a lien facility mortgage and gross receipts (c)	20,148	21,906
Health Quest Systems, Inc. Obligated Group Dutchess County Local Development Corporation, Series 2014, varying rates from 1.65% to 5.0% at December 31, 2015, principal payments due in varying annual payments until 2044, collateralized by a lien facility mortgage and gross receipts (d)	54,853	56,616
Vassar Brothers Medical Center Civic Facility Bonds, Series 2011, a refinancing of the 2005 Series bonds, varying rates of 4.25% to 5.50% at December 31, 2015, principal payments due in varying annual payments until 2034, collateralized by a lien on a facility mortgage and gross receipts (e)	15,177	15,638
Vassar Brothers Medical Center note payable, payable in 4 installments, until October 2019	23,468	
PHC's Bank of New York Bond at varying rates (Series 1999A), average 0.80%, due 2019; collateralized by certain Hospital property, paid in full in 2015	-	1,700
PHC's promissory notes payable to Comprehensive Support Services, monthly principal installments, paid in full in July 2015, interest rate of 8.25%	-	77
PHC's 6% mortgage note, monthly installments due until April 2021, collateralized by the Romolan building located on PHC's property	156	184
Wells Manor mortgage note payable in monthly installments through 2027, interest at 9.25%, collateralized by the Wells Manor project and insured by HUD	1,936	2,048
Health Quest Systems, Inc. $8 million loan with TD Bank North, interest rate based on one month LIBOR rate (1.17% at December 31, 2015), plus fixed rate of 2.5%, due in monthly installments until June 2016, collateralized by equipment	651	1,925
Health Quest Systems, Inc. Obligated Group Dormitory Authority of the State of New York and TD Equipment Finance TELP ("Tax Exempt Leasing Program") loan payable, paid in full in October 2015, interest rate of 2.7% (f)	-	1,878
Capital lease obligation, collateralized by leased equipment	139	237
	210,229	201,835
Less: Current portion	17,648	13,669
Long-term debt	$ 192,581	$ 188,166

(in thousands)

a. During 2007, the Company formed the Health Quest Systems, Inc. Obligated Group ("Obligated Group"), which consists of Health Quest, VBMC, PHC and NDH. On September 5, 2007, the Obligated Group issued $69,335 in debt through the Dormitory Authority of the State of New York ("DASNY") as Revenue Bonds, insured by Assured Guaranty Corp. These bonds were allocated as follows: VBMC - $17,980; PHC - $35,740; NDH - $15,615. The purpose of the bonds was to refund certain existing debt for VBMC and NDH, fund the PHC building project and to purchase certain medical equipment.

b. On December 14, 2010, the Dutchess County Local Development Corporation issued $55,055 Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2010 for the purpose of providing funds to the Obligated Group for construction, furnishing, installation, equipping and improvement of new facilities and to refinance existing VBMC Series 2004 debt. These bonds were allocated 100% to VBMC.

c. On October 1, 1997, Vassar Brothers Hospital Insured Revenue Bonds, Series 1997 ("Series 1997"), with proceeds of $58,500 were issued to VBMC to refund outstanding debt and to finance a major renovation and construction project. The Dormitory Authority of the State of New York sponsored the issuance of the Series 1997. On December 5, 2012, these bonds were refinanced, Series 2012, for the balance of $27,320 with the Dutchess County Local Development Corporation.

d. On May 14, 2014, the Dutchess County Local Development Corporation issued $54,615 Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2014 for the purpose of providing funds to the Obligated Group for construction, furnishing, installation, equipping and improvement of new facilities and to refinance existing VBMC debt. These bonds were allocated as follows: VBMC - $18,045 and NDH - $36,570.

e. On June 28, 2005, the Dutchess County Industrial Development Agency issued $19,975 Civic Facility Revenue Bonds, Series 2005 bonds to VBMC for the purpose of providing funds for the construction, acquisition, furnishing, installation, equipping and improvement of new and existing facilities. These bonds were refinanced in 2011 with the Dutchess County Local Development Corporation.

f. On October 1, 2010, VBMC, PHC and NDH entered into a master lease and sublease agreement with the Dormitory Authority of the State of New York and TD Equipment Finance Inc. under the Tax Exempt Leasing Program ("TELP") in the amount of $10,665. The lease was paid back in full in October 2015.

In accordance with certain bond agreements, the Obligated Group is required to maintain specified amounts in a debt service reserve fund, a renewal fund and a bond fund. These assets, along with the unspent proceeds from the issuances of other debt issued by VBMC, PHC and NDH, are recorded in assets whose use is limited, externally restricted in the accompanying consolidated balance sheets.

These debt agreements also place limits on the incurrence of additional borrowing and requires that the Obligated Group satisfy certain measures of financial requirements (i.e. day's cash on hand, debt to capitalization, debt service coverage) as long as the debt remains outstanding. Under the Obligated Group, there is a cross guaranteed repayment of the outstanding debt in the event any of the members default.

(in thousands)

Health Quest has a $4,800 letter of credit with JP Morgan Chase, associated with workers compensation self-insurance and a $24,500 letter of credit, associated with the purchase of a radiology practice.

Scheduled principal payments on all long-term debt for the next five years and thereafter, are as follows:

Year	**Total**
Long Term Debt and Capital Lease Obligations	
2016	$ 17,648
2017	16,980
2018	16,783
2019	15,481
2020	11,735
Thereafter	131,602
	210,229
Less: Current portion	17,648
Long-term debt	$ 192,581

The Company estimates the fair value of long-term debt using quoted market prices or estimates using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements. The fair value of the Company's long-term debt, based on quoted market prices, at December 31, 2015 and 2014 was approximately $223,259 and $217,000, respectively, compared to the carrying value of $210,229 and $201,835, respectively, and is classified as level 2, as defined in Note 6.

9. Benefit Plans

Vassar Brothers Medical Center

VBMC maintains a noncontributory defined benefit plan (the "Vassar Brothers Plan") covering employees of VBMC who are part of the collective bargaining unit with New York State Nurses Association ("NYSNA") who have completed 5 years of service and attained 21 years of age. Contributions to the Vassar Brothers Plan are based on actuarial valuations. Benefits under the Vassar Brothers Plan are based on years of service and compensation. VBMC's policy is to contribute amounts sufficient to meet funding requirements under the Employee Retirement Income Security Act of 1974.

VBMC sponsors a health care plan that provides post-retirement medical benefits to its nonunion retired employees. Nonunion employees hired prior to January 1, 1993, retiring from VBMC on or after attaining age 60 who have rendered at least 20 years of service, are entitled to post-retirement health care coverage. VBMC funds post-retirement benefit costs on a cash basis.

(in thousands)

The measurement date for the two plans is December 31. The following tables provide a reconciliation of the changes in each of the plan's benefit obligations and fair value of assets for the years ended December 31, 2015 and 2014 and a statement of the funded status of the plans as of December 31, 2015 and 2014:

	Noncontributory Defined Benefit Plan		Post-retirement Medical Benefits Plan	
	2015	**2014**	**2015**	**2014**
Changes in benefit obligation				
Benefit obligation, at beginning of year	$ (118,939)	$ (98,855)	$ 450	$ (457)
Service cost	(6,642)	(5,804)	21	18
Interest cost	(4,796)	(4,944)	8	11
Actuarial gain (loss)	7,179	(11,668)	(889)	846
Benefits paid	2,972	2,332	37	32
Benefit obligation, at end of year	(120,226)	(118,939)	(373)	450
Changes in plan assets				
Fair value of plan assets, at beginning of year	67,270	61,474	-	-
Actual return on plan assets	(504)	3,573	-	-
Contributions	3,941	4,649	37	32
Benefit payments	(2,990)	(2,426)	(37)	(32)
Fair value of plan assets, at end of year	67,717	67,270	-	-
Funded status	$ (52,509)	$ (51,669)	$ (373)	$ 450

Amounts recognized in the consolidated balance sheets consist of:

Noncurrent assets	$ -	$ -	$ -	$ 450
Current liabilities	-	-	(17)	-
Noncurrent liabilities	(52,509)	(51,669)	(356)	-
	$ (52,509)	$ (51,669)	$ (373)	$ 450

Amounts recognized in unrestricted net assets consist of:

	Noncontributory Defined Benefit Plan		Post-retirement Medical Benefits Plan	
	2015	**2014**	**2015**	**2014**
Gain (loss)	$ (20,170)	$ (23,810)	$ (7)	$ 930

As of December 31, 2015 and 2014, the accumulated benefit obligation with respect to the defined benefit plan is $100,825 and $99,749, respectively.

(in thousands)

The following table provides the components of the net periodic benefit cost (income) for the plans for the years ended December 31, 2015 and 2014:

	Noncontributory Defined Benefit Plan		Post-retirement Medical Benefits Plan	
	2015	**2014**	**2015**	**2014**
Net periodic benefit cost				
Service cost	$ 6,642	$ 5,804	$ (22)	$ (18)
Interest cost	4,796	4,944	(8)	(11)
Expected return on plan assets	(4,408)	(4,537)	-	-
Amortization of net (gain) loss	1,391	70	(48)	(56)
Net periodic benefit cost	8,421	6,281	(78)	(85)
Other changes in plan assets and benefit obligations recognized in unrestricted net assets				
Net (gain) loss	(2,248)	12,725	889	(845)
Less: Amortization of net (gain) loss	1,391	70	(48)	(56)
Total recognized in unrestricted net assets	(3,639)	12,655	937	(789)
Total recognized in net periodic benefit cost and unrestricted net assets	$ 4,782	$ 18,936	$ 859	$ (874)

The calculation of the VBMC plans' funded status and amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014, respectively, were based upon actuarial assumptions as follows:

	Noncontributory Defined Benefit Plan		Post-retirement Medical Benefits Plan	
	2015	**2014**	**2015**	**2014**
Discount rate	4.43 %	4.03 %	4.01 %	4.24 %
Average rate of salary increases	3.50 %	3.50 %	0.0 %	0.0 %
Initial trend	-	-	5.60 %	4.00 %
Ultimate trend	-	-	4.40 %	4.40 %
Year ultimate trend is achieved	-	-	2080	2080

	Noncontributory Defined Benefit Plan	Post-retirement Medical Benefits Plan
Amount in unrestricted assets expected to be recognized in 2016		
Amortization of unrecognized net (loss)	$ (845)	$ 0

(in thousands)

The calculation of the net benefit costs for the years ended December 31, 2015 and 2014, respectively, were based upon actuarial assumptions as follows:

	Noncontributory Defined Benefit Plan		Post-retirement Medical Benefits Plan	
	2015	**2014**	**2015**	**2014**
Discount rate	4.03 %	5.11 %	4.24 %	5.11 %
Expected return on plan assets	6.50 %	7.25 %	-	-
Average rate of salary increases	3.50 %	5.50 %	-	-
Projected retiree health care	-	-	5.60 %	4.00 %
Ultimate retiree health-care cost trend	-	-	4.40 %	4.40 %
Year ultimate trend is achieved	-	-	2080	2080

In 2015, the effect on the post-retirement medical benefits plan of a 1% change in health care cost trend rate is as follows:

	2015 1% Increase	2015 1% Decrease
Effect on total of service and interest cost components	$ (16)	$ 12
Effect on postretirement benefit obligation	(31)	24

The expected long-term rate of return on plan assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits plan; however, because VBMC has frozen its employer subsidy at 1993 amounts, no future trend is used in the valuations for 2015 and 2014.

Contributions
VMBC expects to contribute approximately $3,900 to the defined benefit pension plan and postretirement medical benefits plan for fiscal year 2016.

(in thousands)

Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plan as follows:

Year	Noncontributory Defined Benefit Plan Payments	Post-retirement Medical Benefits Plan Payments
2016	$ 2,932	$ 17
2017	3,336	18
2018	3,667	21
2019	4,053	23
2020	4,409	27
2021–2025	28,901	151

Plan Assets

No post-retirement medical benefits plan assets were held for investment as of December 31, 2015 and 2014. Defined benefit plan assets are held in a trust fund. The weighted-average asset allocation at December 31, 2015 and 2014, by asset category are as follows:

	Noncontributory Defined Benefit Plan	
	2015	2014
Asset category		
Cash and cash equivalents	2 %	- %
Equity securities	58	60
Bond funds	40	40
	100 %	100 %

Objective

The plan's investment objectives seek a positive long-term total rate of return after inflation to meet VBMC's current and future plan obligations. The asset allocations for the plan combine tested theory and informed market judgments to balance investment risks with the need for high returns. The target allocation of plan investments is approximately 60% equity and 40% bonds.

The following table presents the VBMC plans' financial instruments as of December 31, 2015 and 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

	Total	Fair Value at December 31, 2015			Valuation Technique
		Level 1	Level 2	Level 3	
Cash and cash equivalents	$ 19	$ 19	$ -	$ -	Market
Equity securities	2,625	2,625	-	-	Market
Mutual Funds - Equity securities	36,683	-	36,683	-	Market
Mutual Funds - Bond funds	27,247	-	27,247	-	Market
Short term investments	1,143	1,143	-	-	Market
Total	$ 67,717	$ 3,787	$ 63,930	$ -	

(in thousands)

	Total	Fair Value at December 31, 2014			Valuation
		Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 23	$ 23	$ -	$ -	Market
Equity securities	2,800	2,800	-	-	Market
Mutual Funds - Equity securities	37,159	-	37,159	-	Market
Mutual Funds - Bond funds	27,138	-	27,138	-	Market
Short term investments	150	150	-	-	Market
Total	$ 67,270	$ 2,973	$ 64,297	$ -	

Certain employees of VBMC, who have completed two years of service, participate in a defined contribution retirement plan whereby contributions are made on an annual basis equal to 6% of the employees' qualifying salary. Costs related to this plan were approximately $1,169 and $1,384 for the years ended December 31, 2015 and 2014, respectively.

Putnam Hospital Center
PHC maintains a noncontributory defined benefit plan (the "Putnam Plan") covering substantially all employees who have completed 5 years of service and attained 21 years of age. The Putnam Plan provides benefits based on the participants' year of service and compensation. PHC's policy is to fund amounts intended to provide for benefits attributed to service to date and those expected to be earned in the future. Effective December 31, 2007, the Plan was frozen.

The measurement date for the Plan is December 31, 2015 and 2014, respectively. The following table provides a reconciliation of the changes in the Plan's benefit obligation and fair value of assets for the years ended December 31, 2015 and 2014, and a statement of the funded status of the Plan as of December 31, 2015 and 2014:

	2015	2014
Changes in benefit obligation		
Benefit obligation, at beginning of year	$ (83,930)	$ (67,030)
Service cost	(522)	(328)
Interest cost	(3,176)	(3,332)
Actuarial gain (loss)	3,107	(16,009)
Benefits paid and expected expenses	3,038	2,769
Benefit obligation, at end of year	(81,483)	(83,930)
Changes in plan assets		
Fair value of plan assets, at beginning of year	60,475	58,217
Actual return on plan assets	(353)	3,222
Contributions	1,756	1,874
Benefits paid and actual expenses	(3,051)	(2,838)
Fair value of plan assets, at end of year	58,827	60,475
Funded status	$ (22,656)	$ (23,455)
Amounts recognized in the consolidated balance sheets consist of		
Noncurrent liabilities	$ (22,656)	$ (23,455)
Amounts recognized in unrestricted net assets consist of		
Gain (loss)	$ (29,502)	$ (31,022)

At December 31, 2015 and 2014, the accumulated benefit obligation is $81,483 and $83,930, respectively.

(in thousands)

The following table provides the components of the net periodic benefit cost for the Putnam Plan for the years ended December 31, 2015 and 2014:

	2015	2014
Net periodic benefit cost		
Service cost	$ 522	$ 328
Interest cost	3,176	3,332
Expected return on assets	(3,875)	(4,167)
Amortization of net loss	2,654	817
Net periodic benefit cost	2,477	310
Other changes in plan assets and benefit obligations recognized in unrestricted net assets		
Net (gain) loss	1,134	17,022
Less: Amortization of net (gain) loss	2,654	816
Total recognized in unrestricted net assets	(1,520)	16,206
Total recognized in net periodic benefit cost and unrestricted net assets	$ 957	$ 16,516

The calculation of the Putnam Plan's funded status and amounts recognized in the consolidated balance sheets as of December 31, 2015 and 2014 were based upon the actuarial assumptions as follows:

	2015	2014
Discount rate	4.19 %	3.84 %

The calculation of the net periodic benefit cost for the years ended December 31, 2015 and 2014 were based upon actuarial assumptions as follows:

	2015	2014
Discount rate	3.84 %	5.11 %
Expected return on plan assets	6.50 %	7.25 %

Amount in unrestricted assets expected to be recognized in 2016	
Amortization of net loss	$ (2,759)

(in thousands)

The expected long-term rate of return on plan assets assumption is based upon a building-block method, whereby the expected rate of return on each asset class is broken down into three components: (1) inflation, (2) the real risk-free rate of return, (i.e., the long-term estimate of future returns on default-free U.S. government securities), and (3) the risk premium for each asset class (i.e., the expected return in excess of the risk-free rate). All three components are based primarily on historical data, with modest adjustments to take into account additional relevant information that is currently available. For the inflation and risk-free return components, the most significant additional information is that provided by the market for nominal and inflation-indexed U.S. Treasury securities. That market provides implied forecasts of both the inflation rate and risk-free rate for the period over which currently-available securities mature. The historical data on risk premiums for each asset class is adjusted to reflect any systemic changes that have occurred in the relevant markets; e.g., the higher current valuations for equities, as a multiple of earnings, relative to the longer-term average for such valuations.

Contributions
Expected contribution to the plan for fiscal year 2016 is $1,600.

Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid out of the plan as follows:

Year	Pension Benefits
2016	$ 3,461
2017	3,757
2018	3,983
2019	4,243
2020	4,557
2021–2025	24,264

Plan Assets
PHC's weighted-average asset allocation at December 31, 2015 and 2014, by asset category are as follows:

Asset Category	Plan Assets at December 31, 2015	2014
Equity securities	55 %	56 %
Met Life assets	7	7
Bond funds	38	37
	100 %	100 %

Objective
The Putnam Plan's investment objectives seek a positive long-term total rate of return after inflation to meet PHC's current and future obligations. The asset allocations for the plan combines tested theory and informed market judgment to balance investment risks with the need for higher returns. The target allocation is approximately 60% equity and 40% fixed income securities.

(in thousands)

The following table presents the Putnam Plans' financial instruments as of December 31, 2015 and 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in Note 6:

		Fair Value at December 31, 2015			Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 57	$ 57	$ -	$ -	Market
Equity securities	2,237	2,237	-	-	Market
Mutual funds - Equity securities	30,236	-	30,236	-	Market
Mutual funds - Bond funds	22,191	-	22,191	-	Market
Met Life assets	3,953	-	3,953	-	Market
Short term investments	153	153	-	-	Market
Total	$ 58,827	$ 2,447	$ 56,380	$ -	

		Fair Value at December 31, 2014			Valuation
	Total	Level 1	Level 2	Level 3	Technique
Cash and cash equivalents	$ 62	$ 62	$ -	$ -	Market
Equity securities	2,399	2,399	-	-	Market
Mutual funds - Equity securities	31,382	-	31,382	-	Market
Mutual funds - Bond funds	22,326	-	22,326	-	Market
Met Life assets	4,205	-	4,205	-	Market
Short term investments	101	101	-	-	Market
Total	$ 60,475	$ 2,562	$ 57,913	$ -	

Certain employees of PHC, who have completed two years of service, participate in a defined contribution retirement plan whereby contributions are made on an annual basis equal to 6% of the employees' qualifying salary. Costs related to this plan were approximately $2,230 and $2,577 for the years ended December 31, 2015 and 2014, respectively.

Multi-employer Benefit Plan

VBMC and PHC participate in multi-employer defined benefit pension plans. VBMC and PHC make cash contributions to these plans under the terms of collective-bargaining agreements that cover its union employees based on a fixed rate and hours of service per week worked by the covered employees. The risks of participating in these multi-employer plans are different from other single-employer plans in the following aspects: (1) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (2) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers and (3) if VBMC or PHC chooses to stop participating in some of its multiemployer plans, VBMC or PHC may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability. VBMC or PHC has contributed cash and recorded expenses for the multi-employer plans noted in the table below. The measurement dates for the following plans are as of December 31, 2015 and 2014, respectively.

Pension Fund	2015	2014
1199 SEIU Health Care Employees Pension Fund	$ 4,684	$ 4,447

VBMC and PHC contributions to the 1199 SEIU Health Care Employees Pension Fund represent approximately 0.4% of total plan contributions.

(in thousands)

The 1199 SEIU Health Care Employees Pension Fund covers employees of both VBMC and PHC and while it is only one plan, VBMC and PHC each have a separate EIN / Pension plan number. The following table includes additional disclosure information as it relates to the Pension Funds for VBMC and PHC, respectively:

EIN/Pension Plan Number	Pension Protection Act Zone Status 2015	2014	FIP/RP Status Pending/ Implemented	Surcharge Imposed	Expiration Date of Collective-Bargaining Agreement
14-1338586	Green	Green	No	No	September 30, 2018
14-6019179	Green	Green	No	No	September 30, 2018

The Pension Protection Act zone status indicates the plan's funded status of either at least 80% funded (green) or less than 80% funded (red). A zone status of red requires the plan sponsor to implement a Funding Improvement Plan (FIP) or Rehabilitation Plan (RP).

Northern Dutchess Hospital
NDH maintains a defined contribution plan covering all full-time employees who have completed two years of service. NDH's pension contribution is 6% of eligible payroll for 2015 and 2014. Pension expense for the years ended December 31, 2015 and 2014 was $1,048 and $1,141, respectively.

Health Quest
Health Quest maintains a defined contribution plan covering all full-time employees who have completed two years of service. Health Quest's pension contribution is 6% of eligible payroll for 2015 and 2014. Pension expense for the years ended December 31, 2015 and 2014 was $5,887 and $5,987, respectively.

Health Quest
Health Quest has active 457B and 457F deferred compensation plans which are offered to select management based on title (Physicians and AVP or higher level). The employee contributions are capped at the annual Federal limit for deferred compensation and the employer portion does not carry a limit, however there are substantial risk of forfeitures which apply. In addition, there is a closed KEYSOP plan for deferred compensation which had been offered to executive employees of Health Quest, VBMC and RDSI. NDH currently has a liability for a deferred compensation plan for the previous administrators prior to the formation of Health Quest. This plan is currently closed. The assets related to these plans are included in other assets and amounted to $4,771 and $6,154 as of December 31, 2015 and 2014, respectively. The assets primarily consist of money market funds and other marketable securities which are considered Level 1 based on the fair value hierarchy described in Note 6. The liabilities that relate to these plans are included in estimated amounts due to third party payors and other liabilities and are $4,785 and $6,207 as of December 31, 2015 and 2014, respectively.

(in thousands)

10. Professional Liabilities

During 1988, Health Quest (then known as VBH Corporation) established VBH Insurance, a captive insurance company ("the Captive") to provide and augment the professional liability coverage for VBMC. Beginning August 1, 2005, PHC and NDH purchased insurance from the Captive. The Captive has provided various levels of coverage since inception to the three hospitals. On July 1, 2013, the Captive began to provide professional liability coverage for employed physicians. The hospitals and HQMP purchase commercial insurance to supplement the coverage provided by the Captive.

The hospitals purchased primary coverage through a commercial insurer through July 31, 2011. Effective August 1, 2011, the primary coverage is through the Captive with excess coverage through a commercial insurer. VBMC, PHC and NDH accrue premiums payable to the Captive based on the estimated ultimate cost of losses payable by the Captive at a discount rate of 2.5% at December 31, 2015 and 2014, respectively.

VBH Insurance loss reserves comprise estimates for known reported losses and loss expenses plus a provision for losses incurred but not reported. Losses are valued by an independent actuary retained by VBH Insurance and are based on the loss experience of the insured. In management's opinion recorded reserves are adequate to cover the ultimate net cost of losses incurred to date however, the provision is based on estimates and may ultimately be settled for a significantly greater or lesser amount. The actuarially determined estimated loss reserve payable at December 31, 2015 and 2014 was $31,929 and $28,518, respectively.

The Nursing Home purchases commercial insurance for professional liabilities on a claims made basis and HQHC purchases coverage through a commercial insurer on an occurrence basis. The balance of employed physicians is covered under an individual policy purchased through commercial carriers.

Total amounts accrued under these programs approximate $49,511 and $51,278 at December 31, 2015 and 2014, respectively, and are included in estimated amounts due to third-party payors and other liabilities in the consolidated balance sheets. Amounts recognized as anticipated insurance recoveries related to the claims approximate $23,119 and $26,860 at December 31, 2015 and 2014, respectively, and are included in other assets in the consolidated balance sheets. Insurance recoveries are measured on the same basis as the liability subject to the need for valuation allowance for uncollectible amounts.

11. Workers' Compensation Insurance

The Company is self-insured for workers' compensation claim losses and expenses effective April 1, 2006. Included in amounts due to third-party payors and other liabilities at December 31, 2015 and 2014 are accruals of $12,107 and $10,976, respectively for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. This liability has been discounted at 2.5% at December 31, 2015 and 2014.

12. Medical Benefits

Effective January 1, 2006, the Company provides employee health and welfare benefits under a self-insured program. Included in other liabilities at December 31, 2015 and 2014 are accruals of $4,040 and $3,870, respectively, for claims that have been incurred but not reported.

(in thousands)

13. Functional Expenses

The Company provides health care services to residents within their geographic areas including general acute care with a full range of inpatient and outpatient services. Expenses related to providing these services for the years ended December 31, 2015 and 2014 are as follows:

	2015	2014
Health care services	$ 637,646	$ 586,713
General and administrative	195,784	191,421
	$ 833,430	$ 778,134

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and 2014 are for the following purposes:

	2015	2014
Capital asset acquisition	$ 21,364	$ 18,810
Health care services	2,890	3,172
Health education	163	163
	$ 24,417	$ 22,145

Permanently restricted net assets are restricted at December 31, 2015 and 2014 to:

	2015	2014
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as nonoperating income)	$ 5,384	$ 5,389

In September 2010, New York State enacted its version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Company has interpreted UPMIFA as requiring the preservation of the value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Company classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Company in a manner consistent with the standard of prudence prescribed by UPMIFA.

(in thousands)

15. Commitments and Contingencies

On June 23, 2015, the Company received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") related to HQMP operations. The CID (which has been adjourned) identified nine areas of review, of which four matters remain under current review. In cooperation with the DOJ's request, the Company is performing additional audits related to the four matters. At December 31, 2015, the Company recorded an estimated liability for potential overpayments related to the four areas, however it is reasonably possible that a change in this estimate will occur in the future and the change could be material to the consolidated financial statements.

On April 15, 2016, the DOJ asserted that it would be pursuing investigation into two matters that were subjects of the Company's self-disclosure efforts (self-disclosures were filed by the Company in March 2016). The two matters relate to contracts entered into between VBMC and PHC and two separate physician groups. At December 31, 2015, the Company recorded an estimated liability for these two matters based on the self-disclosure process; however the ultimate resolution of the investigation is unknown. It is reasonably possible that a change in these estimates will occur in the future and the change could be material to the consolidated financial statements.

The Company is involved in litigations arising in the course of business. While the outcome of these suits cannot be determined at this time, management, based on the advice from legal counsel, currently believes that any loss which may arise from these actions will not have a material adverse effect on the Company's financial position or results of operations. The liabilities, if accrued, might be subject to change in the future based on new developments, or changes in circumstances, which could have a material impact on the Company's results of operations, financial position, and cash flows.

The health care industry is subject to numerous laws and regulations of Federal, state and local governments. Recently, government activity has increased with respect to investigations concerning possible violations by health care providers of fraud and abuse statutes and regulations. Compliance with such laws and regulations are subject to future government review and interpretations as well as potential regulatory actions.

The Company leases various equipment and facilities under operating leases. Total rent expense in 2015 and 2014 for all operating leases was approximately $10,883 and $9,609, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2015, that have initial or remaining lease terms in excess of one year.

Year	Amount
2016	$ 8,913
2017	7,527
2018	6,707
2019	5,684
2020	5,339
Thereafter	20,627
Total	$ 54,797

(in thousands)

16. Subsequent Events

Subsequent events have been evaluated through April 29, 2016, the date the consolidated financial statements were issued.

Supplemental Information

Health Quest Systems, Inc. and Subsidiaries
Consolidating Balance Sheet
December 31, 2015

(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Atamo	HQ Homecare	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
Assets																	
Current assets																	
Cash and cash equivalents	$ 90,936	$ 1,280	$ 4,444	$ 4,819	$ 3,265	$ 1,405	$ 152	$ 1,550	$ 542	$ 609	$ -	$ 353	$ 4	$ -	$ 109,359	$ -	$ 109,359
Restricted cash	633	-	-	-	27	38	-	-	-	-	-	-	24	-	722	-	722
Investments	163,026	-	25,293	6,483	3,438	-	-	-	-	-	-	-	-	-	198,240	-	198,240
Assets whose use is limited and required for current liabilities																-	
Externally restricted	2,013	-	-	-	-	-	-	-	-	-	-	-	-	-	2,013	-	2,013
Patient accounts receivable, net	81,513	-	-	-	-	789	473	6,205	503	1,816	-	749	-	-	92,048	-	92,048
Supplies and prepaid expenses	23,724	-	5	11	9	23	54	2,959	79	182	-	11	-	-	27,057	-	27,057
Other current assets	872	18,214	1,001	251	882	1	-	134	-	716	-	-	15	-	22,086	(14,546)	7,540
Amounts due from third party payors	8,664	-	-	-	-	-	-	-	-	-	-	-	-	-	8,664	-	8,664
Interest in Foundation, current	2,134	-	-	-	-	-	-	-	-	-	-	-	-	-	2,134	(2,134)	-
Due from affiliates, current portion	39,532	-	363	3	-	11	1,989	6,976	164	288	-	3	-	-	49,329	(49,329)	-
Total current assets	413,047	19,494	31,106	11,567	7,621	2,267	2,668	17,824	1,288	3,611	-	1,116	43	-	511,652	(66,009)	445,643
Interest in Foundation	25,512	-	-	-	-	-	-	-	-	-	-	-	-	-	25,512	(25,512)	-
Assets whose use is limited																	
Externally restricted	21,595	-	-	-	-	-	-	-	-	-	-	-	-	-	21,595	-	21,595
Investments held by captive	-	28,076		-	-	-	-	-	-	-	-	-	-	-	28,076	-	28,076
Long-term investments	8,447	-	-	-	406	-	-	-	-	-	-	-	-	-	8,853	-	8,853
Property, plant and equipment, net	396,379	-	60	5	17	2,271	5	8,940	1,778	1,416	-	92	1,117	-	412,080	-	412,080
Goodwill	26,039	-	-	-	-	-	-	1,068	-	3,342	-	298	-	-	30,747	-	30,747
Other assets	16,189	-	2,705	433	3,335	-	540	14,198	-	755	-	-	536	-	38,691	-	38,691
Due from affiliates, net of current	34,212	-	-	-	-	49	-	-	-	-	-	-	-	-	34,261	(34,261)	-
Total assets	$ 941,420	$ 47,570	$ 33,871	$ 12,005	$ 11,379	$ 4,587	$ 3,213	$ 42,030	$ 3,066	$ 9,124	$ -	$ 1,506	$ 1,696	$ -	$ 1,111,467	$ (125,782)	$ 985,685
Liabilities and net assets																	
Current liabilities																	
Current portion of long-term debt	$ 17,428	$ -	$ -	$ -	$ -	$ -	$ -	$ 98	$ -	$ -	$ -	$ -	$ 122	$ -	$ 17,648	$ -	$ 17,648
Accounts payable and accrued expenses	99,366	6,079	118	15	6	1,007	307	8,514	421	5,678	33	440	120	-	122,104	(5,806)	116,298
Amounts due to third-party payors	7,417	-	-	-	-	255	-	1	-	-	-	-		-	7,673	-	7,673
Captive insurance loss reserve payable	-	8,147	-	-	-	-	-	-	-	-	-	-	-	-	8,147	-	8,147
Due to affiliates, current portion	10,844	-	1,698	1,971	995	1,164	2,078	18,251	999	10,467	420	9,233	-	-	58,120	(58,120)	-
Total current liabilities	135,055	14,226	1,816	1,986	1,001	2,426	2,385	26,864	1,420	16,145	453	9,673	242	-	213,692	(63,926)	149,766
Long-term debt, net of current portion	190,726	-	-	-	-	-	-	41	-	-	-	-	1,814	-	192,581	-	192,581
Postretirement benefit obligations	75,521	-	-	-	-	-	-	-	-	-	-	-		-	75,521	-	75,521
Amounts due to third-party payors and other liabilities	88,826	31,988	-	-	-	-	541	17,298	-	782	-	5,737	-	-	145,172	(26,390)	118,782
Due to affiliates, net of current portion	5,181	-	-	-	-	190	-	1,524	790	1	124	10	-	-	7,820	(7,820)	-
Total liabilities	495,309	46,214	1,816	1,986	1,001	2,616	2,926	45,727	2,210	16,928	577	15,420	2,056	-	634,786	(98,136)	536,650
Net assets																	
Unrestricted	417,513	1,356	23,214	6,546	650	1,785	287	(3,772)	856	(7,804)	(577)	(13,914)	(360)	-	425,780	(6,546)	419,234
Temporarily restricted	24,098	-	8,393	2,659	9,292	186	-	75	-	-	-	-	-	-	44,703	(20,286)	24,417
Permanently restricted	4,500	-	448	814	436	-	-	-	-	-	-	-	-	-	6,198	(814)	5,384
Total net assets	446,111	1,356	32,055	10,019	10,378	1,971	287	(3,697)	856	(7,804)	(577)	(13,914)	(360)	-	476,681	(27,646)	449,035
Total liabilities and net assets	$ 941,420	$ 47,570	$ 33,871	$ 12,005	$ 11,379	$ 4,587	$ 3,213	$ 42,030	$ 3,066	$ 9,124	$ -	$ 1,506	$ 1,696	$ -	$ 1,111,467	$ (125,782)	$ 985,685

Health Quest Systems, Inc. and Subsidiaries
Consolidating Balance Sheet – Obligated Group
December 31, 2015

(in thousands)

	VBMC	PHC	NDH	Health Quest	Total	Eliminations	HQ Obligated Group
Assets							
Current assets							
Cash and cash equivalents	$ 42,207	$ 17,232	$ 29,538	$ 1,959	$ 90,936	$ -	$ 90,936
Restricted cash	-	633	-	-	633	-	633
Investments	131,744	26,037	5,245	-	163,026	-	163,026
Assets whose use is limited and required for current liabilities							
Externally restricted	800	494	719	-	2,013	-	2,013
Patient accounts receivable, net	58,474	15,214	7,825	-	81,513	-	81,513
Supplies and prepaid expenses	11,681	3,959	2,415	5,669	23,724	-	23,724
Other current assets	186	398	189	99	872	-	872
Amounts due from third party payors	5,180	2,052	1,432	-	8,664	-	8,664
Interest in Foundation, current	1,001	251	882	-	2,134	-	2,134
Due from affiliates, current portion	7,414	22,656	6,493	32,699	69,262	(29,730)	39,532
Total current assets	258,687	88,926	54,738	40,426	442,777	(29,730)	413,047
Interest in Foundation	7,356	9,768	8,388	-	25,512		25,512
Assets whose use is limited							
Externally restricted	8,382	6,544	6,669	-	21,595		21,595
Long-term investments	8,447	-	-	-	8,447		8,447
Property, plant and equipment, net	245,541	67,450	69,132	14,256	396,379		396,379
Goodwill	25,916	123	-	-	26,039		26,039
Other assets	3,578	902	842	10,867	16,189		16,189
Due from affiliates, net of current	22,813	7,209	5,908	30,642	66,572	(32,360)	34,212
Total assets	$ 580,720	$ 180,922	$ 145,677	$ 96,191	$ 1,003,510	$ (62,090)	$ 941,420
Liabilities and net assets							
Current liabilities							
Current portion of long-term debt	$ 14,852	$ 786	$ 1,139	$ 651	$ 17,428	$ -	$ 17,428
Accounts payable and accrued expenses	44,121	14,507	8,838	31,900	99,366		99,366
Amounts due to third-party payors	5,530	1,394	493	-	7,417		7,417
Due to affiliates, current portion	20,450	983	3,200	15,941	40,574	(29,730)	10,844
Total current liabilities	84,953	17,670	13,670	48,492	164,785	(29,730)	135,055
Long-term debt, net of current portion	112,754	30,791	47,181	-	190,726		190,726
Postretirement benefit obligations	52,865	22,656	-	-	75,521		75,521
Amounts due to third-party payors and other liabilities	48,245	12,626	9,897	18,058	88,826		88,826
Due to affiliates, net of current portion	2,211	948	411	33,971	37,541	(32,360)	5,181
Total liabilities	301,028	84,691	71,159	100,521	557,399	(62,090)	495,309
Net assets							
Unrestricted	266,550	91,803	63,490	(4,330)	417,513		417,513
Temporarily restricted	10,951	3,614	9,533	-	24,098		24,098
Permanently restricted	2,191	814	1,495	-	4,500		4,500
Total net assets	279,692	96,231	74,518	(4,330)	446,111	-	446,111
Total liabilities and net assets	$ 580,720	$ 180,922	$ 145,677	$ 96,191	$ 1,003,510	$ (62,090)	$ 941,420

Health Quest Systems, Inc. and Subsidiaries
Consolidating Balance Sheet
December 31, 2014

(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSt	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Total Eliminations	Consolidated
Assets																	
Current assets																	
Cash and cash equivalents	$ 54,339	$ 395	$ 6,155	$ 3,957	$ 2,546	$ 4,196	$ 476	$ 1,973	$ 98	$ 895	$ -	$ 405	$ 23	$ -	$ 75,458	$ -	$ 75,458
Restricted cash	633	-	-	-	27	26	-	-	-	-	-	-	22	-	708	-	708
Investments	164,984	-	25,801	6,608	3,167	-	-	-	-	-	-	-	-	-	200,560	-	200,560
Assets whose use is limited and required for current liabilities																	
Externally restricted	2,014	-	-	-	-	-	-	-	-	-	-	-	-	-	2,014	-	2,014
Patient accounts receivable, net	75,055	-	-	-	-	918	388	4,791	586	2,655	-	611	-	-	85,004	-	85,004
Supplies and prepaid expenses	22,210	113	4	19	18	64	10	2,559	23	487	-	17	-	-	25,524	-	25,524
Other current assets	2,324	10,571	1,069	334	675	54	1	407	11	1,434	-	-	11	-	16,891	(6,873)	10,018
Amounts due from third party payors	9,749	-	-	-	-	-	-	-	-	-	-	-	-	-	9,749	-	9,749
Interest in Foundation, current	2,078	-	-	-	-	-	-	-	-	-	-	-	-	-	2,078	(2,078)	-
Due from affiliates, current portion	37,066	-	285	2	-	66	1,953	362	342	3,700	-	-	-	-	43,776	(43,776)	-
Total current assets	370,452	11,079	33,314	10,920	6,433	5,324	2,828	10,092	1,060	9,171	-	1,033	56	-	461,762	(52,727)	409,035
Interest in Foundation	23,292	-	-	-	-	-	-	-	-	-	-	-	-	-	23,292	(23,292)	-
Assets whose use is limited																	
Externally restricted	54,756	-	-	-	-	-	-	-	-	-	-	-	-	-	54,756	-	54,756
Investments held by captive	-	28,059	-	-	-	-	-	-	-	-	-	-	-	-	28,059	-	28,059
Long-term investments	8,618	-	-	-	414	-	-	-	-	-	-	-	-	-	9,032	-	9,032
Property, plant and equipment, net	348,839	-	64	10	23	2,011	9	7,390	1,855	754	-	84	1,143	-	362,182	-	362,182
Goodwill	123	-	-	-	-	-	-	1,501	-	3,342	-	298	-	-	5,264	-	5,264
Other assets	20,441	-	2,802	779	2,264	213	2,840	14,158	-	74	-	-	486	-	44,057	-	44,057
Due from affiliates, net of current	35,699	-	-	-	-	49	-	-	-	-	-	-	-	-	35,748	(35,748)	-
Total assets	$ 862,220	$ 39,138	$ 36,180	$ 11,709	$ 9,134	$ 7,597	$ 5,677	$ 33,141	$ 2,915	$ 13,341	$ -	$ 1,415	$ 1,685	$ -	$ 1,024,152	$ (111,767)	$ 912,385
Liabilities and net assets																	
Current liabilities																	
Current portion of long-term debt	$ 13,460	$ -	$ -	$ -	$ -	$ -	$ -	$ 98	$ -	$ -	$ -	$ -	$ 111	$ -	$ 13,669	$ -	$ 13,669
Accounts payable and accrued expenses	91,062	423	66	32	7	1,011	292	5,610	567	3,498	34	393	116	-	103,111	(31)	103,080
Amounts due to third-party payors	5,510	-	-	-	-	255	-	134	-	-	-	-	-	-	5,899	-	5,899
Captive insurance loss reserve payable	-	7,626	-	-	-	-	-	-	-	-	-	-	-	-	7,626	-	7,626
Due to affiliates, current portion	4,365	-	2,978	699	1,743	3,387	1,241	12,787	756	17,562	371	4,779	-	-	50,668	(50,668)	-
Total current liabilities	114,397	8,049	3,044	731	1,750	4,653	1,533	18,629	1,323	21,060	405	5,172	227	-	180,973	(50,699)	130,274
Long-term debt, net of current portion	186,090	-	-	-	-	-	-	139	-	-	-	-	1,937	-	188,166	-	188,166
Postretirement benefit obligations	75,124	-	-	-	-	-	-	-	-	-	-	-	-	-	75,124	-	75,124
Amounts due to third-party payors and other liabilities	80,927	28,518	-	-	-	212	2,833	14,533	-	80	-	9,228	-	-	136,331	(24,418)	111,913
Due to affiliates, net of current portion	8,668	-	-	-	-	232	-	1,510	753	-	107	10	-	2,932	14,212	(14,212)	-
Total liabilities	465,206	36,567	3,044	731	1,750	5,097	4,366	34,811	2,078	21,140	512	14,410	2,164	2,932	594,806	(89,329)	505,477
Net assets																	
Unrestricted	370,616	2,571	24,021	6,706	1,167	2,314	1,311	(1,680)	839	(7,799)	(512)	(12,995)	(479)	(2,932)	383,148	(3,774)	379,374
Temporarily restricted	21,893	-	8,667	3,453	5,781	186	-	10	-	-	-	-	-	-	39,990	(17,845)	22,145
Permanently restricted	4,505	-	448	819	436	-	-	-	-	-	-	-	-	-	6,208	(819)	5,389
Total net assets	397,014	2,571	33,136	10,978	7,384	2,500	1,311	(1,670)	839	(7,799)	(512)	(12,995)	(479)	(2,932)	429,346	(22,438)	406,908
Total liabilities and net assets	$ 862,220	$ 39,138	$ 36,180	$ 11,709	$ 9,134	$ 7,597	$ 5,677	$ 33,141	$ 2,915	$ 13,341	$ -	$ 1,415	$ 1,685	$ -	$ 1,024,152	$ (111,767)	$ 912,385

Health Quest Systems, Inc. and Subsidiaries
Consolidating Balance Sheet – Obligated Group
December 31, 2014

(in thousands)

	VBMC	PHC	NDH	Health Quest	Total	Eliminations	HQ Obligated Group
Assets							
Current assets							
Cash and cash equivalents	$ 24,245	$ 13,431	$ 10,582	$ 6,081	$ 54,339	$ -	$ 54,339
Restricted cash	-	633	-	-	633	-	633
Investments	133,487	26,363	5,134	-	164,984	-	164,984
Assets whose use is limited and required for current liabilities							
Externally restricted	802	494	718	-	2,014	-	2,014
Patient accounts receivable, net	49,686	17,041	8,328	-	75,055	-	75,055
Supplies and prepaid expenses	11,161	3,617	2,408	5,024	22,210	-	22,210
Other current assets	818	222	162	1,122	2,324	-	2,324
Amounts due from third party payors	6,474	2,091	1,184	-	9,749	-	9,749
Interest in Foundation, current	1,069	334	675	-	2,078	-	2,078
Due from affiliates, current portion	10,148	15,621	5,721	20,610	52,100	(15,034)	37,066
Total current assets	237,890	79,847	34,912	32,837	385,486	(15,034)	370,452
Interest in Foundation	7,565	10,643	5,084	-	23,292	-	23,292
Assets whose use is limited							
Externally restricted	8,300	6,844	39,612	-	54,756	-	54,756
Long-term investments	8,618	-	-	-	8,618	-	8,618
Property, plant and equipment, net	221,989	70,446	40,508	15,896	348,839	-	348,839
Goodwill	-	123	-	-	123	-	123
Other assets	4,572	1,034	920	13,915	20,441	-	20,441
Due from affiliates, net of current	23,046	7,347	5,633	30,256	66,282	(30,583)	35,699
Total assets	$ 511,980	$ 176,284	$ 126,669	$ 92,904	$ 907,837	$ (45,617)	$ 862,220
Liabilities and net assets							
Current liabilities							
Current portion of long-term debt	$ 9,521	$ 1,500	$ 1,165	$ 1,274	$ 13,460	$ -	$ 13,460
Accounts payable and accrued expenses	39,119	14,285	6,526	31,132	91,062	-	91,062
Amounts due to third-party payors	4,297	671	542	-	5,510	-	5,510
Due to affiliates, current portion	6,910	2,095	150	10,244	19,399	(15,034)	4,365
Total current liabilities	59,847	18,551	8,383	42,650	129,431	(15,034)	114,397
Long-term debt, net of current portion	104,139	32,979	48,321	651	186,090	-	186,090
Postretirement benefit obligations	51,669	23,455	-	-	75,124	-	75,124
Amounts due to third-party payors and other liabilities	44,000	10,806	8,313	17,808	80,927	-	80,927
Due to affiliates, net of current portion	2,107	842	319	35,983	39,251	(30,583)	8,668
Total liabilities	261,762	86,633	65,336	97,092	510,823	(45,617)	465,206
Net assets							
Unrestricted	236,701	84,380	53,723	(4,188)	370,616	-	370,616
Temporarily restricted	11,326	4,452	6,115	-	21,893	-	21,893
Permanently restricted	2,191	819	1,495	-	4,505	-	4,505
Total net assets	250,218	89,651	61,333	(4,188)	397,014	-	397,014
Total liabilities and net assets	$ 511,980	$ 176,284	$ 126,669	$ 92,904	$ 907,837	$ (45,617)	$ 862,220

Health Quest Systems, Inc. and Subsidiaries

Consolidating Statement of Operations

Year Ended December 31, 2015

(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Eliminations	Consolidated
Operating revenue																	
Net patent service revenue	$ 771,276	$ -	$ -	$ -	$ -	$ 9,998	$ 2,835	$ 54,695	$ 4,493	$ 21,210	$ -	$ 4,386	$ -	$ -	$ 868,893	$ -	$ 868,893
Provision for bad debts	(20,822)	-	-	-	-	(1)	(283)	(3,378)	(188)	(886)	-	(33)	-	-	(25,591)	-	(25,591)
Net patient service revenue less provisions for bad debts	750,454	-	-	-	-	9,997	2,552	51,317	4,305	20,324	-	4,353	-	-	843,302	-	843,302
Other revenue	36,498	8,553	1,529	665	263	29	938	28,608	8	(94)	-	8	934	2,932	80,871	(53,378)	27,493
Net assets released from restriction for operations	54	-	-	-	-	-	-	-	-	-	-	-	-	-	54	-	54
Total operating revenue	787,006	8,553	1,529	665	263	10,026	3,490	79,925	4,313	20,230	-	4,361	934	2,932	924,227	(53,378)	870,849
Operating expenses																	
Salaries and fees	292,693	-	522	209	132	5,651	2,383	62,665	2,950	24,906	-	3,211	-	-	395,322	-	395,322
Employee benefits	95,641	-	106	53	38	1,798	311	10,010	559	3,206	48	790	-	-	112,560	-	112,560
Supplies	126,624	-	1	1	1	1,063	1	2,574	174	1,050	-	84	-	-	131,573	-	131,573
Other expenses	141,080	9,786	543	264	440	2,609	785	22,684	2,060	5,134	17	1,153	541	-	187,096	(50,446)	136,650
Interest	9,206	-	-	-	-	-	-	-	-	-	-	-	185	-	9,391	-	9,391
Depreciation and amortization	45,013	-	9	4	7	202	3	2,118	155	292	-	42	89	-	47,934	-	47,934
Total operating expenses	710,257	9,786	1,181	531	618	11,323	3,483	100,051	5,898	34,588	65	5,280	815	-	883,876	(50,446)	833,430
Operating income (loss)	76,749	(1,233)	348	134	(355)	(1,297)	7	(20,126)	(1,585)	(14,358)	(65)	(919)	119	2,932	40,351	(2,932)	37,419
Investment (loss) income	(3,307)	18	(1,155)	(294)	(162)	-	-	-	-	-	-	-	-	-	(4,900)	-	(4,900)
Gain on sale of property, plant and equipment	252	-	-	-	-	-	-	-	-	-	-	-	-	-	252	-	252
Excess (deficiency) of revenue over expenses	73,694	(1,215)	(807)	(160)	(517)	(1,297)	7	(20,126)	(1,585)	(14,358)	(65)	(919)	119	2,932	35,703	(2,932)	32,771
Pension related changes other than net periodic pension costs	4,271	-	-	-	-	-	-	-	-	-	-	-	-	-	4,271	-	4,271
Net assets released from restrictions for capital expenditures	2,615	-	-	-	-	-	-	-	-	-	-	-	-	-	2,615	-	2,615
Grant revenue for capital expenditures	203	-	-	-	-	-	-	-	-	-	-	-	-	-	203	-	203
Change in interest in foundation	(160)	-	-	-	-	-	-	-	-	-	-	-	-	-	(160)	160	-
Transfers of equity	(33,726)	-	-	-	-	768	(1,031)	18,034	1,602	14,353	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 46,897	$ (1,215)	$ (807)	$ (160)	$ (517)	$ (529)	$ (1,024)	$ (2,092)	$ 17	$ (5)	$ (65)	$ (919)	$ 119	$ 2,932	$ 42,632	$ (2,772)	$ 39,860

Health Quest Systems, Inc. and Subsidiaries
Consolidating Statement of Operations – Obligated Group
Year Ended December 31, 2015

(in thousands)

	VBMC	PHC	NDH	Health Quest	Eliminations	HQ Obligated Group
Operating revenue						
Net patient service revenue	$ 520,204	$ 158,716	$ 92,356	$ -	$ -	$ 771,276
Provision for bad debts	(15,147)	(3,941)	(1,734)	-	-	(20,822)
Net patient service revenue less provisions for bad debts	505,057	154,775	90,622	-	-	750,454
Other revenue	10,184	4,120	1,982	156,354	(136,142)	36,498
Net assets released from restriction for operations	-	-	54	-	-	54
Total operating revenue	515,241	158,895	92,658	156,354	(136,142)	787,006
Operating expenses						
Salaries and fees	138,281	50,054	27,652	76,706	-	292,693
Employee benefits	49,781	19,293	7,984	18,583	-	95,641
Supplies	78,379	25,699	14,561	7,985	-	126,624
Other expenses	158,142	45,886	24,282	48,912	(136,142)	141,080
Interest	5,495	1,952	1,425	334	-	9,206
Depreciation and amortization	27,488	9,209	4,338	3,978	-	45,013
Total operating expenses	457,566	152,093	80,242	156,498	(136,142)	710,257
Operating income (loss)	57,675	6,802	12,416	(144)	-	76,749
Investment loss	(2,679)	(543)	(85)			(3,307)
Gain on sale of property, plant and equipment	246	1	3	2		252
Excess (deficiency) of revenue over expenses	55,242	6,260	12,334	(142)	-	73,694
Pension related changes other than net periodic pension costs	2,751	1,520	-	-	-	4,271
Net assets released from restrictions for capital expenditures	1,541	760	314	-	-	2,615
Grant revenue for capital expenditures	-	6	197	-	-	203
Change in interest in foundation	-	(160)	-	-	-	(160)
Transfers of equity	(29,685)	(963)	(3,078)	-	-	(33,726)
Increase (decrease) in unrestricted net assets	$ 29,849	$ 7,423	$ 9,767	$ (142)	$ -	$ 46,897

Health Quest Systems, Inc. and Subsidiaries
Consolidating Statement of Operations
Year Ended December 31, 2014

(in thousands)

	HQ Obligated Group	VBH Insurance	Foundation for VBMC	PHC Foundation	NDH Foundation	NDRHCF	RDSI	HQ Med Practice	HQUMCP	HV Cardio Practice	Alamo	HQ Homecare	Wells Manor	RMSI	Total	Eliminations	Consolidated
Operating revenue																	
Net patent service revenue	$ 709,174	$ -	$ -	$ -	$ -	$ 10,059	$ 2,421	$ 45,576	$ 4,088	$ 26,751	$ -	$ (4,580)	$ -	$ -	$ 793,489	$ -	$ 793,489
Provision for bad debts	(25,554)	-	-	-	-	(75)	(319)	(3,014)	(217)	(1,138)	-	(35)	-	-	(30,352)		(30,352)
Net patient service revenue less provisions for bad debts	683,620	-	-	-	-	9,984	2,102	42,562	3,871	25,613	-	(4,615)	-	-	763,137	-	763,137
Other revenue	37,903	6,611	2,065	847	698	84	1,349	25,839	97	1,389		21	928		77,831	(44,331)	33,500
Net assets released from restriction for operations	83	-	-	-	-	-	-	-	-	-	-	-	-	-	83	-	83
Total operating revenue	721,606	6,611	2,065	847	698	10,068	3,451	68,401	3,968	27,002	-	(4,594)	928	-	841,051	(44,331)	796,720
Operating expenses																	
Salaries and fees	271,326	-	192	-	44	5,575	2,266	50,520	2,914	25,989	-	3,522	-	-	362,348	-	362,348
Employee benefits	90,272	-	45	-	12	2,373	275	9,163	561	4,249	(1)	865	-	-	107,814	-	107,814
Supplies	115,661	-	2	-	1	1,148	-	1,209	134	1,166	-	68	-	-	119,389	-	119,389
Other expenses	132,460	9,310	869	606	546	2,631	919	20,796	2,275	6,286	16	974	605	-	178,293	(44,331)	133,962
Interest	8,266	-	-	-	-	-	-	-	-	-	-	-	194	-	8,460	-	8,460
Depreciation and amortization	43,155	-	8	5	8	233	3	1,604	154	782	1	122	88	-	46,161	-	46,161
Total operating expenses	661,140	9,310	1,114	611	611	11,960	3,463	83,292	6,038	38,472	16	5,551	887	-	822,465	(44,331)	778,134
Operating income (loss)	60,466	(2,699)	951	236	87	(1,892)	(12)	(14,891)	(2,070)	(11,470)	(16)	(10,145)	41	-	18,586	-	18,586
Investment income	10,212	1,468	354	12	13	2	-	-	-	-	-	-	-	-	12,061	-	12,061
Loss on sale/disposal of property, plant and equipment	(16)	-	-	-	-	-	-	(6)	-	-	-	-	-	-	(22)	-	(22)
Excess (deficiency) of revenue over expenses	70,662	(1,231)	1,305	248	100	(1,890)	(12)	(14,897)	(2,070)	(11,470)	(16)	(10,145)	41	-	30,625	-	30,625
Pension related changes other than net periodic pension costs	(28,016)	-	-	-	-	-	-	-	-	-	-	-	-	-	(28,016)	-	(28,016)
Net assets released from restrictions for capital expenditures	2,254	-	-	-	-	-	-	-	-	-	-	-	-	-	2,254	-	2,254
Grant revenue for capital expenditures	197	-	-	-	-	-	-	-	-	-	-	-	-	-	197	-	197
Change in interest in foundation	248	-	-	-	-	-	-	-	-	-	-	-	-	-	248	(248)	-
Transfers of equity	(23,645)	-	-	-	-	1,824	-	15,972	2,178	3,671	-	-	-	-	-	-	-
Increase (decrease) in unrestricted net assets	$ 21,700	$ (1,231)	$ 1,305	$ 248	$ 100	$ (66)	$ (12)	$ 1,075	$ 108	$ (7,799)	$ (16)	$ (10,145)	$ 41	$ -	$ 5,308	$ (248)	$ 5,060

Health Quest Systems, Inc. and Subsidiaries
Consolidating Statement of Operations – Obligated Group
Year Ended December 31, 2014

(in thousands)

	VBMC	PHC	NDH	Health Quest	Eliminations	HQ Obligated Group
Operating revenue						
Net patient service revenue	$ 465,664	$ 158,256	$ 85,254	$ -	$ -	$ 709,174
Provision for bad debts	(18,591)	(4,994)	(1,969)	-	-	(25,554)
Net patient service revenue less provisions for bad debts	447,073	153,262	83,285	-	-	683,620
Other revenue	12,726	5,323	2,632	151,246	(134,024)	37,903
Net assets released from restriction for operations	41	1	41	-	-	83
Total operating revenue	459,840	158,586	85,958	151,246	(134,024)	721,606
Operating expenses						
Salaries and fees	124,896	48,161	24,960	73,309	-	271,326
Employee benefits	46,058	17,445	8,339	18,430	-	90,272
Supplies	70,087	24,733	13,191	7,650	-	115,661
Other expenses	145,576	46,256	22,857	51,795	(134,024)	132,460
Interest	5,264	1,833	764	405	-	8,266
Depreciation and amortization	26,520	8,775	4,052	3,808	-	43,155
Total operating expenses	418,401	147,203	74,163	155,397	(134,024)	661,140
Operating income/(loss)	41,439	11,383	11,795	(4,151)	-	60,466
Investment income	8,602	1,304	306	-	-	10,212
Gain/(Loss) on sale of property, plant and equipment	-	-	20	(36)	-	(16)
Excess of revenue over expenses	50,041	12,687	12,121	(4,187)	-	70,662
Pension related changes other than net periodic pension costs	(11,810)	(16,206)	-	-	-	(28,016)
Net assets released from restrictions for capital expenditures	1,661	271	322	-	-	2,254
Grant revenue for capital expenditures	-	-	197	-	-	197
Change in interest in foundation	-	248	-	-	-	248
Transfers of equity	(18,926)	(728)	(3,991)	-	-	(23,645)
Increase (decrease) in unrestricted net assets	$ 20,966	$ (3,728)	$ 8,649	$ (4,187)	$ -	$ 21,700

(in thousands)

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidating balance sheets and consolidating statements of operations by business unit as of December 31, 2015 and 2014 are provided for purposes of additional analysis and is not required as part of the basic consolidated financial statements. The information is presented on the accrual basis of accounting and is prepared net of related eliminations. This schedule is not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of the changes in temporarily restricted and permanently restricted net assets.

The accompanying obligated group information has been prepared to satisfy debt covenant requirements and is not required as part of the basic consolidated financial statements. The Obligated Group consists of VBMC, PHC, NDH, and Health Quest. The information is prepared on the accrual basis of accounting and is prepared net of related eliminations. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of entities that would otherwise be required to be consolidated under GAAP.

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT

Summary of Schedule of Definitions

As used in this Official Statement, the following terms shall have the meanings set forth below.

"Account" means any Account within any Fund created and maintained pursuant to the Indenture.

"Act" means Section 1411 of the New York Not-For-Profit Corporation Law.

"Act of Bankruptcy" means the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the Institution or the Issuer under any applicable bankruptcy, reorganization, insolvency or similar law as is now or hereafter in effect.

"Additional Bonds" or "Series of Additional Bonds" means any Series of Additional Bonds issued by the Issuer on behalf of the Institution pursuant to the Indenture.

"Affiliate" shall mean a corporation, partnership, association, limited liability company, joint venture, business trust or similar entity organized under the laws of any state that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common contract with, the Institution.

"Applicable Elected Representative" means any Person constituting an "applicable elected representative" within the meaning given to the term in Section 147(f)(2)(E) of the Code.

"Authorized Investments" means:

A. Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

B. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

1. U.S. Export-Import Bank (Eximbank)
Direct obligations are fully guaranteed certificates of beneficial ownership

2. Farmers Home Administration (FmHA)
   Certificates of beneficial ownership
3. Federal Financing Bank
4. Federal Housing Administration Debentures (FHA)
5. General Services Administration
   Participation Certificates
6. Government National Mortgage Association (GNMA or "Ginnie Mae")
   GNMA – guaranteed mortgage-backed bonds
   GNMA – guaranteed pass-through obligations
   (not acceptable for certain cash-flow sensitive issues)
7. U.S. Maritime Administration
   Guaranteed Title XI financing
8. U.S. Department of Housing and Urban Development (HUD)
   Project Notes
   Local Authority Bonds
   New Communities Debentures – U.S. government guaranteed debentures
   U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

C. Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

1. Federal Home Loan Bank System
   Senior debt obligations
2. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac")
   Participation Certificates
   Senior debt obligations
3. Federal National Mortgage Association (FNMA or "Fannie Mae")
   Mortgage-backed securities and senior debt obligations
4. Resolution Funding Corp. (REFCORP) obligations
5. Farm Credit System
   Consolidated systemwide bonds and notes

D. Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933. Said funds include The Common Fund for Short Term Investments (the "Short Term Fund") organized by the Commonfund Group located in Wilton, Connecticut.

E. Certificates of deposit secured at all times by collateral described in (A) and/or (B) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral

must be held by a third party and the Trustee must have a perfected first security interest in the collateral.

F. Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

G. Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements provided by banks and other institutions rated AAA by S&P and Aaa by Moody's or secured by collateral and structured as described in (A), (B) and (E) above.

H. Commercial paper rated, at the time of purchase, Prime – 1 by Moody's and A-1 or better by S&P.

I. Bonds or notes issued by any state or municipality which are rated by Moody's and S&P in one of the two highest rating categories assigned by such agencies.

J. Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of Prime – 1 or A3 or better by Moody's and A-1 or A or better by S&P.

K. Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

1. Repurchase agreements must be between the Issuer and a dealer bank or securities firm.
    a. Primary dealers on a Federal Reserve reporting dealer list which are rated A or better by S&P and Moody's or
    b. Banks rated A or above by S&P, Fitch and Moody's.

2. The written repurchase agreements contract must include the following:
    a. Securities which are acceptable for transfer are:
        (1) Direct U.S. governments, or
        (2) Federal agencies backed by the full faith and credit of the U.S. government (and FNMA and FHLMC)
    b. The term of the repurchase agreements may be up to 30 days.
    c. The collateral must be delivered to the Issuer, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying

the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

d. Valuation of collateral:

(1) The securities must be valued weekly, marked-to-market at current market price plus accrued interest.

(a) The value of collateral must be equal to 104% of the amount of cash transferred by the municipal entity to the dealer bank or security firm under the repurchase agreements plus accrued interest. If the value of securities held as collateral slips below 104% of the value of the cash transferred by municipality, then additional cash and/or acceptable securities must be transferred. If, however, the securities used as collateral are FNMA or FHLMC, then the value of collateral must equal 105%.

3. Legal opinion which must be delivered to the Issuer:

a. Repurchase agreements meet guidelines under state law for legal investment of public funds.

All references in this definition of "Authorized Investments" to the ratings shall be the rating at the time such investment is made. Any subsequent downgrading or rating withdrawal shall not affect the status of an Authorized Investment.

"Authorized Representative" means, in the case of the Issuer, the Chairman, the Vice Chairman, the Chief Executive Officer, the Chief Financial Officer, the Secretary or the Assistant Secretary of the Issuer; in the case of the Institution, the Chief Executive Officer, the President, the Senior Vice President and Chief Financial Officer or the Treasurer of the Institution; and, in the case of either of the Issuer and the Institution, such additional persons as, at the time, are designated to act on behalf of the Issuer or the Institution, as the case may be, by written certificate furnished to the Trustee, the Issuer or the Institution, as the case may be, containing the specimen signature of each such person and signed on behalf of (i) the Issuer by the Chairman, the Vice Chairman, the Chief Executive Officer, the Chief Financial Officer, the Secretary or the Assistant Secretary of the Issuer, or (ii) the Institution by the President, Chief Executive Officer, the Senior Vice President and Chief Financial Officer or the Treasurer of the Institution.

"Bankruptcy Code" means the United States Bankruptcy Code, as amended from time to time.

"Bond" or "Bonds" or "Series of Bonds" means collectively, the Series 2016A Bonds, the Series 2016B Bonds and any Series of Additional Bonds.

"Bond Counsel" means the law firm of Nixon Peabody LLP or an attorney or other firm of attorneys whose experience in matters relating to the issuance of obligations by states and their political subdivisions is nationally recognized.

"Bond Documents" means the Bond Purchase Agreement, the Indenture, the Loan Agreement, the Tax Regulatory Agreement, the Note, the Continuing Disclosure Agreement, the Preliminary Official Statement and the Official Statement.

"Bond Fund" means the fund so designated which is established by the Indenture.

"Bond Purchase Agreement" means the Bond Purchase Agreement, dated July 16, 2016, among the Issuer, the Institution and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of the Underwriters, as the same may be amended from time to time.

"Bond Proceeds" means the aggregate amount, including any accrued interest, paid to the Issuer by the Bondholders pursuant to the Indenture as the purchase price of the Series 2016 Bonds.

"Bond Rate" means the tax-exempt rate of interest from time to time payable on any of the Series 2016 Bonds as defined therein.

"Bond Registrar" means the Trustee as bond registrar with respect to the Bonds and its successors and assigns in such capacity.

"Bond Resolution" means the resolution duly adopted by the Issuer on January 19, 2016, as supplemented on June 3, 2016, authorizing the issuance, execution, sale and delivery of the Series 2016 Bonds and the execution and delivery of Issuer Documents, as such resolution may be amended or supplemented from time to time.

"Bond Year" means with respect to the Series 2016 Bonds, each 1-year period (or shorter period from the date of issue) that ends at the close of business on the day in the calendar year that is selected by the Issuer (and approved by the Institution), which must be the last day of a compounding interval used in computing the yield on the Series 2016 Bonds.

"Bondholder" means Owner.

"Business Day" means any day other than a Saturday, a Sunday, a legal holiday or a day on which banking institutions in New York, New York or any city in which the principal office of the Trustee or any Paying Agent is located are authorized by law or executive order to remain closed.

"Certificate of Authentication of the Trustee" and "Trustee's Certificate of Authentication" means the certificate executed by an authorized signatory of the Trustee certifying the due authentication of each of the Series 2016 Bonds issued under the Indenture.

"Closing Date" means the date of sale and delivery of the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, and the final, temporary and proposed rules, regulations, rulings and interpretations of the Department of the Treasury promulgated thereunder.

"Completion Certificate" means with respect to the Series 2016B Facility, the Completion Certificate delivered by the Institution to the Issuer and the Trustee pursuant to the Loan Agreement.

"Completion Date" means (a) with respect to the Series 2016A Bonds, the date of redemption for the Series 2007B Bonds and (b) with respect to the Series 2016B Bonds, the date of completion of the Series 2016B Facility.

"Computation Period" means "Computation Period" as defined in the Tax Regulatory Agreement.

"Condemnation" means the taking of title to, or the use of, Property under the exercise of the power of eminent domain by any governmental entity or other Person acting under governmental authority.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of July 1, 2016, between the Institution and DAC.

"Costs of the Series 2016A Project" means all those costs and items of expense listed in Section 4.3(i), (iv), (v), (vi), (vii) and (viii) of the Loan Agreement.

"Costs of the Series 2016B Project" means all those costs and items of expense listed in Section 4.3(ii), (iii), (iv), (v), (vi), (vii) and (viii) of the Loan Agreement.

"Costs of the Project" means collectively, the Costs of the Series 2016A Project and the Series 2016B Project.

"Debt Service Payment" means, with respect to any Debt Service Payment Date, (i) the interest payable on such Debt Service Payment Date on all Bonds then Outstanding, plus (ii) the principal or Redemption Price, if any, payable on such Debt Service Payment Date on all such Bonds.

"Debt Service Payment Date" means any date on which each Debt Service Payment shall be payable on any of the Series 2016 Bonds so long as the Series 2016 Bonds shall be outstanding.

"DAC" means Digital Assurance Certification, L.L.C.

"DTC" means The Depository Trust Company, New York, New York.

"DTC Letter of Representations" means the Letter of Representations from the Issuer to DTC.

"Equipment" means all machinery, equipment and other personal property refinanced with Bond Proceeds.

"Event of Default" (i) when used with respect to the Indenture means any of those events defined as an Event of Default by the Indenture, and (ii) when used with respect to the Loan Agreement, means any of the events defined as Events of Default by the Loan Agreement.

"Exempt Organization" means an organization described in Section 501(c)(3) of the Code and which is exempt from federal income taxation pursuant to Section 501(a) of the Code.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all fees and expenses incurred by or due to the Trustee or any Paying Agent under the Indenture other than Ordinary Services and Ordinary Expenses, including reasonable fees and disbursements of Trustee's counsel.

"Financing Documents" means the Indenture, the Master Trust Indenture, the Loan Agreement, the Mortgages, the Supplemental Master Trust Indenture under which Obligation No. 19 and the Supplemental Master Trust Indenture under which Obligation No. 20 has been issued.

"Fiscal Year" means the twelve (12) month period beginning on January 1 in any year or such other fiscal year as the Institution may select from time to time.

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

"Fund" means any Fund created and maintained pursuant to the Indenture.

"Government Obligations" means:

1. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – "SLGS").

2. Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities.

3. Resolution Funding Corp. (REFCORP). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

4. Pre-refunded municipal bonds rated Aaa by Moody's and AAA by S&P. If however, the issue is only rated by S&P (i.e., there is no Moody's rating), then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations or AAA rated pre-refunded municipals to satisfy this condition.

5. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

a. U.S. Export-Import Bank (Eximbank)
Direct obligations are fully guaranteed certificates of beneficial ownership

b. Farmers Home Administration (FmHA)
Certificates of beneficial ownership

c. Federal Financing Bank

d. General Services Administration
Participation Certificates

e. U.S. Maritime Administration
Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures – U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds

"Hazardous Substance" means, without limitation, any flammable, explosive, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum constituents, petroleum products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials, pollutants, or toxic pollutants, as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. Sections 2601, et seq.), the Federal Water Pollution Control Act, as amended (33 U.S.C. Sections 1251 et seq.), Articles 17 and 27 of the New York State Environmental Conservation Law, or any other applicable Environmental Law and the regulations promulgated thereunder.

"Holder" means Owner.

"Improvements" means all those buildings, improvements, structures and other related facilities (i) financed with Bond Proceeds or of any payment by the Institution pursuant to the Loan Agreement, and (ii) not part of the Equipment, all as they may exist from time to time.

"Indebtedness" shall mean any obligation of the Institution for the payment of money, including without limitation (i) indebtedness for money borrowed, (ii) purchase money obligations, (iii) leases evidencing the acquisition of capital assets, (iv) reimbursement obligations, and (v) guarantees of any such obligation of a third party.

"Indenture" means the Indenture of Trust, dated as of July 1, 2016, by and between the Issuer and the Trustee, entered into in connection with the issuance, sale, delivery and payment of the Series 2016 Bonds and the security therefor as the same may be amended or supplemented from time to time.

"Independent Counsel" means an attorney or attorneys or firm or firms of attorneys duly admitted to practice law before the highest court of any state of the United States of America or in the District of Columbia and not a full time employee of the Issuer, the Institution or the Trustee.

"Information Report" means Form 8038 used by the issuers of certain tax-exempt bonds to provide the Internal Revenue Service with the information required to monitor the State volume limitations.

"Initial Bondholder" means Cede & Co., as nominee for DTC, as the initial owner of the Series 2016 Bonds.

"Institution" means Health Quest Systems, Inc., a not-for-profit corporation duly organized and validly existing under the laws of the State of New York, and its successors and assigns.

"Institution Documents" means the Bond Purchase Agreement, the Loan Agreement, the Tax Regulatory Agreement, the Note, the Continuing Disclosure Agreement, the Supplemental Master Trust Indentures, Obligation No. 19, Obligation No. 20, the Preliminary Official Statement and the Official Statement.

"Issuer" means (i) the Dutchess County Local Development Corporation, its successors and assigns, and (ii) any local governmental body resulting from or surviving any consolidation or merger to which the Issuer or its successors may be a party.

"Issuer Documents" means the Bond Purchase Agreement, the Series 2016 Bonds, the Loan Agreement, the Indenture, the Note, the Tax Regulatory Agreement, the Information Report, the Preliminary Official Statement and the Official Statement.

"Late Payment Rate" means the lesser of (a) the greater of (i) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank at its principal office in The City of New York, as its prime or base lending rate (any change in such rate of interest to be effective on the sate such change is announced by JPMorgan Chase Bank) plus 3%, and (ii) the then applicable highest rate of interest on the Series 2016 Bonds and (b) the maximum rate permissible under the applicable usury or similar laws limiting interest rates. The Late Payment Rate shall be computed on the basis of the actual number of days elapsed over a year of 360 days.

"Lien" means any interest in Property securing an obligation owed to a Person whether such interest is based on the common law, statute or contract, and including but not limited to the security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" also means any reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases and other similar title exceptions and encumbrances, including but not limited to mechanics', materialmen's, warehousemen's, carriers' and other similar encumbrances affecting real property. For the purposes of this definition, a Person shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other

arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

"Loan Agreement" means the Loan Agreement, dated as of July 1, 2016, between the Issuer and the Institution, as the same may be amended from time to time, or any other Loan Agreement entered into in connection with any Series of Additional Bonds.

"Loan Term" means the duration of the loan term created in the Loan Agreement.

"Master Trust Indenture" means the Master Trust Indenture, dated as of September 1, 2007, by and among the Members of the Obligated Group and The Bank of New York Mellon, formerly known as The Bank of New York, as master trustee, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof.

"Master Trustee" means The Bank of New York Mellon, formerly known as The Bank of New York, as master trustee, a New York banking corporation, its successor and assigns.

"Member Hospitals" means collectively, VBMC, PHC and NDH.

"Mortgages" means the Mortgages granted by VBMC, PHC and NDH, as security for Obligation No. 19 and Obligation No. 20 issued under the Master Trust Indenture and the Supplemental Master Trust Indentures.

"Moody's" means Moody's Investors Service, Inc.

"Net Proceeds" means so much of the gross proceeds with respect to which that term is used as remain after payment of all expenses, costs and taxes (including attorneys' fees) incurred in obtaining such gross proceeds.

"NDH" means Northern Dutchess Hospital.

"Note" or "Promissory Note" means collectively, the Series 2016A Promissory Note and the Series 2016B Promissory Note.

"Obligated Group" or "Members of the Obligated Group" means collectively, the Institution, PHC, NDH and VBMC.

"Obligated Group Representative" means Health Quest Systems, Inc., its successor and assigns.

"Obligation No. 19" means Obligation No. 19, dated July 7, 2016, from the Members of the Obligated Group to the Issuer.

"Obligation No. 20" means Obligation No. 20, dated July 7, 2016, from the Members of the Obligated Group to the Issuer.

"Office of the Trustee" means the principal corporate trust office of the Trustee, as specified in the Indenture, or such other address as the Trustee shall designate.

"Official Statement" means the Official Statement, dated June 16, 2016, distributed by the Underwriters and the Institution in connection with the sale of the Bonds.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those fees and expenses normally incurred by or due to a trustee or paying agent, as the case may be, under instruments similar to the Indenture, including reasonable fees and disbursements of counsel for the Trustee.

"Outstanding" or "Bonds Outstanding" or "Outstanding Bonds" means all bonds which have been authenticated by the Trustee and delivered by the Issuer under the Indenture, or any supplement thereto, except: (i) any Bond cancelled by the Trustee because of payment or redemption prior to maturity; (ii) any bond deemed paid in accordance with the provisions of the Indenture, except that any such Bond shall be considered Outstanding until the maturity date thereof only for the purposes of being exchanged or registered; and (iii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee is presented that any Bond, for which a Bond in lieu of or in substitution therefor shall have been authenticated and delivered, is held by a bona fide purchaser, as that term is defined in Article 8 of the Uniform Commercial Code of the State, as amended, in which case both the Bond so substituted and replaced and the Bond or Bonds so authenticated and delivered in lieu thereof or in substitution therefor shall be deemed Outstanding.

"Owner" means the registered owner of any Bond as shown on the registration books maintained by the Bond Registrar pursuant to the Indenture.

"Paying Agent" means the Trustee, acting as such, and any additional paying agent for the Series 2016 Bonds appointed pursuant to the Indenture, their respective successors and any other corporation which may at any time be substituted in their respective places pursuant to the Indenture.

"Permitted Encumbrances" means (i) utility, access and other easements and rights-of-way, restrictions and exceptions that do not materially impair the utility or the value of the Property affected thereby for the purposes for which it is intended, (ii) mechanics', materialmen's, warehousemen's, carriers' and other similar Liens which are approved in writing by the Issuer, (iii) Liens for taxes not yet delinquent, (iv) Liens which are in existence as of the Closing Date or described in the audited consolidated financial statements of the Institution and (v) any liens permitted under the Master Trust Indenture.

"Person" or "Persons" means an individual, partnership, corporation, trust or unincorporated organization, and a government or agency or political subdivision or branch thereof.

"Plans and Specifications" means with respect to the Series 2016B Facility, those plans and specifications, if any, for the Improvements, as may be from time to time prepared for the Institution, as revised from time to time in accordance with the Loan Agreement.

"Preliminary Official Statement" means the Preliminary Official Statement, dated June 9, 2016, distributed by the Underwriters and the Institution in connection with the sale of the Series 2016 Bonds.

"Project Fund" means the fund so designated which is created by the Indenture.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"PHC" means Putnam Hospital Center.

"Rating Agency" means Moody's, Fitch, S&P or such other nationally recognized rating agency which shall have issued and is maintaining a rating on the Series 2016 Bonds.

"Rebate Amount" means, with respect to the Series 2016 Bonds, the amount computed as described in the Tax Regulatory Agreement.

"Rebate Fund" means the fund so designated pursuant to the Indenture.

"Record Date" means, with respect to any Debt Service Payment Date, the fifteenth (15th) day of the month next preceding such Debt Service Payment Date (whether or not a Business Day).

"Redemption Date" means, when used with respect to a Bond, the date of redemption thereof established pursuant to the Indenture.

"Redemption Price" means, when used with respect to a Bond, the principal amount thereof plus the applicable premium, if any, payable upon the prior redemption thereof pursuant to the Indenture.

"Renewal Fund" means the fund so designated and created pursuant to the Indenture.

"Schedule of Definitions" means the words and terms set forth in the Schedule of Definitions attached to the Indenture as the same may be amended from time to time.

"SEQR Act" means the State Environmental Quality Review Act and the regulations thereunder.

"Series 2007B Bonds" means the Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007B, issued on August 24, 2007, by the Dormitory Authority of the State of New York, in the original aggregate principal amount of $47,300,000.00.

"Series 2007B Bonds Issuer" means the Dormitory Authority of the State of New York, a body corporate and politic of the State of New York, constituting a public benefit

corporation created pursuant to Chapter 524 of the Laws of 1944 of the State of New York, as amended.

"Series 2007B Bonds Trustee" means The Bank of New York Mellon, a banking corporation having trust powers duly organized and existing under the laws of the State of New York, having an office at 101 Barclay Street, Floor 7W, New York, New York 10286.

"Series 2016 Bonds" means collectively, the Series 2016A Bonds and the Series 2016B Bonds.

"Series 2016 Project" or "Project" means collectively, the Series 2016A Project and the Series 2016B Project.

"Series 2016A Bonds" means the Issuer's Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) issued pursuant to the terms of the Indenture on July 7, 2016 in the aggregate principal amount of $28,080,000 and substantially in the form of Exhibit A of the Indenture.

"Series 2016A Facility" has the meaning ascribed thereto in the recitals of the Indenture.

"Series 2016A Project" means the Series 2016A Project as more particularly described in the Loan Agreement and including the Improvements and the Equipment refinanced by the Institution with the proceeds of the Series 2016A Bonds loaned by the Issuer to the Institution under the Loan Agreement.

"Series 2016A Promissory Note" means with respect to the Series 2016A Bonds, the Promissory Note dated the Closing Date, from the Institution to the Issuer, substantially in the form of Exhibit B to the Loan Agreement, evidencing the Institution's obligations to make loan payments to the Issuer.

"Series 2016B Bonds" means the Issuer's Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project) issued pursuant to the terms of the Indenture on July 7, 2016 in the aggregate principal amount of $350,000,000 and substantially in the form of Exhibit A of the Indenture.

"Series 2016B Facility" has the meaning ascribed thereto in the recitals of the Indenture.

"Series 2016B Project" means the Series 2016B Project as more particularly described in the Loan Agreement and including the Improvements and the Equipment financed by the Institution with the proceeds of the Series 2016B Bonds loaned by the Issuer to the Institution under the Loan Agreement.

"Series 2016B Promissory Note" means with respect to the Series 2016B Bonds, the Promissory Note dated the Closing Date, from the Institution to the Issuer, substantially in the form of Exhibit B to the Loan Agreement, evidencing the Institution's obligations to make loan payments to the Issuer.

"Sinking Fund Payments" means payments made on a Debt Service Payment Date to pay the Redemption Price of bonds called for redemption pursuant to the Indenture.

"S&P" or "Standard & Poor's" means Standard & Poor's Financial Services LLC, a subsidiary of McGraw Hill Financial, Inc.

"State" means the State of New York.

"Sub-Account" means any Sub-Account established for a particular Series of Bonds in any Account in any Fund created and maintained pursuant to the Indenture.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture or in connection with the issuance of any Additional Bonds adopted by the Issuer in accordance with the Indenture.

"Supplemental Master Trust Indentures" means collectively, the Supplemental Indenture for Obligation No. 19 and the Supplemental Indenture for Obligation No. 20, dated as of July 1, 2016, each by and among the Members of the Obligated Group and the Master Trustee.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated the Closing Date, among the Issuer, the Institution and the Obligated Group Members, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof and with the terms of the Indenture, or any other Tax Regulatory Agreement entered into in connection with any Series of Additional Bonds.

"Trust Estate" means the rights assigned pursuant to the Indenture and all Property which may from time to time be subject to the lien of the Indenture.

"Trustee" means (i) The Bank of New York Mellon, a banking corporation having trust powers duly organized and existing under the laws of the State of New York, having an office at 101 Barclay Street, Floor 7W, New York, New York 10286, and (ii) its successors and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as successor trustee under the Indenture.

"Unassigned Rights" means the rights of the Issuer and moneys payable pursuant to and under Sections 5.3(b), 6.4(a) and (c), 6.7, 8.2, 8.8, 10.2(a)(i)(A) (but only to the extent related to the Issuer's costs and fees) and (B), (ii) (with respect to the Issuer's enforcement of its Unassigned Rights) and (iii) (with respect to the Issuer's enforcement of its Unassigned Rights), 10.4(a) and 11.2(b) of the Loan Agreement.

"Underwriters" means collectively, (i) Merrill Lynch, Pierce, Fenner & Smith Incorporated, having an office at One Bryant Park, 4th Floor, New York, New York 10036 and Cain Brothers, having an office at 360 Madison Avenue, 5th Floor, New York, New York 10017, and (ii) their respective successors and assigns

"VBMC" means Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center.

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain provisions of the Indenture. Certain provisions of the Indenture are also described in the Official Statement. This summary does not purport to be complete and reference is made to the Indenture for the detailed provisions thereof. This summary is qualified in its entirety by such reference. Headings are not part of the Indenture and are included for ease of reference only.

Authentication

No Series 2016 Bond shall be valid for any purpose or shall be entitled to any right or benefit under the Indenture unless there shall be endorsed on such Series 2016 Bond a Certificate of Authentication, duly executed by the Trustee, substantially in the form set forth in the respective Form of Series 2016 Bonds included in the Indenture as Exhibit A. Such executed Certificate of Authentication by the Trustee upon any such Series 2016 Bond shall be conclusive evidence that such Series 2016 Bond has been authenticated and delivered under the Indenture. The Trustee's Certificate of Authentication on any Series 2016 Bond shall be deemed to have been executed by it if signed by an authorized signatory of the Trustee, but it shall not be necessary that the same person sign the Certificate of Authentication on all of the Series 2016 Bonds issued under the Indenture. *(Section 2.05)*

Mutilated, Lost, Stolen or Destroyed Bonds

(a) In the event any Bond is mutilated, lost, stolen or destroyed, the Issuer shall execute and, upon its request, the Trustee shall authenticate and deliver, a new Bond of like maturity, series, interest rate and principal amount and bearing the same number (or such number as the Trustee shall permit) as the mutilated, destroyed, lost or stolen Bond, in exchange for the mutilated Bond, or in substitution for the Bond so destroyed, lost or stolen. In every case of exchange or substitution, the applicant shall furnish to the Issuer and to the Trustee (i) such security or indemnity as may be required by them to hold each of them harmless from all risks, however remote, and (ii) evidence to their satisfaction of the mutilation, destruction, loss or theft of the applicant's Bond and of the ownership thereof. Upon the issuance of any Bond upon such exchange or substitution, the Issuer may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses, including counsel fees, of the Issuer or the Trustee. In case any Bond which has matured or is about to mature shall become mutilated or be destroyed, lost or stolen, the Issuer may, instead of issuing a Bond in exchange or substitution therefor, pay or authorize the payment of the same (without surrender thereof except in the case of a mutilated Bond) if the applicant for such payment shall furnish to the Issuer and to the Trustee such security or indemnity as they may require to hold them harmless and evidence to the satisfaction of the Issuer and the Trustee of the mutilation, destruction, loss or theft of such Bond and of the ownership thereof.

(b) Every new Bond issued pursuant to the provisions of the Indenture shall constitute an additional contractual, special obligation of the Issuer (whether or not the destroyed, lost or stolen Bond shall be found at any time after the issuance of such new Bonds, in which case the destroyed, lost or stolen Bond shall be void and unenforceable) and shall be entitled to all the benefits of the Indenture equally and proportionately with any and all other Bonds duly issued under the Indenture.

(c) All Bonds shall be held and owned upon the express condition that the provisions under this heading are exclusive, with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds, and shall preclude all other rights or remedies, notwithstanding any law or statute existing or hereinafter enacted to the contrary. *(Section 2.09)*

Transfer of Bonds

(a) Each Series 2016 Bond shall be transferable only on the books of the Issuer and upon surrender of the Bond, at the Office of the Trustee, together with a written instrument of transfer, satisfactory to the Trustee, duly executed by the registered owner or his attorney duly authorized in writing. Upon the transfer of any registered Series 2016 Bond, the Issuer shall issue in the name of the transferee a new registered Series 2016 Bond or Series 2016 Bonds of the same aggregate principal amount and maturity and rate of interest as the surrendered Series 2016 Bond.

(b) The Issuer, the Trustee and any Paying Agent may deem and treat the Person in whose name any Series 2016 Bond shall be registered upon the books of the Issuer as the absolute owner thereof, whether such Series 2016 Bond shall be overdue or not for the purpose of receiving payment of the principal of or Redemption Price and, except as otherwise provided in the Indenture, interest on such Series 2016 Bond and for all other purposes. All such payments so made to any such registered Owner or upon his order shall be valid and effectual to satisfy and discharge the liability of the Issuer upon such Series 2016 Bond to the extent of the sum or sums so paid. Neither the Issuer, the Trustee nor any Paying Agent shall be affected by any notice to the contrary. *(Section 2.11)*

Regulations with Respect to Exchanges and Transfers

(a) In all cases in which the privilege of exchanging or transferring the Series 2016 Bonds is exercised, the Issuer shall execute and the Trustee shall authenticate and deliver the Series 2016 Bonds in accordance with the provisions of the Indenture. All Series 2016 Bonds surrendered in any exchanges or transfers shall forthwith be canceled in accordance with the provisions of the Indenture. For every exchange or transfer of the Series 2016 Bonds, whether temporary or definitive, the Issuer or the Trustee may make a charge sufficient to reimburse it for (i) any tax, fee or other governmental charge required to be paid with respect to the delivery of definitive Series 2016 Bonds in exchange for temporary Series 2016 Bonds, (ii) the cost of preparing each new Series 2016 Bond, and (iii) any other expenses of the Issuer or the Trustee incurred in connection therewith.

(b) Neither the Issuer nor the Trustee shall be obligated to exchange or transfer any Series 2016 Bond during the ten (10) days next preceding (i) a Debt Service Payment Date, or (ii) in the case of any proposed redemption of Series 2016 Bonds, the date of the first mailing of notice of such redemption. *(Section 2.12)*

Additional Bonds

(a) So long as the Indenture is in effect, one or more Series of Additional Bonds may be issued, authenticated and delivered upon original issuance for the purpose of (i) financing additional costs with respect to the Series 2016 Project, (ii) providing funds in excess of Net Proceeds to repair, relocate, replace, rebuild or restore the Facility in the event of damage, destruction or taking by eminent domain, (iii) providing extensions, additions, improvements or facilities to the Facility, (iv) funding the costs of acquiring, constructing, equipping and start-up costs of any capital project of the Institution or any Member of the Obligated Group, (v) refunding Outstanding Bonds or other Indebtedness of the Institution or any other Member of the Obligated Group, or (vi) refunding any other Indebtedness or bonds for which the Institution is the primary obligor, or for which the Institution or any Member of the Institution is responsible for paying the debt service payments in connection therewith, or which the Institution or any Member of the Obligated Group has guaranteed. Such Additional Bonds shall be payable from the receipts and revenues payable to the Issuer from a Loan Agreement between the Issuer and the Institution. Prior to the issuance of a Series of Additional Bonds and the execution of a Supplemental Indenture in connection therewith, (x) the Issuer and the Institution shall enter into a new Loan Agreement providing, among other things, that the payments payable under the new Loan Agreement shall be computed so as to amortize in full the principal of and interest on such Additional Bonds and any other costs in connection therewith.

(b) Each such Series of Additional Bonds shall be deposited with the Bond Registrar and thereupon shall be authenticated by the Trustee, as Authenticating Agent. Upon payment to the Trustee of the proceeds of sale of the Additional Bonds, they shall be delivered by the Bond Registrar at the direction of the Trustee to or upon the order of the purchaser or purchasers thereof, but only upon receipt by the Trustee of:

(i) a copy of the resolution, duly certified by the Chairman, Vice Chairman, Chief Executive Officer, or Chief Financial Officer, of the Issuer, authorizing, issuing and awarding the Additional Bonds to the purchaser or purchasers thereof and providing the terms thereof and authorizing the execution of any Supplemental Indenture and any amendments of or supplements to the Loan Agreement;

(ii) original executed counterparts of the Supplemental Indenture and the new Loan Agreement, expressly providing that, to the extent applicable, for all purposes of the Supplemental Indenture and the new Loan Agreement, the project referred to therein and the premises financed or refinanced thereunder shall include the buildings, structures, improvements, machinery, equipment or other facilities being financed, and the Bonds referred to therein shall mean and

include the Additional Bonds being issued as well as the Bonds now being issued and any Additional Bonds theretofore issued;

(iii) original executed counterparts of the new Promissory Note in connection with the new Loan Agreement;

(iv) a written opinion of Bond Counsel, to the effect that the issuance of the Additional Bonds and the execution thereof have been duly authorized and that all conditions precedent to the delivery thereof have been fulfilled;

(v) a certificate of an Authorized Representative of the Institution to the effect that each Bond Document, as amended, to which it is a party continues in full force and effect and that there is no Event of Default nor any event which upon notice or lapse of time or both would become an Event of Default;

(vi) an original, executed counterpart of the amendment to each Bond Document with respect to such Additional Bonds;

(vii) an executed municipal bond insurance policy issued by a bond insurer or other credit facility issued by a bank which guarantees or secures the payment of principal of and interest on the Additional Bonds, in each case, only if such Additional Bonds (or portion thereof) are to be insured by a bond insurer or secured by a credit facility issued by a bank; and

(viii) a written order to the Trustee executed by an Authorized Representative of the Issuer to authenticate and deliver the Additional Bonds to the purchaser or purchasers therein identified upon payment to the Trustee of the purchase price therein specified, plus accrued interest, if any; and

(ix) a certificate of an Authorized Representative of the Institution evidencing that the issuance of such Series of Additional Bonds complies with the Loan Agreement.

(c) (i) Upon the request of the Institution, one or more Series of Additional Bonds may be authenticated and delivered upon original issuance to refund ("Refunding Bonds") all Outstanding Bonds or any part of Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make such deposits required by the provisions of the Indenture and of the resolution authorizing said Refunding Bonds. In the case of the refunding under this paragraph (c) of less than all Bonds Outstanding, the Trustee shall proceed to select such Bonds in accordance with the Indenture.

(ii) Refunding Bonds may be authenticated and delivered only upon receipt by the Trustee (in addition to the receipt by it of the documents required by paragraph (b) above, as may be applicable) of:

(A) Irrevocable written instructions from the Issuer to the Trustee, at least forty-five (45) days prior to the Redemption Date, satisfactory to the Trustee, to give due notice of redemption pursuant to the Indenture to the Holders of all the Outstanding Bonds to be refunded prior to maturity on the Redemption Date specified in such instructions;

(B) Either:

(1) moneys in an amount sufficient to effect payment at maturity or upon redemption at the applicable Redemption Price, together with accrued interest on such Bonds to the maturity or Redemption Date, which moneys shall be held by the Trustee or any Paying Agent in a separate account irrevocably in trust for and assigned to the respective Holders of the Outstanding Bonds being refunded, which moneys shall be held in trust and used as provided in the Indenture, or

(2) Government Obligations in such principal amounts, having such maturities, bearing such interest, and otherwise having such terms and qualifications, as shall be necessary to comply with the provisions of the Indenture with respect to defeasance, and any moneys required pursuant to said provisions (with respect to all Outstanding Bonds or any part of one or more Outstanding Series of Bonds being refunded), which Government Obligations and moneys shall be held in trust and used only as provided in said provisions.

(iii) The Institution shall furnish to the Trustee and the Issuer at the time of delivery of Refunding Bonds a certificate of an independent public accountant stating that the Trustee and/or the Paying Agent (and/or any escrow agent as shall be appointed in connection therewith) hold in trust the moneys or such Government Obligations and moneys required to effect such payment at maturity or earlier redemption.

(d) Each Series of Additional Bonds issued pursuant to this summarized section shall be equally and ratably secured under the Indenture with the Series 2016 Bonds and all other Series of Additional Bonds, if any, issued pursuant to this summarized section, without preference, priority or distinction of any Bond over any other Bonds except as expressly provided in or permitted by the Indenture.

(e) Notwithstanding anything herein to the contrary, no Series of Additional Bonds shall be issued unless: (i) at the time of issuance of such Series of Additional Bonds and after the application of proceeds thereof, there is no Event of Default under any Bond Document; (ii) the Loan Agreement is in effect and at the time of issuance there is no Event of Default under any such document nor any event which upon notice or lapse of time or both would become such an Event of Default; and (iii) the Rating Agency, if any, has confirmed in writing that the issuance of such Additional Bonds will

not result in a reduction or withdrawal of the then current rating on the Bonds Outstanding.

(f) The Supplemental Indenture providing for the issuance of any Series of Additional Bonds shall contain applicable provisions for the payment of principal of, Redemption Price of, and interest on such Series of Additional Bonds including any interest rate modes applicable to such Series of Additional Bonds, redemption provisions applicable to such Series of Additional Bonds, such Funds, Accounts or subaccounts to be created or held by the Trustee under the Indenture with respect to such Series of Additional Bonds, collateral and security (including credit facilities securing such Series of Additional Bonds) and such other terms and provisions as the Issuer may determine are necessary in connection with the issuance of such Additional Bonds.

Establishment of Funds

The following trust funds are established with the Trustee and shall be held, maintained and administered by the Trustee on behalf of the Issuer in accordance with the Indenture:

(a) Dutchess County Local Development Corporation Bond Fund – Health Quest Systems, Inc. (the "Bond Fund"), and within such Bond Fund, an "Interest Account" and a "Principal Account".

(b) Dutchess County Local Development Corporation Project Fund – Health Quest Systems, Inc. (the "Project Fund"), and within such Project Fund, a "Series 2007B Bonds Redemption Account," a "Series 2016A Project Account," a "Series 2016B Construction Account" and a "Series 2016B Capitalized Interest Account".

(c) Dutchess County Local Development Corporation Rebate Fund – Health Quest Systems, Inc. (the "Rebate Fund") and within such Rebate Fund, an Account for the Series 2016 Bonds and each Series of Additional Bonds (issued on a tax-exempt basis) issued under the Indenture.

(d) Dutchess County Local Development Corporation Renewal Fund – Health Quest Systems, Inc. (the "Renewal Fund") and within such Renewal Fund, an Account for the Series 2016 Bonds and each Series of Additional Bonds (issued on a tax-exempt basis) issued under the Indenture.

(e) Upon the issuance of any Series of Additional Bonds pursuant to the Indenture, the Supplemental Indenture entered into in connection with such Series of Additional Bonds shall create such Funds and Accounts and/or Subaccounts within any Account with respect to such Series of Additional Bonds. *(Section 4.01)*

Moneys to Be Held in Trust

All moneys deposited with, paid to or received by the Trustee for the accounts of the Issuer (other than amounts deposited in the Rebate Fund) shall be held by the Trustee in trust, and shall be subject to the lien of the Indenture and held for the security of the

Owners of the particular Series of Bonds until paid in full; provided, however, that moneys which have been deposited with, paid to or received by the Trustee (i) for the redemption of a portion of the particular Series of Bonds, notice of the redemption of which has been given, or (ii) for the payment of the particular Series of Bonds or interest thereon due and payable otherwise than upon acceleration by declaration, shall be held in trust for and subject to a lien in favor of only the Owners of such Series of Bonds so called for redemption or so due and payable. *(Section 4.03)*

Use of the Moneys in Project Fund

(a) Moneys in the Project Fund shall be applied and expended by the Trustee in accordance with the provisions of the Indenture and of the Loan Agreement.

(b) The Trustee is authorized and directed, on the Closing Date, to transfer amounts on deposit in the Series 2007B Bonds Redemption Account to the Series 2007B Bonds Trustee to redeem or defease the Series 2007B Bonds.

(c) On each Debt Service Payment Date during the Construction Period, the Trustee is hereby authorized and directed to transfer from the Series 2016B Capitalized Interest Account to the Interest Account of the Bond Fund an amount necessary to pay interest on the Series 2016B Bonds on such Debt Service Payment Date. The Trustee shall maintain adequate records pertaining to the Capitalized Interest Account of Project Fund and all disbursements therefrom

(d) Except as otherwise provided in paragraph (a) above, the Trustee is directed to issue its checks or send its wires for each disbursement from the Series 2016B Construction Account of the Project Fund upon being furnished with a written requisition therefor certified by an Authorized Representative of the Institution and substantially in the form of Exhibit B annexed to the Indenture to pay the Costs of the Series 2016B Project. The Trustee shall maintain adequate records pertaining to the Series 2016B Construction Account of the Project Fund and all disbursements therefrom.

(e) The completion of the Series 2016B Facility and payment or provision for payment of all Costs of the Series 2016B Project shall be evidenced by the filing with the Trustee of the Completion Certificate required by the Loan Agreement. As soon as practicable and in any event not more than sixty (60) days after the date of the filing with the Trustee of the Completion Certificate referred to in the preceding sentence, any balance remaining in the Series 2016B Construction Account of the Project Fund, except amounts the Institution shall have directed the Trustee, in writing, to retain for any Cost of the Series 2016B Project not then due and payable, and after the making of any transfer to the Rebate Fund that the Institution shall have directed the Trustee, in writing, to make as required by the Tax Regulatory Agreement and the Indenture, shall without further authorization be transferred to the Bond Fund and thereafter applied as provided in the Indenture.

(f) On the date that is 180 days after the Closing Date, any balance remaining in the Series 2016A Project Account of the Project Fund, except amounts the Institution

shall have directed the Trustee, in writing, to retain for any Costs of the Series 2016A Project not then due and payable, and after the making of any transfer to the Rebate Fund that the Institution shall have directed the Trustee, in writing, to make as required by the Tax Regulatory Agreement and the Indenture, shall without further authorization be transferred to the Bond Fund and thereafter applied as provided in the Indenture. Within sixty (60) days after transfer of the balance in the Project Fund to the Bond Fund, the Trustee shall file an accounting thereof with the Issuer and the Institution.

(e) All earnings on amounts held in the Project Fund shall be retained in the respective account of the Project Fund until the Completion Date. Any transfers by the Trustee of amounts to the Rebate Fund (only at the direction of the Institution) shall be drawn by the Trustee from the Project Fund.

(f) If an Event of Default under the Indenture shall have occurred and the outstanding principal amount of the Bonds shall have been declared due and payable, the entire balance remaining in the Project Fund, after making any transfer to the Rebate Fund directed to be made by the Institution pursuant to the Tax Regulatory Agreement and the Indenture, shall be transferred to the Bond Fund. *(Section 4.04)*

Payments into Bond Fund

In addition to the payment into the Bond Fund of the accrued interest, if any, on the Series 2016 Bonds pursuant to the Indenture, there shall be deposited in the Bond Fund, as and when received (a) all payments received by the Trustee under the Loan Agreement or any similar provision in any Loan Agreement with respect to the payment of debt service on any Series of Additional Bonds; (b) amounts transferred from the Series 2016B Capitalized Interest Account of the Project Fund to the Interest Account of the Bond Fund pursuant to the Indenture; (c) the balance in the Project Fund and the Renewal Fund to the extent specified in the Indenture; (d) the amount of net income or gain received from the investments of moneys in the Bond Fund and all Funds and Accounts (other than the Rebate Fund) held under the Indenture after the Completion Date; and (e) all other moneys received by the Trustee pursuant to any of the provisions of the Loan Agreement or the Indenture and designated for deposit in the Bond Fund. *(Section 4.05)*

Use of Moneys in Bond Fund

(a) Except as otherwise expressly provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment or redemption of Series 2016 Bonds and any Series of Additional Bonds as provided in the Indenture. Moneys deposited in the Bond Fund in accordance with the provisions of the Indenture, however, may not be used for the payment of interest on the Series 2016 Bonds and any Series of Additional Bonds.

(b) The Trustee shall, on or before each Debt Service Payment Date of the Series 2016 Bonds, pay out of the monies then held for the credit of the respective Sub-Accounts of the Interest Account the amounts required for the payment of interest becoming due on the Series 2016 Bonds and any Series of Additional Bonds on such

Debt Service Payment Date, and such amounts so withdrawn are irrevocably dedicated for and shall be applied to the payment of interest.

(c) The Trustee shall, on or before each Debt Service Payment Date, when principal of the Series 2016 Bonds and any Series of Additional Bonds or Sinking Fund Payments are due, pay out of the monies then held for the credit of the respective Sub-Accounts of the Principal Account the amounts required for the payment of principal or Sinking Fund Payments becoming due at maturity, on a Sinking Fund Payment Date, or upon redemption of the Series 2016 Bonds and any Series of Additional Bonds on such Debt Service Payment Date or Sinking Fund Payment Date and such amounts so withdrawn are irrevocably dedicated for and shall be applied to the payment of principal or Sinking Fund Payments.

(d) Moneys transferred to the Bond Fund from the Project Fund pursuant to the Indenture or from the Renewal Fund pursuant to the Indenture shall be invested, at the written direction of the Institution, with yield not in excess of (i) the yield on the Series 2016 Bonds, or (ii) the yield on tax-exempt obligations as described in Section 148(b)(3) of the Code, subject to limitations on earnings as set forth in the Tax Regulatory Agreement, and such moneys and earnings thereon shall be applied only to pay the principal or sinking fund installments of the Series 2016 Bonds and any Series of Additional Bonds as they become due and payable or the Redemption Price of Bonds subject to redemption pursuant to the Indenture.

(e) The Trustee shall call Bonds for redemption according to the Indenture, upon written direction of the Issuer or the Institution to the Trustee, on or after the date the Series 2016 Bonds are subject to optional redemption pursuant to the Indenture, whenever the assets of the Bond Fund shall be sufficient in the aggregate to provide monies to pay, redeem or retire all the Bonds then Outstanding or to redeem the Series 2016 Bonds in part pursuant to the Indenture, including accrued interest thereon to the Redemption Date.

(f) Moneys in the Bond Fund shall be used by the Trustee, upon request of an Authorized Representative of the Institution, to purchase the Series 2016 Bonds on the most advantageous terms obtainable with reasonable diligence, provided that no such purchase shall be made:

(i) if an Event of Default under the Loan Agreement has occurred;

(ii) within twenty-five (25) days prior to any date on which Series 2016 Bonds or any Series of Additional Bonds are subject to redemption pursuant to the Indenture;

(iii) if the amount remaining in the Bond Fund, after giving effect to such purchase, is less than the amount required for the payment of the principal or Redemption Price of the Series 2016 Bonds or any Series of Additional Bonds theretofore matured or called for redemption, plus interest to the date of maturity

or the Redemption Date, as the case may be, in all cases where such Series 2016 Bonds or any Series of Additional Bonds have not been presented for payment; or

(iv) at a price in excess of that specified by the Institution in its request to the Trustee, plus accrued interest to the date of purchase.

The Trustee shall promptly notify the Issuer and the Institution of the principal amount and the maturity of each Series of Bonds so purchased and the balance held in the Bond Fund after such purchase.

(g) In connection with the purchase of the Series 2016 Bonds with moneys on deposit in the Bond Fund as provided in the Indenture, the Trustee shall negotiate or arrange for such purchases in such manner (through brokers or otherwise and with or without receiving tenders) as it shall be instructed in writing by the Institution.

(h) If the balance in the Bond Fund, not otherwise required for scheduled payments of principal of, Redemption Price or interest on the Series 2016 Bonds or any Series of Additional Bonds, twenty-five (25) days prior to any date on which the Series 2016 Bonds or any Series of Additional Bonds are subject to redemption pursuant to the Indenture equals or exceeds $50,000, the Trustee shall, upon request of an Authorized Representative of the Institution, apply as much of such balance as can be so applied to the redemption of the Series 2016 Bonds or any Series of Additional Bonds on such next succeeding Redemption Date in the manner provided in the Indenture. The Trustee shall promptly notify the Issuer and the Institution of the principal amount and maturity of each Series 2016 Bond or any Series of Additional Bonds so redeemed and the balance held in the Bond Fund after such redemption.

(i) Whenever the amount in the respective Account or Sub-Account in the Bond Fund is sufficient to redeem all of the Outstanding Series 2016 Bonds or any Series of Additional Bonds and to pay accrued interest to maturity or the date of redemption, the Trustee shall, upon request of an Authorized Representative of the Institution, take and cause to be taken the necessary steps to redeem all such Series 2016 Bonds or any Series of Additional Bonds on the next succeeding Redemption Date for which the required redemption notice may be given or on such later Redemption Date as may be specified by the Institution. *(Section 4.06)*

Payments into Renewal Fund; Application of Renewal Fund

(a) The Net Proceeds resulting from any insurance award, condemnation award or recovery from any contractor or subcontractor with respect to the Facility shall be deposited in the Renewal Fund. The amounts in the Renewal Fund shall be subject to a security interest, lien and charge in favor of the Trustee until disbursed as provided in the Indenture.

(b) In the event the Series 2016 Bonds or any Series of Additional Bonds shall then be subject to redemption in whole (either by reason of such damage, destruction or condemnation or otherwise) pursuant to the terms thereof or of the Indenture, the Trustee shall, after making any required transfer to the Rebate Fund, at the written direction of

the Institution, as required by the Tax Regulatory Agreement and the Indenture, transfer the amounts deposited in the Renewal Fund to the Bond Fund. If, on the other hand, the Institution is permitted to replace, repair, rebuild, restore or relocate the Facility pursuant to the Loan Agreement, the Trustee shall, at the written direction of the Institution, apply the amounts on deposit in the Renewal Fund, after making any required transfer to the Rebate Fund, at the written direction of the Institution, as required by the Tax Regulatory Agreement and the Indenture, to such replacement, repair, rebuilding, restoration or relocation. Upon the completion of such replacement, repair, rebuilding, restoration or relocation, and after making any transfer to the Rebate Fund, at the written direction of the Institution, as required by the Tax Regulatory Agreement and the Indenture, any balance remaining in the Renewal Fund shall without further authorization be transferred to the Principal Account of the Bond Fund and thereafter applied to pay the principal or sinking fund installments of the Series 2016 Bonds or any Series of Additional Bonds as they become due and payable.

(c) If any Event of Default shall exist at the time of the receipt by the Trustee of the Net Proceeds in the Renewal Fund and be continuing, the Trustee shall, after making any required transfer to the Rebate Fund, at the written direction of the Institution, as required by the Tax Regulatory Agreement and the Indenture, transfer the amounts deposited in the Renewal Fund to the Bond Fund to be applied in accordance with the Indenture.

(d) If the Institution elects to replace, repair, rebuild, restore or relocate the Facility pursuant to the Loan Agreement, the Trustee is authorized to apply the amounts in the Renewal Fund to the payment (or reimbursement to the extent the same shall have been paid by or on behalf of the Institution or the Issuer) of the costs required for the replacement, repair, rebuilding, restoration or relocation of the Facility. The Trustee is further authorized and directed to issue its checks for each disbursement from the Renewal Fund upon a requisition submitted to the Trustee and signed by an Authorized Representative of the Institution. Such requisition shall be in the same form and subject to the same conditions as requisitions from the Project Fund. *(Section 4.07)*

Investment Earnings on Funds; Application of Investment Earnings on Funds

(a) All investment income or earnings on amounts held in the Project Fund, the Renewal Fund, the Bond Fund or any other special fund held under any of the Bond Documents (other than the Rebate Fund) prior to the Completion Date shall be deposited upon receipt by the Trustee into the Project Fund and used for the purposes set forth in in the Indenture and after the Completion Date shall be used to pay any remaining sums due for Costs of the Project not previously paid, or deposited by the Trustee into the Interest Account of the Bond Fund and used to pay the interest component of the next upcoming Debt Service Payment. The Trustee shall keep separate accounts of all investment earnings from each fund and account under the Indenture to indicate the source of the income or earnings.

(b) Within thirty (30) days after the end of each Computation Period, the Trustee, at the written direction of an Authorized Representative of the Institution, shall

transfer to the Rebate Fund instead of the Project Fund or the Interest Account of the Bond Fund an amount of the investment earnings on the funds and accounts under the Indenture, such that the amount transferred to the Rebate Fund is equal to that amount as is set forth as the Rebate Amount in a written certificate delivered by the Institution to the Trustee pursuant to the Tax Regulatory Agreement and the Indenture. *(Section 4.08)*

Payments into Rebate Fund; Application of Rebate Fund

(a) The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, lien or charge in favor of the Trustee or any Owner of any Series of Bond or any other Person.

(b) The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Representative of the Institution, shall transfer, from moneys in the Project Fund or the Renewal Fund, or from any other moneys paid by the Institution under the Tax Regulatory Agreement, into the Rebate Fund, within thirty (30) days after the end of each Bond Year, an amount such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated as of the last day of the immediately preceding Bond Year. If there has been delivered to the Trustee a certification of the Rebate Amount in conjunction with the completion of the Series 2016B Facility pursuant to the Loan Agreement at any time during a Bond Year, the Trustee shall deposit in the Rebate Fund within thirty (30) days of the Completion Date an amount received from the Institution such that the amount held in the Rebate Fund after such deposit is equal to the Rebate Amount calculated at the completion of the Series 2016B Facility. The amount deposited in the Rebate Fund pursuant to this paragraph shall be paid by the Trustee on behalf of the Institution pursuant to the Tax Regulatory Agreement.

(c) In the event that on the first day of any Bond Year the amount on deposit in the Rebate Fund exceeds the Rebate Amount, the Trustee, upon the receipt of written instructions from an Authorized Representative of the Institution, shall withdraw such excess amount and deposit it in the Project Fund until the completion of the Series 2016B Facility, or, after the Completion Date, deposit it in the Bond Fund.

(d) The Trustee, upon the receipt of written instructions from an Authorized Representative of the Institution, shall pay to the United States, out of amounts in the Rebate Fund, (i) not later than thirty (30) days after the last day of the fifth Bond Year and after every fifth Bond Year thereafter, an amount such that, together with prior amounts paid to the United States, the total paid to the United States is equal to ninety percent (90%) of the Rebate Amount with respect to the Series 2016 Bonds as of the date of such payment, and (ii) notwithstanding the provisions under the heading "Discharge of the Indenture," not later than thirty (30) days after the date on which all Series 2016 Bonds have been paid in full, one hundred (100%) percent of the Rebate Amount as of the date of payment.

(e) The Trustee shall have no obligation under the Indenture to transfer any amounts to the Rebate Fund unless the Trustee shall have received specific written instructions from the Institution to make such transfer. *(Section 4.09)*

Investment of Moneys

(a) Moneys held in any fund established pursuant to the Indenture (except the Series 2007B Bonds Redemption Account of the Project Fund) shall be invested and reinvested by the Trustee in Authorized Investments, pursuant to written direction by an Authorized Representative of the Institution. Such investments shall mature in such amounts and have maturity dates or be subject to redemption at the option of the owners thereof on or prior to the date on which the amounts invested therein will be needed for the purposes of such fund or accounts. The Trustee may at any time sell or otherwise reduce to cash a sufficient amount of such investments whenever the cash balance in such fund or accounts is insufficient for the purposes thereof. Any such investments shall be held by or under control of the Trustee and shall be deemed at all times a part of the fund or the respective account within a fund or special trust account for which such moneys are invested, and the interest accruing thereon and any profit realized from such investment shall be credited to and held in and any loss shall be charged to the applicable fund.

(b) The Trustee may make any investment permitted by the Indenture through its own bond department. The Trustee shall not be liable for any depreciation in the value of any investment made pursuant to the Indenture or for any loss arising from any such investment.

(c) Any investment authorized in the Indenture is subject to the condition that no use of the proceeds of any Bonds or of any other moneys shall be made which, if such use had been reasonably expected on the date of issue of such Series 2016 Bonds, would cause such Series 2016 Bonds to be "arbitrage bonds" within the meaning of such quoted term in Section 148 of the Code. The Trustee shall not be liable if such use shall cause the Series 2016 Bonds to be "arbitrage bonds", provided only that the Trustee shall have made such investment pursuant to the written direction or confirmation by an Authorized Representative of the Institution as provided in the Indenture.

(d) [Reserved.]

(e) The Trustee shall, at the written direction of the Institution, sell at the best price obtainable by the Trustee, or present for redemption, any obligation purchased by it as an investment whenever it shall be necessary in order to provide monies to meet any payment or transfer from the Fund or account for which such investment was made. *(Section 4.10)*

Payment to Institution upon Payment of Bonds

Except as otherwise specifically provided in the Indenture, after payment in full of the principal or Redemption Price of and interest on all the Series 2016 Bonds or any Series of Bonds (or after provision for the payment thereof has been made in accordance with the Indenture) and after payment in full of the fees, charges and expenses of the Trustee and any Paying Agent and all other amounts required to be paid under the Indenture, and the fees, charges and expenses of the Issuer and all other amounts required

to be paid under the Loan Agreement, all amounts remaining in any fund established pursuant to the Indenture with respect to such Series of Bonds (except the Rebate Fund) or otherwise held by the Trustee and by any additional Paying Agent for the account of the Issuer or the Institution under the Indenture or under the Loan Agreement shall be paid to the Institution. *(Section 4.11)*

Failure to Present Bonds

Subject to the provisions under the heading "Mutilated, Lost, Stolen or Destroyed Bonds," in the event any Bond shall not be presented for payment when the principal or Redemption Price thereof becomes due, either at maturity or at the date fixed for prior redemption thereof or otherwise, if moneys sufficient to pay such Bond shall be held by the Trustee for the benefit of the Owner thereof, all liability of the Issuer to the Owner thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged. Thereupon, the Trustee shall hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Bonds, who shall thereafter be restricted exclusively to such moneys for any claim under the Indenture or on, or with respect to, said Bond. If any Bond shall not be presented for payment within the period of two (2) years following the date when such Bond becomes due, whether by maturity or call for prior redemption or otherwise, the Trustee shall return to the Issuer the funds theretofore held by it for payment of such Bond, and such Bond shall, subject to the defense of any applicable statute of limitations, thereafter be an unsecured obligation of the Issuer. The Trustee shall, at least sixty (60) days prior to the expiration of such two (2) year period, give notice to any Owner who has not presented any Bond for payment that any moneys held for the payment of any such Bond will be returned as provided in the Indenture at the expiration of such two (2) year period. The failure of the Trustee to give any such notice shall not affect the validity of any return of funds pursuant to the Indenture. *(Section 5.11)*

Cancellation

All Bonds which have been paid, redeemed, purchased or surrendered shall be canceled and delivered by the Trustee to the Issuer. A copy of the canceled Bond or Bonds or other form of notice of such cancellation shall be delivered to the Institution upon its written request. *(Section 5.12)*

Payments Due on Days Other Than Business Days

In any case where the date that any payment on the Bonds or under the Indenture of maturity of interest or principal of the Bonds or the date fixed for redemption of any Bonds shall be a day other than a Business Day, then such payment shall be made on the next succeeding Business Day with the same force and effect as if made on the date due, and no interest shall accrue for the period after such date. *(Section 5.13)*

Agreement to Provide Information

The Trustee agrees, whenever requested in writing by the Issuer or the Institution, to provide such information that is known to the Trustee relating to the Bonds as the

Issuer or the Institution, from time to time, may reasonably request, including, but not limited to, such information as may be necessary to enable the Issuer or the Institution to make any reports required by any Federal, state or local law or regulation or to request any consent or waiver from the holders of the Bonds. *(Section 5.14)*

Continuing Disclosure Agreement

Pursuant to the Loan Agreement, the Institution has undertaken responsibility for compliance with, and the Issuer shall have no liability to the holders of the Bonds or any other person with respect to, any reports, notices or disclosures required by or provided pursuant to the Continuing Disclosure Agreement authorized by the Loan Agreement. Notwithstanding any other provision of the Indenture, failure of the Institution to perform in accordance with the Continuing Disclosure Agreement shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of such a default or an Event of Default shall not apply to any such failure, but the Continuing Disclosure Agreement may be enforced only as provided therein. *(Section 5.15)*

Discharge of Lien

(a) If the Issuer shall pay or cause to be paid to the Owners of any Series of Bonds or of all Outstanding Bonds the principal thereof, redemption premium, if any, and interest thereon, at the times and in the manner stipulated therein and in the Indenture, and if there shall have been paid all fees, charges and expenses required to be paid under the Indenture, then the lien on the Trust Estate created by the Indenture for the benefit of the Owners of such Series of Bonds so paid shall be released, discharged and satisfied. In such event, except as otherwise specifically provided in the Indenture, the Trustee and any additional Paying Agent shall pay or deliver to the Institution all moneys or securities held by it pursuant to the Indenture which are not required for the payment of such Series of Bonds. The Issuer may pay or cause to be paid any Series of Bonds without at the same time paying or causing to be paid all other Outstanding Series of Bonds. If the Issuer does not pay or cause to be paid, at the same time, all Outstanding Bonds, then the Trustee and any additional Paying Agent shall not return those moneys and securities held under the Indenture as security for the benefit of the Owners of Bonds not so paid or caused to be paid.

(b) When all of the Outstanding Bonds shall have been paid in full, or provisions for such full payment of all Outstanding Bonds shall have been made in accordance with the Indenture, the Trustee and the Issuer shall promptly execute and deliver to the Institution such written certificates, instruments and documents as the Institution shall provide to cause the lien of the Indenture upon the Trust Estate to be discharged and canceled.

(c) Notwithstanding the fact that the lien of the Indenture upon the Trust Estate may have been discharged and canceled in accordance with the provisions under this heading, the Indenture and the rights granted and duties imposed by the Indenture, to the extent not inconsistent with the fact that the lien upon the Trust Estate may have been

discharged and canceled, shall nevertheless continue and subsist until the principal or Redemption Price of and interest on all of the Bonds shall have been fully paid or the Trustee shall have returned to the Issuer pursuant to the Indenture all funds theretofore held by the Trustee for payment of any Bonds not theretofore presented for payment. *(Section 7.01)*

Discharge of the Indenture

(a) Any Outstanding Bond or installments of interest with respect thereto shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of, and with the effect expressed in, subsection (a) under the heading "Discharge of Lien" if: (i) there shall have been deposited with the Trustee sufficient cash and/or Government Obligations, in accordance with subsection (b) below, which will, without further investment, be sufficient, together with the other amounts held for such payment, to pay the principal of the Series of Bonds when due or to redeem the Series of Bonds on the earliest possible redemption date thereof at the Redemption Price specified in the Indenture, (ii) in the event such Bonds are to be redeemed prior to maturity in accordance with the Indenture or in a Supplemental Indenture with respect to such Series of Bonds, all action required by the provisions of the Indenture to redeem the Bonds shall have been taken or provided for to the satisfaction of the Trustee and notice thereof in accordance with the Indenture or in a Supplemental Indenture with respect to such Series of Bonds shall have been duly given or provision satisfactory to the Trustee shall have been made for the giving of such notice, (iii) provision shall have been made for the payment of all fees and expenses of the Trustee and of any additional Paying Agent with respect to the Series of Bonds of which the Bond is a part, (iv) the Issuer shall have been reimbursed for all of its expenses under the Loan Agreement with respect to the Series of Bonds of which such Series of Bonds is a part, and (v) all other payments required to be made under the Loan Agreement and the Indenture or any Supplemental Indenture with respect to such Series of Bonds of which the Bond is a part shall have been made or provided for.

(b) For the purpose of the provisions under this heading, the Trustee shall be deemed to hold sufficient moneys to pay the principal of an Outstanding Bond not then due or to redeem an Outstanding Bond prior to the maturity thereof only if there shall be on deposit with the Trustee and available for such purpose an amount of cash and/or a principal amount of Government Obligations, maturing or redeemable at the option of the owner thereof not later than (i) the maturity date of such Series of Bonds, or (ii) the first date following the date of computation on which such Series of Bonds may be redeemed pursuant to the Indenture (whichever may first occur), which, together with income to be earned on such Government Obligations prior to such maturity date or Redemption Date, equals the principal and redemption premium, if any, due on such Series of Bonds, together with all interest thereon (at the maximum applicable rate, in the case of Bonds bearing interest at a variable rate of interest, if any) which has accrued and which will accrue to such maturity or Redemption Date.

(c) Upon the defeasance of any Series of Bonds or of all Outstanding Bonds in accordance with the Indenture, the Trustee shall hold in trust, for the benefit of the

Owners of such Series of Bonds, all such cash and/or Government Obligations, shall make no other or different investment of such cash and/or Government Obligations and shall apply the proceeds thereof and the income therefrom only to the payment of such Bonds, and prior to any defeasance becoming effective as provided above, there shall have been delivered to the Issuer and to the Trustee a verification from a verification agent (in each case reasonably satisfactory to the Issuer and the Trustee) to the effect that the moneys and/or Government Obligations are sufficient, together with any income to be earned thereon, without reinvestment, to pay the principal of, interest on, and redemption premium, if any, of the Bonds to be defeased. *(Section 7.02)*

Lien Law Section 73 Covenant

The Institution, for itself and as the agent of the Issuer, covenants to the Issuer and to the Trustee, as a third-party beneficiary of the provisions under this heading, that the Institution will, as applicable, receive advances of monies under the Bond Documents and will hold the right to receive such advances as trust funds to be first applied to the payment of trust claims as defined in Section 71 of the Lien Law of the State, and that the Institution will apply the same to such payments only, before using any part of such advances for any other purpose. *(Section 7.03)*

Events of Default

The following shall be "Events of Default" under the Indenture with respect to any Bond or any Series of Bonds:

(a) A default in the due and punctual payment of any interest or any principal, Sinking Fund Payments, or Redemption Price of any Bond, whether at the stated maturity thereof, upon proceedings for redemption thereof (other than a redemption for which proceedings have been rescinded in accordance with the Indenture) or upon the maturity thereof by declaration, or any other amounts due under the Indenture or the other Bond Documents or any other bond documents entered into in connection with any Series of Additional Bonds; or

(b) A default in the performance or observance of any other of the covenants, agreements or conditions on the part of the Issuer contained in the Indenture or in any Series of Bonds and the continuance thereof for a period of thirty (30) days after written notice given by the Trustee or by the Owners of not less than fifty percent (50%) of the principal amount of the applicable Series of Bonds then Outstanding; or if such default cannot be cured within thirty (30) days, but the Issuer is proceeding diligently to cure such default, then the Issuer shall be permitted an additional ninety (90) days within which to remedy the default; or

(c) The occurrence of an Event of Default under any Loan Agreement. *(Section 8.01)*

Acceleration; Annulment of Acceleration

(a) Upon the occurrence of an Event of Default under the Loan Agreement or any similar provision in any other Loan Agreement with respect to any Additional Bonds, all Series of Bonds Outstanding shall become immediately due and payable without action or notice of any kind on the part of the Trustee or the Issuer. Upon the occurrence and continuance of any other Event of Default, the Trustee may, or upon the direction of not less than fifty percent (50%) of the principal amount of the Bonds then Outstanding shall, by notice in writing delivered to the Issuer and the Institution, declare all Series of Bonds Outstanding immediately due and payable, and such Series of Bonds shall become and be immediately due and payable, anything in the Series of Bonds or in the Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Series of Bonds an amount equal to the total principal amount of all such Series of Bonds, plus all interest accrued thereon and which will accrue thereon to the date of payment. If all of the Series of Bonds Outstanding shall become so immediately due and payable, the Issuer and the Trustee shall as soon as possible declare by written notice to the Institution all unpaid installments payable by the Institution under the Loan Agreement or any similar provision in any other Loan Agreement with respect to any Additional Bonds to be immediately due and payable.

(b) At any time after the principal of the Series 2016 Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Indenture, the Trustee may annul such declaration and its consequences with respect to any Series 2016 Bonds not then due by their terms if (i) moneys shall have been deposited in the Bond Fund sufficient to pay all matured installments of interest and principal, Sinking Fund Payments, or the Redemption Price (other than principal then due only because of such declaration) of such Outstanding Series of Bonds; (ii) sufficient moneys shall be available to pay the amounts described in the Indenture; (iii) all other amounts then payable by the Issuer under the Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Trustee; and (iv) every other Event of Default known to the Trustee (other than a default in the payment of the principal of such Bonds then due only because of such declaration) shall have been remedied to the satisfaction of the Trustee. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. *(Section 8.02)*

Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, and upon being provided with security or indemnity reasonably satisfactory to the Trustee against any liability or expense which might thereby be incurred, the Trustee shall proceed forthwith to protect and enforce its rights and the rights of the Owners under the Act, the applicable Series of Bonds and the applicable Loan Agreement by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem expedient.

(b) The Trustee acting directly may sue for, enforce payment of and receive any amounts due or becoming due from the Issuer or the Institution for principal, Redemption Price, interest or otherwise under any of the provisions of the Series of Bonds, the Bond Documents, and any bond documents entered into in connection with any Series of Additional Bonds without prejudice to any other right or remedy of the Trustee or of the Owners.

(c) Regardless of the happening of an Event of Default, the Trustee shall have the right to institute and maintain such suits and proceedings as it may be advised by such Owners of at least 51% in aggregate principal amount of Bonds Outstanding, as shall be necessary or expedient (i) to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture or of any resolution authorizing any Series of Bonds, or (ii) to preserve or protect the interests of the Owners, provided that such request is in accordance with law and the provisions of the Indenture and is not unduly prejudicial to the interests of the Owners not making such request. *(Section 8.03)*

Appointment of Receivers

Upon the occurrence of an Event of Default and upon the filing of a suit or commencement of other judicial proceedings to enforce the rights of the Trustee or the Owners under the Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate and of the revenues and receipts thereof, pending such proceedings, with such powers as the court making such appointment shall confer. *(Section 8.04)*

Application of Moneys

(a) The Net Proceeds received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture shall be, after paying the fees and expenses of the Trustee, deposited in the Bond Fund.

(b) All moneys held in a Sub-Account of the Bond Fund for any particular Series of Bonds during the continuance of an Event of Default shall be applied as follows:

(i) Unless the principal of all the Bonds of a particular Series of Bonds shall have become due or shall have been declared due and payable,

FIRST - To the payment of all installments of the interest then due, in the order of the maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or preference; and

SECOND - To the payment of the unpaid principal or Redemption Price, if any, of any Series of Bonds or principal installments which shall have become due (other than any Bonds called for redemption for the payment of which

moneys are held pursuant to the provisions of the Indenture), in order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which such Bonds became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the Persons entitled thereto without any discrimination or preference; and

THIRD - To the payment of the principal or Redemption Price of and interest on such Bonds as the same become due and payable; and

(ii) If the principal of all such Bonds shall have become due or shall have been declared due and payable, to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon all such Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bonds of such series, ratably according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference; and

(iii) If the principal of all such Bonds shall have been declared due and payable and if such declaration shall thereafter have been annulled pursuant to provisions of the Indenture, the moneys shall be applied in accordance with the provisions of paragraph (i) of subsection (b) above.

(c) Whenever moneys are to be applied by the Trustee pursuant to the provisions of under this heading, such moneys shall be applied at such time or times as the Trustee in its sole discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. On the date fixed by the Trustee for application of such moneys, interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the application of any such moneys and of the fixing of any such date. *(Section 8.05)*

Remedies Vested in Trustee

Except as otherwise provided in the Indenture, all rights of action (including the right to file proof of claim) under the Indenture or under any of the Series of Bonds may be enforced by the Trustee without possession of any of the Series of Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Owners of any Series of Bonds. Subject to the provisions under the heading "Application of Moneys," any recovery of judgment shall be for the equal benefit of the Owners of the Outstanding Bonds. *(Section 8.06)*

Remedies Not Exclusive

No remedy conferred upon or reserved to the Trustee or to the Owners by the Indenture is intended to be exclusive of any other remedy. Each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or to the Owners under the Indenture or now or hereafter existing at law or in equity or by statute. *(Section 8.07)*

Resignation by Trustee

The Trustee and any successor Trustee may, at any time, resign from the trusts created by the Indenture and be discharged of their duties and obligations under the Indenture by giving not less than sixty (60) days written notice to the Issuer, the Institution and, by first class mail, to each Owner of each Series of Bonds then Outstanding. Such resignation shall take effect upon the date specified in such notice, provided, however, that in no event shall such a resignation take effect until a successor Trustee has been appointed pursuant to the Indenture. If no successor Trustee shall have been appointed within 45 days of the notice of resignation or removal of the Trustee, the Trustee shall have the right, at the expense of the Issuer, to petition a court of competent jurisdiction for the appointment of a successor Trustee. *(Section 9.06)*

Removal of Trustee

The Trustee may be removed at any time without cause by an instrument which (i) (a) is signed by the Issuer, (b) is signed by the Institution (so long as no Event of Default has occurred and is continuing) or (c) is signed by the Owners of not less than fifty-one percent (51%) in aggregate principal amount of each Series of Bonds then Outstanding, (ii) specifies the date on which such removal shall take effect and the name and address of the successor Trustee, and (iii) is delivered to the Trustee, the Issuer and the Institution. Notice of any such removal shall be given, by first class mail, to each Owner of Bonds then Outstanding not less than sixty (60) days before such removal is to take effect as stated in such instrument. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Indenture or the Loan Agreement, by any court of competent jurisdiction upon the application by the Issuer, the Institution or the Owners of not less than fifty-one percent (51%) in aggregate principal amount of each Series of Bonds then Outstanding. *(Section 9.07)*

Appointment of Successor Trustee; Temporary Trustee

(a) In case the Trustee under the Indenture shall resign, or be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting under the Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor Trustee may be appointed by the Issuer. Notice of any such appointment shall be given, by first class mail, to each Owner of each Series of Bonds then Outstanding within thirty (30) days after delivery to the Issuer of the instrument appointing such successor Trustee.

(b) In case of the occurrence of any event affecting the Trustee under the Indenture described in paragraph (a) above, the Issuer, by an instrument signed by the Chairman and attested by the Secretary, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed by the Owners in the manner provided in paragraph (a) above. Such instrument appointing such successor Trustee by the Issuer shall be delivered to the successor Trustee so appointed, to the predecessor Trustee and to the Institution. Notice of any such appointment shall be given, by first class mail, to each Owner of each Series of Bonds then Outstanding within thirty (30) days after delivery to the successor Trustee of the instrument appointing such successor Trustee. Any such temporary Trustee appointed by the Issuer shall immediately and without further act be superseded by any successor Trustee appointed by the Owners.

(c) Any Trustee appointed pursuant to the provisions of this summarized section shall be a national banking association, trust company or bank which is authorized to exercise the corporate trust powers intended to be conferred upon it by the Indenture and has combined capital and surplus of at least $25,000,000, or any other corporate or individual trustee duly authorized and empowered to act as Trustee under the Indenture and reasonably acceptable to the Issuer and the Institution (so long as no Event of Default has occurred and is continuing) and approved by all Owners. *(Section 9.08)*

Concerning Successor Trustees

(a) Every successor Trustee appointed under the Indenture shall execute, acknowledge and deliver to its predecessor Trustee and the Issuer an instrument accepting such appointment under the Indenture. Thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the Property, rights, powers, trusts, duties and obligations, with respect to the Indenture, of its predecessor Trustee.

(b) Every predecessor Trustee shall, on the written request of the Issuer or the successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the Property, rights, powers and trusts of such predecessor under the Indenture. Every predecessor Trustee shall deliver to its successor Trustee all securities and moneys held by it as Trustee under the Indenture. If any instrument from the Issuer shall be requested by any successor Trustee, acknowledging the transfer to such successor Trustee of the Property, rights, powers and duties vested by the Indenture or intended to be vested under the Indenture, any and all such instruments shall be executed, acknowledged and delivered by the Issuer.

(c) The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture, shall be filed and/or recorded by the successor Trustee with the Issuer. *(Section 9.09)*

Supplemental Indentures Not Requiring Consent of Owners

(a) Without the consent of or notice to any of the Owners of each Series of Bonds issued under the Indenture the Issuer and the Trustee may enter into one or more Supplemental Indentures, not inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

(i) To cure any ambiguity or formal defect or omission in the Indenture;

(ii) To cure, correct or supplement any defective provision of the Indenture in such manner as shall not be inconsistent with the Indenture and shall not impair the security of the Indenture nor adversely affect the Owners;

(iii) To grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners or the Trustee, but only with the prior written consent of the Institution not unreasonably to be withheld;

(iv) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer;

(v) To identify more precisely the Trust Estate;

(vi) To subject to the lien of the Indenture additional revenues, receipts, Property or collateral, but only with the prior written consent of the Institution;

(vii) To release Property from the lien of the Indenture or to grant or release easements to the extent permitted by the Indenture;

(viii) To make any other changes in the Indenture which do not prejudice the interests of the Trustee, the Institution or the Owners;

(ix) To make any change which, in the opinion of Bond Counsel, is necessary or desirable in order to preserve the exclusion of interest on the Series 2016 Bonds or any other Series of Additional Bonds (issued on a tax-exempt basis) issued under the Indenture from gross income for federal income tax purposes;

(x) To make any change requested by a Rating Agency in connection with obtaining or maintaining a rating on any Series of Bonds; or

(xi) To issue any Series of Additional Bonds in accordance with the provisions of the Indenture.

(b) In connection with the execution and delivery of any Supplemental Indenture to be entered into under the provisions of the Indenture, the Trustee shall be entitled to receive and may rely upon an opinion of Independent Counsel as conclusive

evidence that any such Supplemental Indenture complies with the foregoing conditions and provisions. *(Section 10.01)*

Supplemental Indentures Requiring Consent of Owners

(a) Except as provided under the heading "Supplemental Indentures Not Requiring Consent of Owners," the Owners of not less than fifty-one percent (51%) in aggregate principal amount of Bonds then Outstanding (or if less than all Series of Bonds then Outstanding are affected by such Supplemental Indenture, then the Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Series of Bonds so affected) shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such Supplemental Indentures as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or in any Supplemental Indenture or in the Series 2016 Bonds or any other Series of Bonds issued under the Indenture; provided, however, that nothing contained in the Indenture shall permit:

(i) A change in the terms of redemption or maturity of the principal of or the time of payment of interest on any Outstanding Series of Bonds or a reduction in the principal amount or Redemption Price of any Outstanding Series of Bonds or the rate of interest thereon, without the consent of the Owners of such Series of Bonds; or

(ii) Except as otherwise provided in the Master Trust Indenture, the creation of a lien upon the Trust Estate ranking prior to or on a parity with the lien created by the Indenture, without the consent of the Owners of all Outstanding Series of Bonds; or

(iii) A preference or priority of any Bond or Series of Bonds over any other such Bond or Series of Bonds, without the consent of the Owners of all such Outstanding Bonds so affected; or

(iv) A reduction in the aggregate principal amount of any Series of Bonds required for consent to such Supplemental Indenture, without the consent of the Owners of all Outstanding Series of Bonds.

(b) If at any time the Issuer shall request the Trustee to enter into a Supplemental Indenture for any of the purposes of subsection (a) above, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice of the proposed execution of such Supplemental Indenture to be given, by first class mail, to each Owner of Series of Bonds then Outstanding at their addresses as they appear on the registration books kept by the Trustee. Such notice shall briefly summarize the contents of the proposed Supplemental Indenture and shall state that copies thereof are on file at the Office of the Trustee for inspection by all Owners.

(c) The Trustee shall not, however, be subject to any liability to any Owner by reason of its failure to mail the notice required by subsection (b) above.

(d) If, within such period after the mailing of the notice required by subsection (b) above as the Issuer shall prescribe with the approval of the Trustee, the Issuer shall deliver to the Trustee an instrument or instruments executed by the Owners of not less than fifty-one percent (51%) in aggregate principal amount of Series of Bonds then Outstanding, referring to the proposed Supplemental Indenture as described in such notice and consenting to and approving the execution thereof, the Trustee shall execute such Supplemental Indenture.

(e) If the Owners of not less than fifty-one percent (51%) in aggregate principal amount of the Series of Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Owner of such Series of Bonds shall have any right to object to any of the terms and provisions contained therein or in any manner to question the propriety of the execution thereof or enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof.

(f) The Trustee shall be entitled to receive and may rely upon an opinion of Independent Counsel as conclusive evidence that (i) any Supplemental Indenture entered into by the Issuer and the Trustee, and (ii) the evidence of requisite Owner consent thereto comply with the provisions of under this heading. *(Section 10.02)*

Amendments to the Loan Agreement Not Requiring Consent of Owners

Without the consent of or notice to any of the Owners, the Issuer may enter into (with the written consent of the Institution), and the Trustee may consent to, any amendment, change or modification of any Loan Agreement as may be required (a) by the provisions thereof or of the Indenture, (b) for the purpose of curing any ambiguity or formal defect or omission therein, (c) in connection with the description of the Project and the substitution, addition or removal of a portion of the Facility as provided in the Loan Agreement and the Indenture, (d) in connection with additional real estate which is to become part of the Facility, or (e) in connection with any other change therein which, in the sole judgment of the Trustee, does not adversely affect the interests of the Trustee or the Owners of the applicable Series of Bonds. The Trustee shall be entitled to receive and may rely upon an opinion of Independent Counsel stating that and as conclusive evidence that any such amendment, change or modification complies with the provisions under this heading. *(Section 11.01)*

Amendments to the Loan Agreement Requiring Consent of Owners

Except for amendments, changes or modifications as under the heading "Amendments to the Loan Agreement Not Requiring Consent of Owners," neither the Issuer nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement without mailing of notice and the written approval or consent of the Owners of not less than fifty-one percent (51%) in aggregate principal amount of the applicable Series of Bonds at the time Outstanding procured and given in the manner set forth in the Indenture; provided, however, that no such amendment shall be permitted which changes the terms of payment thereunder without the consent of the Owners of all

the applicable Series of Bonds then Outstanding. The Trustee shall be entitled to receive and may rely on an opinion of Independent Counsel stating that and as conclusive evidence that any such amendment, change or modification and the evidence of requisite Owner consent comply with the requirements of the provisions under this heading. *(Section 11.02)*

Amendments of Tax Regulatory Agreement Not Requiring Consent of Owners

Without the consent of or notice to any of the Owners, the Issuer and the Trustee may consent to any amendment, change or modification of the Tax Regulatory Agreement as may be required (a) for the purpose of curing any ambiguity or formal defect or omission, or (b) in connection with any other change therein which, in either case, in the sole judgment of the Trustee does not adversely affect the interests of the Trustee or the Owners of the applicable Series of Bonds. The Trustee shall be entitled to receive and may rely upon an opinion of Independent Counsel stating that and as conclusive evidence that any such amendment, change or modification complies with the provisions of the under this heading. *(Section 11.05)*

Amendments of Tax Regulatory Agreement Requiring Consent of Owners

Except for amendments, changes or modifications as provided under the heading "Amendments to the Tax Regulatory Agreement Now Requiring Consent of Owners," neither the Issuer nor the Trustee shall enter into any amendment, change or modification of the Tax Regulatory Agreement without mailing of notice and the written approval or consent of the Owners of not less than fifty-one percent (51%) in aggregate principal amount of the applicable Series of Bonds at the time Outstanding procured and given in the manner set forth in the Indenture. The Trustee shall be entitled to receive and may rely upon an opinion of Independent Counsel stating that and as conclusive evidence that any such amendment, change or modification and the evidence of requisite Owner consent comply with the provisions under this heading. *(Section 11.05)*

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SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. Certain provisions of the Loan Agreement are also described in the Official Statement. This summary does not purport to be complete and reference is made to the Loan Agreement for the detailed provisions thereof. This summary is qualified in its entirety by such reference. Headings are not part of the Loan Agreement and are included for ease of reference only.

Loan of Series 2016 Bond Proceeds

The Issuer agrees to loan the proceeds of the Series 2016 Bonds to the Institution in accordance with the provisions of the Loan Agreement. Such Bond Proceeds shall be disbursed to the Institution in accordance with the provisions of the Loan Agreement and of the Indenture. *(Section 5.1)*

Financing of the 2016 Project

(a) The Institution agrees, and covenants and warrants to the Issuer, that the proceeds of the Series 2016A Bonds will be used to finance the Series 2016A Project.

(b) The Institution agrees, and covenants and warrants to the Issuer, that the proceeds of the Series 2016B Bonds will be used to finance the Series 2016B Project.

(c) The Institution agrees, and covenants and warrants to the Issuer, it has or will demolish, construct, renovate, equip and furnish the Series 2016B Facility in accordance with the Plans and Specifications. *(Section 4.1)*

Issuance of the Series 2016 Bonds; Disbursement of Bond Proceeds

In order to provide funds to undertake the Series 2016 Project, including providing funds for payment of the Costs of the Project, together with other payments and incidental expenses in connection therewith, the Issuer agrees that it will authorize, issue, sell and cause the Series 2016 Bonds to be delivered on the terms set forth in the Indenture. Bond Proceeds shall be disbursed in accordance with the provisions of the Indenture and the Loan Agreement. *(Section 4.2)*

Application of Bond Proceeds

The Bond Proceeds shall be deposited in the accounts of the Project Fund and used to pay the Costs of the Project, including, without limitation, the redemption of the Series 2007B Bonds and the demolition, construction, renovation, equipping and furnishing of the Series 2016B Facility. Except as provided in the Loan Agreement, the Bond Proceeds, upon the written direction of an Authorized Representative of the Institution, and on the conditions provided for in the Indenture, shall be applied to pay only the following costs and items of expense paid by or on behalf of the Issuer on or after February 19, 2016, except as may otherwise be provided under the Tax Regulatory

Agreement or included in a resolution of the Board of Trustees of the Institution indicating an intent to reimburse the Institution for costs of the Project incurred prior to that date:

(i) redeem the 2007B Bonds,

(ii) the cost of preparing the Plans and Specifications (including any preliminary study or planning of the Series 2016B Project or any aspect thereof),

(iii) all costs of demolishing, constructing, renovating, equipping and furnishing the Series 2016B Facility (including environmental audits and architectural, engineering and supervisory services with respect to the Series 2016B Facility),

(iv) funding any required reserve funds,

(v) all fees, taxes, charges and other expenses for recording or filing, as the case may be, any documents that the Issuer or the Trustee may deem desirable in order to protect or perfect any security interest contemplated by the Indenture,

(vi) all legal, accounting and any other fees, costs and expenses incurred in connection with the preparation, printing, reproduction, authorization, issuance, execution, sale and distribution of the Series 2016 Bonds and the Bond Documents, Financing Documents and all other documents in connection with the Loan Agreement or therewith, and with any other transaction contemplated by the Loan Agreement or the Indenture,

(vii) any administrative fee and fee for services of the Issuer, and

(viii) reimbursement to the Institution for any of the above-enumerated costs and expenses. *(Section 4.3)*

Completion by Institution

(a) In the event that the Net Proceeds of the Series 2016 Bonds are not sufficient to pay in full the Costs of the Project, the Institution agrees to pay, for the benefit of the Issuer and the Trustee, all such sums as may be in excess of the Net Proceeds of the Series 2016 Bonds.

(b) The Institution shall not be entitled to any reimbursement for such excess cost or expense from the Issuer or the Trustee or the Owners of any of the Series 2016 Bonds, nor shall it be entitled to any diminution or abatement of any other amounts payable by the Institution under the Loan Agreement. *(Section 4.5)*

Loan Payments and Other Amounts Payable

(a) The Institution shall pay to the Issuer on the Closing Date the Issuer's fee in the amount of $965,510.45 (which includes the Issuer's administrative fee of $963,950.00 plus the costs of the public hearing and publication thereof of $1,560.45). In addition, the Institution shall pay to the Issuer an Annual Compliance Fee of $500 on or before January 1 of each year commencing on January 1, 2017 and continuing through the duration of the Loan Agreement. The Institution shall pay basic loan payments five (5) Business Days before each Debt Service Payment Date directly to the Trustee, in an amount equal to the Debt Service Payment becoming due and payable on the Series 2016 Bonds on such Debt Service Payment Date. The Institution shall receive a credit for any amounts transferred from the Series 2016B Capitalized Interest Account of the Project Fund to the Interest Account of the Bond Fund. The Institution's obligation to pay such basic loan payments shall be evidenced by the Promissory Note, substantially in the form attached to the Loan Agreement as Exhibit B.

(b) In addition to the loan payments pursuant to subsection (a) above, throughout the Loan Term, the Institution shall pay to the Issuer as additional loan payments, within fifteen (15) days of the receipt of demand therefor, an amount equal to the sum of the out-of-pocket expenses of the Issuer and the members thereof actually incurred (i) by reason of the Issuer's financing of the Project, or (ii) in connection with the carrying out of the Issuer's duties and obligations under the Issuer Documents, the payment of which is not otherwise provided for under the Loan Agreement. Such demand for additional loan payments shall be accompanied by supporting documentation, as applicable.

(c) In addition, the Institution shall pay as additional loan payments within fifteen (15) days after receipt of a written demand therefor the Ordinary Expenses and Extraordinary Expenses payable by the Issuer to the Trustee pursuant to and under the Indenture. Such demand for additional loan payments shall be accompanied by, as applicable, supporting documentation.

(d) The Institution agrees to make the above-mentioned payments in immediately available funds and without any further notice in lawful money of the United States of America. In the event the Institution shall fail timely to make any payment required in subsection (a) above, the Institution shall pay the same together with all late payment penalties specified in the Bonds. In the event the Institution shall fail timely to make any payment required in subsection (b) above, the Institution shall pay the same together with interest on such payment at the Late Payment Rate, but in no event greater than the lesser of the per annum rate of ten percent (10%) or the maximum lawful prevailing rate, from the date on which such payment was due until the date on which such payment is made. *(Section 5.3)*

Obligations of Institution Under the Loan Agreement Unconditional

The obligations of the Institution to make the payments required in the Loan Agreement, and to perform and observe any and all of the other covenants and

agreements on its part contained in the Loan Agreement, shall be a general obligation of the Institution, and shall be absolute and unconditional irrespective of any defense or any rights of setoff, recoupment or counterclaim it may otherwise have against the Issuer. The Institution agrees it will not (i) suspend, discontinue or abate any payment required under the Loan Agreement, (ii) fail to observe any of its other covenants or agreements in the Loan Agreement, or (iii) terminate the Loan Agreement for any cause whatsoever unless and until the Series 2016 Bonds, including premium, if any, and interest thereon, have been paid or provided for in the Financing Documents.

Subject to the foregoing provisions, nothing contained in the Indenture be construed to release the Issuer from the performance of any of the agreements on its part contained in the Loan Agreement or to affect the right of the Institution to seek reimbursement from, or institute any action against any party as the Institution may deem necessary to compel performance or recover damages for non-performance from such party. *(Section 5.4)*

Payment of Additional Moneys in Prepayment of Series 2016 Bonds

In addition to any other moneys required or permitted to be paid pursuant to the Loan Agreement, the Institution may, subject to the terms of the Indenture, pay moneys to the Trustee (i) to be applied as the prepayment of amounts to become due and payable by the Institution pursuant to the Loan Agreement and the Promissory Note, or (ii) to be used for the redemption, purchase in lieu of redemption or prepayment of any Series 2016 Bonds at such time or times and on such terms and conditions as is provided in such Series 2016 Bonds and in the Indenture. The Institution shall notify the Issuer and the Trustee in writing as to the purpose of any such payment. *(Section 5.5)*

Rights and Obligations of the Institution upon Prepayment of Series 2016 Bonds

In the event the Series 2016 Bonds shall have been paid in full prior to the termination of the Loan Agreement, or provision for such payment shall have been made in accordance with the Indenture, the Issuer, at the sole cost of the Institution, shall obtain and record or file appropriate terminations, discharges or releases of any security interest relating to the applicable portion of the Project or under the Indenture. *(Section 5.6)*

Maintenance and Modifications of Facility by Institution

(a) The Institution and any Member Hospital shall not abandon (or cause to be abandoned) the Facility or cause or permit any waste to the Improvements. During the Loan Term, the Institution and any Member Hospital shall not remove any part of the Facility outside of the jurisdiction of the Issuer (except as authorized pursuant to the Loan Agreement) and shall (i) keep (or cause to be kept) the Facility in as reasonably safe condition as its operations shall permit; (ii) make (or cause to be made) all necessary repairs and replacements to the Facility (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen); and (iii) operate (or cause to be operated) the Facility in a sound and economic manner.

(b) With the written consent of the Issuer, which shall not be unreasonably withheld, delayed or conditioned, the Institution, from time to time, may make (or cause to be made) any material structural additions, modifications or improvements to the Facility or any part thereof, provided (i) such actions do not adversely affect the structural integrity of the Facility or (ii) such actions do not materially impair the use of the Facility or materially decrease their value. All such additions, modifications or improvements made by the Institution or any Member Hospital, as applicable, shall become a part of the Facility. *(Section 6.1)*

Installation of Additional Equipment

Subject to the provisions of the Loan Agreement, the Institution or any Member Hospital, as applicable, or any permitted ground lessee, lessee, sublessee of the Institution or any Member Hospital, as applicable, from time to time may install additional machinery, equipment or other personal property in the Facility (which may be attached or affixed to the Facility), and such machinery, equipment or other personal property shall not become, or be deemed to become, a part of the Facility, provided that the acquisition and installation of such property is not financed from either the Project Fund or the Renewal Fund. The Institution or any Member Hospital, as applicable, from time to time may create or permit to be created any Lien on such machinery, equipment or other personal property. Further, the Institution from time to time may remove or permit the removal or the replacement of such machinery, equipment and other personal property from the Facility, provided that any such removal or replacement of such machinery, equipment or other personal property shall not occur (i) if any Event of Default has occurred; or (ii) if any such removal or replacement shall adversely affect the structural integrity of the Project or impair the overall operating efficiency of the Facility for the purposes for which it is intended, and provided further that, if any damage is occasioned to the Facility by such removal, the Institution agrees promptly to repair (or cause to be repaired) such damage at its own expense (or, as applicable, at the cost and expense of any Member Hospital or any other Person causing such damage). *(Section 6.2)*

Insurance Required

At all times throughout the Loan Term, including with respect to the Series 2016B Facility when indicated herein, during the Construction Period, the Institution shall, at its sole cost and expense, maintain or cause to be maintained insurance covering the Facility against such risks and for such amounts as are customarily insured against by facilities of like size and type and shall pay, as the same become due and payable, all premiums with respect thereto, including, but not necessarily limited to:

(a) Insurance against loss or damage by fire, lightning and other casualties customarily insured against, with a uniform standard extended coverage endorsement, such insurance to be in an amount not less than the full replacement value of the completed Improvements, exclusive of footings and foundations, as determined by a recognized appraiser or insurer selected by the Institution, PHC, VBMC or NDH, as applicable, but in no event less than the principal amount of the Bonds. With respect to

the Series 2016B Facility, during the Construction Period, such policy shall be written in the so-called "Builder's Risk Completed Value Non-Reporting Form" and shall contain a provision granting the insured permission to complete and/or occupy.

(b) Workers' compensation insurance, disability benefits insurance and each other form of insurance which the Institution is required by law to provide, covering loss resulting from injury, sickness, disability or death of employees of the Institution who are located at or assigned to the Facility.

(c) Insurance protecting the Issuer, the Trustee and the Institution against loss or losses from liability imposed by law or assumed in any written contract (including the contractual liability assumed by the Institution under the Loan Agreement, subject to the limits and terms of such policy or policies) and arising from personal injury, including bodily injury or death, or damage to the property of others, caused by an accident or occurrence with a limit of liability of not less than $1,000,000 (combined single limit for personal injury, including bodily injury or death, and property damage) and with a blanket excess liability coverage in an amount not less than $5,000,000 combined single limit or equivalent protecting the Issuer, the Trustee and the Institution, and any Member Hospital against any loss or liability or damage for personal injury, including bodily injury or death, or property damage. With respect to the Series 2016B Facility, this coverage shall also be in effect during the Construction Period.

(d) With respect to the Series 2016B Facility, during the Construction Period (and for at least one year thereafter in the case of Products and Completed Operations as set forth below), the Institution shall cause the general contractor to carry liability insurance of the type and providing the minimum limits set forth below:

(i) Workers' compensation and employer's liability with limits in accordance with applicable law.

(ii) Comprehensive general liability providing coverage for:

Premises and Operations

Products and Completed Operations

Owners Protective

Contractors Protective

Contractual Liability

Personal Injury Liability

Broad Form Property Damage

(including completed operations)

Explosion Hazard

Collapse Hazard

Underground Property Damage Hazard

Such insurance shall have a limit of liability of not less than $1,000,000 (combined single limit for personal injury, including bodily injury or death, and property damage).

(iii) Business auto liability, including all owned, non owned and hired autos, with a limit of liability of not less than $1,000,000 (combined single limit for personal injury, including bodily injury or death, and property damage).

(iv) Excess "umbrella" liability providing liability insurance in excess of the coverage's in (i), (ii) and (iii) above with a limit of not less than $5,000,000. *(Section 6.4)*

Additional Provisions Respecting Insurance

(a) All insurance required by the Loan Agreement shall, except with respect to any insurance company that is a captive of the Institution and/or any Affiliate of the Institution, be procured and maintained in financially sound and generally recognized responsible insurance companies selected by the entity required to procure the same and authorized to write such insurance in the State (or if such entity is not authorized to write such insurance in the State, such insurance company shall have an A.M. Best Co., Inc. (x) financial strength rating of "A" or better and (y) a financial size category of "XIV" or better). The company issuing the policies required by subsection (a) under the heading "Insurance Required" shall be rated "A" or better by A.M. Best Co., Inc. Such insurance may be written with deductible amounts comparable to those on similar policies carried by other companies engaged in businesses similar in size, character and other respects to those in which the procuring entity is engaged. All policies evidencing the insurance required by subsection (a) under the heading "Insurance Required" shall provide for payment to the Master Trustee of the Net Proceeds of insurance resulting from any claim for loss or damage thereunder, and all policies of insurance required by the Loan Agreement shall provide for at least thirty (30) days' (or ten (10) days for non-payment of premium) prior written notice of the restriction, cancellation or modification thereof to the Issuer and the Trustee. The policy evidencing the insurance required by subsection (c) under the heading "Insurance Required" shall name the Issuer and the Trustee as additional insureds. All policies evidencing the insurance required by subsections (d)(ii) and (iv) under the heading "Insurance Required" shall name the Issuer and the Institution as additional insureds. Upon request of the Master Trustee, the Institution will collaterally assign and deliver (or cause to be collaterally assigned and delivered) to the Trustee the policies of insurance required under subsection (a) under the heading "Insurance Required," so and in such manner and form that the Master Trustee shall at all times, upon such request and until the payment in full of Obligation Nos. 19 and 20 securing the Series 2016 Bonds, have and hold said policies and the Net Proceeds thereof as collateral for the payment of Obligation Nos. 19 and 20. The policies under subsection

(a) under the heading "Insurance Required" shall contain appropriate waivers of subrogation.

(b) The policies (or certificates and/or binders) of insurance required by subsection (a) under the heading "Insurance Required" shall be deposited with the Master Trustee on or before the Closing Date. A copy of the policy (or certificate and/or binder) of insurance required by subsection (c) under the heading "Insurance Required" shall be delivered to the Issuer on or before the Closing Date. A copy of the policies (or certificates or binders) of insurance required by subsections (d)(ii) and (iv) under the heading "Insurance Required" shall be delivered to the Issuer on or before the commencement of the Construction Period with respect to the Series 2016B Facility. The Institution shall deliver (or cause to be delivered) to the Issuer and the Trustee before the first Business Day of each twelve (12) month period thereafter a certificate dated not earlier than the immediately preceding month reciting that there is in full force and effect (and the expiration date thereof), insurance of the types and in the amounts required by the Loan Agreement and complying with the additional requirements of subsection (a) above. Prior to the expiration of each such policy or policies, the Institution shall furnish (or cause to be furnished) to the Issuer and the Trustee a new policy or policies of insurance or evidence that such policy or policies have been renewed or replaced or are no longer required by the Loan Agreement. The Institution shall provide (or cause to be provided) such further information with respect to the insurance coverage required by the Loan Agreement as the Issuer and the Trustee may from time to time reasonably require. *(Section 6.5)*

Application of Net Proceeds of Insurance

The Net Proceeds of the insurance carried pursuant to the provisions of the Loan Agreement shall be applied as follows: (i) the Net Proceeds of the insurance required by subsection (a) under the heading "Insurance Required" shall be applied as provided in the Master Trust Indenture, and (ii) the Net Proceeds of the insurance required by subsections (b), (c) and (d) under the heading "Insurance Required" shall be applied toward extinguishment or satisfaction of the liability with respect to which such insurance proceeds may be paid. *(Section 6.6)*

Damage or Destruction of the Facility

(a) If any portion of the Facility shall be damaged or destroyed (in whole or in part) at any time during the Loan Term:

(i) the Issuer shall have no obligation to replace, repair, rebuild, restore or relocate the Facility or any portion thereof; and

(ii) there shall be no abatement or reduction in the Loan Payments or other amounts payable by the Institution under the Loan Agreement (whether or not the Facility or such portion thereof is replaced, repaired, rebuilt, restored or relocated, except as otherwise provided in the Indenture); and

(iii) upon the occurrence of such damage or destruction, the Net Proceeds derived from the insurance shall be paid to the Master Trustee and applied by the Master Trustee in accordance with the Master Trust Indenture, and, except as otherwise provided in the Loan Agreement, the Institution shall at its option either (A) replace, repair, rebuild, restore or relocate the Facility or such portion thereof, or (B) direct the Trustee to apply such Net Proceeds to the payment of the principal of the Series 2016 Bonds or any Additional Bonds as they become due and payable or the Redemption Price of Bonds subject to redemption pursuant to the Indenture.

If the Institution replaces, repairs, rebuilds, restores or relocates the Facility (or causes the Facility to be replaced, repaired, rebuilt, restored or relocated) and the Master Trustee provides all or any portion of the Net Proceeds to the Trustee for deposit in the Renewal Fund, the Trustee shall disburse the Net Proceeds from the Renewal Fund in the manner set forth in the Indenture to pay or reimburse the Institution, or any Member Hospital, as applicable, for the cost of such replacement, repair, rebuilding, restoration or relocation.

(b) Any such replacements, repairs, rebuilding, restorations or relocations shall be subject to the following conditions:

(i) the Facility (or such portion thereof) shall be in substantially the same condition and value as an operating entity as existed prior to the damage or destruction;

(ii) the exclusion of the interest on the Series 2016 Bonds from gross income for Federal income tax purposes shall not, in the opinion of Bond Counsel, be adversely affected;

(iii) the Facility (or such portion thereof) will be subject to no Liens, other than Permitted Encumbrances; and

(iv) any other conditions the Issuer may reasonably impose.

(c) All such repair, replacement, rebuilding, restoration or relocation of the Facility (or such portion thereof) shall be effected with due diligence in a good and workmanlike manner in compliance with all applicable legal requirements and be promptly and fully paid for by the Institution, or any Member Hospital, as applicable, in accordance with the terms of the applicable contracts.

(d) If the Institution elects to replace, repair, rebuild, restore or relocate the Facility pursuant to the Loan Agreement, then in the event such Net Proceeds are not sufficient to pay in full the costs of such replacement, repair, rebuilding, restoration or relocation, the Institution shall nonetheless complete (or cause the completion of) the work and pay from its own moneys (or the moneys of or any Member Hospital, as applicable) that portion of the costs thereof in excess of such Net Proceeds. All such replacements, repairs, rebuilding, restoration or relocations made pursuant to the Loan Agreement, whether or not requiring the expenditure of the Institution's own money (or,

as applicable, the money of any Member Hospital), shall automatically become a part of the Facility as if the same were specifically described in the Loan Agreement.

(e) Any balance of such Net Proceeds remaining in the Renewal Fund after payment of all costs of replacement, repair, rebuilding, restoration or relocation shall, subject to any rebate required to be made to the Federal government pursuant to the Indenture or the Tax Regulatory Agreement, be used to redeem the Series 2016 Bonds as provided in the Indenture.

(f) If the Institution shall exercise its option to terminate the Loan Agreement pursuant to the provisions under the heading "Early Termination of Loan Agreement", such Net Proceeds shall be applied to the payment of the amounts required to be paid by the Loan Agreement. If an Event of Default under the Loan Agreement shall have occurred and is continuing and the Trustee or Issuer shall have exercised its remedies under the Loan Agreement, such Net Proceeds shall be applied to the payment of the amounts required to be paid by the Loan Agreement.

(g) If the entire amount of the Series 2016 Bonds and interest thereon has been fully paid, or provision therefor has been made in accordance with the Indenture, all such remaining Net Proceeds shall be paid to the Institution.

(h) Except upon the occurrence and continuation of an Event of Default, the Institution, PHC, VBMC or NDH, as applicable, with the consent of the Issuer, not to be unreasonably withheld, delayed or conditioned, shall have the right to settle and adjust all claims under any policies of insurance required by the Loan Agreement, as applicable, on behalf of the Issuer and on its own behalf. *(Section 7.1)*

Condemnation

(a) If title to or use of the Facility or any portion thereof shall be taken by Condemnation (in whole or in part) at any time during the Loan Term:

> (i) the Issuer shall have no obligation to replace, repair, rebuild, restore or relocate the Facility (or such portion thereof) or acquire, by construction or otherwise, facilities of substantially the same nature as the Facility (the "**Substitute Facility**"); and
>
> (ii) there shall be no abatement or reduction in the amounts payable by the Institution under the Loan Agreement (whether or not the Facility (or such portion thereof) is replaced, repaired, rebuilt, restored or relocated or the Substitute Facility acquired, except as otherwise provided in the Indenture); and
>
> (iii) upon the occurrence of such Condemnation, the Net Proceeds derived therefrom shall be paid to the Master Trustee and applied by the Master Trustee in accordance with the Master Trust Indenture, and, except as otherwise provided in the Loan Agreement, the Institution, or any Member Hospital, as applicable, shall either:

(A) replace, repair, rebuild, restore or relocate the Facility (or such portion thereof) or acquire the Substitute Facility, or

(B) redeem an amount of Series 2016 Bonds equal to the Net Proceeds in accordance with the Indenture.

If the Institution, or any Member Hospital, as applicable, replaces, repairs, rebuilds, restores or relocates the Facility (or such portion thereof) or acquires the Substitute Facility and the Master Trustee provides all or any portion of the Net Proceeds to the Trustee for deposit in the Renewal Fund, the Trustee shall disburse the Net Proceeds from the Renewal Fund in the manner set forth in the Indenture to pay or reimburse the Institution, or any Member Hospital as applicable, for the cost of such replacement, repair, rebuilding, restoration, relocation or acquisition of the Substitute Facility.

(b) Any such replacements, repairs, rebuilding, restorations, relocations or acquisitions of the Substitute Facility shall be subject to the following conditions:

(i) the Facility (or such portion thereof) or the Substitute Project shall be in substantially the same condition and value as an operating entity as existed prior to the condemnation;

(ii) the exclusion of the interest on the Series 2016 Bonds from gross income for Federal income tax purposes shall not, in the opinion of Bond Counsel, be adversely affected;

(iii) the Project (or such portion thereof) or the Substitute Project will be subject to no Liens, other than Permitted Encumbrances; and

(iv) any other conditions the Issuer may reasonably impose.

(c) All such repair, replacement, rebuilding, restoration or relocation of the Project (or such portion thereof) shall be effected with due diligence in a good and workmanlike manner in compliance with all applicable legal requirements and shall be promptly and fully paid for by the Institution, or any Member Hospital, as applicable, in accordance with the terms of the applicable contracts.

(d) If the Institution elects to replace, repair, rebuild, restore or relocate pursuant to the Loan Agreement, then in the event such Net Proceeds are not sufficient to pay in full the costs of such replacement, repair, rebuilding, restoration, relocation or acquisition of the Substitute Facility, the Institution shall nonetheless complete (or cause to complete) the work or the acquisition and pay from its own moneys (or the moneys of or any Member Hospital, as applicable) that portion of the costs thereof in excess of such Net Proceeds. All such replacements, repairs, rebuilding, restoration, relocations and such acquisition of the Substitute Facility made pursuant to the Loan Agreement, whether or not requiring the expenditure of the Institution's, or any Member Hospital's own

money, as applicable, shall automatically become a part of the Facility as if the same were specifically described in the Loan Agreement.

(e) Any balance of such Net Proceeds remaining in the Renewal Fund after payment of all costs of replacement, repair, rebuilding, restoration, relocation or acquisition of the Substitute Facility shall, subject to any rebate required to be made to the Federal government pursuant to the Indenture or the Tax Regulatory Agreement, be used to redeem the Bonds as provided in the Indenture.

(f) If the Institution shall exercise its option to terminate the Loan Agreement pursuant to the provisions under the heading "Early Termination of Loan Agreement", such Net Proceeds shall be applied to the payment of the amounts required to be paid by the Loan Agreement. If any Event of Default under the Loan Agreement shall have occurred and is continuing and the Trustee or Issuer shall have exercised its remedies under the Loan Agreement, such Net Proceeds shall be applied to the payment of the amounts required to be paid by the Loan Agreement.

(g) If the entire amount of the Series 2016 Bonds and interest thereon has been fully paid, or provision therefor has been made in accordance with the Indenture, all such remaining Net Proceeds shall be paid to the Institution.

(h) Except upon the occurrence and continuation of an Event of Default, the Institution, PHC, VBMC or NDH, as applicable, with the consent of the Issuer, not to be unreasonably withheld, delayed or conditioned, shall have the right to settle and adjust all claims under any Condemnation proceedings on behalf of the Issuer and on its own behalf. *(Section 7.2)*

Hold Harmless Provisions

(a) The Institution agrees that the Issuer, the Trustee and each Paying Agent shall not be liable for and agrees to defend, indemnify, release and hold the Issuer, the Trustee and each Paying Agent harmless from and against any and all (i) liability for loss or damage to Property or injury to or death of any and all Persons that may be occasioned by, directly or indirectly, any cause whatsoever pertaining to the Facility or arising by reason of or in connection with the occupation or the use thereof or the presence of any Person or Property on, in or about the Facility, or (ii) liability arising from or expense incurred in connection with the Issuer's financing and refinancing of the Project, including without limiting the generality of the foregoing, all claims arising from the breach by the Institution of any of its covenants contained in the Loan Agreement, and all causes of action and reasonable attorneys' fees and any other expenses incurred in defending any suits or actions which may arise as a result of any of the foregoing, provided that any such losses, damages, liabilities or expenses of the Issuer, the Trustee or any Paying Agent are not incurred or do not result from the gross negligence or intentional or willful wrongdoing of the Issuer, the Trustee or any Paying Agent or any of their respective members, directors, trustees, officers, agents or employees. The foregoing indemnities shall apply notwithstanding the fault or negligence in part of the Issuer, the Trustee or any Paying Agent, or any of their respective members, directors,

trustees, officers, agents or employees, and irrespective of the breach of a statutory obligation (other than any such fault or breach caused by any of their respective gross negligence or intentional or willful wrongdoing) or the application of any rule of comparative or apportioned liability. The foregoing indemnities are limited only to the extent of any prohibitions imposed by law.

(b) Notwithstanding any other provisions of the Loan Agreement, the obligations of the Institution pursuant to the provisions under this heading shall remain in full force and effect after the termination of the Loan Agreement until the expiration of the period stated in the applicable statute of limitations during which a claim, cause of action or prosecution relating to the matters described in the Loan Agreement may be brought or the payment in full or the satisfaction of such claim, cause of action or prosecution relating to the matters in the Loan Agreement described and the payment of all expenses and charges incurred by the Issuer, the Trustee or their respective members, directors, officers, agents and employees, relating to the enforcement of the provisions specified in the Loan Agreement.

(c) In the event of any claim against the Issuer, the Trustee or any Paying Agent or their respective members, directors, officers, agents or employees by any employee or contractor of the Institution or anyone directly or indirectly employed by any of them or anyone for whose acts any of them may be liable, the obligations of the Institution under the Loan Agreement shall not be limited in any way by any limitation on the amount or type of damages, compensation, disability benefits or other employee benefit acts if such limitations are not lawfully applicable or available, directly or indirectly, or derivatively to any such indemnified parties.

(d) The Trustee and each Paying Agent shall be third party beneficiaries of the Institution's obligations summarized under this heading. *(Section 8.2)*

Right to Inspect Facility

The Issuer and the Trustee and the duly authorized agents of either of them shall have the right at all reasonable times upon prior reasonable written notice to the Institution to inspect the Facility; provided, that during such inspections the Issuer and/or the Trustee shall be accompanied by a representative of the Institution and all such inspections shall not disturb patients or otherwise violate any applicable federal or state laws. *(Section 8.3)*

Institution to Maintain Its Existence

The Institution and each Member Hospital agrees that during the Loan Term (a) it will maintain its existence as a not-for-profit corporation constituting an Exempt Organization subject to service of process within the State; (b) it will preserve its status as an organization described in Section 501(c)(3) of the Code; (c) it will operate (or cause PHC, VBMC and NDH to operate) the Facility as a hospital licensed under Article 28 of the New York Public Health Law or for other such purposes as permitted by the Tax Regulatory Agreement and will set patient fees and charges provided by the Institution

and the other Members of the Obligated Group, which, together with other available funds, will be sufficient in each fiscal year to provide funds for the following: (1) the payment by the Institution and the other Members of the Obligated Group, as applicable, of all of its expenses for the operation, maintenance and repair of their facilities, including the Facility in such year; (2) the payment of all amounts due under the Loan Agreement in such year; and (3) the payment of all Indebtedness and all other obligations of the Institution due in such year; and (e) it will not perform any act, enter into any agreement, or use or permit the Facility to be used in any manner or for any unrelated trade or business as described in Section 513(a) of the Code, which could adversely affect the exemption of interest on the Series 2016 Bonds from Federal income taxes pursuant to Section 103 and 145 of the Code except as provided in the Tax Regulatory Agreement. Nothing in the Loan Agreement shall be construed to prohibit the provision of services to indigent patients at reduced rates or without charge. Except as permitted by the Tax Regulatory Agreement, prior to the Institution performing any act, entering into any agreement or using or permitting the Facility to be used in any manner that would constitute an unrelated trade or business within the meaning of Section 513(a) of the Code, the Institution shall provide written notice to the Issuer and the Trustee and the Issuer and the Trustee shall receive an opinion of counsel satisfactory to each of them to the effect that such contemplated act, agreement or use will not adversely affect the exemption of interest on the Series 2016 Bonds for Federal income tax purposes. *(Section 8.4)*

Qualification in State

The Institution throughout the Loan Term shall cause all of the Member Hospitals to continue to be duly authorized to do business in the State under Article 28 of the New York Public Health Law. *(Section 8.5)*

Agreement to Provide Information

The Institution agrees within a reasonable period of time following a written request by the Issuer to provide and certify or cause to be provided and certified such information concerning the Institution, any Member Hospital, their finances, their operations and their affairs necessary to enable the Issuer to make any report required by law, including without limitation pursuant to the Public Authorities Accountability Act of 2005 (the "**PAAA**"), or the Public Authorities Reform Act of 2009 (the "**PARA**") as amended from time to time, governmental regulation or any of the Issuer Documents or Institution Documents. *(Section 8.6)*

Books of Record and Account; Financial Statements

The Institution at all times agrees to maintain proper accounts, records and books in which full and correct entries shall be made, in accordance with generally accepted accounting principles, of all transactions and events relating to the business and affairs of the Institution. *(Section 8.7)*

Compliance with Orders, Ordinances, Etc.

(a) The Institution, throughout the Loan Term, agrees that it will promptly comply, and take all reasonable steps to cause any tenant or occupant of the Facility to comply, with all statutes, codes, laws, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, permits, licenses, authorizations, directions and requirements, ordinary or extraordinary, which now or at any time hereafter may be applicable to the Facility or any part thereof or to the renovation, construction and equipping thereof, or to any use, manner of use or condition of the Facility or any part thereof, of all federal, state, county, municipal and other governments, departments, commissions, boards, courts, authorities, officials and officers having jurisdiction of the Facility or any part thereof, or to the renovation, construction, equipping and furnishing thereof, or to any use, manner of use or condition of the Facility or any part thereof and of all companies or associations insuring the premises.

(b) The Institution shall keep or cause the Facility to be kept free of Hazardous Substances, except in compliance with applicable law. Without limiting the foregoing, the Institution shall not knowingly cause or permit the Facility to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process Hazardous Substances, except in compliance with all applicable federal, state and local laws, regulations and permits, nor shall the Institution knowingly cause or permit, as a result of any intentional or unintentional act or omission on the part of the Institution or any contractor, subcontractor, tenant or subtenant, a release of Hazardous Substances onto the Facility or onto any other property. The Institution shall comply with and shall take commercially reasonable steps to ensure compliance by all contractors, subcontractors, tenants and subtenants with all applicable federal, state and local laws, ordinances, rules and regulations pertaining to the environment, whenever and by whomever triggered, and shall obtain and comply with, and shall take commercial reasonable steps to ensure that all contractors, subcontractors, tenants and subtenants obtain and comply with, any and all approvals, registrations or permits required thereunder. The Institution shall (a) conduct and complete (or cause to be conducted and completed) all investigations, studies, sampling, and testing, and all remedial, removal, and other actions necessary to clean up and remove (unless maintained on the premises in accordance with applicable law) all Hazardous Substances, on, from, or affecting the Facility (i) in accordance with all applicable federal, state, and local laws, ordinances, rules, regulations, and policies and (ii) in accordance with the orders and directives of all federal, state, and local governmental authorities; and (b) defend, indemnify, and hold harmless the Trustee and the Issuer, their employees, agents, officers, and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs, or expenses of whatever kind or nature, known or unknown, contingent or otherwise,

arising out of, or in any way related to (i) the presence, disposal, release, or threatened release of any Hazardous Substances which are on, from or affecting the soil, water, vegetation, buildings, personal property, persons, animals, or otherwise, (ii) any bodily injury, personal injury (including wrongful death) or property damage (real or personal) arising out of or related to such Hazardous Substances, (iii) any lawsuit brought or threatened, settlement reached, or government order relating to such Hazardous Substances, and/or (iv) any violation of laws, orders, regulations, requirements, or demands of government authorities, which are based upon or in any way related to such Hazardous Substances, including, without limitation, reasonable attorney and consultant fees, reasonable investigation and laboratory fees, court costs, and reasonable litigation expenses. Notwithstanding anything contained in the Loan Agreement to the contrary, the foregoing indemnity obligations shall not apply with respect to any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses arising out of or in any way related to any Indemnified Party's respective gross negligence or intentional or willful wrongdoing. The provisions under this heading shall be in addition to any and all other obligations and liabilities the Institution may have to the Issuer and the Trustee at common law, and shall survive the transactions contemplated in the Loan Agreement.

(c) Notwithstanding the provisions of subsections (a) and (b) above, the Institution may in good faith contest the validity or the applicability of any requirement of the nature referred to in such subsections (a) and (b) by appropriate legal proceedings conducted in good faith and with due diligence. In such event, the Institution, PHC, VBMC or NDH, as applicable, may fail to comply with the requirement or requirements so contested during the period of such contest and any appeal therefrom, unless the Issuer or the Trustee shall notify the Institution that by failure to comply with such requirement or requirements, the Facility or any part thereof is reasonably likely to be subject to loss, penalty or forfeiture, in which event the Institution shall promptly take (or cause to be taken) such action with respect thereto or provide such security as shall be reasonably satisfactory to the Trustee and to the Issuer. If at any time the then existing use or occupancy of the Facility shall, pursuant to any zoning or other law, ordinance or regulation, be permitted only so long as such use or occupancy shall continue, the Institution shall use (or cause to be used) commercially reasonable efforts to not cause or permit such use or occupancy to be discontinued without the prior written consent of the Issuer and the Trustee, which consent shall not be unreasonably withheld, delayed or conditioned.

(d) Notwithstanding the provisions of the Loan Agreement, if, because of a breach or violation of the provisions of subsections (a) or (b) above (without giving effect to subsection (c) above), either the Issuer, the Trustee, or any of their respective members, directors, officers, agents, or employees, shall be threatened with a fine, liability, expense or imprisonment (other than as a result of such person's gross negligence or intentional or willful misconduct), then, upon notice from the Issuer or the Trustee, the Institution shall immediately provide legal protection and/or pay amounts reasonably necessary in the opinion of the Issuer or the Trustee, as the case may be, and their respective members, directors, officers, agents and employees deem sufficient, to the extent permitted by applicable law, to remove the threat of such fine, liability, expense or imprisonment.

(e) Notwithstanding any provisions of the Loan Agreement, the Trustee and the Issuer retain the right to defend themselves in any action or actions which are based upon or in any way related to such Hazardous Substances, which action or actions are not, in the Trustee's and the Issuer's reasonable judgment, being adequately defended by the Institution, and any Member Hospital, as applicable. In any such defense of themselves, the Trustee and the Issuer shall select one counsel to represent them jointly, and any and all reasonable costs of such defense, including, without limitation, reasonable attorney and consultant fees, reasonable investigation and laboratory fees, court costs, and reasonable litigation expenses, shall be paid by the Institution. *(Section 8.8)*

Discharge of Liens and Encumbrances

(a) The Institution, throughout the Loan Term, shall not permit or create or suffer to be permitted or created any Lien, except for Permitted Encumbrances and except as permitted by the provisions of subsection (b) below, upon the Facility or any part thereof by reason of any labor, services or materials rendered or supplied or claimed to be rendered or supplied with respect to the Project or any part thereof.

(b) Notwithstanding the provisions of subsection (a) above, the Institution, and any Member Hospital, as applicable, may in good faith contest any such Lien. In such event, the Institution, and any Member Hospital, as applicable, may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, unless the Issuer or the Trustee shall notify the Institution that by nonpayment of any such item or items, the Facility or any part thereof is reasonably likely to be subject to loss or forfeiture, in which event the Institution shall promptly secure (or cause to be secured) payment of all such unpaid items by filing a bond, in form and substance satisfactory to the Issuer, thereby causing such Lien to be removed or by taking such other actions as may be satisfactory to the Issuer to protect its interests. Mechanics' Liens shall be discharged or bonded within ninety (90) days following the Institution's receipt of notice of the filing or perfection thereof. *(Section 8.9)*

Additional Encumbrances and Indebtedness

The Institution may issue additional long term Indebtedness or request the Issuer to issue one or more series of Additional Bonds under the Indenture, provided that all terms and conditions for the incurrence of such additional Indebtedness or Additional Bonds under the Master Trust Indenture and/or the Indenture have been satisfied. *(Section 8.13)*

Certain Additional Covenants

(a) The Institution agrees to furnish to the Issuer and the Trustee, as soon as available and in any event within one hundred fifty (150) days after the close of each fiscal year of the Institution, a copy of the annual audited financial statements of the Institution, including statements of financial position as of the end of such year, and the related statement of activities for such fiscal year, prepared in accordance with generally accepted accounting principles, audited by a firm of independent certified public accountants.

(b) The Institution shall deliver to the Issuer and the Trustee with each delivery of annual financial statements required by the Loan Agreement, a certificate of an Authorized Representative of the Institution as to whether or not, as of the close of such preceding fiscal year of the Institution, and at all times during such fiscal year, the Institution was in compliance in all material respects with all the provisions which related to the Institution in the Bond Documents, and if such Authorized Representative of the Institution shall have obtained knowledge of any default in such compliance or notice of such default, such Authorized Representative of the Institution shall disclose in such certificate, such default or defaults or notice thereof and the nature thereof, whether or not the same shall constitute an Event of Default under the Loan Agreement, and any action proposed to be taken by the Institution with respect thereto.

(c) The Institution shall immediately notify the Issuer and the Trustee of the occurrence of any default or any event which with notice and/or lapse of time would constitute an Event of Default under the Loan Agreement or any of the other Bond Documents. Any notice required to be given pursuant to the provisions under this heading shall be signed by an Authorized Representative of the Institution and set forth a description of the default and the steps, if any, being taken to cure said default. If no steps have been taken, the Institution shall state this fact on the notice.

(d) The Institution will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered such further acts, instruments, conveyances, transfers and assurances, to the extent permitted by applicable law, at the sole cost and expense of the Institution, as the Issuer or the Trustee deems reasonably necessary or advisable for the implementation, effectuation, correction, confirmation or perfection of the Loan Agreement and any rights of the Issuer or the Trustee under the Loan Agreement or under the Indenture.

(e) The Institution shall furnish to the Issuer and the Trustee notice of the commencement of any proceeding by or against any Member of the Obligated Group commenced under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding"). *(Section 8.14)*

Continuing Disclosure Agreement

The Institution has executed and delivered a Continuing Disclosure Agreement, dated the date of initial delivery of the Series 2016 Bonds. The Institution covenants and agrees with the Holders from time to time of the Series 2016 Bonds that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement, as amended from time to time, applicable to it. Notwithstanding any other provision of the Loan Agreement, failure of the Institution to comply with the Continuing Disclosure Agreement shall not be considered a default or an Event of Default under the Loan Agreement and the rights and remedies provided by the Loan Agreement upon the occurrence of such a default or an Event of Default shall not apply to any such failure, but the Continuing Disclosure Agreement may be enforced only as provided therein. *(Section 8.15)*

Securities Law Status

The Institution affirmatively represents, warrants and covenants that, as of the date of the Loan Agreement, it is an organization organized and operated: (i) exclusively for civic or charitable purposes; (ii) not for pecuniary profit; and (iii) no part of the net earnings of which inure to the benefit of any person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and of the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act nor enter into any agreement which shall change such status as set forth in the Loan Agreement. *(Section 8.16)*

Rebate Covenant

The Institution covenants to make, or cause to be made, any and all payments required to be made to the United States Department of the Treasury in connection with the Series 2016 Bonds pursuant to Section 148(f) of the Code and to comply with instructions received from Bond Counsel pursuant to the certification with respect to the making of any such payments. *(Section 8.17)*

Assignment, Leasing and Subleasing

(a) The Loan Agreement may not be assigned, in whole or in part, and except in the ordinary course of the operations of the Institution or any Member Hospital, as applicable, the Facility may not be leased, in whole or in part, without the prior written consent of the Issuer, which consent shall not be unreasonably withheld, delayed or conditioned, in each instance except as provided in the Tax Regulatory Agreement. Any permitted assignment or lease (requiring the Issuer's consent) shall be on the following conditions:

(i) no assignment or lease shall relieve the Institution from primary liability for any of its obligations under the Loan Agreement or under any other of the Institution Documents;

(ii) the assignee (in the discretion of the Issuer) shall assume the obligations of the Institution under the Loan Agreement to the extent of the interest assigned or leased, shall be jointly and severally liable with the Institution for the performance thereof and shall be subject to service of process in the State of New York;

(iii) the Institution shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Issuer and to the Trustee a true and complete copy of such assignment or lease and the instrument of assumption;

(iv) neither the validity nor the enforceability of the Series 2016 Bonds or any Bond Document shall be adversely affected thereby;

(v) the exclusion of the interest on the Series 2016 Bonds from gross income for Federal income tax purposes will not be adversely affected;

(vi) the assignee (in the discretion of the Issuer) shall be an Exempt Organization and shall utilize the Facility substantially in the same manner as the Institution pursuant to Article 28 of the New York Public Health Law.

Notwithstanding the foregoing, as specifically permitted by the Master Trust Indenture, the Institution, and each Member Hospital, as applicable, may lease or license or timeshare portions of the Facility without such consent so long as such lease, license or time share will not jeopardize the 501(c)(3) and 501(a) status of the Institution or any Member Hospital, as applicable.

(b) If the Trustee or the Issuer shall so request, as of the purported effective date of any assignment or lease pursuant to subsection (a) above, the Institution, at its sole cost, shall furnish the Trustee or the Issuer, as appropriate, with an opinion, in form and substance satisfactory to the Trustee or the Issuer, as appropriate, (i) of Bond Counsel as to items (iv) (with respect to those Bond Documents for which Bond Counsel opined at the time of delivery of the Series 2016 Bonds), (v) and (vi) above, and (ii) of Independent Counsel as to items (i), (ii) and (iv) (with respect to those Bond Documents for which Independent Counsel opined at the time of delivery of the Series 2016 Bonds) above. *(Section 9.3)*

Merger of Issuer

(a) Nothing contained in the Loan Agreement shall prevent the consolidation of the Issuer with, or merger of the Issuer into, or transfer of its interest, if any, in the entire Project to any other public benefit corporation or political subdivision which has the legal authority to enter into the Loan Agreement, provided that:

(i) upon any such consolidation, merger or transfer, the due and punctual performance and observance of all the agreements and conditions

of the Loan Agreement to be kept and performed by the Issuer shall be expressly assumed in writing by the public benefit corporation or political subdivision resulting from such consolidation or surviving such merger or to which the Issuer's interest in the Project shall be transferred; and

(ii) the exclusion of the interest on the Series 2016 Bonds from gross income for Federal income tax purposes shall not be adversely affected thereby.

(b) Within thirty (30) days after the consummation of any such consolidation, merger or transfer of interest, the Issuer shall give notice thereof in reasonable detail to the Institution and the Trustee and shall furnish to the Institution and the Trustee (i) a favorable opinion of Independent Counsel as to compliance with the provisions of subsection (a)(i) above, and (ii) a favorable opinion of Bond Counsel opining as to compliance with the provisions of subsection (a)(ii) above. The Issuer promptly shall furnish such additional information with respect to any such transaction as the Institution or the Trustee may reasonably request. *(Section 9.5)*

Events of Default Defined

(a) The following shall be "Events of Default" under the Loan Agreement:

(i) the failure by the Institution to pay or cause to be paid on the date due, the amounts specified to be paid pursuant to subsections (a), (b) and (d) under the heading "Loan Payments and Other Amounts Payable";

(ii) the failure by the Institution to observe and perform any covenant contained in Sections 6.3, 6.4, 6.5, 8.2, 8.4, 8.5, 8.14 and 9.3 of the Loan Agreement;

(iii) any representation or warranty of the Institution in the Loan Agreement or in the Bond Purchase Agreement shall prove to have been false or misleading in any material respect and the same shall have a materially adverse effect upon the Institution, the Project or the exclusion of interest on the Series 2016 Bonds from gross income for federal income tax purposes;

(iv) the failure by the Institution to observe and perform any covenant, condition or agreement under the Loan Agreement on its part to be observed or performed (except obligations referred to in 10.1(a)(i) or (ii)) for a period of thirty (30) days after receiving written notice, specifying such failure and requesting that it be remedied, given to the Institution by the Issuer or the Trustee; provided, however, that if such default cannot be cured within thirty (30) days but the Institution is proceeding diligently and in good faith to cure such default, then the Institution shall be permitted an additional ninety (90) days within which to remedy the default;

(v) the dissolution or liquidation of the Institution or any Member of the Obligated Group; or the failure by the Institution to release, stay, discharge, lift or bond within sixty (60) days any execution, garnishment, judgment or attachment of such consequence as may impair its ability to carry on its operations; or the failure by the Institution generally to pay its debts as they become due; or an assignment by the Institution for the benefit of creditors; the commencement by the Institution (as the debtor) of a case in Bankruptcy or any proceeding under any other insolvency law; or the commencement of a case in Bankruptcy or any proceeding under any other insolvency law against the Institution (as the debtor) and a court having jurisdiction in the premises enters a decree or order for relief against the Institution as the debtor in such case or proceeding, or such case or proceeding is consented to by the Institution or remains undismissed for ninety (90) days, or the Institution consents to or admits the material allegations against it in any such case or proceeding; or a trustee, receiver or agent (however named) is appointed or authorized to take charge of substantially all of the property of the Institution for the purpose of enforcing a lien against such Property or for the purpose of general administration of such Property for the benefit of creditors (the term "dissolution or liquidation of the Institution or any Member of the Obligated Group" as used under this heading shall not be construed to include any transaction permitted by the Loan Agreement);

(vi) an Event of Default under or a default on the part of the Institution of its obligations under the Indenture shall have occurred and be continuing;

(vii) the invalidity, illegality or unenforceability of any of the Bond Documents, provided the same does not permit the Issuer or the Trustee, as the case may be, to recognize the material benefits of the respective documents; or

(viii) a breach of any covenant or representation contained under the heading "Compliance with Orders, Ordinances, Etc." with respect to environmental matters, which breach shall have or is reasonably likely to have a material adverse effect on the condition (financial or otherwise) of any Member Hospital, as applicable, or the Project, taken as a whole.

(b) Notwithstanding the provisions of subsection (a) above, if by reason of force majeure any party to the Loan Agreement shall be unable in whole or in part to carry out its obligations under the Loan Agreement (other than its obligations under the heading "Loan Payments and Other Amounts Payable") and if such party shall give notice and full particulars of such force majeure in writing to the other party and to the Trustee, within a reasonable time after the occurrence of the event or cause relied upon, such obligations under the Loan Agreement of the party giving such notice (and only such obligations), so far as they are affected by such force majeure, shall be suspended during continuance of the inability, which shall include a reasonable time for the removal

of the effect thereof. The term "force majeure" as used in the Loan Agreement shall include, without limitation, acts of God, strikes, lockouts or other industrial disturbances, acts of public enemies (including, without limitation, terrorist acts and acts of war), acts, priorities or orders of any kind of the government of the United States of America or of the State or any of their departments, agencies, governmental subdivisions, or officials, any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fire, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accident to machinery, transmission pipes or canals, shortages of labor or materials or delays of carriers, partial or entire failure of utilities, shortage of energy or any other cause or event not reasonably within the control of the party claiming such inability and not due to its fault. The party claiming such inability shall remove the cause for the same with all reasonable promptness, if such party can do so by exercising commercially reasonable efforts. It is agreed that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the party having difficulty, and the party having difficulty shall not be required to settle any strike, lockout and other industrial disturbances by acceding to the demands of the opposing party or parties. *(Section 10.1)*

Remedies on Default

(a) Whenever any Event of Default shall have occurred and be continuing, the Issuer or the Trustee may take, to the extent permitted by law, any one or more of the following remedial steps:

(i) declare, by written notice to the Institution, to be immediately due and payable, whereupon the same shall become immediately due and payable: (A) all unpaid loan payments payable pursuant to subsection (a) under the heading "Loan Payments and Other Amounts Payable" and pursuant to the Promissory Note in an amount equal to the aggregate unpaid principal balance of all Series 2016 Bonds together with all interest which has accrued and will accrue thereon to the date of payment and all premium, if any, and (B) all other payments due under the Loan Agreement; provided, however, that if an Event of Default specified in subsection (a)(v) under the heading "Events of Default Defined" shall have occurred, such loan payments and other payments due under the Loan Agreement shall become immediately due and payable without notice to the Institution or the taking of any other action by the Trustee;

(ii) (a) apply any undisbursed money in the Project Fund and Renewal Fund to the payment of the costs and expenses incurred in connection with the enforcement of the rights and remedies of the Trustee and the Issuer, and (b) apply any undisbursed monies in the Project Fund, the Renewal Fund, and any other Fund or Account under the Indenture (other than those sums attributable to Unassigned Rights and except for the monies and investments from time to time in the Rebate Fund) to the

payment of the outstanding principal amount of the Series 2016 Bonds and premium, if any, and accrued and unpaid interest on the Bonds; or

(iii) take any other action at law or in equity that may appear necessary or desirable to collect the payments then due or thereafter to become due under the Loan Agreement and to enforce the obligations, agreements or covenants of the Institution under the Loan Agreement.

(b) [Reserved].

(c) Any sums payable to the Issuer as a consequence of any action taken pursuant to the provisions under this heading (other than those sums attributable to Unassigned Rights and except for the moneys and investments from time to time in the Rebate Fund) shall be paid to the Trustee and applied to the payment of the Series 2016 Bonds.

(d) No action taken pursuant to the provisions under this heading shall relieve the Institution from its obligation to make all payments required by the Loan Agreement and pursuant to the Promissory Note.

(e) [Reserved].

(f) The Issuer shall have all of the rights, powers and remedies of a secured party under the Uniform Commercial Code of New York. *(Section 10.2)*

Remedies Cumulative

No remedy in the Loan Agreement conferred upon or reserved to the Issuer or the Trustee is intended to be exclusive of any other available remedy, but each and every such remedy shall be cumulative and in addition to every other remedy given under the Loan Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Issuer or the Trustee, as appropriate, to exercise any remedy reserved to it in the Loan Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required in the Loan Agreement. *(Section 10.3)*

Agreement to Pay Attorneys' Fees and Expenses

(a) In the event the Institution should default under any of the provisions of the Loan Agreement and the Issuer should employ attorneys or incur other reasonable expenses for the collection of amounts payable under the Loan Agreement or the enforcement of performance or observance of any obligations or agreements on the part of the Institution contained in the Loan Agreement, the Institution shall, on demand therefor, pay to the Issuer the reasonable fees of such attorneys and such other reasonable out-of-pocket expenses so incurred.

(b) In the event the Institution should default under any of the provisions of the Loan Agreement and the Trustee should employ attorneys or incur other reasonable expenses for the collection of amounts payable under the Loan Agreement or the enforcement of performance or observance of any obligations or agreements on the part of the Institution contained in the Loan Agreement, the Institution shall, on demand therefor, pay to the Trustee the reasonable fees of such attorneys and such other reasonable out-of-pocket expenses so incurred. *(Section 10.4)*

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Loan Agreement should be breached by any party and thereafter waived by any other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Loan Agreement. *(Section 10.5)*

Early Termination of Loan Agreement

The Institution shall have the option to terminate the Loan Agreement at any time that the Series 2016 Bonds are subject to redemption in whole under the Indenture and upon filing with the Issuer and the Trustee a certificate signed by an Authorized Representative of the Institution stating the Institution's intention to do so pursuant to the Loan Agreement and the date upon which such payment shall be made (which date shall not be less than twenty-five (25) nor more than sixty (60) days from the date such certificate is filed) and upon compliance with the requirements set forth under the heading "Conditions to Early Termination of Loan Agreement". *(Section 11.1)*

Conditions to Early Termination of Loan Agreement

In the event the Institution exercises its option to terminate the Loan Agreement in accordance with the provisions under the heading "Early Termination of Loan Agreement", the Institution shall make the following payments:

(a) To the Trustee for the account of the Issuer: an amount certified by the Trustee which, when added to the total amount on deposit with the Trustee for the account of the Issuer and the Institution and available for such purpose, will be sufficient to pay the principal of, Redemption Price of, and interest to maturity or the earliest practicable redemption date, as the case may be, on the Series 2016 Bonds, all expenses of redemption and the Trustee's fees and expenses.

(b) To the Issuer: an amount certified by the Issuer sufficient to pay all unpaid fees and expenses of the Issuer incurred under the Bond Documents.

(c) To the appropriate Person: an amount sufficient to pay all other fees, expenses or charges, if any, due and payable or to become due and payable under the Bond Documents. *(Section 11.2)*

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APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES

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SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE AND THE SUPPLEMENTAL INDENTURES

The Master Indenture, as modified by the Supplemental Indentures, contains terms and conditions relating to the issuance and sale of Obligations under it, including various covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Indenture, as modified by the Supplemental Indentures, and the Supplemental Indentures, to which reference is made, copies of which are available from the Issuer or the Master Trustee. In addition to the other terms defined in this Official Statement, this summary uses various terms defined in the Master Indenture and the Supplemental Indentures and such terms as used in the Master Indenture and the Supplemental Indentures will have the meanings ascribed to them below.

MASTER INDENTURE

DEFINITIONS

"Additional Indebtedness" means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of Obligation Nos. 1 through 7 under the Master Indenture or incurred by a new Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

"Affiliate" means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which directly or indirectly controls, is controlled by or is under common control with a Member, including the Obligated Group Representative. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Audited Financial Statements" means, as to any Member of the Obligated Group, financial statements for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements of the Obligated Group shall also consist of, in an additional information section, unaudited combining financial statements for the same twelve-month period from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not already included have been added.

"Authority" means the Dormitory Authority of the State of New York and any successor thereto.

"Authorized Representative" shall mean, with respect to a Member, including the Obligated Group Representative, the Chairperson of its Governing Body or its chief executive officer or its chief financial officer, or any other person or persons designated an Authorized Representative of such Member by an Officer's Certificate of such Member, signed by the Chairperson of its Governing Body or its chief executive officer or its chief financial officer and filed with the Master Trustee.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness other than a Demand Obligation twenty-five percent (25%) or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

"Book Value" when used in connection with Property, Plant and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

"Capital Addition" means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

"Code" means the Internal Revenue Code of 1986, as amended.

"Consultant" means a firm or firms, selected by the Obligated Group Representative, which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or other financial institution of national repute for having the skill and experience necessary to render the particular report required by the related provision of the Master Indenture in which such requirement appears and which is not unacceptable to (i) the Master Trustee, and (ii) so long as any Related Bonds are Outstanding, the Related Bond Issuer and the Related Credit Facility Issuer.

"Covered Obligation" means Obligation Nos. 1 through 7 and any other Obligation issued pursuant to a Supplement which provides that the Obligation shall be secured by a Mortgage.

"Credit Facility" means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement, surety bond or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness or Related Bonds to provide credit or liquidity support for such Indebtedness or Related Bonds.

"Credit Facility Issuer" means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the last date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or refunded Indebtedness until the Cross-over Date.

"Days Cash On Hand" means the quotient produced by dividing the sum of unrestricted cash, investments and board designated funds by operating expenses minus depreciation and amortization, and then multiplying the quotient by 365.

"DCIDA" means the Dutchess County Industrial Development Agency.

"Defeasance Obligations" means, unless modified by the terms of a particular Supplement, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations, and (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian.

"Defeased Municipal Obligations" means obligations of state or local government municipal bond issuers rated the highest rating by Moody's, S&P, or Fitch, respectively, provision for the payment of the principal of and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay, on the due dates thereof, the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

"Defeased Obligations" means Obligations issued under a Supplement that have been discharged, or provision for the discharge of which have been made, pursuant to the terms of such Supplement.

"Demand Obligation" means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

"Derivative Agreement" means, without limitation,

(i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract;

(ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;

(iii) any contract to exchange cash flows or payments or series of payments;

(iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and

(v) any other type of contract or arrangement that the Obligated Group or Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, or minimize investment risk or to protect against any type of financial risk or uncertainty.

"Derivative Period" means the period during which a Derivative Agreement is in effect.

"Disclosure Dissemination Agent" means Digital Assurance Certification, LLC, and any other person, firm, association or corporation designated as the disclosure dissemination agent in an agreement to provide continuing disclosure for Related Bonds pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934.

"Escrowed Interest" means amounts of interest on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the *"Escrowed Interest Deposit"*) which Escrowed Interest Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Interest.

"Escrowed Principal" means amounts of principal on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the *"Escrowed Principal Deposit"*) which Escrowed Principal Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Principal.

"Event of Default" means any one or more of those events set forth in the Master Indenture described under "EVENTS OF DEFAULT" below.

"Excluded Property" means any real Property that is not deemed Health Care Facilities of the Obligated Group.

"Fiscal Year" means the fiscal year of each Member of the Obligated Group, which shall be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

"Fitch" means Fitch Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Governing Body" means, when used with respect to any Member of the Obligated Group, including the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group are exercised.

"Government Obligations" mean (i) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America, (ii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, (iv) stripped securities where the principal-only and interest-only strips of non-callable obligations are issued by the United States Treasury Department or interest portions of REFCORP securities stripped by the Federal Reserve Bank of New York, (v) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing, or (vi) a share or interest in a mutual fund, partnership or other fund wholly comprised of cash or any of the foregoing obligations.

"Governmental Restrictions" means federal, state or other applicable governmental laws or regulations, affecting any Member of the Obligated Group and its Health Care Facilities including but not limited to (i) Articles 28 and 28-B of the Public Health Law, and (ii) those placing restrictions and limitations on the (a) fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (b) the amount or timing of the receipt of such fees or charges.

"Gross Receipts" means all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, health care insurance receivables, chattel paper, deposit accounts,

instruments, promissory notes and the proceeds thereof, as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; *provided however,* Gross Receipts shall not include (i) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, designated at the time of the making thereof by the donor or maker as being for a specific purpose contrary to (a) paying debt service on an Obligation or (b) meeting any commitment of a Member under a Related Loan Agreement; (ii) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment intangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, health-care-insurance receivables and the proceeds thereof as such terms are presently or hereinafter defined in the New York Uniform Commercial Code, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired derived from the Excluded Property which constitutes real property; and (iii) insurance proceeds relating to assets subject to a capital lease permitted under the Master Indenture or subject to an operating lease as to which any Member of the Obligated Group is the lessee.

"Gross Receipts Revenue Fund" means the fund established pursuant to the provisions of the Master Indenture described under "ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES" below.

"Guaranty" means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Indenture. For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to twenty percent (20%) of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Requirement), *provided* that if there shall have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, one hundred percent (100%) of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account. Any Guaranty that is an obligation of more than one Member of the Obligated Group shall be counted only once for purposes of any test in the Master Indenture.

"Health Care Facilities" means the Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance and treatment of patients or to otherwise provide health care and health-related services. Any facility whose primary function

or functions is other than providing health care services and which has incidental health care services provided on its premises, shall not be deemed to be Health Care Facilities.

"Historic Audit Period" means the period of twelve (12) full consecutive months that have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate being provided for which there are Audited Financial Statements available.

"Holder" means an owner of any Obligation issued in other than bearer form.

"Income Available for Debt Service" means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; *provided, however,* that (i) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) unrealized gains and losses on investments of a Member of the Obligated Group or (c) losses resulting from any reappraisal, revaluation or write-down of assets for such period, including without limitation the other-than-temporary impairment of assets or the change in value of any Derivative Agreement, and (ii) revenues shall not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal or interest on Long-Term Indebtedness which is excluded from the determination of the Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

"Indebtedness" means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

"Insurance Consultant" means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; *provided* that, except with respect to the review of self-insurance programs or any captive insurance company, the term "Insurance Consultant" shall include qualified in house risk management officers employed by any Member of the Obligated Group or an Affiliate.

"Intercreditor Agreement" means the Third Amended and Restated Intercreditor Agreement among the Authority, the DCIDA, the LDC, the initial Members of the Obligated Group, Assured Guaranty Municipal Corp., Assured Guaranty Corp., JPMorgan Chase Bank, N.A., The Bank of New York Mellon, as Related Bond Trustee and as Master Trustee, and The Bank of New York Mellon, as Security Agent (*"Security Agent"*), dated September 6, 2007, as

amended by the First Amendment to Third Amended and Restated Intercreditor Agreement dated as of December 22, 2015 among such parties and any additional amendments or supplements thereto.

"LDC" or *"Issuer"* means the Dutchess County Local Development Corporation.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

"Long-Term Debt Service Coverage Ratio" means for any period of time the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

"Long-Term Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, but in so doing taking into account:

(i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to [x] the rate borne by such Indebtedness on the date calculated, or [y] if Variable Rate Indebtedness, at an interest rate determined in accordance with the definition thereof, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit, a standby bond purchase agreement, or surety bond issued by, or an irrevocable line of credit with, a financial institution rated at least "A" by Moody's, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least "A" by Alfred M. Best Company or its successors in *Best's Insurance Reports* or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, standby bond purchase agreement, surety bond, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, standby bond purchase agreement, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year shall be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) (A) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according

to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), (B) with respect to new Variable Rate Indebtedness (and the incurrence thereof) of proposed tax-exempt debt, the interest rate for such Indebtedness for the initial calculation period should be equal to the average rate for the most recent ten (10) years (or such lesser period of which data are available but not less than five (5) years) of the Securities Industry and Financial Markets Association (*"SIFMA"*) Tax Exempt Index of maturities most closely corresponding to, but within seven (7) days of, the interest rate period applicable to or proposed for the Variable Rate Indebtedness at the time such calculation is made or any successor or similar index chosen by the Obligated Group Representative; *provided* that such successor or similar index shall be reasonably acceptable to all Related Bond Issuers and all Related Credit Facility Issuers, and in the event that there is no SIFMA Tax-Exempt Index or no acceptable substitute index, the assumed rate will be the Bond Buyer 25 Revenue Bond Index; and (C) with respect to new Variable Rate Indebtedness (and the incurrence thereof) of proposed taxable debt, the interest rate for such Indebtedness for the initial calculation period shall be equal to one hundred and twenty percent (120%) of the prime rate of the Master Trustee for the most recent twenty-four (24) month period.

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility shall not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, the principal and interest relating to the Indebtedness which is guaranteed shall be included in accordance with the definition of "Guaranty" in the Master Indenture defined under this subheading;

(v) with respect to Indebtedness for which a Member of the Obligated Group shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness (as evidenced by a certificate filed with the Master Trustee specifying that the Derivative Agreement relates to all or a portion of such Indebtedness, which certificate may be provided at the time of or after the issuance of such Indebtedness), the principal or notional amount of such Derivative Agreement shall be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms, and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement, and subtracting (z) the amount of interest payable to the Member of the Obligated Group by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement; *provided* that any interest bearing a variable rate of interest on either the underlying Indebtedness or under the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) of this definition and *provided, further,* that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the

Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

(vi) with respect to a Derivative Agreement that has not been certified as relating to underlying Indebtedness which has been entered into by any Member of the Obligated Group and which is secured by an Obligation, the principal or notional amount of such Derivative Agreement shall be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, shall be calculated by taking (y) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (z) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement *provided* that any interest bearing a Variable Rate of interest on either the underlying Indebtedness or under the Derivative Agreement shall be calculated in accordance with the requirements for Variable Rate Indebtedness set forth in clause (ii) of this definition and *provided, further,* that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed; and

(vii) with respect to Escrowed Interest and Escrowed Principal, such Escrowed Interest and Escrowed Principal shall be excluded from the determination of Long-Term Debt Service Requirement; and in no event shall any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once in connection with the calculation of the Long-Term Debt Service Requirement.

"Long-Term Indebtedness" means all Indebtedness (other than Indebtedness for which the timely payment of the principal of and interest on which has been provided for from the deposit of Defeasance Obligations) having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including without duplication:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one year;

(iii) installment sale or conditional sale contracts having an original term in excess of one year;

(iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides

for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and

(v) the current portion of Long-Term Indebtedness.

"Master Indenture" means the Master Trust Indenture, dated as of September 1, 2007, among the Members of the Obligated Group and the Master Trustee, including any amendments or supplements thereto.

"Master Trustee" means The Bank of New York, and its successors in the trusts created under the Master Indenture.

"Maximum Annual Debt Service" means the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year.

"Member of the Obligated Group or *Member"* means Health Quest Systems, Inc., Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center, Putnam Hospital Center, and Northern Dutchess Hospital and any other Person becoming a Member of the Obligated Group pursuant to the provisions of the Master Indenture described under "PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" below.

"Moody's" means Moody's Investor Service, Inc., its successors and their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Mortgage" means a Mortgage by and between a Member and the Master Trustee which secures one or more Covered Obligations.

"Mortgaged Property" means any and all Property, whether real, personal or mixed, and all rights and interest in and to the Property, which is subject to the liens and security interests created under a Mortgage.

"Non-Recourse Indebtedness" means any Indebtedness incurred to finance the purchase of Property secured exclusively by a Lien on such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"Obligated Group Representative" means Health Quest Systems, Inc. or its successor.

"Obligation" means the evidence of particular Indebtedness issued under the Master Indenture as a joint and several obligation of each Member of the Obligated Group or a

Derivative Agreement which is authenticated as an Obligation pursuant to the related provisions of the Master Indenture.

"Officer's Certificate" means a certificate signed by the Authorized Representative of a Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to the Master Indenture shall identify the section or subsection of the Master Indenture pursuant to which it is being delivered, and shall incorporate by reference and use in all appropriate instances all terms defined in, the Master Indenture.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a Member of the Obligated Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities, unimproved real property and other Property held for investment purposes.

"Operating Expense" means the sum of total expenses, minus depreciation, amortization and other non-cash expenses, for the applicable Fiscal Year or twelve-month period for which such calculation is to be made, all as determined in accordance with generally accepted accounting principles.

"Opinion of Bond Counsel" means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds and who is acceptable to the Master Trustee and each Related Bond Issuer.

"Opinion of Counsel" means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

"Outstanding" means, as of any date of determination, subject to the related provisions of the Master Indenture, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged, other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid or no longer outstanding under the documents pursuant to which such Indebtedness was incurred.

"Permitted Liens" shall have the meaning given in the Master Indenture under "LIMITATIONS ON CREATION OF LIENS" below.

"Person" means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property, Plant and Equipment" means all Property of the Members of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

"Related Bond Indenture" means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

"Related Bond Issuer" means the issuer of any issue of Related Bonds, including without limitation, the Authority, the DCIDA and the LDC.

"Related Bonds" means the revenue bonds or other obligations issued by a Member or any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing, pursuant to a Related Bond Indenture, the proceeds of which were or are loaned or otherwise made available to a Member of the Obligated Group and which are secured by an Obligation executed, authenticated and delivered to or for the order of such Related Bond Issuer.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Credit Facility Issuer" means the Credit Facility Issuer with respect to any issue of Related Bonds.

"Related Loan Agreement" means any loan agreement, lease agreement, sublease agreement, or any similar instrument relating to the loan or other provision of proceeds of Related Bonds to a Member of the Obligated Group.

"S&P" means Standard & Poor's Rating Service, 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 their assigns, and, if such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Short-Term Indebtedness" means all Indebtedness that is not Long Term Indebtedness, incurred or assumed by any Member of the Obligated Group.

"State" means the State of New York and its municipal and political subdivisions and any authorized agency, authority or public benefit corporation thereof.

"Subordinated Debt" means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

"Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state or territory thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Total Operating Revenues" means, with respect to the Obligated Group, as to any period of time, total operating revenues less all deductions from revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, or to relieve such Person from any liability other than by the payment thereof by such person, including specifically, but without limitation, the forgiveness of any debt.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

AMOUNT OF INDEBTEDNESS

Subject to the terms, limitations and conditions established in the Master Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created under the Master Indenture are not limited, except as limited by the provisions of the Master Indenture, including the provisions of the Master Indenture described under "LIMITATIONS ON INDEBTEDNESS" below, or of any Supplement. Any Member of the Obligated Group proposing to incur Indebtedness, whether evidenced by Obligations issued or by evidences of indebtedness issued or guaranties entered into pursuant to documents other than the Master Indenture, shall, at least fifteen (15) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the clause of the provisions of the Master Indenture described under "LIMITATIONS ON INDEBTEDNESS" above under which it will be incurred, to any Related Credit Facility Issuer, any Related Bond Issuer for so long as Related Bonds of such Related Bond Issuer are Outstanding, and to the Master Trustee and any Member of the Obligated Group proposing to incur such Indebtedness shall obtain the written consent of the Obligated Group Representative, which consent shall be evidenced by a resolution of the Obligated Group Representative's Governing Body filed with

the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation issued under the Master Indenture.

SUPPLEMENT CREATING OBLIGATIONS

The Obligated Group Representative, on behalf of each Member of the Obligated Group, and the Master Trustee may from time to time enter into a Supplement in order to create an Obligation under the Master Indenture. Such Supplement shall, with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of and premium, if any, and interest on such Obligation shall be payable, the provisions regarding the discharge thereof, and the form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Indenture. Any such Obligation shall be secured pari passu by the security interest in and pledge of Gross Receipts granted under the Master Indenture and may be secured by such other Properties and revenues of the Members of the Obligated Group as may be permitted under the Master Indenture as a Permitted Lien or under the provisions of a Supplement.

SECURITY; RESTRICTIONS ON ENCUMBERING PROPERTY; PAYMENT OF PRINCIPAL AND INTEREST

(a) Any Obligation issued pursuant to the Master Indenture shall be a general obligation of each Member of the Obligated Group. To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations under the Master Indenture, each Member of the Obligated Group has pledged, assigned and granted to the Master Trustee a security interest in its Gross Receipts. Upon receipt, all such security shall be held in trust for the holders from time to time of all Obligations issued and Outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation.

If any Event of Default shall have occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in the Master Indenture), and any Gross Receipts thereafter received, shall immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to the provisions of the Master Indenture described under "ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES" below. Upon receipt, all such Gross Receipts shall be held by the Master Trustee in trust for the Holders from time to time of all Obligations issued and Outstanding under the Master Indenture, without preference or priority of any one Obligation over any other Obligation. Prior to the receipt of a request from the Master Trustee pursuant to the provisions of the Master Indenture described in clause (b) under "ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES" below, any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of the Master Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee shall execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group have agreed under the Master Indenture to take no action inconsistent with the

pledge, assignment and deposit of Gross Receipts contemplated by the Master Indenture, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

With respect to all Obligations issued, executed and delivered under the Master Indenture, there shall be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State of the State of New York.

Each Member of the Obligated Group shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Indenture as may be necessary or appropriate to include as security under the Master Indenture the Gross Receipts. In addition, each Member of the Obligated Group covenants that it will prepare and file such financing statements or amendments to or terminations of existing financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or be required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the provisions of the Master Indenture described under "PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" below, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the provisions of the Master Indenture described under "WITHDRAWAL FROM THE OBLIGATED GROUP" below. In particular, each Member of the Obligated Group covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to continue the security interest created under the Master Indenture pursuant to applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interest in Gross Receipts shall remain perfected.

(b) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set forth in the Master Indenture as described under "LIMITATIONS ON CREATION OF LIENS" below) any of its Property.

(c) Each Obligation shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured,

such Gross Receipts to be applied in accordance with the Intercreditor Agreement, if it is still in effect, or the provisions of the Master Indenture described under "ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES" and "APPLICATION OF MONEYS AFTER DEFAULT" below, if the Intercreditor Agreement is no longer in effect.

(e) Covered Obligations in addition to being secured by a pledge of Gross Receipts as provided in the Master Indenture, shall be further secured by a Mortgage, as set forth and in accordance with the Supplement for such Obligation. The Master Trustee shall, after the application of the Gross Receipts in accordance with the provisions of the Master Indenture, apply the proceeds derived from the enforcement of any Mortgage in accordance with the provision of the Supplement pursuant to which the Covered Obligation was issued.

COVENANTS AS TO CORPORATE EXISTENCE, MAINTENANCE OF PROPERTIES, ETC.

Each Member of the Obligated Group covenants:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its material rights and licenses to the extent necessary or desirable in the operation of its business and affairs and be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; *provided, however,* that nothing in the Master Indenture contained shall be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property in all material respects to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; *provided, however,* that nothing contained in this clause shall be construed to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof (including, but not limited to, the Public Health Law of the State of New York for as long as there are Related Bonds of the Related Bond Issuer Outstanding) and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; *provided,* nevertheless, that nothing contained in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; *provided,*

however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations created and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply in all material respects with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness, other than any Liens (exclusive of the Obligations created and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its Health Care Facilities (if any, and other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body; *provided, however,* that it need not comply with this clause (g) if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as all amounts due or to become due on any Related Bond, the interest on which is exempt from federal or State income tax, have not been fully paid to the holder thereof, it shall not take any action or suffer any action to be taken by others, or fail to take any action which action or failure, in the Opinion of Bond Counsel, would result in such interest becoming included in the gross income of the holder thereof for federal or State income tax purposes.

INSURANCE

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative shall engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially) and shall furnish a copy of the Insurance Consultant's report and recommendations to the Master Trustee and each Related Credit Facility Issuer. If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group shall increase or cause to be increased such coverage in accordance with

such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the applicable Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In its report and recommendations, the Insurance Consultant shall take into consideration whether the recommended insurance affords either the coverage available for the risk being insured against in an amount and at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability. Notwithstanding the foregoing, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, to adopt, establish or participate in alternative risk management programs, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, or to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group; *provided, however,* that no Member may self-insure in whole or in part individually or in connection with other institutions, for property loss or other damage to the Mortgaged Property. If any Member of the Obligated Group shall be self-insured for any coverage or participate in the programs of captive insurance companies, the report of the Insurance Consultant shall state whether the anticipated funding of any self-insurance fund or captive insurance companies is actuarially sound, and, if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

INSURANCE AND CONDEMNATION PROCEEDS

The Obligated Group covenants that amounts that exceed ten percent (10%) of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities shall be applied to repair or replace the Property (in the case of replacement, with either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; *provided, however,* such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within twelve (12) months after the casualty loss or taking, delivers to the Master Trustee:

(a) (i) an Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years following the date on which such proceeds or awards are forecasted to have

been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than eighty percent (80%) of what it was in the Fiscal Year preceding such casualty or condemnation and is not less than 1.30 as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (ii) if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds twenty percent (20%) of the Book Value of the Property, Plant and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(b) a written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (a) under this subheading to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level, but not less than 1.00; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and the Mortgages, only in accordance with the assumptions described in clause (a) under this subheading, or the recommendations described in clause (b) under this subheading. To the extent that such proceeds or awards relate to bond-financed property under the Code, then the Member must ensure that its use of such proceeds or awards does not result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal or State income tax purposes; *provided further,* that if the amount of such proceeds or awards exceeds five hundred thousand dollars ($500,000), then the Member must obtain an Opinion of Bond Counsel to this effect.

LIMITATIONS ON CREATION OF LIENS

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Liens arising by reason of good faith deposits by any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or

governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than one hundred and eighty (180) days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;

(v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Indenture and is set forth on *Schedule A* attached to the Master Indenture, *provided* that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(vi) Any Lien of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to the provisions of the Master Indenture described in clause (e) under "CONSOLIDATION; MERGER; SALE OR CONVEYANCE" below or clause (e) under "PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" below;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by the provisions of the Master Indenture described in clause (d) under "LIMITATIONS ON INDEBTEDNESS" below;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions of the Master Indenture described under "LIMITATIONS ON INDEBTEDNESS"

below, and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations of the Master Indenture on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under the Master Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained in the Master Indenture described under "LIMITATIONS ON INDEBTEDNESS" below;

(x) Any Lien on Property which secures Indebtedness that is, or Derivative Agreements in a notional amount which, if Indebtedness, would be, permitted to be incurred in accordance with the provisions of the Master Indenture described under "LIMITATIONS ON INDEBTEDNESS" below;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings; banker's liens or rights of setoff; or liens securing direct pay or standby letters of credit, standby bond purchase agreements, lines of credit or other liquidity or credit enhancement that provides liquidity or credit enhancement for Indebtedness otherwise permitted under the Master Indenture;

(xii) Any Lien on the proceeds of insurance insuring assets that are subject to a lease from a third-party owner or lessor of such assets;

(xiii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiv) Any Lien securing all Obligations on a parity basis, including the Lien created by the Master Indenture on Gross Receipts;

(xv) Liens on moneys deposited by patients or others with any Member of the Obligated Group as security for or as prepayment for the cost of patient care;

(xvi) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvii) Liens on Property due to rights of third-party payors for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) The Mortgages;

(xix) Any Lien on Excluded Property;

(xx) Any Lien on Property including moveable equipment which secures Indebtedness that does not exceed in aggregate twenty percent (20%) of Total Operating Revenues as reflected in the most recent Audited Financial Statements; and

(xxi) Any Lien which is the subject of the Intercreditor Agreement.

LIMITATIONS ON INDEBTEDNESS

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of clauses (a) to (g), inclusive, of the provisions of the Master Indenture described under this subheading. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such clauses. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements of the Master Indenture described under "AMOUNT OF INDEBTEDNESS" above.

(a) Long-Term Indebtedness may be incurred if prior to the incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that:

(A) The cumulative principal amount of all then Outstanding Long-Term Indebtedness incurred pursuant to this clause (a)(i)(A), together with the Indebtedness then to be issued, does not exceed twenty percent (20%) of Total Operating Revenues as reflected in the most recently Audited Financial Statements, or

(B) The Long-Term Debt Service Coverage Ratio for the Historic Audit Period, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.25; or

(ii) An Officer's Certificate of the Obligated Group Representative demonstrating that (A) the Long-Term Debt Service Coverage Ratio for the Historic Audit Period, excluding the proposed Long-Term Indebtedness, is at least 1.10 and (B) the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.10 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance Capital Additions, each of the two full Fiscal Years succeeding the date on which such Capital Additions are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing Capital Additions or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred or guaranteed, as shown

by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; *provided, however,* that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements under this subheading to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restriction but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred as follows: (i) if prior to the incurrence of such Long-Term Indebtedness and if the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness, there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service on the refunding Long-Term Indebtedness will not be more than ten percent (10%) greater than Maximum Annual Debt Service on the refunded Long-Term Indebtedness, after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such proposed refunding Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) if the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately, prior to the issuance of the Cross-over Refunding Indebtedness by more than ten percent (10%).

(c) Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed twenty percent (20%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available; *provided, however,* that there shall be a period of at least thirty (30) consecutive calendar days during each period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed five percent (5%) of Total Operating Revenues; and *provided further* that failure to reduce Short-Term Indebtedness to less than five percent (5%) of Total Operating Revenues for each such thirty-day period shall not constitute an Event of Default so long as such Short-Term Indebtedness in excess of such five percent (5%) could qualify as permitted Long-Term Indebtedness pursuant to the provisions of clause (a) under this subheading.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last

paragraph under this subheading; *provided* that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in clause (c) under this subheading.

(g) Indebtedness may be incurred for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, *provided* there shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to the issuance of such Indebtedness.

Indebtedness incurred pursuant to any clause described under this subheading may be reclassified as Indebtedness incurred pursuant to any other of such clause if the tests set forth in the clause to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to the provisions of the Master Indenture described under this subheading.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance with the provisions of the Master Indenture described under this subheading in an aggregate amount not exceeding seventy-five percent (75%) of the three (3) month average outstanding accounts receivable of the Obligated Group that are one hundred and twenty (120) days old or less as calculated in accordance with generally accepted accounting principles. The three (3) month average shall be calculated based on the month end available balances for the three (3) full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered.

LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such Fiscal Year;

provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct a Capital Addition, the Long-Term Debt Service Requirement with respect thereto shall not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such Capital Addition unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) The Obligated Group covenants that the number of Days Cash On Hand of the Obligated Group shall not be less than thirty (30) days. The Days Cash On Hand for the Obligated Group shall be calculated semi-annually as of June 30 and December 31, based upon the unaudited financial statements of the Obligated Group with respect to the June 30 calculation and the audited financial statements of the Obligated Group as of December 31. The Obligated Group Representative shall cause there to be delivered a Certificate of an Authorized Officer to the Master Trustee and each Related Credit Facility Issuer and, so long as any Related Bonds of the Authority remain Outstanding, the Authority, certifying to the number of Days Cash on Hand so calculated and certifying that the Obligated Group is in compliance with the covenant in the preceding sentence. Such certificate shall be delivered no later than August 15, with respect to the June 30 calculation, and on the date the Audited Financial Statements are delivered pursuant to the provisions of the Master Indenture described under "FILING OF AUDITED FINANCIAL STATEMENTS; CERTIFICATE OF NO DEFAULT; OTHER INFORMATION" below with respect to the December 31 calculation date.

(c) The Obligated Group Representative shall deliver an Officer's Certificate at the time it delivers its Audited Financial Statements following the end of each Fiscal Year to the Master Trustee, each Related Credit Facility Issuer, and so long as any Related Bonds are Outstanding, each Related Bond Issuer, certifying as to the compliance with the Long-Term Debt Service Coverage Ratio required by clause (a) under this subheading and Days Cash On Hand required by clause (b) under this subheading. If at any time the Long-Term Debt Service Coverage Ratio required by clause (a) under this subheading or Days Cash On Hand required by clause (b) under this subheading, as set forth in the Officer's Certificate is not met, the Obligated Group covenants to retain a Consultant within thirty (30) days of the delivery of the aforementioned Officer's Certificate to make recommendations to increase such Long-Term Debt Service Coverage Ratio or Days Cash On Hand in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable; *provided, however,* that the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this clause (c) more frequently than biennially. Any Consultant so retained shall be required to submit such recommendations within sixty (60) days after being so retained. Each Member whose operations and management are the subject of recommendations made in such report shall promptly implement such recommendations in accordance with Governmental Restrictions, and within thirty (30) days of receipt of such Consultant's report, each such Member shall deliver to the Master Trustee, and so long as Related Bonds of the Related Bond Issuer are Outstanding, the Related Bond Issuer, and each Related Credit Facility Issuer:

(i) a certified copy of a resolution adopted by the Governing Body of the Member accepting such report and agreeing to implement the recommendations, if any, of such Consultant; and

(ii) a report setting forth in reasonable detail the steps the Member proposes to take in order to implement the recommendations of such Consultant and achieve compliance with the requirements of clauses (a) and (b) under this subheading.

Each such Member shall deliver to the Master Trustee, each Related Credit Facility Issuer, and so long as Related Bonds of the Related Bond Issuer are Outstanding, the Authority such periodic reports, not less often than quarterly, as the Master Trustee may reasonably request, showing the progress made by the Member in implementing the recommendations set forth in such Consultant's report.

(d) The Obligated Group shall be deemed in compliance with clauses (a) and (b) above irrespective of whether the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.10 or the Days Cash On Hand is less than thirty (30) days, so long as the Obligated Group has complied with the requirements of clause (c) above and is following the recommendations, if any, of the Consultant. Notwithstanding the preceding sentence, if the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.00, the Obligated Group shall not be in compliance with clause (a) above.

SALE, LEASE OR OTHER DISPOSITION OF OPERATING ASSETS; DISPOSITION OF CASH AND INVESTMENTS; UNSECURED LOANS TO NON-MEMBERS; SALE OF ACCOUNTS

(a) Each Member of the Obligated Group agrees that it will not Transfer Property in any Fiscal Year (or other 12-month period for which Audited Financial Statements are available) except for Transfers of Property:

(i) To any Person *provided* such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person if the Property Transferred is considered Operating Assets and *provided* there shall be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with the provisions of the Master Indenture described under "LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" above and that if such Transfer had occurred at the beginning of the Historic Audit Period the conditions described in clause (a)(i)(B) or (a)(ii) under "LIMITATIONS ON INDEBTEDNESS" above would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness after the revenues and expenses derived from the Operating Assets proposed to be disposed of are excluded.

(iv) To any Person, if the Property Transferred is considered Operating Assets and the aggregate Book Value of the Property that is transferred pursuant to this clause (iv) in the current Fiscal Year does not exceed five percent (5%) of the Book Value of the Property of the Obligated Group as shown in the Audited Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this clause (v) was transferred in the ordinary course of business, and at fair market value or on fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; *provided, however,* that with respect to Transfers of real property, fair market value shall be based on a written appraisal prepared by an appraiser with experience in valuing similar assets.

(vi) To a Person which at the time of the Transfer becomes a Member of the Obligated Group pursuant to the Master Indenture, without limit.

(b) Each Member of the Obligated Group may Transfer cash or investments in securities that in any twelve (12) month period preceding the Transfer and that give effect to it do not exceed fifteen percent (15%) of the Obligated Group's cash or investments in securities as of the date of such Transfer; *provided, however,* that after giving effect to such Transfer, cash and investments in securities shall be not less than fifty (50) Days Cash On Hand for such twelve (12) month period. For purposes of this clause (b) cash and investments in securities shall be determined and valued in accordance with accounting procedures and generally accepted accounting principles applied in the most recent Audited Financial Statements of the Obligated Group. Unsecured loans to Persons other than Members of the Obligated Group shall be treated as Transfers of cash. Notwithstanding the foregoing, Members of the Obligated Group may purchase Operating Assets and purchase or sell securities without limitation, *provided* that any purchase of an Operating Asset shall be for not more, and any sale of a security shall be for not less, than its fair market value.

(c) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group shall receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group, and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph of "LIMITATIONS ON INDEBTEDNESS" above regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

CONSOLIDATION; MERGER; SALE OR CONVEYANCE

(a) Each Member of the Obligated Group covenants that it will not merge or consolidate with, or sell or convey all or substantially all of its assets to, any Person unless:

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor

corporation shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and any Supplement thereto; and

(ii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion of interest payable on such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iii) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale or conveyance of assets had occurred at the beginning of the Historic Audit Period, the conditions described in clause (a)(i)(B) or (a)(ii) under "LIMITATIONS ON INDEBTEDNESS" above would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness on the date of such Officer's Certificate, and (B) that after such merger or consolidation or sale or conveyance of assets, no Member of the Obligated Group will be in default in the performance of any covenant or the satisfaction of any condition contained in the Master Indenture.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall comply with the requirements of the Master Indenture described under "PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" below and shall succeed to and be substituted for its predecessor, as a Member of the Obligated Group. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations prescribed in the Master Indenture, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued under the Master Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iii) under this subheading has been delivered, the Master Trustee may accept an Opinion of Counsel (not an employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture described under this subheading and that it is proper for the Master Trustee under the related provisions of the Master Indenture, including the provisions of the Master Indenture described under this subheading, to join in the execution of any instrument required to be executed arid delivered by the provisions of the Master Indenture described under this subheading.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group in accordance with the provisions of the Master Indenture described under this subheading shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

(f) All references in the Master Indenture to successor corporations shall be deemed to include the surviving corporation in a merger.

FILING OF AUDITED FINANCIAL STATEMENTS; CERTIFICATE OF NO DEFAULT; OTHER INFORMATION

The Obligated Group covenants that it will:

(a) No later than sixty (60) days subsequent to the last day of each of the first three quarters in each Fiscal Year, furnish to (1) the Master Trustee, (2) each Related Bond Issuer (so long as there are Related Bonds of such Related Bond Issuer Outstanding), (3) each Disclosure Dissemination Agent, (4) each Related Credit Facility Issuer, and (5) each Bondholder (as defined in the Related Bond Indenture) who has so requested, the following information: (A) the unaudited combined financial statements of the Obligated Group, including the balance sheet as of the end of such quarter, and as of the end of the prior Fiscal Year, the statement of operations, changes in net assets and cash flow for the quarter, for the Fiscal Year to date and for the comparable prior year period; (B) utilization statistics of each Member of the Obligated Group, including certified beds, discharges, patient days, average length of stay, average percentage of occupancy (based on certified beds), emergency room visits, ambulatory surgery procedures and outpatient clinic visits; (C) major payor mix by percentage of inpatient discharges and payor; *provided, however,* that such utilization statistics may be modified if the Obligated Group Representative reasonably determines that such information no longer is useful in indicating the utilization of the Health Care Facilities or that other statistics would be more useful for that purpose; and

(b) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year but in no event later than one hundred fifty (150) days after the end of each Fiscal Year, file with the parties identified in clauses (1), (2), (3), (4) and (5) of the foregoing clause (a), each Related Bond Trustee, and to such other parties as an authorized officer of a Related Bond Issuer may designate, including rating services, a

copy of the Audited Financial Statements as of the end of such Fiscal Year, the utilization statistics set forth in clause (B) of the foregoing clause (a) as of the end of such Fiscal Year, the major payor mix data set forth in clause (C) of the foregoing clause (a) as of the end of such Fiscal Year, and such other statements, reports and schedules describing the finances, operation and management of each Member of the Obligated Group (or of the Obligated Group) reasonably required by an authorized officer of a Related Bond Issuer and each Related Credit Facility Issuer.

(c) Within fifteen (15) days after receipt of the Audited Financial Statements for a Fiscal Year, file with the Master Trustee, each Related Bond Issuer (so long as there are Related Bonds Outstanding), each Related Bond Trustee, each Related Credit Facility Issuer, and each Bondholder (as defined in the Related Bond Indenture) who may have so requested or on whose behalf the Master Trustee may have so requested, (1) an Officer's Certificate stating whether, to the best knowledge of the signer, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Indenture, a Related Loan Agreement, or a Mortgage, and, if so, specifying each such default of which the signer may have knowledge, and (2) a report of an independent certified public accountant stating the Long-Term Debt Service Coverage Ratio and Days Cash on Hand for such Fiscal Year.

(d) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee, each Related Credit Facility Issuer and each Related Bond Issuer (so long as there are Related Bonds Outstanding) such other financial statements and information concerning its operations and financial affairs (or those of any Member or any Affiliate) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours.

(e) Within thirty (30) days after its receipt thereof, file with the Master Trustee, each Related Credit Facility Issuer and the Related Bond Issuer (so long as there are Related Bonds of the Related Bond Issuer Outstanding) a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP

Persons which are not Members of the Obligated Group may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Indenture and any Supplements pertaining to a Member of the

Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Indenture and any Supplements, (ii) to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably to guarantee to the Master Trustee and each other Member of the Obligated Group payment of all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture in accordance with the terms thereof and of the Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with clause (a) under this subheading shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation; constitutes a valid and binding obligation of such Person enforceable against such Person in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles, laws dealing with fraudulent conveyances, limitations on the ability of one charity to make guarantees in favor of other entities and subject to other customary exceptions acceptable to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer; and is authorized and complies with all Governmental Restrictions and the provisions of the Master Indenture and any agreements or other documents relating to the Master Indenture, the Obligations or the Related Bonds.

(c) If all amounts due or to become due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there shall be filed with the Master Trustee (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended, or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative shall be provided to the Master Trustee and each Related Credit Facility Issuer demonstrating that (i) the conditions described in clauses (a)(i)(B) or (a)(ii) under "LIMITATIONS ON INDEBTEDNESS" above would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness, assuming that the Person which is becoming a Member of the Obligated Group had become a Member at the beginning of the Historic Audit Period and (ii) after giving effect to the admission of such Person as a Member of the Obligated Group, no Member of the Obligated Group will be in default in the performance of any covenant or in the satisfaction of any condition contained in the Master Indenture.

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group shall be permitted to remain outstanding, and any lien or security interest securing such Indebtedness shall be permitted to remain in effect.

WITHDRAWAL FROM THE OBLIGATED GROUP

(a) Vassar Brothers Hospital may not withdraw from the Obligated Group.

(b) No other Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative; *provided further,* that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due or to become due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there shall be delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bonds, would not cause the interest payable on such Related Bonds to become includable in the gross income of the recipient thereof under the Code;

(ii) The Obligated Group Representative shall have provided one of the following:

(A) An Officer's Certificate of the Obligated Group Representative demonstrating that assuming such withdrawal and any payment or extinguishment of Obligations to be made in connection therewith had occurred at the beginning of the Historic Audit Period taking all Long-Term Indebtedness incurred after the beginning of such period into account the conditions described in clause (a)(i)(B) or in clause 3.06(a)(ii) under "LIMITATIONS ON INDEBTEDNESS" above would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness; or

(B) receipt by the Master Trustee of (x) a Credit Facility for all Obligations of the Obligated Group or Related Bonds not already supported by a Credit Facility, and (y) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed withdrawal is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated based on such credit enhancement not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such withdrawal;

(iii) An Opinion of Counsel, addressed and satisfactory to the Master Trustee, each Related Bond Issuer, and each Related Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the

provisions of the Master Indenture and any agreements or other documents relating to the Master Indenture, the Obligations or the Related Bonds; and

(iv) An Officer's Certificate of the Obligated Group Representative certifying that upon such withdrawal the remaining Members of the Obligated Group will not be in default in the performance of any covenant or the satisfaction of any condition contained in the Master Indenture.

(c) Upon the withdrawal of any Member from the Obligated Group pursuant to clause (b) under this subheading, any guaranty by such Member pursuant to the provisions of the Master Indenture shall be released and discharged in full, the Master Trustee shall release or consent to the release of all collateral of such withdrawing Member held by or for the benefit of the Holders of any Obligations, and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

For purposes of clause (b)(ii)(B) under this subheading, a Credit Facility must be irrevocable and remain in full force and effect for the entire period of time each such Related Bond or Obligation, as the case may be, remains Outstanding (unless the Credit Facility allows for the tender of the Related Bonds or Obligation prior to the stated expiration of the Credit Facility) and shall provide for payment in full of principal and interest on such Related Bond or Obligation when due.

EVENTS OF DEFAULT

Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) The Members of the Obligated Group shall fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture or of any Supplement, unless otherwise indicated in the applicable Obligation;

(b) Any Member of the Obligated Group shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; *provided, however,* that if said failure cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Indenture and the applicable period to cure such event of default, if any, shall have expired;

(d) (i) Any Member of the Obligated Group shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Indenture), which Indebtedness is in an aggregate principal amount greater than two percent (2%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired; or (ii) there shall occur an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, which Indebtedness is in an aggregate principal amount greater than two percent (2%) of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or shall hereafter be created, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result such event of default such Indebtedness shall have been accelerated;

Provided, however, that failure to pay or other default pursuant to clauses (i) and (ii) of this clause (d) shall not constitute an Event of Default within the meaning under this subheading if within 30 days of such failure to pay or acceleration (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that a Member of the Obligated Group is contesting the payment or acceleration of such Indebtedness and (ii) within the time allowed for service of a responsive pleading, if any, proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay such Indebtedness or the acceleration thereof and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) There is entered by a court having jurisdiction in the premises a decree or order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and any such decree or order continues unstayed and in effect for a period of ninety (90) consecutive days; and

(f) Any Member of the Obligated Group institutes proceedings for an order for relief, or consents to an order for relief against it, or files a petition or answers or consents to a petition seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or consents to the appointment of a receiver, liquidator, custodian, assignee,

trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or makes an assignment for the benefit of creditors, or admits in writing its inability to pay its debts generally as they become due.

ACCELERATION; ANNULMENT OF ACCELERATION

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding or upon the request of a Related Credit Facility Issuer or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, by notice to the Members of the Obligated Group and the Obligated Group Representative declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if

(i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of principal or redemption prices and all accrued and unpaid interest thereon then due (other than the principal then due only because of such declaration) of all Obligations Outstanding;

(ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee;

(iii) all other amounts then payable by the Obligated Group 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 Obligations then due only because of such declaration) shall have been remedied or waived pursuant to the provisions of the Master Indenture described under "WAIVER OF EVENT OF DEFAULT" below, then the Master Trustee may, and upon the written request of Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding or upon the request of a Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such

annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(c) Unless the Intercreditor Agreement has been terminated and is no longer in effect, the Master Trustee shall notify each of the parties to the Intercreditor Agreement promptly upon becoming aware of any Event of Default that has not been waived pursuant to the provisions of the Master Indenture described under "WAIVER OF EVENT OF DEFAULT" below or cured before the giving of such notice. For as long as it is in effect, the rights and remedies of the Master Trustee under the Master Indenture shall, in all events, be subject to the rights of the Security Agent under the Intercreditor Agreement with respect to any Lien on Property that is subject to the Intercreditor Agreement.

ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES

(a) Subject to the provisions of the Master Indenture described in clause (c) under "ACCELERATION; ANNULMENT OF ACCELERATION" above, upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other Property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights as a secured party under the Uniform Commercial Code of the State;

(vi) Exercise any rights the Master Trustee may have as a party, to the Intercreditor Agreement or under any Supplement; and

(vii) Enforcement of any other right of the Holders conferred by law or by the Master Indenture.

(b) Subject to the provisions of the Master Indenture described in clause (c) under "ACCELERATION; ANNULMENT OF ACCELERATION" above, upon the occurrence of an Event of Default pursuant to clause (a) under "EVENTS OF DEFAULT" above, the Master Trustee shall, and upon the occurrence of any other Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding, or upon the request of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, shall, realize upon any security interest which the Master Trustee may have in Gross Receipts and shall request each Member of the Obligated Group to deliver or cause to be delivered its Gross Receipts to the Master Trustee and shall establish and maintain a Gross Receipts Revenue Fund into which shall be deposited all such Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund shall be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary Operating Expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) as may be required by the Master Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund shall be held for the equal and ratable benefit of all Obligations Outstanding; *provided,* that amounts held in the Gross Receipts Revenue Fund for the making of debt service payments on or after the due date for Obligations shall be reserved and set aside solely for the purpose of making such payment. In addition, with regard to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee; (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing shall be paid to the Master Trustee; (iv) forbid any Member to collect, extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof.

(c) Notwithstanding any other provision of the Master Indenture, the Master Trustee shall not take and shall not be authorized to take any action in violation of or contrary to any Governmental Restrictions, or which would cause it to be considered an operator of any Member of the Obligated Group so as to require the Master Trustee to receive Public Health Council establishment approval under Article 28 of the Public Health Law.

APPLICATION OF MONEYS AFTER DEFAULT

During the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Bond Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the related provisions of the Master Indenture shall be applied, after the payment of reasonable and necessary operating expenses of the Obligated Group pursuant to the provisions of the Master Indenture described in clause (b)(i) under "ACCELERATION; ANNULMENT OF ACCELERATION" above and the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the related provisions of the Master Indenture, in accordance with the provisions of the Master Indenture described in clause (b) under "ADDITIONAL REMEDIES AND ENFORCEMENT OF REMEDIES" above and, with respect to the payment of Obligations thereunder, as follows:

(a) Unless all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference;

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference; and

Third: To the extent there exists a Related Credit Facility Issuer with respect to any series of Related Bonds, amounts owed to such Related Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses *First* and *Second* above.

(b) If all amounts due with respect to all Outstanding Obligations shall have become or have been declared due and payable, to the payment of all amounts then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If all amounts due with respect to all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the related provisions of the Master Indenture, then, subject to the provisions of clause (b) under this subheading in the event that all amounts due with respect to all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of clause (a) under this subheading.

(d) Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the Master Indenture described under this subheading, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

(e) Moneys held in the Gross Receipts Revenue Fund shall be invested in Government Obligations which mature or are redeemable at the option of the holder not later than such times as shall be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments shall be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments, a copy of which certificate shall be provided by the Obligated Group Representative to each Related Credit Facility Issuer prior to submission to the Master Trustee for the approval of each Related Credit Facility Issuer; *provided, however,* that the failure of a Related Credit Facility Issuer to object to such certificate shall be deemed to be the approval of such Related Credit Facility Issuer. Unless otherwise provided in the Master Indenture, the Master Trustee shall sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it shall be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee shall not be liable or responsible for making any such investment in the manner provided above under this subheading and shall not be liable for any loss resulting from any such investment. Any investment income derived from any

investment of moneys on deposit in the Gross Receipts Revenue Fund shall be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

(f) Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture described under this subheading and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

REMEDIES NOT EXCLUSIVE

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee, the Related Credit Facility Issuers or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or under existing law or in equity or by statute on or after the date of the Master Indenture.

REMEDIES VESTED IN THE MASTER TRUSTEE

All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders. Subject to the provisions of the Master Indenture described under "APPLICATION OF MONEYS AFTER DEFAULT" above, any recovery or judgment shall be for the equal benefit of the Holders.

HOLDERS' CONTROL OF PROCEEDINGS

Subject to the provisions of the Master Indenture described in clause (c) under "ACCELERATION; ANNULMENT OF ACCELERATION" above, if an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, *provided* that such direction is not in conflict with any applicable law or the provisions of the Master Indenture, and is not unduly prejudicial to the interest of any Holders not joining in such direction, and *provided, further,* that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and *provided, further,* that nothing under this subheading shall impair the right of the Master Trustee

in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by the Holders; *provided, further,* that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect thereto in the manner described under this subheading.

WAIVER OF EVENT OF DEFAULT

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the related provisions of the Master Indenture to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee, with the prior written consent of the Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, with the prior written consent of the Related Credit Facility Issuer, if any, with respect to any series of Related Bonds with respect to which the Event of Default has occurred, shall waive any Event of Default under the Master Indenture and its consequences; *provided, however,* that, except under the circumstances set forth in clause (b) under "ACCELERATION; ANNULMENT OF ACCELERATION" a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Members of the Obligated Group, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

APPOINTMENT OF RECEIVER

Subject to the provisions of the Master Indenture described in clause (c) of "ACCELERATION; ANNULMENT OF ACCELERATION" above, upon the occurrence of any Event of Default described in clauses (a), (e) or (f) under "EVENTS OF DEFAULT" above unless the same

shall have been waived as described under "WAIVER OF EVENT OF DEFAULT" above, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment shall confer. Each Member of the Obligated Group, respectively, consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Master Trustee for appointment of a receiver of its Property, to the appointment of a receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

REMEDIES SUBJECT TO PROVISIONS OF LAW

All rights, remedies and powers provided by the related provisions of the Master Indenture may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law, and all such provisions of the Master Indenture are intended to be subject to all applicable mandatory provisions of law which may be controlling and to be limited to the extent necessary so that they will not render the Master Indenture or any provisions thereof invalid or unenforceable under the provisions of any applicable law.

NOTICE OF DEFAULT

The Master Trustee shall, within ten (10) days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class mail, to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, and any Related Credit Facility Issuer, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice; *provided* that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in clauses (e) and (f) under "EVENTS OF DEFAULT" above, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

REMOVAL AND RESIGNATION OF THE MASTER TRUSTEE

The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding, the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by

Obligations Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Indenture. Written notice of such resignation or removal shall be given to the Members of the Obligated Group, to each Holder by first class mail at the address then reflected on the books of the Master Trustee, and each Related Credit Facility Issuer and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative if no Event of Default shall have occurred and be continuing. If either no such appointment is made by the Obligated Group Representative within thirty (30) days of the date notice of resignation or removal is given, or if an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding shall appoint a successor Master Trustee, except that the Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Obligations Outstanding shall have the right to appoint the successor Master Trustee, and not the Holders. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group, any Related Credit Facility Issuer, or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least one hundred million dollars ($100,000,000), if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to the Obligated Group Representative an instrument in writing, accepting such appointment under the Master Indenture, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than ten (10) days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to each Holder by first class mail at the address then reflected on its books.

SUPPLEMENTS NOT REQUIRING CONSENT OF HOLDERS

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, upon prior written notice to each Related Credit Facility Issuer, but without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Master Indenture.

(b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Indenture described in clause (a) under "SUPPLEMENTS REQUIRING CONSENT OF HOLDERS" below.

(d) 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.

(e) To create and provide for the issuance of Indebtedness as permitted under the Master Indenture, so long as no Event of Default has occurred and is continuing under the Master Indenture.

(f) To obligate a successor to any Member of the Obligated Group as provided in the provisions of the Master Indenture described in "PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" above.

(g) To comply with the provisions of any federal or state securities or tax law.

(h) To add additional covenants, restrictions, security or conditions for the protection of the Holders of Obligations issued under the Master Indenture, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions an Event of Default permitting the enforcement of all or any of the several remedies provided in the Master Indenture; *provided, however,* that in respect of any such additional covenant, restriction or condition, such Supplemental Indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may

provide for an immediate enforcement upon such default or may limit the remedies available to the Master Trustee upon such default;

(i) To provide for the establishment of additional funds and accounts under the Master Indenture and for the proper administration of and transfers of moneys among any such funds and accounts, *provided* that, except as otherwise provided in the Master Indenture, all such funds and accounts shall be established for the equal and ratable benefit of the Holders of all Outstanding Obligations;

(j) To permit the Master Trustee to comply with any duties imposed upon it by law; and

(k) So long as no Event of Default has occurred and is continuing under the Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under the Master Indenture has occurred and is continuing, to make any change to the provisions of the Master Indenture (except as set forth below) if the following conditions are met:

(i) the Obligated Group Representative delivers to the Master Trustee prior to the date such amendment is to take effect either (A)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the conditions described in clauses (a)(i)(B) or (a)(ii) under "LIMITATIONS ON INDEBTEDNESS" above are satisfied for the incurrence of an additional one dollar ($1.00) of Additional Indebtedness based upon the Historic Audit Period; or (B) evidence satisfactory to the Master Trustee to the effect that there exists for each Related Bond or Obligation which is not pledged to secure Related Bonds, a Credit Facility, and each such Credit Facility Issuer shall consent in writing to such amendment or modification;

(ii) evidence satisfactory to the Master Trustee from each rating agency then rating each such Related Bond and Obligation that, on the date the proposed change is to take effect, each such Related Bond and Obligation rated by such rating agency will be rated not lower than the rating applicable to such Related Bond or Obligation on the day prior to the effective date of such change; and

(iii) with respect to each outstanding Related Bond, an Opinion of Bond Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are not unacceptable to the Master Trustee) to the effect that the proposed change will not adversely affect the validity of any Related Bond or any exclusion from gross income for federal income taxation purposes of interest payable thereon to which such Bond would otherwise be entitled.

The authorization to enter into a Supplement permitted pursuant to this clause (k) does not include the authorization to make any amendment which would have the effect, directly or indirectly, of changing or providing an alternative to (1) any provision of the Master Indenture requiring the maintenance or demonstration of a Long-Term Debt Service Coverage Ratio, except to reduce such ratio, but in no event shall such ratio be reduced to less than 1.00, (2) the definitions of Affiliate, Audited Financial Statements, Book Value, Capital Addition, Days Cash on Hand, Non-Recourse Indebtedness, Operating Assets, Operating Expense, Property Plant and Equipment, Subordinated Debt, or Total Operating Revenues (except to the extent such definitions shall be changed to conform to changes required by then prevailing generally accepted accounting principles) under "DEFINITIONS" above, (3) the definition of any other term used in the calculation of the Long-Term Debt Service Coverage Ratio, or the amount of Long-Term Indebtedness or Short-Term Indebtedness, or (4) in certain provisions of the Master Indenture described under "REMOVAL AND RESIGNATION OF THE MASTER TRUSTEE," "SUPPLEMENTS NOT REQUIRING CONSENT OF HOLDERS," clause (a) under "SUPPLEMENTS REQUIRING CONSENT OF HOLDERS" or "SATISFACTION AND DISCHARGE OF INDENTURE" or other provisions of the Master Indenture.

The limitations contained in the immediately preceding paragraph shall not apply if, in conjunction with the adoption of the proposed Supplement, the requirements of clause (k)(i)(B) under this subheading are met.

SUPPLEMENTS REQUIRING CONSENT OF HOLDERS

(a) Other than Supplements referred to under "SUPPLEMENTS NOT REQUIRING CONSENT OF HOLDERS" above and subject to the terms and provisions and limitations contained in the related provisions of the Master Indenture and not otherwise, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations then Outstanding shall have the right, with prior written consent of each Credit Facility Issuer, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; *provided, however,* nothing under the provisions of the Master described under this subheading shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Except as otherwise permitted in the Master Indenture or an existing Supplement, permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding and each Related Credit Facility Issuer;

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding; or

(iv) Affect the rights of a Holder of a Covered Obligation with respect to a Mortgage without the consent of such Holder.

(b) If at any time the Obligated Group Representative or each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to the provisions of the Master Indenture summarized under this subheading, which request is accompanied by a copy of the resolution or other action of the Governing Body of each Member certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed by the Obligated Group Representative or each Member of the Obligated Group in the request, the Master Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount of Obligations specified in clause (a) under this subheading for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice of such consent), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that such Obligation is held by the signer of such revocation in the manner permitted by the provisions of the Master Indenture described under "EVIDENCE OF ACTS OF HOLDERS" below. At any time after the Holders of the required principal amount of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with each Member of the Obligated Group a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Indenture, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

EXECUTION AND EFFECT OF SUPPLEMENTS

(a) In executing any Supplement permitted by the related provisions of the Master Indenture the Master Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Supplement is authorized or permitted by the Master Indenture. The Master Trustee may but shall not be obligated to enter into any such Supplement which affects the Master Trustee's own rights, duties or immunities.

(b) Except as otherwise set forth in such Supplement, upon the execution and delivery of any Supplement in accordance with the related provisions of the Master Indenture, the provisions of the Master Indenture shall be modified in accordance therewith and such Supplement shall form a part of the Master Indenture for all purposes and every Holder of an Obligation theretofore or thereafter authenticated and delivered under the Master Indenture shall be bound thereby.

(c) Any Obligation authenticated and delivered after the execution and delivery of any Supplement in accordance with the related provisions of the Master Indenture may, and if required by the issuer of such Obligation or the Master Trustee shall, bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplement. If the issuer of any Obligations then Outstanding or the Master Trustee shall so determine, new Obligations so modified as to conform in the opinion of the Master Trustee and the Governing Body of such issuer to any such Supplement may be prepared and executed by the issuer and authenticated and delivered by the Master Trustee in exchange for and upon surrender of Obligations then Outstanding.

SATISFACTION AND DISCHARGE OF INDENTURE

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction

of and discharging the Master Indenture. Each Member of the Obligated Group agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

EVIDENCE OF ACTS OF HOLDERS

(a) In the event that any request, direction or consent is requested or permitted under the Master Indenture of the Holders of any Obligation securing an issue of Related Bonds, the registered owners of such Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of such series of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds of such series then outstanding; *provided, however,* that if any portion of such Related Bonds is secured by a Credit Facility that is also secured by a separate Obligation issued under the Master Indenture, the principal amount of the Obligation that secures the Related Bonds deemed outstanding for purposes of any such request, direction or consent shall be reduced by the amount of Related Bonds that are secured by such Credit Facility for the purpose of any such request, direction or consent and the owners of the Related Bonds that are secured by such Credit Facility shall not be consulted or counted.

(b) As to any request, direction, consent or other instrument provided by the Master Indenture to be signed and executed by the Holders, such action may be in any number of concurrent writings, shall be of similar tenor, and may be signed or executed by such Holders in person or by agent appointed in writing.

(c) Proof of the execution of any such request, direction, consent or other instrument or of the writing appointing any agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes of the Master Indenture and shall be conclusive in favor of the Master Trustee and the Members of the Obligated Group, with regard to any action taken by them, or any of them, under such request, direction or consent or other instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgements in such jurisdiction, that the person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and

(ii) The ownership of the Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(d) Nothing in the provisions of the Master Indenture described under this subheading shall be construed as limiting the Master Trustee to the proof specified in the Master Indenture, it being intended that the Master Trustee may accept any other evidence of the matters in the Master Indenture stated which it may deem sufficient.

(e) Any action taken or suffered by the Master Trustee pursuant to any provision of the Master Indenture upon the request or with the assent of any person who at the time is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation.

(f) In the event that any request, direction or consent is requested or permitted under the Master Indenture of the Holders of an Obligation that constitutes a Guaranty, for purposes of such request, direction or consent, the principal amount of such Obligation shall be deemed to be the stated principal amount of such Obligation.

INSTRUMENTS EXECUTED BY HOLDERS BIND FUTURE HOLDERS

At any time prior to (but not after) the Master Trustee takes action in reliance upon evidence, as provided in the provisions of the Master Indenture described under "EVIDENCE OF ACTS OF HOLDERS" above, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified in the Master Indenture in connection with such action, any Holder of such an Obligation or Related Bond that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in the provisions of the Master Indenture described under "EVIDENCE OF ACTS OF HOLDERS" above, revoke such action so far as concerns such Obligation or Related Bond. Except upon such revocation any such action taken by the Holder of an Obligation or owner of a Related Bond in any direction, request, consent, or other action of the Holder of such Obligation or owner of a Related Bond which by any provision of the Master Indenture is required or permitted to be given shall be conclusive and binding upon (a) such Holder or owner and upon all future Holders and owners of such Obligation or Related Bond, and of any Obligation or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation or Related Bond, (b) each Member of the Obligated Group and (c) the Master Trustee.

GOVERNING LAW

The Master Indenture and any Obligations issued under the Master Indenture are contracts made under the laws of the State and shall be governed by and construed in accordance with such laws, without regard to its conflict of laws rules.

BOND INSURER COVENANTS

Certain financial covenants of the Master Indenture have been amended or supplemented in consideration for the issuance by the Bond Insurer of each of its financial guaranty insurance policies guaranteeing each series of the Insured Bonds as described under this heading which covenants are referred to under this heading as the "*Bond Insurer Covenants*." The Members of the Obligated Group have covenanted under certain Supplements that they will, in addition to the covenants set forth in the Master Indenture as described under "MASTER INDENTURE" above, comply with the Bond Insurer Covenants for so long as any series of the Insured Bonds remains Outstanding. The Bond Insurer Covenants may be amended or waived by the Authority (with

respect to the Bond Insurer Covenants relating to the Series 2007A Bonds and the Series 2007C Bonds) and the Bond Insurer, in their sole discretion, without the consent of the holders of the Insured Bonds or the Bond Trustee for each series of the Insured Bonds. At such time as there are no Insured Bonds Outstanding, the Obligated Group shall be released from the obligations of the Bond Insurer Covenants and the Bond Insurer Covenants shall be of no force and effect under the Master Indenture.

DEFINITIONS

All terms used but not otherwise defined under this heading shall have the meanings assigned to them in the Master Indenture as defined under "MASTER INDENTURE – DEFINITIONS" above. For the purposes hereof, unless the context otherwise indicates, the following words and phrases shall have the following meanings:

"Authority" means the Dormitory Authority of the State of New York and any legal successor or successors thereto.

"Bond Insurer" means, with respect to the Series 2007A Bonds and the Series 2005 Bonds, Assured Guaranty Corp., and, with respect to the Series 2010 Bonds and the Series 2012 Bonds, Assured Guaranty Municipal Corp.

"Bond Trustee" means The Bank of New York Mellon, a banking organization duly organized under the laws of the State of New York and any successor to its duties under the Related Bond Indenture.

"Capitalization Ratio" means, the ratio of Long-Term Indebtedness, including the current portion of Long-Term Indebtedness, over the sum of Long-Term Indebtedness, including the current portion, plus unrestricted net assets, as set forth in the most recent Audited Financial Statements.

"Control Agreement" means any agreement whereby a Member of the Obligated Group, a secured party and a banking institution have agreed in an authenticated record (such as a signed writing) that the banking institution will comply with instructions originated by the secured party directing disposition of the funds in a deposit account held by such banking institution as security for the benefit of the secured party, without further consent by such Member.

"DCIDA" means the Dutchess County Industrial County Development Agency and any legal successor or successors thereto.

"Hospital" or *"Hospitals"* means, individually and collectively, Vassar Brothers Hospital, Northern Dutchess Hospital and Putman Hospital Center.

"Insured Bonds" means the Series 2005 Bonds, the Series 2007A Bonds, the Series 2007C Bonds, the Series 2010A Bonds and the Series 2012 Bonds (maturing after July 1, 2016).

"Insured Mortgages" means the Series 2005 Mortgages, the Series 2007A Mortgages, the Series 2007C Mortgages, the Series 2010A Mortgages and the Series 2012 Mortgages.

"Series 2005 Bonds" means the Dutchess County Industrial Development Agency Civic Facility Revenue Bonds, Series 2005 (Vassar Brothers Medical Center Facility).

"Series 2005 Mortgages" means the Mortgages granted by the Hospitals as security for the Obligation issued to secure the Series 2005 Bonds.

"Series 2007A Bonds" means the Dormitory Authority of the State of New York Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007A.

"Series 2007A Mortgages" means the Mortgages granted by the Hospitals as security for the Obligation issued to secure the Series 2007A Bonds.

"Series 2007C Bonds" means the Dormitory Authority of the State of New York Health Quest Systems, Inc. Obligated Group Revenue Bonds, Series 2007C.

"Series 2007C Mortgages" means the Mortgages granted by the Hospitals as security for the Obligation issued to secure the Series 2007C Bonds.

"Series 2010A Bonds" means the Dutchess County Local Development Corporation Revenue Bonds, Series 2010A (Health Quest Systems, Inc. Project).

"Series 2010A Mortgages" means the Mortgages granted by the Hospitals as security for the Obligation issued to secure the Series 2010A Bonds.

"Series 2012 Bonds" means the Dutchess County Local Development Corporation Revenue Bonds, Series 2012 (Taxable) (Health Quest Systems, Inc. Project).

"Series 2012 Mortgages" means the Mortgages granted by the Hospitals as security for the Obligation issued to secure the Series 2012 Bonds.

AMENDMENT TO THE DEFINITION OF "GUARANTY."

The definition of "Guaranty" under "MASTER INDENTURE – DEFINITIONS" is amended to replace the second sentence of the definition with the following: "For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any Indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to equal to twenty percent (20%) of the amount which would be payable as principal of and interest on the indebtedness for which a guaranty shall have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Requirement) if the beneficiary of the Guaranty has a long-term debt service coverage ratio (calculated in the same manner as the Obligated Group's Long-Term Debt Service Coverage

Ratio and referred to herein as the "*Beneficiary's Coverage Ratio*") greater than 2.0 times, twenty-five percent (25%) if the Beneficiary's Coverage Ratio is greater than 1.75 times but less than or equal to 2.0 times, fifty percent (50%) if the Beneficiary's Coverage Ratio is greater than 1.50 times but less than or equal to 1.75 times, seventy-five percent (75%) if the Beneficiary's Coverage Ratio is greater than 1.25 times but less than or equal to 1.50 times, and one hundred percent (100%) if the Beneficiary's Coverage Ratio equal to or less than 1.25 times, provided that if there shall have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is two (2) years after such other Person resumes making all payments on such guaranteed obligation, one hundred percent (100%) of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account."

AMENDMENT TO INSURANCE AND CONDEMNATION PROCEEDS

With respect to any casualty loss or condemnation award related to the Health Care Facilities of the Hospitals, the provisions of the Master Indenture described in clause (b) under "MASTER INDENTURE – INSURANCE AND CONDEMNATION PROCEEDS" above shall not apply and shall have no effect and clauses (a)(i) and (a)(ii) under "MASTER INDENTURE – INSURANCE AND CONDEMNATION PROCEEDS" shall be amended to read as follows: "(i) an Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) Fiscal Years following the date on which such proceeds or awards are forecasted to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than ninety percent (90%) of what it was in the Fiscal Year preceding such casualty or condemnation and is not less than 1.30 as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based; and (ii) a written report of a Consultant confirming such certification."

AMENDMENTS TO LIMITATIONS ON INDEBTEDNESS

The provisions of the Master Indenture under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to provide that each Member the Obligated Group covenants and agrees that it will not incur Additional Indebtedness that is Variable Rate Indebtedness if the aggregate amount of Variable Rate Indebtedness (and so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding, inclusive of Variable Rate Indebtedness that is or will be, directly or indirectly, converted to have a fixed rate of interest through a Derivative Agreement), that will be outstanding after such Additional Indebtedness is incurred will exceed forty percent (40%) of the Obligated Group's total Long-Term Indebtedness; provided, however, so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding, that any Variable Rate Indebtedness which is directly or indirectly converted to have a fixed rate of interest through a Derivative Agreement shall not be considered to be Variable Rate Indebtedness for the purposes of this calculation.

The provisions of the Master Indenture under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to provide that each Member the Obligated Group covenants and agrees that it will not incur Additional Indebtedness if, after such Additional Indebtedness is incurred, the Capitalization Ratio of the Obligated Group exceeds sixty-five percent (65%), as set forth on the most recent Audited Financial Statements.

The provisions of the Master Indenture in clauses (a) and (b) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to provide that the Obligated Group may issue additional Covered Obligations to secure Long-Term Indebtedness under the Master Indenture only if either: (i) at the time of incurrence of such additional Long-Term Indebtedness, the senior Indebtedness of the Obligated Group (without regard to credit enhancement) is rated at least "BBB-" (or correlative ratings) from at least two Fitch, Moody' sand S&P; or (ii) the prior written consent of DCIDA (so long as the Series 2005 Bonds are Outstanding), the Authority (so long as the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and the Bond Insurer is obtained, and in either of such cases, the Master Trustee shall execute such amendments to, spreaders of, or other documents relating to the Mortgages to secure such permitted additional Long-Term Indebtedness on a parity with all other Indebtedness secured from time to time by the Insured Mortgages.

The provisions of the Master Indenture in clause (a)(i)(B) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "The Long-Term Debt Service Coverage Ratio for the Historic Audit Period taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period is not less than 1.30."

The provisions of the Master Indenture in clause (a)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "(ii) an Officer's Certificate of the Obligated Group Representative demonstrating that (A) the Long-Term Debt Service Coverage Ratio for the Historic Audit Period, excluding the proposed Long-Term Indebtedness, is at least 1.30 and (B) the forecasted Long-Term Debt Service Coverage Ratio, as evidenced by a Consultant's report, is not less than 1.50 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance Capital Additions, each of the two (2) full Fiscal Years succeeding the date on which such Capital Additions are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing Capital Additions or in the case of a Guaranty, each of the two (2) full Fiscal Years succeeding the date on which the Indebtedness is incurred or guaranteed, as shown by pro forma financial statements for the Obligated Group for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements described in this paragraph to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restriction but in no event less than 1.00."

The provisions of the Master Indenture in clause (b)(i)(A) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service on the

refunding Long-Term Indebtedness will not be more than Maximum Annual Debt Service on the refunded Long-Term Indebtedness, after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof, and."

The provisions of the Master Indenture in clause (b)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "or if the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness."

The provisions of the Master Indenture in clause (c) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "Short-Term Indebtedness may be incurred subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed fifteen (15%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve (12) consecutive months for which Audited Financial Statements are available; provided, however, that there shall be a period of at least thirty (30) consecutive calendar days during each period of twelve (12) consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed zero percent (0%) of Total Operating Revenues; and provided further that failure to reduce Short-Term Indebtedness to less than zero percent (0%) of Total Operating Revenues for each such thirty (30) day period shall not constitute an Event of Default so long as such Short-Term Indebtedness in excess of zero percent (0%) could qualify as permitted Long-Term Indebtedness pursuant to the provisions of clause (a) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS," as amended by the Bond Insurer Covenants described under this heading."

The provisions of the Master Indenture in clause (d) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended to read as follows: "Non-Recourse Indebtedness and Subordinated Debt may be incurred as long as the total amount of Non-Recourse Indebtedness and Subordinated Debt does not exceed twenty percent (20%) of Total Operating Revenues."

The provisions of the Master Indenture in clause (g) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are amended are amended by deleting the "and" before subparagraph (iii) and adding a new subparagraph (iv) to read as follows: "and (iv) the amount of Indebtedness does not exceed ten percent (10%) of the Indebtedness previously incurred for the Capital Addition."

The provisions of the Master Indenture in clauses (a)(i)(A) and (e) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are omitted and shall have no effect and the Obligated Group shall not be permitted to issue Long-Term Indebtedness in compliance with those provisions of the Master Indenture.

AMENDMENTS TO LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND

The provisions of the Master Indenture in clause (a) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" are amended to change the required Long-Term Debt Service Coverage Ratio from 1.10 to 1.30 and all references in the Master Indenture described under "MASTER INDENTURE" to the required Long-Term Debt Service Coverage Ratio shall be deemed to refer to the Long-Term Debt Service Coverage Ratio described under this heading.

The provisions of the Master Indenture in clause (b) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" are amended to change the required number of Days Cash on Hand of the Obligated Group from thirty (30) days to seventy-five (75) days (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) days (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding) and all references describe under "MASTER INDENTURE" above to the required Days Cash on Hand shall be deemed to refer to the Days Cash on Hand described under this heading.

The provisions of the Master Indenture in clause (d) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" are amended to read as follows: "The Obligated Group shall be deemed in compliance with clauses (a) and (b) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" irrespective of whether the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.30 or the Days Cash on Hand is less than seventy-five (75) (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding), so long as the Obligated Group has complied with the requirements of clause (c) under the provisions of the Master Indenture described under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND" and is following the recommendations, if any, of the Consultant. Notwithstanding the preceding sentence, if the Long-Term Debt Service Coverage Ratio for the Obligated Group is less than 1.00, or the Obligated Group fails to maintain a Long-Term Debt Service Coverage Ratio of 1.30 for two (2) consecutive Fiscal Years, or Days Cash on Hand is less than fifty (50), or the Obligated Group has failed to maintain Days Cash on Hand of at least seventy-five (75) (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding) for two (2) consecutive Fiscal Years, then the Obligated Group shall not be in compliance with clauses (a) and (b) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND."

AMENDMENT TO SALE, LEASE OR OTHER DISPOSITION OF OPERATING ASSETS; DISPOSITION OF CASH AND INVESTMENTS; UNSECURED LOANS TO NON-MEMBERS; SALE OF ACCOUNTS

The provisions of the Master Indenture in clause (b) under "MASTER INDENTURE – SALE, LEASE OR OTHER DISPOSITION OF OPERATING ASSETS; DISPOSITION OF CASH AND INVESTMENTS; UNSECURED LOANS TO NON-MEMBERS; SALE OF ACCOUNTS" are amended to read as follows: "Each Member of the Obligated Group may Transfer cash or investments in securities only if the

following requirements are met: (i) after giving effect to such Transfer, the conditions described in clause (b) under "MASTER INDENTURE – LONG-TERM DEBT SERVICE COVERAGE RATIO/DAYS CASH ON HAND," as modified by the Bond Insurer Covenants, would have been satisfied, (ii) if such Transfer had occurred at the beginning of the Historic Audit Period the conditions described in clauses (a)(i)(B) or (a)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS," as modified by the Bond Insurer Covenants, would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness, (iii) after giving effect to such Transfer, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the Transfer, and (iv) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the Transfer."

AMENDMENT TO CONSOLIDATION; MERGER; SALE OR CONVEYANCE

The provisions of the Master Indenture in clause (a)(iii) under "MASTER INDENTURE – CONSOLIDATION; MERGER; SALE OR CONVEYANCE" are amended to read as follows: "There is delivered to the Master Trustee and the Bond Insurer an Officer's Certificate of the Obligated Group Representative demonstrating that (A) after giving effect to such merger, consolidation or sale or conveyance of assets, the Obligated Group has at least seventy-five (75) (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding) Days Cash On Hand (B) if such merger, consolidation or sale or conveyance of assets had occurred at the beginning of the Historic Audit Period the conditions described in clause (a)(i)(B) or clause (a)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS," as modified by the Bond Insurer Covenants, would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness, (C) after giving effect to such merger, consolidation or sale or conveyance of assets, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the merger, consolidation or sale or conveyance of assets, (D) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the merger, consolidation or sale or conveyance of assets, and (E) that after such merger, consolidation sale or conveyance of assets, no Member of the Obligated Group will be in default in the performance of any covenant or the satisfaction of any condition contained in the Master Indenture."

AMENDMENT TO FILING OF AUDITED FINANCIAL STATEMENTS; CERTIFICATE OF NO DEFAULT; OTHER INFORMATION

The provisions of the Master Indenture described under "MASTER INDENTURE – FILING OF AUDITED FINANCIAL STATEMENTS; CERTIFICATE OF NO DEFAULT; OTHER INFORMATION" are amended by adding a requirement that the Obligated Group Representative provide copies of all reports of and correspondence with outside agencies relating to any and all violations or deficiencies which could adversely affect the operations of the Obligated Group to the Bond Insurer.

AMENDMENT TO WITHDRAWAL FROM THE OBLIGATED GROUP

The provisions of the Master Indenture described in clause (b)(ii) under "MASTER INDENTURE – WITHDRAWAL FROM THE OBLIGATED GROUP" are amended to read as follows: "The Obligated Group Representative shall have provided an Officer's Certificate to the Master Trustee and the Bond Insurer demonstrating that (A) after giving effect to such withdrawal, the Obligated Group has at least seventy-five (75) (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding) Days Cash On Hand (B) if such withdrawal had occurred at the beginning of the Historic Audit Period the conditions described in clause (a)(i)(B) or clause (a)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS," as modified by the Bond Insurer Covenants, would have been satisfied for the incurrence of one dollar ($1.00) of Additional Indebtedness, (C) after giving effect to such withdrawal, unrestricted cash and investments would not decline by more than ten percent (10%) of the lesser of the unrestricted cash and investments as of the end of the most recent audited Fiscal Year or the date of the withdrawal, and (D) the Long-Term Debt Service Coverage Ratio is at least 1.45 times and eighty percent (80%) of what it was prior to the withdrawal."

AMENDMENT TO EVENTS OF DEFAULT

The paragraph following clause (d)(ii) under "MASTER INDENTURE – EVENTS OF DEFAULT" is amended by deleting the "and" before "(ii)" and adding a further subparagraph (iii) at the end of that paragraph that reads as follows: "and, (iii) the Master Trustee receives a written notice from the Bond Insurer confirming that the conditions of clauses (i) and (ii) in this paragraph are met;."

AMENDMENT TO SUPPLEMENTS NOT REQUIRING CONSENT OF HOLDERS

The provisions of the Master Indenture described in clause (k)(i) under "MASTER INDENTURE – SUPPLEMENTS NOT REQUIRING CONSENT OF HOLDERS" are amended by deleting the following provision: "(A)(1) a Consultant's report to the effect that the proposed amendment is consistent with then current industry standards for comparable institutions and (2) an Officer's Certificate of the Obligated Group Representative demonstrating that the conditions described in clause (a)(i)(B) or clause (a)(ii) under "MASTER INDENTURE – LIMITATIONS ON INDEBTEDNESS" are satisfied for the incurrence of an additional ($1.00) of Additional Indebtedness based upon the Historic Audit Period; or (B)."

ADDITIONAL COVENANTS TO MASTER INDENTURE

The following covenants are effective under the Master Indenture for so long as a series of the Insured Bonds, as provided below, are outstanding.

Notwithstanding anything in the Master Indenture to the contrary, for so long as the Insured Bonds are Outstanding, a Member of the Obligated Group may enter into a Derivative Agreement only if the following conditions are met: (i) the Derivative Agreement is entered into as a hedge against (w) swaps or other Derivative Agreements outstanding (including reverse

swaps), (x) assets then held, (y) debt outstanding, or (z) debt reasonably expected to be issued or incurred within twelve (12) months of the proposed interest rate swap or other Derivative Agreement, (ii) the Derivative Agreement does not contain any leverage element or multiplier component unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component, and (iii) unless the obligation of such Member is insured by a Credit Facility Issuer, the payment any settlement, breakage or other termination amount due under the Derivative Agreement determined at the time of execution and delivery of the Derivative Agreement (based on an assumption of two hundred (200) basis points fixed rate reduction for a fixed rate obligation and three hundred (300) basis points fixed rate increase for a floating rate obligation) shall be secured and shall be payable in a manner immediately subordinate to any Obligation, including net regularly scheduled payments due under any Derivative Agreement. No Member of the Obligated Group shall terminate a Derivative Agreement unless it demonstrates to the satisfaction of the Bond Insurer prior to the payment of any such termination amount that (i) the Obligated Group has at least seventy-five (75) (so long as the Series 2005 Bonds, the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and seventy (70) (so long as the Series 2010A Bonds and the Series 2012 Bonds are Outstanding) Days Cash on Hand and (ii) such payment shall not cause the Obligated Group to be in default under the Master Indenture or any of the Bond Insurer Covenants described under this heading. The counterparty or the guarantor to the Derivative Agreement must have a rating of at least "AA-" by S&P and "Aa3" by Moody's; provided that Bear Stearns Capital Markets, Inc. or any successor entity thereto may act as the counterparty if its ratings are maintained at "A1" by Moody's, "A" by S&P and "A" by Fitch and that, if Bear Stearns Capital Markets, Inc. is downgraded below the "A" rating category by any of these rating agencies, a replacement Derivative Agreement counterparty will be required, and (v) there is no immediate termination for events related to the Derivative Agreement counterparty.

For long as the Insured Bonds (other than the Series 2005 Bonds) are Outstanding, the Obligated Group shall not hereafter issue a Covered Obligation to secure Indebtedness unless the Member of the Obligated Group for which such Indebtedness is proposed to be issued grants to the Master Trustee a Mortgage on the project being financed or refinanced with the proceeds of the Indebtedness.

For so long as the Insured Bonds (other than the Series 2005 Bonds) are Outstanding, unless it is in connection with the giving of a Permitted Lien, no Member of the Obligated Group shall enter into any Control Agreement unless it shall have delivered to the Authority (so long as the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and the Bond Insurer (i) an opinion of counsel, which counsel is reasonably acceptable to the Authority (so long as the Series 2007A Bonds and the Series 2007C Bonds are Outstanding) and the Bond Insurer, stating that such Control Agreement will not adversely affect the Master Trustee's security interest in Gross Receipts, and (ii) a list of all banking institutions with whom such Member of the Obligated Group has a banking relationship.

For so long as the Series 2007A Bonds and the Series 2007C Bonds are Outstanding, the Authority's consent shall be required prior to (i) any amendment of the provisions of the Master Indenture described under "MASTER INDENTURE – SECURITY; RESTRICTIONS ON ENCUMBERING PROPERTY, PAYMENT OF PRINCIPAL AND INTEREST," "– INSURANCE"; "– LIMITATIONS ON

CREATION OF LIENS," "– LIMITATIONS ON INDEBTEDNESS," OR "–SALE, LEASE OR OTHER DISPOSITION OF OPERATING ASSETS; DISPOSITION OF CASH AND INVESTMENTS; "– UNSECURED LOANS TO NON-MEMBERS; SALE OF ACCOUNTS" or (ii) any amendment to the Master Indenture that is inconsistent with any provisions of covenants described under this heading.

SUPPLEMENTAL INDENTURES

Except as to matters that, by their nature, are specific to Supplement No. 19 or Supplement No. 20, as the case may be, the provisions of the Supplemental Indentures are substantively identical and are summarized together under this heading.

DEFINITIONS

All terms used in the Supplemental Indentures which are defined in the Master Indenture shall have the meanings assigned to them therein. For the purposes of the provisions of the Supplemental Indentures described under this heading, unless the context otherwise indicates the following words and phrases shall have the following meanings:

"Bond Trustee" means The Bank of New York Mellon, a banking organization duly organized under the laws of the State of New York, and any successor to its duties under the Series 2016 Related Bond Indenture.

"Financing Document" means the Master Indenture, the Series 2016 Related Bond Indenture, the Series 2016 Related Loan Agreement, the Series 2016 Mortgages and the Supplemental Indentures, as applicable, as amended or supplemented.

"LDC" means the Dutchess County Local Development Corporation.

"Obligation No. 19" means the Obligation issued pursuant to Supplement No. 19.

"Official Statement" means this Official Statement prepared in connection with the issuance and sale of the Series 2016 Bonds.

"Obligation No. 20" means the Obligation issued pursuant to Supplement No. 20.

"Outstanding Series 2016 Bonds" means the Series 2016 Bonds that are Outstanding under the Series 2016 Related Bond Indenture.

"Security Agent" means The Bank of New York Mellon f/k/a The Bank of New York, a banking organization duly organized under the laws of the State of New York and any successor to its duties under the Intercreditor Agreement.

"Series 2016 Bonds" means the Series 2016A Bonds and the Series 2016B Bonds.

"Series 2016 Mortgages" means the Mortgages granted by Vassar Brothers Hospital, Northern Dutchess Hospital and Putnam Hospital Center, as security for Obligation No. 19 and Obligation No. 20 issued under the Master Indenture, which Obligation constitutes Covered Obligations.

"Series 2016 Related Bond Indenture" means the Indenture of Trust, dated as of July 1, 2016, between the LDC and the Bond Trustee, authorizing the issuance of the Series 2016 Bonds.

"Series 2016 Related Loan Agreement" means the Loan Agreement, dated as of July 1, 2016, between the LDC and Health Quest Systems, Inc.

"Series 2016A Bonds" means the Dutchess County Local Development Corporation Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project).

"Series 2016B Bonds" means the Dutchess County Local Development Corporation Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project).

"Supplement No. 19" means Supplemental Indenture for Obligation No. 19 dated as of July 1, 2016 by and among the Obligated Group and the Master Trustee.

"Supplement No. 20" means Supplemental Indenture for Obligation No. 20 dated as of July 1, 2016 by and among the Obligated Group and the Master Trustee.

"Supplemental Indentures" means Supplement No. 19 and Supplement No. 20.

MORTGAGES

To secure, among other things, the prompt payment of the principal of, redemption premium, if any, and the interest on Obligation Nos. 19 and 20, and the performance by each Member of the Obligated Group of its other obligations under the Supplemental Indentures and under the Master Indenture, Vassar Brothers Hospital, Northern Dutchess Hospital and Putnam Hospital Center have each executed and delivered a Mortgage to the Master Trustee. The Master Trustee may modify, release or grant a parity interest in the lien of the Series 2016 Mortgages subject to the provisions of the Series 2016 Related Bond Indenture, the Series 2016 Mortgages, the Intercreditor Agreement, the related provisions of the Master Indenture and the Supplemental Indentures.

PAYMENTS ON OBLIGATION NOS. 19 AND 20; CREDITS

(a) Payments on Obligation Nos. 19 and 20 are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in clauses (b) and (c) under this subheading with respect to credits, payments on Obligation Nos. 19 and 20 shall be made at the times and in the amounts specified in Obligation Nos. 19 and 20 in immediately available funds by a Member depositing the same with or to the account of the Bond Trustee at or prior to the day such payments shall

become due or payable (or the next preceding Business Day (as defined in the 2016 Related Bond Indenture) if such date is not a Business Day) and giving notice to the Master Trustee of each payment on Obligation Nos. 19 and 20, specifying the amount paid and identifying such payment as a payment on Obligation Nos. 19 and 20.

(b) The Obligated Group shall receive credit for payment on Obligation Nos. 19 and 20, in addition to any credits resulting from payment or prepayment from other sources, including but not limited to, amounts received pursuant to the Intercreditor Agreement, for payments made directly to the Bond Trustee by any Member of the Obligated Group pursuant to Obligation Nos. 19 and 20.

(c) The Obligated Group shall receive credit for payment on Obligation Nos. 19 and 20, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation Nos. 19 and 20 in an amount equal to moneys deposited in the Interest Account of the Bond Fund created under the 2016 Related Bond Indenture which amounts are available to pay interest on the Series 2016 Bonds and to the extent such amounts have not previously been credited against payments on Obligation Nos. 19 and 20.

(ii) On installments of principal of Obligation Nos. 19 and 20 in an amount equal to moneys deposited in the Principal Account of the Bond Fund created under the 2016 Related Bond Indenture which amounts are available to pay principal of the Series 2016 Bonds and to the extent such amounts have not previously been credited against payments on Obligation Nos. 19 and 20.

(iii) On installments of principal of, applicable premium, if any, and interest on Obligation Nos. 19 and 20 in an amount equal to the principal amount of Series 2016 Bonds which have been called by the Bond Trustee for redemption prior to maturity, any prepayment premium with respect thereto and interest accrued thereon to the redemption date and for the payment of which sufficient amounts in cash are on deposit in accordance with the requirements of the 2016 Related Bond Indenture to the extent such amounts have not been previously credited against payments on Obligation Nos. 19 and 20. Such credits shall be made against the installments of principal of and interest on Obligation Nos. 19 and 20 which would be due, but for such call for redemption, to pay principal of and interest on such Series 2016 Bonds when due.

(iv) On installments of principal of and interest, respectively, on Obligation Nos. 19 and 20 in an amount equal to the principal amount of Series 2016 Bonds acquired by any Member of the Obligated Group and delivered to the Bond Trustee and cancelled. Such credits shall be made against the installments of principal of and interest on Obligation Nos. 19 and 20 which would be due, but for such cancellation, to pay principal of and interest on Series 2016 Bonds when due.

PREPAYMENT OF OBLIGATION NOS. 19 AND 20

(a) So long as all amounts which have become due under Obligation Nos. 19 and 20 have been paid, the Members may from time to time pay in advance all or part of the amounts to become due under Obligation Nos. 19 and 20. Prepayment may be made by payments of cash and/or surrender of Series 2016 Bonds, as contemplated by the provisions of the Supplemental Indentures summarized under "PAYMENTS ON OBLIGATIONS NOS. 19 AND 20; CREDITS" above. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Series 2016 Bonds) shall, upon receipt, be deposited with the Bond Trustee in the Bond Fund created under the Series 2016 Related Bond Indenture and, at the request of the Obligated Group Representative, used for the redemption or purchase of Outstanding Series 2016 Bonds in the manner and subject to the terms and conditions set forth in the Series 2016 Related Bond Indenture. Notwithstanding any such prepayment or surrender of Series 2016 Bonds, as long as there are any Outstanding Series 2016 Bonds or any additional payments required to be made under the Supplemental Indentures remain unpaid, the Members shall not be relieved of their obligations under the Supplemental Indentures.

(b) Prepayments made under clause (a) under this subheading shall be credited against amounts to become due on Obligation Nos. 19 and 20 as provided in the provisions of the Supplemental Indentures summarized under "PAYMENTS ON OBLIGATIONS NOS. 19 AND 20; CREDITS" above.

(c) The Obligated Group may also prepay all of its Indebtedness under Obligation Nos. 19 and 20 by providing for the payment of Outstanding Series 2016 Bonds in accordance with the Series 2016 Related Bond Indenture.

RIGHT TO REDEEM

Obligation Nos. 19 and 20 shall be subject to redemption, in whole or in part, prior to its maturity, in an amount equal to the principal amount of any Series 2016 Bond called for redemption pursuant to the Series 2016 Related Bond Indenture or, if applicable, purchased for cancellation by the Bond Trustee. Obligation Nos. 19 and 20 shall be subject to redemption on the date any Series 2016 Bond shall be so redeemed or purchased, and in the manner provided in the Series 2016 Related Bond Indenture.

PARTIAL REDEMPTION OF OBLIGATION NOS. 19 AND 20

Upon the call for redemption, and the surrender of Obligation No. 19 or Obligation No. 20 for redemption in part only, the Members shall cause to be executed and the Master Trustee shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of the Members, a new Obligation No. 19 or Obligation No. 20, as the case may be, in principal amount equal to the unredeemed portion of Obligation No. 19 or Obligation No. 20, as the case may be, which old Obligation No. 19 or Obligation No. 20 so surrendered to the Master Trustee pursuant to the provisions of the Supplemental Indentures described under this subheading shall be cancelled by it and delivered to, or upon the order of, the Members.

The Obligated Group Representative may agree with the Holder of Obligation No. 19 or Obligation No. 20, as the case may be, that such Holder may, in lieu of surrendering Obligation No. 19 or Obligation No. 20 for a new fully registered Obligation No. 19 or Obligation No. 20, as the case may be, endorse on Obligation No. 19 or Obligation No. 20 a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount redeemed and the principal amount remaining unpaid. Such partial redemption shall be valid upon payment of the amount thereof to the Holder of Obligation No. 19 or Obligation No. 20, as the case may be, and the Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of Obligation No. 19 or Obligation No. 20 by the Holder thereof and irrespective of any error or omission in such endorsement.

EFFECT OF CALL FOR REDEMPTION

On the date designated for redemption of the Series 2016 Bonds, Obligation Nos. 19 and 20 shall become and be due and payable in an amount equal to the redemption or purchase price to be paid on the Series 2016 Bonds on such date. If on the date fixed for redemption of Obligation Nos. 19 and 20 moneys for payment of the redemption or purchase price and accrued interest on the Series 2016 Bonds are held by the Bond Trustee, interest on Obligation Nos. 19 and 20 shall cease to accrue and said Obligation Nos. 19 and 20 shall cease to be entitled to any benefit or security under the Master Indenture to the extent of said redemption and the amount of Obligation Nos. 19 and 20 so called for redemption shall be deemed paid and no longer Outstanding.

ADDITIONAL REMEDIES REGARDING THE MORTGAGES

Subject to the obligations of the Master Trustee under the Intercreditor Agreement and in addition to any remedies enforceable pursuant to the Master Indenture, upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Covered Obligations Outstanding, or upon the direction of a Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than twenty-five percent (25%) in aggregate principal amount of Related Bonds that are secured by Covered Obligations Outstanding, shall proceed forthwith to protect and enforce the rights of the Holders of Covered Obligations by such suits,

actions, foreclosure proceedings or other proceedings as the Master Trustee, being advised by counsel, shall deem expedient regarding enforcement of rights under the Mortgages, including the Series 2016 Mortgages. In addition, and subject to the provisions of the Master Indenture, the Holders of not less than a majority in aggregate principal amount of Covered Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the Mortgages, including the Series 2016 Mortgages, except that the Related Credit Facility Issuer, or Related Credit Facility Issuers, if any, of not less than a majority in aggregate principal amount of Related Bonds that are secured by Covered Obligations Outstanding, and not the Holders, shall have the right to control proceedings with respect to the Mortgages, including the Series 2016 Mortgages, in the manner described under this subheading.

DISTRIBUTION OF PROCEEDS FROM ENFORCEMENT OF RIGHTS UNDER THE MORTGAGES AND THE INTERCREDITOR AGREEMENT

Any proceeds received from the enforcement of the rights of the Security Agent pursuant to the Intercreditor Agreement or the Master Trustee as mortgagee under the Mortgages, including the Series 2016 Mortgages, shall, notwithstanding any provision in the Master Indenture to the contrary, be distributed by the Master Trustee, after application of the Gross Receipts in accordance with the Master Indenture, to satisfy any remaining amounts then due and owing under any Covered Obligation, in direct proportion that the amount then due and owing under each such Covered Obligation bears to the total amounts then due and owing under all Covered Obligations.

PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP

Notwithstanding anything in the Master Indenture to the contrary, the Obligated Group and Obligated Group Representative covenant that a Person which is not a Member of the Obligated Group shall not become a Member of the Obligated Group unless such Person grants a mortgage to the Master Trustee on Health Care Facilities owned by such Person at the time of admission to the Obligated Group, subject to any liens or security interests permitted to remain outstanding under the Master Indenture, in addition to the provisions of the Master Indenture described under "MASTER INDENTURE – PARTIES BECOMING MEMBERS OF THE OBLIGATED GROUP" above.

DISCHARGE OF SUPPLEMENTAL INDENTURES

Upon payment by the Obligated Group of a sum, in cash or Government Obligations (as defined in the Series 2016 Related Bond Indenture), or both, sufficient, together with any other cash and Government Obligations held by the Bond Trustee and available for such purpose, to cause all Outstanding Series 2016 Bonds to be deemed to have been paid within the meaning of the Series 2016 Related Bond Indenture and to pay all other amounts referred to in the provisions of the Series 2016 Related Bond Indenture described in APPENDIX C to this Official Statement

under "SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE AND THE LOAN AGREEMENT – Discharge of the Indenture", accrued and to be accrued to the date of discharge of the Series 2016 Related Bond Indenture, Obligation Nos. 19 and 20 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture and the Supplemental Indentures shall be discharged.

GOVERNING LAW

The Supplemental Indentures shall be governed by and construed in accordance with the laws of the State of New York.

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

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APPENDIX E

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon the issuance of the Series 2016 Bonds, Nixon Peabody LLP, New York, New York, as Bond Counsel will deliver its Bond Counsel Opinion in substantially the same form as this Appendix.

July 7, 2016

Dutchess County Local Development Corporation
Poughkeepsie, New York

The Bank of New York Mellon, as Trustee
New York, New York

Merrill Lynch, Pierce, Fenner & Smith Incorporated,
as Representative of the Underwriters
New York, New York

Re: $28,080,000 Dutchess County Local Development Corporation
Revenue Refunding Bonds, Series 2016A
(Health Quest Systems, Inc. Project)

and

$350,000,000 Dutchess County Local Development Corporation
Revenue Bonds, Series 2016B
(Health Quest Systems, Inc. Project)

Ladies and Gentlemen:

We have acted as bond counsel to the Dutchess County Local Development Corporation (Dutchess County, New York) (the "**Issuer**") in connection with the issuance on the date hereof by the Issuer of its Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) in the aggregate principal amount of $28,080,000 (the "**Series 2016A Bonds**"), and its Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project) in the aggregate principal amount of $350,000,000 (the "**Series 2016B Bonds**"; and, together with the Series 2016A Bonds, the "**Series 2016 Bonds**"). The Series 2016 Bonds are authorized to be issued pursuant to:

(i) Section 1411 of the New York Not-for-Profit Corporation Law of the State of New York (the "**Act**"),

(ii) a Bond Resolution duly adopted by the Issuer on January 19, 2016, as supplemented on June 3, 2016 (the "**Resolution**"),

(iii) an Indenture of Trust, dated as of July 1, 2016 (the "**Indenture**"), by and between the Issuer and The Bank of New York Mellon, as trustee for the benefit of the Owners of the Series 2016 Bonds (the "**Trustee**"),

(iv) a Bond Purchase Agreement, dated June 16, 2016 (the "**Bond Purchase Agreement**"), among the Issuer, Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of the underwriters named therein (collectively, the "**Underwriters**"), and Health Quest Systems, Inc., a New York not-for-profit corporation and an organization described in Section 501 (c)(3) of the Internal Revenue Code of 1986, as amended (the "**Code**"), and exempt from federal income taxation pursuant to Section 501(a) of the Code (the "**Institution**"),

for the purposes of undertaking one or more projects for the benefit of the Institution or one or more of the Institution's member hospitals, Northern Dutchess Hospital ("**NDH**" or "**Northern Dutchess Hospital**"), Putnam Hospital Center ("**PHC**" or "**Putnam Hospital Center**") and Vassar Brothers Hospital d/b/a Vassar Brothers Medical Center ("**VBMC**" or "**Vassar Brothers Medical Center**") (collectively, "**Member Hospitals**"), as more particularly described in the Indenture.

The Issuer will loan the proceeds of the Series 2016 Bonds to the Institution pursuant to a Loan Agreement, dated as of July 1, 2016 (the "**Loan Agreement**"), by and between the Issuer and the Institution. The Issuer, the Institution, PHC, VBMC and NDH have entered into a Tax Regulatory Agreement, dated the date hereof (the "**Tax Regulatory Agreement**"), in which the Issuer, the Institution, PHC, VBMC and NDH have made certain representations and covenants, established certain conditions and limitations and created certain expectations, relating to compliance with the requirements imposed by the Code.

The Institution, VBMC, PHC and NDH (collectively, the "**Members of the Obligated Group**") and The Bank of New York Mellon, formerly known as The Bank of New York, as master trustee (the "**Master Trustee**"), previously entered into a Master Trust Indenture, dated as of September 1, 2007, as supplemented to date (collectively, the "**Master Trust Indenture**"). Pursuant to the Master Trust Indenture, a Supplemental Indenture For Obligation No. 19 and a Supplemental Indenture For Obligation No. 20, each dated as of July 7, 2016 (collectively, the "**Supplemental Master Trust Indentures**"), the Members of the Obligated Group will issue Obligation No. 19 and Obligation No. 20 (the "**Obligations**") to the Trustee to secure the payments of the Series 2016 Bonds and the obligations of the Institution under the Loan Agreement.

In order to further secure their joint and several obligations under the Supplemental Indenture and the Obligations, (i) VBMC will grant a mortgage on its hospital campus to the Master Trustee pursuant to a Mortgage and Security Agreement, (ii) Putnam Hospital Center

will grant a mortgage on its hospital campus to the Master Trustee pursuant to a Mortgage and Security Agreement, and (iii) Northern Dutchess Hospital will grant a mortgage on its hospital campus to the Master Trustee pursuant to a Mortgage and Security Agreement, each dated as of July 1, 2016 (collectively, the "**Master Trustee Mortgages**"), and each to the Master Trustee.

The Series 2016 Bonds are dated July 7, 2016, and bear interest from the date thereof at the rate stated in, and pursuant to the terms of, the Series 2016 Bonds. The Series 2016 Bonds are subject to prepayment or redemption prior to maturity, as a whole or in part, at such time or times, under such circumstances and in such manner as is set forth in the Series 2016 Bonds and the Indenture.

As bond counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents (including all documents constituting the Transcript of Proceedings with respect to the issuance of the Series 2016 Bonds) as we have deemed necessary or appropriate for the purposes of the opinions rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity and due execution of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, without having conducted any independent investigation, we have relied upon, and assumed the accuracy and truthfulness of, the aforesaid instruments, certificates and documents.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned in the Schedule of Definitions attached as Schedule A of the Indenture.

In rendering the opinions set forth below, we have relied upon, among other things, certain representations and covenants made by the parties in this transaction including: (i) the Institution in (a) the Bond Purchase Agreement, (b) the Loan Agreement, (c) the Tax Regulatory Agreement, (d) the Closing Certificate of the Institution, dated the date hereof, and (e) the Bond Counsel Questionnaire submitted to us by the Institution, as supplemented; (ii) VBMC in the Closing Certificate of VBMC and the Tax Regulatory Agreement, (iii) Putnam Hospital Center in the Closing Certificate of Putnam Hospital Center and the Tax Regulatory Agreement, (iv) Northern Dutchess Hospital in the Closing Certificate of Northern Dutchess Hospital and the Tax Regulatory Agreement, (v) the Issuer in (a) the Bond Purchase Agreement, (b) the Indenture, (c) the Loan Agreement, (d) the Tax Regulatory Agreement, and (e) the Closing Certificate of the Issuer, dated the date hereof. We call your attention to the fact that there are certain requirements with which the Issuer, the Institution and the Member Hospitals must comply after the date of issuance of the Series 2016 Bonds in order for the interest on the Series 2016 Bonds to remain excluded from gross income for federal income tax purposes. Copies of the aforementioned documents are included in the Transcript of Proceedings.

In addition, in rendering the opinions set forth below, we have relied upon the opinions of Cappillino & Rothschild LLP, Pawling, New York, counsel to the Issuer; Chapman and Cutler LLP, Chicago, Illinois, counsel to the Institution; and Buchanan Ingersoll & Rooney PC, New York, New York, counsel to the Trustee, all of even date herewith. Copies of the aforementioned opinions are contained in the Transcript of Proceedings.

Based upon and subject to the foregoing, we are of the opinion that:

1. The Issuer is a duly organized and existing corporate governmental agency constituting a local development corporation of the State of New York.

2. The Issuer is duly authorized to finance the Project and to issue, execute, sell and deliver the Series 2016 Bonds, for the purpose of paying the costs of such financing, together with other expenses and costs incidental thereto.

3. The Resolution has been duly adopted by the Issuer and is in full force and effect.

4. The Bond Purchase Agreement, the Indenture, the Loan Agreement and the Tax Regulatory Agreement have been duly authorized, executed and delivered by the Issuer and are legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms.

5. The Series 2016 Bonds have been duly authorized, executed and delivered by the Issuer and are legal, valid and binding special obligations of the Issuer payable solely from the revenues derived from the Loan Agreement, enforceable against the Issuer in accordance with their respective terms.

6. The Series 2016 Bonds do not constitute a debt of the State of New York or of Dutchess County, New York, and neither the State of New York nor Dutchess County, New York, will be liable thereon.

7. The Code sets forth certain requirements which must be met subsequent to the issuance and delivery of the Series 2016 Bonds for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Series 2016 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016 Bonds. Pursuant to the Indenture, the Loan Agreement and the Tax Regulatory Agreement, the Issuer, the Institution, PHC, VBMC and NDH have covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Series 2016 Bonds from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the Issuer, the Institution, PHC, VBMC and NDH have made certain representations and certifications in the Indenture, the Loan Agreement and the

Tax Regulatory Agreement. We are also relying on the opinion of counsel to the Institution and the Member Hospitals as to all matters concerning the status of the Institution and the Member Hospitals as organizations described in Section 501(c)(3) of the Code and exempt from federal income tax under Section 501(a) of the Code. We have not independently verified the accuracy of those certifications and representations or that opinion.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Series 2016 Bonds is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

8. Bond Counsel is further of the opinion that the excess of the principal amount of a maturity of the Series 2016 Bonds over the price at which price a substantial amount of such maturity of the Series 2016 Bonds was sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a "Discount Bond" and collectively the "Discount Bonds") constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2016 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Discount Bond and the basis of each Discount Bond acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax consequences of owning the Discount Bonds, even though there will not be a corresponding cash payment.

9. Interest on the Series 2016 Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision of the State of New York (including The City of New York), assuming compliance with the tax covenants and the accuracy of the representations and certifications in paragraph 7 herein.

Except as stated in paragraphs 7, 8 and 9 above, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Series 2016 Bonds. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Series 2016 Bonds, or the interest thereon, if any action is taken with respect to the Series 2016 Bonds or the proceeds thereof upon the advice or approval of other counsel.

The foregoing opinions are qualified to the extent that the enforceability of the Series 2016 Bonds, the Bond Purchase Agreement, the Indenture, the Loan Agreement and the Tax Regulatory Agreement may be limited by bankruptcy, insolvency or other laws or

enactments now or hereafter enacted by the State of New York or the United States affecting the enforcement of creditors' rights and by restrictions on the availability of equitable remedies and to the extent, if any, that enforceability of the indemnification provisions of such documents may be limited under law. We express no opinion with respect to the availability of any specific remedy provided for in any of the bond documents.

In rendering the foregoing opinions, we are not passing upon and do not assume any responsibility for the accuracy, completeness, sufficiency or fairness of any documents, information or financial data supplied by the Issuer, the Institution or the Trustee in connection with the Series 2016 Bonds, the Bond Purchase Agreement, the Indenture, the Loan Agreement, the Continuing Disclosure Agreement, dated as of July 1, 2016, between the Institution and the Digital Assurance Certification, L.L.C., the Tax Regulatory Agreement, the Official Statement with respect to the Series 2016 Bonds dated June 16, 2016 (the "**Official Statement**") or the Project and make no representation that we have independently verified the accuracy, completeness, sufficiency or fairness of any such documents, information or financial data. In addition we express no opinion herein with respect to the accuracy, completeness, sufficiency or fairness of the Official Statement.

We express no opinion herein with respect to the registration requirements under the Securities Act of 1933, as amended, the registration or qualification requirements under the Trust Indenture Act of 1939, as amended, the registration, qualification or other requirements of State securities laws, or the availability of exemptions therefrom.

We express no opinion as to the sufficiency of the description of the Project contained in the Loan Agreement, or as to title to the Land, the Improvements or the Equipment, or as to the adequacy, perfection or priority of any mortgage lien on or any security interest in any collateral securing the Series 2016 Bonds.

Furthermore, we express no opinion as to the Continuing Disclosure Agreement. We express no opinion with respect to whether the Issuer and the Institution (i) have complied with the State Environmental Quality Review Act, (ii) have obtained any or all necessary governmental approvals, consents or permits, or (iii) have complied with the New York Labor Law or other applicable laws, rules, regulations, orders and zoning and building codes, all in connection with the completion of the Project and the loan of the proceeds of the Series 2016 Bonds for the Project by the Issuer to the Institution.

The opinions expressed herein may be relied upon by the addressees and may not be relied upon by any other person without our prior written consent.

Very truly yours,

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement"), dated as of July 1, 2016, is executed and delivered by Health Quest Systems, Inc. (the "Obligated Group Representative" and together with any future additional Obligated Group members, if any, under the Master Indenture (as defined below), the "Obligated Group") and Digital Assurance Certification, L.L.C. ("DAC"), as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent") for the benefit of the Holders (hereinafter defined) of the Bonds (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the Obligated Group Representative through use of the DAC system and are not intended to constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the Obligated Group Representative or anyone on the Obligated Group's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary. DAC is not a "Municipal Advisor" as such term is defined in Section 15B of the Securities Exchange Act of 1934, as amended, and related rules.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Indenture of Trust, dated as of July 1, 2016 (the "Indenture"), between Dutchess County Local Development Corporation ("LDC") and The Bank of New York Mellon, as trustee (the "Bond Trustee"). The capitalized terms shall have the following meanings:

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f) hereof, by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Audited Financial Statements" means the financial statements of the Obligated Group for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i)(B) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Bonds" means the bonds as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

“Certification” means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Quarterly Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual Report, Quarterly Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be or voluntarily submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the Obligated Group Representative and include the full name of the Bonds and the 9-digit CUSIP numbers for all Bonds to which the document applies.

“Disclosure Dissemination Agent” means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the Obligated Group pursuant to Section 10 hereof.

“Disclosure Representative” means the Senior Vice President and Chief Financial Officer of the Obligated Group Representative, or his or her designee, or such other person as the Obligated Group Representative shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

“Failure to File Event” means the Obligated Group’s failure to file a Quarterly Report or an Annual Report on or before the respective Quarterly Filing Date or Annual Filing Date.

“Force Majeure Event” means: (i) acts of God, war, or terrorist action; (ii) failure or shutdown of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent’s reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

“Holder” means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries) or (b) treated as the owner of any Bonds for federal income tax purposes.

“Information” means, collectively, the Annual Reports, the Quarterly Reports, the Audited Financial Statements, the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"Master Indenture" means the Master Trust Indenture, dated as of September 1, 2007, as amended and supplemented through and including the Supplemental Indentures for Obligation No. 19 and Obligation No. 20, dated as of July 1, 2016, among the Obligated Group and the Master Trustee.

"Master Trustee" means The Bank of New York Mellon.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 5(a) of this Disclosure Agreement.

"Official Statement" means that Official Statement prepared by the Obligated Group in connection with the issuance of the LDC's Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) and the LDC's Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project), as listed in Exhibit A.

"Quarterly Filing Date" means the date, as set forth in Section 4, by which the Quarterly Report is to be filed with the MSRB.

"Quarterly Report" means the Quarterly Report provided by the Obligated Group Representative under Section 4 hereof.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 8(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(10) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 8(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The Obligated Group shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Bond Trustee, not later than June 1 of each year (or in the event of a change in the Obligated Group's fiscal year from the present January 1 to December 31 fiscal year, within 150 days after the end of such fiscal year), commencing with the fiscal year ending December 31, 2016, such date and each anniversary thereof, the "Annual Filing Date." Promptly upon receipt of an electronic copy of the Annual Report, Audited Financial Statements and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report and Audited Financial Statements to the MSRB through its Electronic Municipal Market Access ("EMMA") System for municipal securities disclosures. The Annual Report and Audited Financial Statements may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the Obligated Group Representative of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification no later than two (2) business days prior to the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the Obligated Group will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 10:00 a.m. Eastern time on the Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Obligated Group irrevocably directs the Disclosure Dissemination Agent to immediately send a Failure to File Event notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, which may be accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the Obligated Group are prepared but not available prior to the Annual Filing Date, the Obligated Group shall, when the Audited Financial Statements are available, provide at such time an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Bond Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to each Quarterly Filing Date and Annual Filing Date;

(ii) upon receipt, promptly file each Quarterly Report and Annual Report received under Sections 4 and 2(a), respectively, hereof with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) hereof with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 5(a) and 5(b)(ii) hereof with the MSRB, identifying the Notice Event as instructed by the Obligated Group Representative pursuant to Section 5(a) or 5(b)(ii) hereof (being any of the categories set forth below) when filing pursuant to Section 5(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"

7. "Modifications to rights of securities holders, if material;"

8. "Bond calls, if material;"

9. "Defeasances;"

10. "Release, substitution, or sale of property securing repayment of the securities, if material;"

11. "Rating changes;"

12. "Tender offers;"

13. "Bankruptcy, insolvency, receivership or similar event of the obligated person;"

14. "Merger, consolidation, or acquisition of the obligated person, if material;" and

15. "Appointment of a successor or additional trustee, or the change of name of a trustee, if material;"

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as "Failure to provide [quarterly/annual] financial information as required" when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 8(a) hereof with the MSRB, identifying the Voluntary Event Disclosure as instructed by the Obligated Group Representative pursuant to Section 8(a) (being any of the categories set

forth below) when filing pursuant to Section 8(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”

2. “change in obligated group;”

3. “notice to investors pursuant to bond documents;”

4. “certain communications from the Internal Revenue Service”;

5. “secondary market purchases;”

6. “bid for auction rate or other securities;”

7. “capital or other financing plan;”

8. “litigation/enforcement action;”

9. “change of tender agent, remarketing agent, or other on-going party;”

10. “derivative or other similar transaction;” and

11. “other event-based disclosures;”

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 8(b) hereof with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the Obligated Group pursuant to Section 8(b) (being any of the categories set forth below) when filing pursuant to Section 8(b) of this Disclosure Agreement:

1. “quarterly/monthly financial information;”

2. “Timing of annual disclosure (150 days);”

3. “change in fiscal year/timing of annual disclosure;”

4. “change in accounting standard;”

5. “interim/additional financial information/operating data;”

6. “budget;”

7. “investment/debt/financial policy;”

8. “information provided to rating agency, credit/liquidity provider or other third party;”

9. “consultant reports;” and

10. “other financial/operating data.”

(viii) provide the Obligated Group Representative evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The Obligated Group may adjust the Quarterly Filing Dates and Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Quarterly Filing Dates and Annual Filing Date to the Disclosure Dissemination Agent, the Bond Trustee and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Anything in this Disclosure Agreement to the contrary notwithstanding, any Information received by the Disclosure Dissemination Agent before 10:00 a.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

The Obligated Group's Annual Report shall contain or incorporate by reference the following information relating to the Obligated Group for or as of the most recently completed fiscal year of the Obligated Group:

1) Audited Financial Statements,

2) To the extent not included in the Audited Financial Statements:

a) Summary of revenues and expenses in the form included in the Appendix A to the Official Statement under the caption “Consolidated Statements of Operations”, with comparative information for the preceding fiscal year;

b) Summary of Utilization Statistics for the Obligated Group in the form included in Appendix A to the Official Statement under the caption “Utilization”, with comparative information for the preceding fiscal years;

c) Sources of Patient Service Revenue; and

d) Changes in Outstanding Indebtedness.

The Obligated Group agrees that the financial statements provided pursuant to Sections 2 and 3 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles (to the extent applicable), as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Obligated Group is an "obligated person" (as defined by the Rule), which have been filed with the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Obligated Group shall clearly identify each such other document so incorporated by reference.

If the Annual Financial Information contains modified operating data or financial information different from the Annual Financial Information agreed to in the continuing disclosure undertaking related to the Bonds, the Obligated Group is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Quarterly Reports.

The Obligated Group Representative hereby agrees to provide to those parties receiving information pursuant to Section 1 hereof, financial information in any reasonable manner containing in substance such information and data set forth in the charts under the heading "Summary Statements of Operations" in Appendix A to the Official Statement, or such other Quarterly Report as may be permitted hereunder not later than sixty (60) days after the end of each fiscal quarter. The summary of historic revenue and expenses shall be for the period from January 1 of the applicable fiscal year through the end of the most recent fiscal quarter, shall include statements for the corresponding period of the preceding fiscal year and shall be prepared in accordance with GAAP.

SECTION 5. Reporting of Notice Events.

(a) The occurrence of any of the following events with respect to the Bonds constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of

Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

7. Modifications to rights of Bond holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Bonds, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Group;

    Note to subsection (a)(12) of this Section 5: For the purposes of the event described in subsection (a)(12) of this Section 5, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Group member in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Group member, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Group member.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Group member or the sale of all or substantially all of the assets of the Obligated Group member, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The Obligated Group shall, in a timely manner not later than nine (9) business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a

Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Obligated Group desires to make, contain the written authorization of the Obligated Group for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Group desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the Obligated Group or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the Obligated Group determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that either (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 5, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the Obligated Group desires to make, contain the written authorization of the Obligated Group for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Group desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the Obligated Group as prescribed in subsection (a) or (b)(ii) of this Section 5 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with MSRB in accordance with Section 2 (e)(iv) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

SECTION 6. CUSIP Numbers. The Obligated Group will provide the Dissemination Agent with the CUSIP numbers for (i) new bonds at such time as they are issued or become subject to the Rule and (ii) any Bonds to which new CUSIP numbers are assigned in substitution for the CUSIP numbers previously assigned to such Bonds.

SECTION 7. Additional Disclosure Obligations. The Obligated Group acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Obligated Group, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The Obligated Group acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 8. Voluntary Filing.

(a) The Obligated Group may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the Obligated Group desires to make, contain the written authorization of the Obligated Group for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Group desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Obligated Group as prescribed in this Section 8(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The Obligated Group may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the Obligated Group desires to make, contain the written authorization of the Obligated Group for the Disclosure Dissemination Agent to disseminate such information, and identify the date the Obligated Group desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the Obligated Group as prescribed in this Section 8(b) hereof to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice may be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-3.

(c) The parties hereto acknowledge that the Obligated Group is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 8(a) hereof or any Voluntary Financial Disclosure pursuant to Section 8(b) hereof.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Group from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the Obligated Group chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the Obligated Group shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 9. Termination of Reporting Obligation. The obligations of the Obligated Group and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Bonds upon the legal defeasance, prior redemption or payment in full of all of the Bonds, when the Obligated Group is no longer an obligated person with respect to the Bonds, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 10. Disclosure Dissemination Agent. The Obligated Group has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The Obligated Group may, upon thirty days written notice to the Disclosure Dissemination Agent and the Bond Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the Obligated Group or DAC, the Obligated Group agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Bonds. Notwithstanding any replacement or appointment of a successor, the Obligated Group shall remain liable to the Disclosure Dissemination Agent until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the Obligated Group.

SECTION 11. Remedies in Event of Default. In the event of a failure of the Obligated Group or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Disclosure Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Bonds or under any other document relating to the Bonds, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 12. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Obligated Group has provided such information to the Disclosure Dissemination Agent as provided in this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the Obligated Group and shall not be deemed to be acting in any fiduciary capacity for the Obligated Group, the Holders of the Bonds or any other party. The Disclosure Dissemination Agent shall have no responsibility for the Obligated Group's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Obligated Group has complied with this Disclosure Agreement. The

Disclosure Dissemination Agent may conclusively rely upon Certifications of the Obligated Group at all times.

The obligations of the Obligated Group under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Bonds.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the Obligated Group.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 13. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Group and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Obligated Group and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Bonds and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the Obligated Group or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the Obligated Group. No such amendment shall become effective if the Obligated Group shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Obligated Group, the Bond Trustee for the Bonds, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of New York (without regard to conflicts of laws).

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page intentionally left blank.]

The Disclosure Dissemination Agent and the Obligated Group have caused this Continuing Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

HEALTH QUEST SYSTEMS, INC., as Obligated Group Representative

By: ______________________________
Authorized Officer

DIGITAL ASSURANCE CERTIFICATION, L.L.C., as Disclosure Dissemination Agent

By: ______________________________
Authorized Officer

EXHIBIT A

NAME AND CUSIP NUMBERS OF BONDS

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE [QUARTERLY/ANNUAL] REPORT

Name of Issuer:	Dutchess County Local Development Corporation
Name of Bond Issue:	$28,080,000 Dutchess County Local Development Corporation Revenue Refunding Bonds, Series 2016A (Health Quest Systems, Inc. Project) and $350,000,000 Dutchess County Local Development Corporation Revenue Bonds, Series 2016B (Health Quest Systems, Inc. Project)
Name of Obligated Group Representative:	Health Quest Systems, Inc.
Date of Issuance:	July 7, 2016
Date of Disclosure Agreement:	As of July 1, 2016
CUSIP Numbers:	

NOTICE IS HEREBY GIVEN that the Obligated Group has not provided a [Quarterly/Annual] Report with respect to the above-named Bonds as required by the Disclosure Agreement to Provide Continuing Disclosure, dated as of July 1, 2016, between the Obligated Group and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The Obligated Group has notified the Disclosure Dissemination Agent that it anticipates that the [Quarterly/Annual] Report will be filed by ____________.

Dated:______________________________

Digital Assurance Certification, L.L.C., as
Disclosure Dissemination Agent, on behalf of the
Obligated Group

____

cc: Obligated Group Representative

EXHIBIT C-1

EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" may be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and Obligated Group's Names:

Issuer's Six-Digit CUSIP Number:
or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates:

Number of pages attached: ___________

____ Description of Notice Events (Check One):

1. _____ "Principal and interest payment delinquencies;"
2. _____ "Non-Payment related defaults, if material;"
3. _____ "Unscheduled draws on debt service reserves reflecting financial difficulties;"
4. _____ "Unscheduled draws on credit enhancements reflecting financial difficulties;"
5. _____ "Substitution of credit or liquidity providers, or their failure to perform;"
6. _____ "Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7. _____ "Modifications to rights of securities holders, if material;"
8. _____ "Bond calls, if material;"
9. _____ "Defeasances;"
10. _____ "Release, substitution, or sale of property securing repayment of the securities, if material;"
11. _____ "Rating changes;"
12. _____ "Tender offers;"
13. _____ "Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14. _____ "Merger, consolidation, or acquisition of the obligated person, if material;" and
15. _____ "Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

_____ Failure to provide quarterly/annual financial information as required.

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly: Signature:

____

Name: ___________________________ Title: _______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-2

VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" may be sent to the MSRB, pursuant to the

Continuing Disclosure Agreement dated as of July 1, 2016, between the Obligated Group and DAC.

Issuer's and Obligated Group's Names:

Issuer's Six-Digit CUSIP Number:
or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1. ____ "amendment to continuing disclosure undertaking;"
2. ____ "change in obligated person;"
3. ____ "notice to investors pursuant to bond documents;"
4. ____ "certain communications from the Internal Revenue Service;"
5. ____ "secondary market purchases;"
6. ____ "bid for auction rate or other securities;"
7. ____ "capital or other financing plan;"
8. ____ "litigation/enforcement action;"
9. ____ "change of tender agent, remarketing agent, or other on-going party;"
10. ____ "derivative or other similar transaction;" and
11. ____ "other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly: Signature:

____

Name: ______________________________ Title: ______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-3

VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" may be sent to the MSRB, pursuant to the

Continuing Disclosure Agreement dated as of July 1, 2016, between the Obligated Group and DAC.

Issuer's and Obligated Group's Names:

Issuer's Six-Digit CUSIP Number:
or Nine-Digit CUSIP Number(s) of the bonds to which this event notice relates

Number of pages attached: _____

_____ Description of Voluntary Financial Disclosure (Check One):

1. ____ "quarterly/monthly financial information;"
2. ____ "change in fiscal year/timing of annual disclosure;"
3. ____ "change in accounting standard;"
4. ____ "interim/additional financial information/operating data;"
5. ____ "budget;"
6. ____ "investment/debt/financial policy;"
7. ____ "information provided to rating agency, credit/liquidity provider or other third party;"
8. ____ "consultant reports;" and
9. ____ "other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly: Signature:

____

Name: ______________________________ Title: ____________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

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