NEW ISSUE **Book-Entry-Only**

In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Series B Bonds and any profit on the sale of the Series B Bonds are exempt from Massachusetts personal income taxes and the Series B Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series B Bonds. See "TAX EXEMPTION" herein.

$56,050,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds,
Southcoast Health System Obligated Group Issue,
Series B (2004), Periodic Auction Reset Securities (PARS[SM])

Dated: Date of Delivery **Due:** August 15, 2027

The Series B Bonds will be issued by means of a book-entry only system evidencing ownership and transfer of the Series B Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Series B Bonds are more fully described in this Official Statement. The Series B Bonds will be initially issued as auction rate securities in a seven-day mode and are subject to conversion, at the option of the Southcoast Hospitals Group, Inc. (the "Institution") and subject to certain restrictions, to other auction rate modes, to certain variable rate modes or to a fixed rate mode. The Series B Bonds will bear interest from the date of delivery thereof until May 24, 2004 (the "Initial Period") at the rate initially established by Goldman, Sachs & Co. and thereafter at the applicable PARS Rate (as defined herein) determined pursuant to the Auction Procedures (as defined herein). Wilmington Trust Company, Wilmington, Delaware, will initially serve as Auction Agent for the Series B Bonds. Goldman, Sachs & Co. will initially serve as the sole Broker-Dealer with respect to the Series B Bonds.

The Series B Bonds are subject to optional redemption, mandatory sinking fund redemption, special redemption and mandatory tender for purchase prior to maturity, as more fully described herein.

The Series B Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues of the Authority, including payments to J.P. Morgan Trust Company, National Association, as Trustee, for the account of the Authority by the Institution, in accordance with the provisions of the Loan and Trust Agreement (the "Agreement") dated as of April 20, 2004 among the Authority, the Institution and the Trustee. Such payments pursuant to the Agreement are a general obligation of the Institution. To secure such payments under the Agreement the Obligated Group will deliver a Note to the Trustee issued pursuant to that certain Amended and Restated Master Trust Indenture and Mortgage and Security Agreement dated as of May 4, 1993, as amended and restated as of April 20, 2004 (the "Master Trust Indenture") among the Obligated Group (consisting of the Southcoast Health System, Inc., the Institution, Southcoast Physician Services, Inc., Southcoast Primary Care, Inc. and Visiting Nurse Association of Southeastern Massachusetts, Inc.) and J.P. Morgan Trust Company, National Association, as Master Trustee, all as more fully described herein. The Note, along with certain other notes issued under the Master Trust Indenture, will be secured by a pledge of the Gross Receipts of the Obligated Group and a mortgage on certain real property of the Institution. Reference is made to this Official Statement for pertinent security provisions of the Series B Bonds and for certain Bondowners' rights.

The scheduled payment of the principal of and interest on the Series B Bonds when due will be guaranteed under an insurance policy to be issued by MBIA Insurance Corporation concurrently with the delivery of the Series B Bonds.

MBIA

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

The Series B Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Obligated Group by their counsel, Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriter by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. It is expected that the Series B Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about May 18, 2004.

Goldman, Sachs & Co.

May 6, 2004

[SM] Servicemark of Goldman, Sachs & Co.

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

No dealer, broker, salesperson, or other person has been authorized by the Authority, the Obligated Group, the Bond Insurer or the Underwriter to give any information or to make any representations with respect to the Series B Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Obligated Group, the Bond Insurer, The Depository Trust Company and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Authority. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

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

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

99 SUMMER STREET, BOSTON, MASSACHUSETTS 02110

DAVID T. HANNAN, *Chairman*
JOSEPH G. SNEIDER, *Vice Chairman*
MARVIN A. GORDON, *Secretary*
JOHN F. FISH
ROBERT E. FLYNN, M.D.
JOHN E. KAVANAGH, III
ALLEN R. LARSON
ROBERT M. PLATT

BENSON T. CASWELL, *Executive Director*

OFFICIAL STATEMENT

Relating to

$56,050,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities (PARS[SM])

INTRODUCTION

Purpose of this Official Statement. The purpose of this Official Statement is to set forth certain information concerning the Authority, Southcoast Health System, Inc. (with its successors, the "Representative"), Southcoast Hospitals Group, Inc. (the "Institution'), the other Members of the Obligated Group, and the $56,050,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities (PARS) (the "Series B Bonds") issued under the Loan and Trust Agreement dated as of April 20, 2004 (the "Agreement") by and among the Authority, the Institution, and J.P. Morgan Trust Company, National Association, as Trustee (the "Trustee"). The Series B Bonds will be secured by Obligation No. 4 issued under the Master Trust Indenture (as defined herein). The Representative, the Institution, Southcoast Physician Services, Inc., Southcoast Primary Care, Inc. and Visiting Nurse Association of Southeastern Massachusetts, Inc. are the initial Members of the Obligated Group. The Series B Bonds are to be issued in accordance with the provisions of the Act and the Agreement. The Authority has outstanding approximately $82,655,000 Revenue Bonds, Southcoast Health System Obligated Group Issue, Series A (the "Series A Bonds"), issued under the Loan and Trust Agreement dated January 13, 1998 which were secured pursuant to the Master Trust Indenture. The Series A Bonds are secured by a parity Obligation issued under the Master Trust Indenture. In addition, the Institution has entered into an interest rate exchange agreement that will be secured by a parity Obligation issued under the Master Trust Indenture and simultaneously with the issuance of the Series B Bonds, will enter into a related insurance agreement and reimbursement agreement with the Bond Insurer and J.P. Morgan Trust Company, National Association, which will be secured by a parity Obligation. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES B BONDS." The information contained in this Official Statement is provided for use in connection with the initial sale of the Series B Bonds. The definitions of certain terms used and not defined herein are contained in Appendix C-1 -- "DEFINITIONS OF CERTAIN TERMS."

[SM] Servicemark of Goldman, Sachs & Co.

Plan of Financing. The proceeds from the sale of the Series B Bonds will be used as follows: (i) a sum equal to the Debt Service Reserve Fund Requirement shall be deposited in the Debt Service Reserve Fund, to the extent such requirement has not been otherwise satisfied; (ii) amounts equal to the outstanding advances being refinanced with Series B Bond proceeds shall be used to pay off all or part of such advances; (iii) the amount, together with funds provided by the Institution, estimated to be needed to pay the costs of issuing the Series B Bonds shall be deposited in the Expense Fund; (iv) the amount needed, together with other available funds, to refund the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Saint Luke's Hospital of New Bedford Issue, Series C, dated May 15, 1993 (the "Series C Refunded Bonds") shall be deposited into the Refunding Trust Fund established by the Refunding Trust Agreement; and (v) the balance of such proceeds shall be deposited in the Construction Fund.

The Institution covenants in the Agreement that it shall complete the Project at its own expense if and to the extent that the moneys in the Construction Fund are insufficient therefor. A more detailed description of the use of proceeds of the Series B Bonds and other moneys and receipts, including approximate amounts and purposes, is included herein under "THE PROJECT," "ESTIMATED SOURCES AND USES OF FUNDS," and "PLAN OF REFUNDING."

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES B BONDS

The Authority, the Institution and the Trustee shall execute the Agreement, which provides that to the extent permitted by law, it is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. The Agreement also provides, among other things, that the Institution shall make payments to the Trustee equal to principal or sinking fund installments, as the case may be, the purchase price of, interest on the Series B Bonds and certain other payments required by the Agreement. As additional security for its payment obligations under the Agreement, the Institution also grants to the Trustee with respect to the Debt Service Fund, Redemption Fund and Debt Service Reserve Fund and to the Authority with respect to the Expense Fund and the Construction Fund, a security interest in the moneys and investments and any proceeds thereof held from time to time in such funds established under the Agreement. The Agreement shall remain in full force and effect until such time as all of the Series B Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Institution or derived from any security provided under the Agreement and (b) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract, or otherwise against the Authority irrespective of whether such parties have notice thereof.

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

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

The Agreement provides for the establishment of a Debt Service Reserve Fund to be funded in an amount equal to the Debt Service Reserve Fund Requirement. Amounts on deposit in the Debt Service Reserve Fund will be available to make payments on the Series B Bonds should the Obligated Group fail to meet certain debt service or redemption payment obligations relating to the Series B Bonds. Under the Agreement, the Institution may satisfy the Debt Service Reserve Fund Requirement by the deposit of an irrevocable bank letter of credit meeting certain requirements. See Appendix C-4 -- "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Debt Service Reserve Fund."

The Series B Bonds are also secured by the Note registered in the name of the Trustee and issued under the Amended and Restated Master Trust Indenture and the Mortgage Security Agreement dated as of May 4, 1993 and amended and restated as of April 20, 2004 (the "Master Trust Indenture") among the Institution, the Representative, Southcoast Physician Service, Inc., Southcoast Primary Care, Inc., Visiting Nurse Association of Southeastern Massachusetts, Inc. and J.P. Morgan Trust Company, National Association, as Master Trustee (the "Master Trustee"), and a Supplemental Master Indenture for Obligations No. 4 and 5 dated as of April 20, 2004 (the "Supplemental Master Trust Indenture") between the Representative and the Master Trustee and executed in accordance with the Master Trust Indenture. The Note is subject to the same payment and prepayment terms as the Institution's obligations with respect to the Series B Bonds under the Agreement. The Note and the Supplemental Master Indenture provide that the Obligated Group shall receive credit, to the extent, in the manner and with the effect provided in the Supplemental Master Indenture, for payments of principal and premium, if any, and interest required on the Note in amounts equal to (i) amounts paid under the Agreement for the payment of principal of and premium, if any, and interest on the Series B Bonds and (ii) Series B Bonds purchased and delivered to the Trustee. The Master Trust Indenture provides that any Obligation issued thereunder, such as the Note, is a joint and several obligation of all Members of the Obligated Group.

A note previously has been issued under the Master Trust Indenture to secure the Series A Bonds in the original par amount of $95,000,000. The Series A Bonds are equally and ratably secured with the Series B Bonds as to the Gross Receipts of the Obligated Group and the mortgage on the Mortgaged Property described below. In addition, the Institution has entered into an interest rate exchange agreement (the "Swap") with Goldman Sachs Mitsui Marine Derivative Products L.P. ("GSMMDP") which is an affiliate of the Underwriter, rated "Aaa" and "AA+" by Moody's Investors Service and Standard & Poor's Ratings Services, respectively, in the approximate notional amount of $15,000,000 that is effective on May 18, 2004. Pursuant to the Swap, the Institution has agreed to pay a fixed rate to GSMMDP in exchange for GSMMDP's agreement to pay the Institution a variable rate based on a fixed percentage of LIBOR. The Swap will terminate on the final maturity date of the Series B Bonds. The Representative will issue a note under the Master Trust Indenture to secure the Swap so that the Swap will be a general obligation of all Members of the Obligated Group, secured equally and ratably with the Series A Bonds and the Series B Bonds as to the Gross Receipts of the Obligated Group and the mortgage granted under the Master Trust Indenture. Under the terms of the Master Trust Indenture, counter-parties on Hedging Contracts, such as the Swap, are not deemed to be Holders for purposes of any voting, consent, waiver or notice rights under the Master Trust Indenture or any Related Supplement. See "BONDOWNERS' RISKS - Swap" for a discussion of the potential termination risk and basis risk with respect to the Swap.

The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of Members under certain conditions. See Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Conditions for Membership," "Withdrawal From the Obligated Group" and "Consolidation, Merger, Sale or Conveyance." The Master Trust Indenture also contains provisions permitting the issuance of additional Obligations on a parity with, and in certain circumstances senior to, the Note by the Obligated Group. See "ADDITIONAL INDEBTEDNESS" herein and Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Limitations on Creation of Liens" and "Limitations on Incurrence of Additional Indebtedness."

As provided in the Master Trust Indenture, each Member of the Obligated Group has granted, and each additional Person admitted to the Obligated Group shall grant as a condition of such admission, to the Master Trustee a security interest in all of its Gross Receipts (subject to the right of any Member to grant a prior Lien as permitted under the Master Trust Indenture) as security for its obligation to make payments under all Obligations issued under the Master Trust Indenture, including the Note. Each Member of the Obligated Group represents and warrants in the Master Trust Indenture that the Lien granted on the Gross Receipts is and at all times will be a first Lien, subject only to (i) Liens permitted by the Master Trust Indenture and (ii) nonconsensual Liens arising by operation of law.

The enforcement of the Lien on Gross Receipts may be subject to limitations imposed by the Bankruptcy Code and to the exercise of discretion by a court of equity and to other significant conditions and limitations including restrictions upon assignment of accounts receivable and the proceeds thereof under the Medicare and Medicaid programs. See "BONDOWNERS' RISKS -- Enforceability of Lien on Gross Receipts." In addition, the obligation of one Member to make payments with respect to Obligations of another Member may be declared void,

or such payments may be otherwise prohibited, in certain circumstances. See "BONDOWNERS' RISKS -- Enforceability of Master Trust Indenture and Agreement."

In addition, the Institution has granted a mortgage on certain of its acute care facilities located in New Bedford and Fall River, Massachusetts (the "Mortgaged Property") to secure its obligation to make payments under all Obligations issued under the Master Trust Indenture, including the Note. See "THE MORTGAGED PROPERTY." The Master Trust Indenture contains restrictions on the creation of certain Liens and encumbrances with respect to certain property of the Obligated Group and of any additional future Members of the Obligated Group, with certain exceptions. See Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Limitations on Creation of Liens" and "Sale, Lease or Other Disposition of Property."

Payment of the principal of and interest on the Series B Bonds when due will be insured by the Bond Insurance Policy to be issued by the Bond Insurer simultaneously with the delivery of the Series B Bonds. The Bond Insurance Policy does not insure payments due with respect to the Series B Bonds by reason of redemption (except mandatory sinking fund redemption) or acceleration. See "BOND INSURANCE" herein and Appendix F -- "SPECIMEN FORM OF MUNICIPAL BOND INSURANCE."

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

THE AUTHORITY

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

Authority Membership and Organization

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

The members of the Authority are as follows:

DAVID T. HANNAN, Chairman; term as member expires July 1, 2006.

Mr. Hannan, a resident of Hingham, is President and Chief Executive Officer of South Shore Health & Educational Corporation of South Weymouth, Massachusetts, a not-for-profit, tax-exempt organization and the parent of South Shore Hospital. He is a member of the American College of Healthcare Executives, and the American Hospital Association.

JOSEPH G. SNEIDER, Vice Chairman; term as member expires July 1, 2005.

Mr. Sneider, a resident of Newton, is Chairman and Chief Financial Officer of C&S Candy Co., Inc. located in Brockton and Justice of the Peace of the Commonwealth of Massachusetts. Mr. Sneider served as a trustee of Boston University Medical Center, (University Hospital), Boston. Mr. Sneider served as Senior Vice President of Olympic International Bank & Trust of Boston. He also served on a number of public boards and commissions, and he belongs to several civic associations.

MARVIN A. GORDON, Secretary; term as member expires July 1, 2010.

Mr. Gordon, a resident of Milton, is Chairman of the Board and Chief Executive Officer of Gordon Logistics, L.L.C. in Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors to Techniek Development Co. of San Diego, California. He also served as Chairman of the Board of US Trust Norfolk (Milton Bank and Trust) from 1974 to 1976 and as Vice President and member of the Executive Committee from 1971 to 1974. Mr. Gordon has been actively engaged in non-profit, charitable and civic activities. His affiliations include Treasurer and Chairman of the Finance Committee of Milton Hospital Corporation, President, Milton Fuller Housing Corporation, and Corporator of Curry College. Mr. Gordon has been elected to and appointed to a number of public boards and belongs to several civic associations. Mr. Gordon holds degrees from Harvard College and Harvard Business School.

JOHN F. FISH; term as member expires July 1, 2010.

Mr. Fish, a resident of Milton, is President and Chief Executive Officer of Suffolk Construction Company, Inc., one of the country's leading, privately held construction firms. During his 20 years as President, the Company has expanded geographically to encompass Florida, California and New England and is engaged nationally in commercial, residential, education, retail and healthcare projects. His honors and board memberships include: member of the Massachusetts Business Roundtable; Board of Trustees of the Beth Israel Deaconess Medical Center, the Wang Center for the Performing Arts, Tabor Academy, The Catholic School Foundation and the Boys and Girls Club of Boston; Board of Visitors of the Dimmock Community Health Center; and 2002 Recipient of the Peter and Carolyn Lynch Award. Mr. Fish holds a B.A. degree from Bowdoin College.

ROBERT E. FLYNN, M.D.; term as member expires July 1, 2006.

Dr. Flynn, a resident of Dedham, is the former Chair of the Board of Caritas Christi, a current member of the Board of Governors of Caritas Christi, the former Secretary of Health Care Services for the Archdiocese of Boston, the Past Chairperson of the Massachusetts Hospital Association, and former Chairman of the Department of Medicine at St. Elizabeth's Medical Center of Boston. In 1991, Dr. Flynn was named a Distinguished Professor by Tufts University School of Medicine. He is a trustee of St. Elizabeth's Medical Center, Good Samaritan Hospice and St. Mary's Women and Infant's Center. His current memberships in medical societies include the Boston Society of Psychiatry and Neurology, the Massachusetts Medical Society, and the American Medical Association, and he is a fellow of the American Academy of Psychiatry and Neurology.

JOHN E. KAVANAGH, III; term as member expires July 1, 2004.

Mr. Kavanagh, a resident of Ipswich, is President and Chairman of William A. Berry & Son, Inc., one of the oldest construction companies in the country. During his 19 years as President, he has redirected the company's focus from restoration specialties to a full-service building and construction management organization, with

emphasis on meeting the full range of customer needs: planning, design, construction, operation and maintenance services. Mr. Kavanagh is a trustee and the former Chairman of the Board of the North Shore Music Theater, Corporator of Brigham and Women's Hospital and Partners Healthcare, trustee and member of the Board of Directors of Massachusetts Eye and Ear Infirmary, Corporator of Danvers Savings Bank and a former member of Tufts University Board of Overseers.

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

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

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

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

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

Staff and Advisors

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

Palmer & Dodge LLP, attorneys of Boston, Massachusetts, are serving as General Counsel and Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Series B Bonds in substantially the form attached hereto as Appendix D.

Public Financial Management is serving as financial consultant to the Authority with respect to this financing. The financial consultant advises the Authority in connection with the issuance of its obligations and certain other financial matters.

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

Powers of the Authority

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

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

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

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

THE SERIES B BONDS

General

The following is a summary of certain provisions of the Series B Bonds relating to the auction rate security features. This Official Statement, in general, describes the Series B Bonds only during a PARS Rate Period, which is the period beginning on the delivery date of the Series B Bonds and ending on the date on which the Series B Bonds are converted to a Variable Rate Mode or a Fixed Rate Mode. It is currently expected that if the Series B Bonds are converted to a Variable Rate Mode or a Fixed Rate Mode a new reoffering circular will be prepared.

Description of the Series B Bonds

The Series B Bonds will be issued pursuant to the Agreement. The Series B Bonds will be issued in the aggregate amount of $56,050,000 at par and will be dated their date of delivery. The Series B Bonds will mature on August 15, 2027.

The Series B Bonds will be issued initially as bonds that bear interest at a PARS Rate but may be converted at the option of the Institution, subject to certain restrictions, to bonds that bear interest at different rates including Daily Rates, Weekly Rates, Flexible Rates, Term Rates or Fixed Rates. The Series B Bonds will be dated the date of delivery, and will bear interest from their date of delivery until May 24, 2004 (the "Initial Period") at the rate established by Goldman, Sachs & Co. and thereafter at the PARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the Initial Period, the Series B Bonds will initially bear interest for an Auction Period of seven days but can be converted or reconverted to a daily, seven-day, 14-day, 28-day, 35-day, three-month, six-month or a Special Auction Period. The Special Auction Period is any period of up to 182 days which is divisible by seven and which is not another Auction Period or any period of more than 182 days which ends not later than the final maturity of the Series B Bonds. Upon conversion from a PARS Rate Period to a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period, a Term Rate Period, or a Fixed Rate Period, the Series B Bonds will be subject to mandatory tender, payable from the proceeds of the remarketing of the Series B Bonds to be converted, on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the Series B Bonds in a daily, seven-day, 14-day, 28-day, 35-day, a three-month or a Special Auction Period of 180 days or less will be computed on the basis of a 360-day year for the actual number of

days elapsed. Interest on the Series B Bonds in a six-month Auction Period or a Special Auction Period of more than 180 days will be computed on the basis of a 360-day year of twelve 30-day months. See "PARS Bonds" and Appendix G – "PARS PROVISIONS."

The Series B Bonds will be issued as fully registered bonds without coupons and in denominations of $25,000 or any integral multiple thereof. The Series B Bonds will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry Only System. Purchases of beneficial interests in the Series B Bonds will be made in book-entry form, without certificates. If at any time the Book-Entry Only System is discontinued for the Series B Bonds, the Series B Bonds will be exchangeable for other fully registered certificated Series B Bonds in any authorized denominations, maturity and interest rate. See "BOOK-ENTRY ONLY SYSTEM" herein. The Trustee may impose a charge sufficient to reimburse the Authority, the Institution or the Trustee for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of a Series B Bond. The cost, if any, of preparing each new Series B Bond issued upon such exchange or transfer, and any other expenses of the Authority, the Institution or the Trustee incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the Series B Bonds will be payable by check mailed to the registered owners thereof. However, interest on the Series B Bonds will be paid to any owner of $1,000,000 or more in aggregate principal amount of the Series B Bonds by wire or bank transfer within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date. As long as the Series B Bonds are registered in the name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See BOOK-ENTRY ONLY SYSTEM" herein.

PARS Bonds

"PARS Rate" means the rate of interest to be borne by the Series B Bonds during each Auction Period which (other than for the Initial Period) will equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (a) if the preceding Auction Period was a period of 35 days or less, the new Auction Period will be the same as the preceding Auction Period and the PARS Rate for the new Auction Period will be the same as the PARS Rate for the preceding Auction Period, and (b) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period will be extended to the next seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (b) of the preceding sentence an Auction will be held on the last Business Day of the Auction Period as so extended to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended; provided, further, that in no event will the PARS Rate exceed the Maximum Rate; and; provided, further, in the event of a failed conversion with respect to the Series B Bonds to a Term Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the PARS Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

"Maximum Rate" means the lesser of eleven percent (11%) per annum (or such separate rates for Series B Bonds and Liquidity Provider Bonds as may be provided for by amendment to the Agreement) and the maximum interest rate permitted by law.

"Interest Payment Date" means May 25, 2004 and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, or (ii) more than 182 days, each February 15 and August 15 on the Business Day immediately following such Special Auction Period.

"Auction Date" means, (a) if such Series B Bonds are in a daily Auction Period, each Business Day, (b) if such Series B Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if such Series B Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series B Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to such Series B Bonds in an Auction Period other than the daily Auction Period or Special Auction Period is the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the conversion date for such Series B Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such Series B Bonds; and provided, further, that if the Series B Bonds are in a daily Auction Period, the last Auction Date is the earlier of (x) the Business Day next preceding the conversion date for such Series B Bonds and (y) the Business Day next preceding the final maturity date for such Series B Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

"Auction Period" means with respect to PARS Bonds:

(a) a Special Auction Period;

(b) with respect to PARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(c) with respect to PARS Bonds in a seven-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to PARS Bonds in a 14-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 14 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the second Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 14 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the second Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 14 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the second Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 14 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the second Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 14 days beginning on a Friday (or the day following the last day of the prior

Auction Period if the prior Auction Period does not end on a Thursday) and ending on the second Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to PARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to PARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(g) with respect to PARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(h) with respect to PARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding February 14 or August 14;

provided, however, that:

(a) if there is a conversion of PARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Sunday

(unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Date will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion *(i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of PARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of PARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of PARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days

from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of PARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (*i.e.* the Interest Payment Date for the prior Auction Period) and will end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Auction Agent

The Trustee will enter into the Auction Agreement initially with Wilmington Trust Company, pursuant to which, Wilmington Trust Company, as agent for the Trustee, shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Auction Date

An Auction to determine the interest rate with respect to the Series B Bonds for the next succeeding Auction Period will be held on each Business Day while such Bonds are in a daily Auction Period and if in any other Auction Period on the last Business Day of the Auction Period. The first Auction for the Series B Bonds will take place on May 24, 2004.

Order to Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix G, as are the particulars with regard to the determination of the Auction Rate and the allocation of the Series B Bonds bearing interest at PARS Rates (collectively, the "Auction Procedures").

Amendment of Auction Procedures

The provisions of the Agreement concerning the Auction Procedures including without limitation the definitions of All Hold Rate, Maximum Rate, PARS Index, Interest Payment Date and PARS Rate, may be amended by obtaining the consent of the Bond Insurer and the owners of all PARS Bonds affected by the amendment. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners the PARS Rate determined for such date is the Winning Bid Rate and if there is delivered to the Institution, the Authority and the Trustee an Opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Series B Bonds or any exemption from federal income tax to which the interest on the Series B Bonds would otherwise be entitled.

Conversion of Bonds to Another Rate Period

At the option of the Institution and with the consent of the Authority and the Bond Insurer, all of the Series B Bonds may be converted to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate. The Trustee will mail notice to the Bondowners at least 20 days prior to the conversion date. On the conversion date applicable to the Series B Bonds to be converted, the Series B Bonds to be converted are subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The principal portion of the purchase price of the Series B Bonds so tendered is payable solely from the proceeds of the remarketing of such Series B Bonds. In the event that the Institution withdraws its notice of conversion or the conditions of a conversion are not satisfied, including the failure to remarket all applicable Series B Bonds on a mandatory tender date, the Series B Bonds will not be subject to mandatory tender, will be returned to their owners, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. It is currently anticipated that, should any of the Series B Bonds be converted to bear interest at a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate, a remarketing memorandum or remarketing circular will be distributed describing the Series B Bonds to be converted during such Rate Period. During an Event of Default, the Bond Insurer shall have the right but not the obligation to direct any Mode conversion.

Conversion from One Auction Period to Another

On the conversion date for the Series B Bonds from one Auction Period to another, any Series B Bonds which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the Series B Bonds will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the Series B Bonds to be converted will not be subject to mandatory tender on such conversion date.

Special Considerations Relating to the Series B Bonds Bearing Interest at PARS Rates

The Agreement and the Auction Agreement provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 45 days notice, if it has not been paid, to the Authority, the Institution, the Bond Insurer and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the Series B Bonds will be determined as set forth in the definition of "PARS Rate" above.

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

During a PARS Rate Period a beneficial owner of a Series B Bond may sell, transfer or dispose of a Series B Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures (see Appendix G – "PARS PROVISIONS") or through a Broker-Dealer. The ability to sell a Series B Bond in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all the Series B Bonds at a rate equal to or less than the Maximum Rate. Goldman, Sachs & Co. has advised the Authority and the Institution that it intends to make a market in the Series B Bonds between Auctions; however, Goldman, Sachs & Co. is not obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents by beneficial owners.

Redemption Provisions

Optional Redemption for the Series B Bonds

During a PARS Rate Period, the Series B Bonds may be redeemed in whole or in part on the Interest Payment Date immediately following the last day of an Auction Period, at the principal amount of the Series B Bonds to be redeemed without premium plus accrued interest; provided, however, in the event of a partial redemption of the Series B Bonds bearing interest at a PARS Rate, the aggregate principal amount so redeemed shall be an integral multiple of $25,000 and the aggregate principal amount of the Series B Bonds bearing interest at a PARS Rate which will remain Outstanding is at least $10,000,000 unless otherwise consented to by the Broker-Dealer.

Mandatory Sinking Fund Redemption

The Series B Bonds will be subject to mandatory sinking fund redemption and shall be redeemed by sinking fund installments on August 15 in each of the years and in the amounts set forth below at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, as follows (provided, however, that while any Series B Bonds to be redeemed bear interest at a PARS Rate in any Auction Period other than a daily Auction Period, if such August 15 is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date immediately preceding such August 15):

Year Ending August 15	Mandatory Sinking Fund Redemption Amount	Year Ending August 15	Mandatory Sinking Fund Redemption Amount
2005	$1,700,000	2017	$3,400,000
2006	1,600,000	2018	3,625,000
2007	1,600,000	2019	3,600,000
2008	1,775,000	2020	3,700,000
2009	1,750,000	2021	3,775,000
2010	1,925,000	2022	4,125,000
2011	1,900,000	2023	4,300,000
2012	2,050,000	2024	1,075,000
2013	2,050,000	2025	925,000
2014	3,825,000	2026	350,000
2015	3,125,000	2027*	450,000
2016	3,425,000		

*Final maturity

Special Redemption

The Series B Bonds, during a PARS Rate Period, are subject to special redemption prior to maturity in whole or in part on any Interest Payment Date immediately following the last day of an Auction Period at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, from excess moneys in the Construction Fund established under the Agreement or from certain proceeds of the condemnation or insurance received by the Obligated Group. See Appendix C-4 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Construction Fund" and Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Insurance and Condemnation Proceeds." If the amount available in the Redemption Fund to redeem such Series B Bonds at any time is less than $25,000, the Trustee upon direction of the Institution shall transfer it to the Debt Service Fund for credit against deposits otherwise required to be made therein with respect to the principal instead of calling Series B Bonds for redemption.

Purchase of Series B Bonds

The Institution may purchase Series B Bonds and credit them against principal payments or any sinking fund installment, as the case may be, by delivering them to the Trustee for immediate cancellation at least sixty (60)

days before the principal payment date or mandatory sinking fund installment date against which such purchased Series B Bonds are to be applied.

Selection of Series B Bonds to be Called for Redemption

The Series B Bonds called for redemption pursuant to the optional redemption or special redemption provisions described above shall be credited to particular sinking fund installments as directed by the Institution. If less than all of the Series B Bonds shall be called for redemption, the particular Series B Bonds to be so redeemed shall be so selected by the Trustee by lot or in any manner of selection as determined by the Trustee; provided, that so long as DTC or its nominee is the Bondowner, the particular Series B Bonds or portions of Series B Bonds to be redeemed shall be selected by lot by DTC or in such other manner as DTC may determine. If a Series B Bond is of a denomination in excess of $25,000, portions of the principal amount in the amount of $25,000, or any multiple thereof may be redeemed.

Acceleration

In addition to the foregoing redemption provisions, it should be noted that the Trustee may (in accordance with the rights of the Bond Insurer described under the heading "RIGHTS OF THE BOND INSURER"), if an Event of Default occurs under the Agreement, declare the Series B Bonds to be immediately due and payable at par as more fully set forth in Appendix C-4 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the headings "Default by the Institution" and "Remedies for Events of Default."

Notice of Redemption and Other Notices

So long as DTC or its nominee is the Bondowner, the Authority and the Trustee will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to indirect Participants, and by DTC Participants and indirect Participants to Beneficial Bondowners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. (See "BOOK-ENTRY ONLY SYSTEM" herein.)

The Trustee shall give notice of redemption to the Bondowners for Series B Bonds in the PARS Mode no fewer than 15 days (and no fewer than 30 days when the Series B Bonds are in a six-month Auction Period or a Special Auction Period of 180 days or more) prior to the date fixed for redemption. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Bondowner so affected, shall not affect the redemption of any other Series B Bond.

Effect of Redemption

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

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending September 30, the amounts required to be made available by the Obligated Group in such year for payment of the debt service on the existing indebtedness, the principal of, sinking fund installments, and interest on the Series B Bonds, total debt service on the Series B Bonds and the total debt service on the existing indebtedness and the Series B Bonds in such year.

Master Trust Indenture Debt[1/]

Year Ending September 30	Debt Service on Existing Indebtedness[2/]	Principal and Sinking Fund Installments on the Series B Bonds	Interest on the Series B Bonds[3/]	Total Debt Service on the Series B Bonds[4/]	Total Debt Service on Existing Indebtedness and the Series B Bonds
2004	$ 8,142,110	-	$ 662,405	$ 662,405	$ 8,804,515
2005	6,879,110	$ 1,700,000	1,806,907	3,506,907	10,386,017
2006	6,877,110	1,600,000	1,756,683	3,356,683	10,233,793
2007	6,882,435	1,600,000	1,709,090	3,309,090	10,191,525
2008	6,883,135	1,775,000	1,692,103	3,467,103	10,350,238
2009	6,878,935	1,750,000	1,607,343	3,357,343	10,236,278
2010	6,874,560	1,925,000	1,554,657	3,479,657	10,354,217
2011	6,879,460	1,900,000	1,497,485	3,397,485	10,276,945
2012	6,877,841	2,050,000	1,440,619	3,490,619	10,368,460
2013	6,877,666	2,050,000	1,379,640	3,429,640	10,307,306
2014	3,841,331	3,825,000	1,336,279	5,161,279	9,002,610
2015	3,966,550	3,125,000	1,199,598	4,324,598	8,291,148
2016	3,882,050	3,425,000	1,105,841	4,530,841	8,412,891
2017	4,012,300	3,400,000	1,004,048	4,404,048	8,416,348
2018	3,936,550	3,625,000	902,156	4,527,156	8,463,706
2019	3,879,550	3,600,000	794,410	4,394,410	8,273,960
2020	3,830,513	3,700,000	698,625	4,398,625	8,229,138
2021	3,994,100	3,775,000	570,565	4,345,565	8,339,665
2022	3,960,100	4,125,000	421,252	4,546,252	8,506,352
2023	3,932,300	4,300,000	259,076	4,559,076	8,491,376
2024	7,320,225	1,075,000	105,212	1,180,212	8,500,437
2025	7,321,425	925,000	64,389	989,389	8,310,814
2026	7,318,850	350,000	29,688	379,688	7,698,538
2027	7,322,025	450,000	15,520	465,520	7,787,545

[1/] Excludes non-Master Trust Indenture debt such as capitalized leases and the installment note.
[2/] Excludes debt service on the Series C Refunded Bonds which are being refunded with a portion of the proceeds of the Series B Bonds.
[3/] Assumes an interest rate of 2.95% per annum on the unhedged maturities, and an interest rate of 3.88% per annum on the hedged portion of the Series B Bonds ($15 million). The assumed rate on the variable rate portion of the Series B Bonds is different from the rate required for debt service projections under the Master Trust Indenture.
[4/] Excludes all ongoing remarketing fees.

INVESTORS SHOULD BE AWARE THAT THE FOLLOWING TEXT OF THIS SECTION WAS FURNISHED BY MBIA INSURANCE CORPORATION (THE "BOND INSURER" OR "MBIA"). THESE PROVISIONS SHOULD BE READ IN CONJUNCTION WITH THIS OFFICIAL STATEMENT AS A WHOLE. THE AUTHORITY, THE OBLIGATED GROUP AND THE UNDERWRITER DO NOT AND CANNOT MAKE ANY REPRESENTATIONS REGARDING THESE MATTERS. REFERENCE IS MADE TO APPENDIX F FOR A SPECIMEN OF THE POLICY (AS DEFINED BELOW).

BOND INSURANCE

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix F for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series B Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series B Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series B Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series B Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series B Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series B Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Series B Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series B Bonds or presentment of such other proof of ownership of the Series B Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series B Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series B Bonds in any legal proceeding related to payment of insured amounts on the Series B Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Trustee payment of the insured amounts due on such Series B Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "Bond Insurance." Additionally, MBIA makes no representation regarding the Series B Bonds or the advisability of investing in the Series B Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following document filed by the Company with the Securities and Exchange Commission (the "SEC") is incorporated herein by reference:

The Company's Annual Report on Form 10-K for the year ended December 31, 2003.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series B Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2003, and (2) the Company's Quarterly Report on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003 and September 30, 2003) are available (i) over the Internet at the SEC's web site at http://www.sec.gov; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at http://www.mbia.com; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2002, MBIA had admitted assets of $9.2 billion (audited), total liabilities of $6.0 billion (audited), and total capital and surplus of $3.2 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2003 MBIA had admitted assets of $9.9 billion (unaudited), total liabilities of $6.2 billion (unaudited), and total capital and surplus of $3.7 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series B Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series B Bonds. MBIA does not guaranty the market price of the Series B Bonds nor does it guaranty that the ratings on the Series B Bonds will not be revised or withdrawn.

RIGHTS OF THE BOND INSURER

For so long as the Bond Insurance Policy shall be in full force and effect and provided that the Bond Insurer shall not have defaulted and is not continuing to default on its obligations under the Bond Insurance Policy, (a) the Bond Insurer will be deemed to be the sole Owner of all Series B Bonds for all purposes of the provisions in the Agreement relating to default by the Institution and actions for protection of the Bondowners and (b) the Bond Insurer shall be deemed to be the sole Owner of all Series B Bonds at all times for the purpose of giving consent and direction when consent of the Bondowners is required by the Agreement, other than for the purpose of making amendments which pursuant to the Agreement require the unanimous written consent of the affected Bondowners.

Upon the occurrence of an Event of Default under the Agreement, the Series B Bond may, with the consent of the Bond Insurer, or shall, at the direction of the Bond Insurer, be accelerated. In addition, the Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer, pursue other remedies under the Agreement. Provided that no Bond Insurer Event of Insolvency has occurred and the Bond Insurer is not in default under the Bond Insurance Policy, the Bond Insurer shall, under the terms of the Agreement, control and direct all remedies in the Event of Default. If the Bond Insurer pays the principal, mandatory sinking fund installments or interest on any Series B Bonds pursuant to the terms of the Bond Insurance Policy, the Bond Insurer will be subrogated to all the rights of the Owners of such Series B Bonds granted under the Agreement, including the right to receive payment of principal of or mandatory sinking fund installments on, and interest on, the Series B Bonds.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series B Bonds. The Series B 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 B Bond certificate will be issued for the Series B Bonds, in the aggregate principal amount of the Series B Bonds, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and

pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series B 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 B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series B Bonds, except in the event that use of the book-entry-only system for the Series B Bonds is discontinued.

To facilitate subsequent transfers, all Series B 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 B 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 B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The foregoing information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Authority believes to be reliable, but none of the Authority, the Obligated Group or the Underwriter takes responsibility for the accuracy thereof.

No Responsibility of the Authority, Obligated Group and Trustee. NONE OF THE AUTHORITY, THE OBLIGATED GROUP OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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

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

THE MORTGAGED PROPERTY

Pursuant to the Master Indenture, a mortgage will be granted upon the core acute care campus of St. Luke's Hospital (comprising approximately 15.2 acres located in New Bedford, Massachusetts) and the core acute care campus of Charlton Memorial Hospital (comprising approximately 15.8 acres located in Fall River, Massachusetts). The mortgage will secure all Notes issued under the Master Indenture on parity. The Institution may release, sell, encumber, lease or subordinate the lien on the Mortgaged Property as more fully described in Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Limitations on Creations of Liens" and "Title."

ADDITIONAL DEBT

Additional Indebtedness

The Master Trust Indenture permits each Member of the Obligated Group to incur Obligations secured by a lien on each Member's Gross Receipts and the Mortgaged Property, on a parity with the Note given as security for the Series B Bonds, and in certain circumstances, to incur indebtedness senior to such Obligations, including the Series B Bonds. The incurrence of additional parity Obligations is subject to certain conditions, including compliance with the Master Trust Indenture's limits on Indebtedness. For additional information concerning the incurrence of Additional Indebtedness, see Appendix C-2 – "SUMMARY OF THE MASTER TRUST

INDENTURE," under the headings "Limitations on Creation of Liens" and "Limitations on Incurrence of Additional Indebtedness."

MAXIMUM ANNUAL DEBT SERVICE RATIO COVENANT

In the Master Trust Indenture, the Obligated Group agrees to maintain the Maximum Annual Debt Service Ratio of the Obligated Group at least equal to 1.10 calculated as of the end of each Fiscal Year. If the Maximum Annual Debt Service Ratio, as calculated as of the end of any Fiscal Year, is less than 1.10, the Obligated Group covenants to retain a Consultant to make recommendations, the scope of which shall be acceptable to the Bond Insurer, to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. So long as the Obligated Group shall retain a Consultant and follow such Consultant's recommendations to the extent permitted by law and subject to any limitations imposed by applicable governmental regulations, limitations on legal authority and fiduciary obligations, or file with the Authority, the Bond Insurer and the Master Trustee its reasons for not doing so, the requirement to maintain the Maximum Annual Debt Service Coverage Ratio shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year, calculated as of the end of such Fiscal Year, is less than 1.10. So long as the Bond Insurer is deemed to be the owner of Indebtedness secured by Obligations issued under the Master Trust Indenture and there is no Bond Insurer Event of Insolvency, such reasons for not following the recommendations of the Consultant must be reasonably acceptable to the Bond Insurer. Notwithstanding the forgoing, if as of the end of any Fiscal Year the Maximum Annual Debt Service Ratio of the Obligated Group is less than 1.00, then the Obligated Group is deemed to be in default. For a more complete description see Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Debt Service Coverage Ratios."

LIQUIDITY COVENANT

In the Master Trust Indenture, the Obligated Group agrees to maintain Days Cash on Hand of at least 85 days at the end of each Fiscal Year. If the Days Cash on Hand, as calculated at the end of any Fiscal Year, is less than 85 days, the Obligated Group covenants to retain a Consultant to make recommendations to increase the Days Cash on Hand for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group, respectively, agrees that it will, to the extent permitted by law and subject to Legal Limitations, substantially follow the recommendations of the Consultant or file with the Master Trustee and the Bond Insurer its reasons for not following the recommendations. So long as the Obligated Group shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations except as set forth above, this covenant shall be deemed to have been complied with even if the Days Cash on Hand for any subsequent Fiscal Year is less than 85 (so long as the Bond Insurer is deemed to be the owner of any Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing, such reasons for not following the recommendations of the Consultant described in the previous sentence must be reasonably acceptable to the Bond Insurer). If at the end of any Fiscal Year the Days Cash on Hand is less than 85, the Obligated Group will not be required to retain a Consultant to make such recommendations if a written report of a Consultant is filed with the Master Trustee which contains an opinion of such Consultant that (i) applicable laws or regulations have prevented the maintenance of 85 Days Cash on Hand, (ii) the Members of the Obligated Group have generated the maximum amount of Income Available for Debt Service which in the opinion of such Consultant could reasonably have been generated given such laws and regulations during the period affected thereby and (iii) the Days Cash on Hand actually achieved was at least 70. The Obligated Group shall not be required to cause the Consultant's report to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee and the Bond Insurer an Opinion of Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. Notwithstanding any provision of the Master Trust Indenture to the contrary, if at the end of any Fiscal Year the Days Cash on Hand is less than 70, then the Obligated Group shall be deemed to be in default, and failure to maintain this level shall be an event of default unless waived by the Bond Insurer. See Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Days Cash on Hand."

In addition, the Obligated Group has agreed to maintain a ratio of Cash to Indebtedness level of not less than 0.9 calculated as of the end of each Fiscal Year, and failure to maintain the level shall be an event of default unless waived by the Bond Insurer. See Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Cash to Indebtedness Ratio."

SUBSTITUTION OF MASTER TRUST INDENTURE

In connection with any merger, consolidation or similar transaction involving an affiliation of the Obligated Group with an entity or entities subject to an existing master trust indenture or similar financing document, the Holders of the Obligations have agreed to surrender their Obligations to the Master Trustee upon presentation to the Obligation Holders and the Master Trustee of original replacement notes or similar obligations issued by the Obligated Group or a surviving, resulting or transferee entity meeting certain requirements set forth in the Master Trust Indenture (the "Substitute Obligated Group") under and pursuant to and secured by such existing master trust indenture or similar financing document (the "Substitute Master Indenture") executed by the Obligated Group or any Substitute Obligated Group, all then current Obligated Group Members and any other parties named therein and an independent corporate trustee (which may be the Master Trustee). For additional information on the requirements for any such Substitute Master Indenture, along with other items that are required to be delivered in connection therewith, see Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Substitution of Master Trust Indenture."

THE PLAN OF REFUNDING

The refunding of the $39,665,000 outstanding principal balance of the Authority's Revenue Bonds, Saint Luke's Hospital of New Bedford Issue, Series C (the "Series C Refunded Bonds") will be achieved through the irrevocable deposit of $39,961,996 of proceeds of the Series B Bonds and certain funds held by the trustee for the Series C Refunded Bonds, in a Refunding Trust Fund (the "Refunding Trust Fund") to be held by U.S. Bank National Association as trustee (the "Refunding Bond Trustee") under a Refunding Trust Agreement dated as of April 20, 2004 by and among the Authority, the Institution and the Refunding Bond Trustee. Moneys in the Refunding Trust Fund will be applied to the purchase of Government Obligations as defined in the Refunding Trust Agreement (the "Government Obligations"). The Government Obligations, interest thereon and the remaining moneys in the Refunding Trust Fund will be sufficient in amount and available when necessary to pay when due the principal, interest, and redemption premium, as applicable, on the Series C Refunded Bonds on and until their respective maturity or redemption dates. See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein. None of the funds in the Refunding Trust Fund shall serve as security for or be available to pay principal of or interest on the Series B Bonds.

THE PROJECT

The Existing Part of the Project consists of the following:

The refinancing of the projects financed by the Series C Refunded Bonds, including construction and renovation of hospital facilities at the Institution's St. Luke's Hospital Campus and its related parking facility, other renovations, equipment purchases and working capital related thereto, and land acquisition, construction and equipping of a nursing home located in New Bedford, Massachusetts.

The New Part of the Project consists of the financing and refinancing of a portion of the following project:

Expansion, renovation, furnishing and equipping of the Institution's St. Luke's Hospital Campus, consisting of (i) approximately 62,095 square feet of new construction to be used for emergency services, inpatient beds and surgery and cardiac services; (ii) approximately 35,385 square feet of renovations; (iii) the addition of approximately 17 beds to the emergency department and 32 inpatient beds; and (iv) relocation of the cardiac catheterization service to a newly constructed area below the emergency department; and other renovation, furnishing and equipping and other capital expenditures at the Institution's St. Luke's Hospital Campus, and at its Charlton Memorial Hospital Campus and Tobey Hospital Campus.

For a further description of the New Part of the Project, see Appendix A -- "LETTER FROM THE OBLIGATED GROUP."

ESTIMATED SOURCES AND USES OF FUNDS

Estimated sources and uses of funds are as follows:

Sources of Funds

Proceeds of Series B Bonds	$56,050,000
Amounts Held by Trustee for Series C Refunded Bonds	4,379,620
Total Sources of Funds	$60,429,620

Uses of Funds

Deposit to Construction Fund	$12,796,639
Deposit to Refunding Trust Fund for Series C Refunded Bonds	39,961,996
Debt Service Reserve Fund Deposit	4,284,525
Issuance expenses*	3,386,460
Total Uses of Funds	$60,429,620

* Estimated amount to provide for Underwriter's discount, legal fees, bond insurance premium and other costs of issuance.

BONDOWNERS' RISKS

General

There are risks associated with the purchase of the Series B Bonds. The principal of, redemption premium, if any, and interest on the Series B Bonds are payable solely from the amounts paid by the Institution to the Authority under the Agreement, from amounts which may be paid to the Trustee pursuant to the Master Trust Indenture, including moneys paid by the Obligated Group under the Note, and from amounts paid by the Bond Insurer under the Bond Insurance Policy. No representation or assurance can be made that revenues will be realized by the Obligated Group in the amounts necessary to make payments at the times and in the amounts sufficient to pay the debt service on the Series B Bonds.

Future revenues and expenses will be affected by events and conditions relating generally to, among other things, demand for the Obligated Group's services, the ability of the Obligated Group to provide the services required by patients, physicians' relationships with the Obligated Group, management capabilities, the design and success of the Obligated Group's strategic plans, economic developments in the Obligated Group's service area, the Obligated Group's ability to control expenses, maintenance of the Obligated Group's relationships with health maintenance organizations and other payers, competition, rates, costs, third-party payments, legislation, and governmental regulation. Third-party payment and charge-control statutes and regulations 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.

Creditworthiness of the Bond Insurer

The Bond Insurer's obligation under the Bond Insurance Policy is a general obligation of the Bond Insurer. Default by the Bond Insurer may result in insufficient funds being available to pay the principal of and interest on the Series B Bonds. In such event, the remedies available to the Trustee may be limited by, among other things,

certain risks related to bankruptcy proceedings, and may also have been altered prior to a default by the Bond Insurer, which has the right, acting with the Institution and the Trustee, without Bondowner consent, to amend the provisions of the Master Trust Indenture, including the release of some or all collateral thereunder, and the Agreement, including those governing defaults and remedies. The Bond Insurance Policy does not insure the payment of redemption premiums.

Enforceability of Lien on Gross Receipts

The Agreement provides that the Institution shall make payments to the Trustee sufficient to pay the Series B Bonds and the interest thereon as the same become due. The obligation of the Institution to make such payments is secured by the Note issued under the Master Trust Indenture which, in turn, is secured by a security interest granted to the Master Trustee in the Gross Receipts of the Obligated Group and a mortgage on the Mortgaged 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 has not provided 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 Member of the Obligated Group before paying debt service on the Series B Bonds.

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

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

Enforceability of Master Trust Indenture and Agreement

Under Massachusetts law, a nonprofit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor nonprofit corporation. In addition, it is possible that the security interest granted by a Member and the joint and several obligation of a Member to make payments due under an Obligation, including the Note, relating to bonds issued for the benefit of another Member, may be declared void in an action brought by a third-party creditors pursuant to the Massachusetts 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 Massachusetts fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of

"insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, a Member's joint and several obligation under the Master Trust 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 Trust 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 are 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 Massachusetts fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Agreement.

In addition, the assets of any 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 Commonwealth. 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.

Realization of Value on the Mortgaged Property

The Mortgaged Property is not comprised of general purpose buildings and would not generally be suitable for industrial or commercial use. Consequently, it would be difficult to find a buyer or lessee for the Mortgaged Property if it were necessary to foreclose the lien of the Mortgage. Thus, upon a default by the Obligated Group, it may not be possible to realize the amount of the Series B Bonds then outstanding from a sale or a lease of the Mortgaged Property. Furthermore, in order to operate the facilities as health care facilities, a purchaser of the facilities at a foreclosure sale would under the present law have to obtain operating licenses from the applicable state regulatory agency, appropriate provider agreements from third-party payers and a determination of need. In addition, in order to terminate the delivery of certain health care services deemed by the Massachusetts Department of Public Health ("DPH") to constitute an "essential" health care service, prior notice must be given to DPH, a public hearing must be held, and DPH has authority to impose various conditions prior to such termination. Such conditions may be burdensome and limit the practical realization of the remedy of foreclosure.

Bondowners also should note that, under applicable federal and Massachusetts environmental statutes, in the event of any past or future releases of pollutants or contaminants on or near the Mortgaged Property, a lien superior to the lien of the Mortgage could attach to the Mortgaged Property to secure the costs of removing or otherwise treating such pollutants or contaminants. Such a lien would adversely affect the Master Trustee's ability to realize value from the disposition of the Mortgaged Property upon foreclosure. Furthermore, in determining whether to exercise any foreclosure rights with respect to the Mortgaged Property under the Mortgage, the Master Trustee would need to take into account the potential liability of any owner of the Mortgaged Property, including an owner by foreclosure, for clean-up costs with respect to such pollutants and contaminants.

The value of the Mortgaged Property could be diluted further by the issuance of additional parity indebtedness. See "Additional Indebtedness" herein.

Covenant to Maintain Tax-Exempt Status of the Series B Bonds

The excludability of interest on the Series B Bonds from the gross income of the recipients thereof for federal income tax purposes is dependent in part on the continued compliance by the Authority and the Members of the Obligated Group with certain covenants contained in the Agreement. These covenants relate generally to arbitrage limitations, use of bond proceeds, rebate of certain investment earnings to the federal government, and restrictions on the amount of costs of issuance financed with the proceeds of the Series B Bonds. Failure to comply with any of these covenants may result in the inclusion of interest on the Series B Bonds in the gross income of the recipients thereof for federal income tax purposes retroactive to the date of issuance.

Effect of Bankruptcy

If the Institution or any other Obligated Group Member obtains protection under the federal Bankruptcy Code, its revenues may not be subject to the security interests created under the Master Trust Indenture. Property acquired after the bankruptcy will not be subject to the security interests created under the Master Trust Indenture. The commencement of the case under the federal Bankruptcy Code operates as an automatic stay of any act or proceeding to enforce a lien upon property of the affected Members of the Obligated Group. The Member's property, including accounts receivable and proceeds thereof, also could be used for the benefit of the Member despite the security interest of the Master Trustee in such accounts receivable if the Bankruptcy Court finds that "adequate protection" of the lien holder's interest in the property exists or is given.

In a Chapter 11 case, the petitioner could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or any class of creditors, secured or unsecured. The plan, if confirmed by the court, binds all creditors and discharges all claims held by creditors who had notice or knowledge of the bankruptcy except as set forth in the plan. No plan may be confirmed unless, among numerous other conditions, the plan is determined to be in the best interest of creditors, is feasible and either has been accepted by each class of claims impaired thereunder, or the court has found sufficient grounds to confirm the plan over the objections of a dissenting class. To accept the plan, at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that vote with respect to the plan must accept the plan. Even if the plan is not so accepted, it may still 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 in favor of junior creditors.

Security May Not Be Sufficient in the Event of a Default

In the event the Obligated Group is unable to operate its facilities so as to generate sufficient Gross Receipts to pay debt service on the Series B Bonds and the other expenses of the Obligated Group, the only assets which may be available to the Master Trustee to pay the Series B Bonds would be any available funds held by the applicable Trustee and the Master Trustee. See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES B BONDS."

Damage, Destruction or Condemnation

The Obligated Group will be required to obtain insurance in the amount and against such risks as are customarily insured against by similar institutions in the area. Due to significant contraction in the property insurance markets following the September 11 terrorist attacks, it has become increasingly difficult for hospitals, including the Institution, to obtain the level of property coverage previously available at reasonable expense. The Obligated Group currently carries a blanket property policy with a per occurrence limit for property damage of $177.3 million (see Appendix A – "Insurance") which is intended to provide reasonable coverage in the event of a casualty at one of Southcoast's three main campuses. This level of coverage might be inadequate in the event of a single major occurrence that causes extensive casualties at more than one campus. The same policy also carries a separate aggregate per occurrence limit for business interruption in the amount of $137.3 million.

Swap

The Institution has entered into an interest rate swap agreement in the notional amount of $15,000,000. For additional information on this Swap, see "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES B BONDS." The Swap is subject to periodic "mark-to-market" valuations and may have a negative value to the Institution. The counter-party to such agreement is able to terminate such agreement upon certain events of default under such agreement. Under certain market conditions, the Institution could be required to make a material termination payment to the counter-party of the Swap.

The interest rate on the Series B Bonds while bearing interest at a PARS Rate generally is expected to track the Bond Market Association index, whereas the interest rate under the Swap is expected to be based upon a percentage of LIBOR. The percentage of LIBOR is expected to be determined in recognition of the historical trading relationship between the two indices. If the relationship between these two indices erodes, the Institution

may be exposed to basis risk, and the rates received from the counter-party under the Swap may be inadequate to cover the Institution's total interest cost on the Series B Bonds.

For additional Bondowners' Risks, See Appendix A -- "BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY."

CONTINUING DISCLOSURE

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

The Obligated Group has covenanted for the benefit of Bondowners to provide certain financial information relating to the Representative and its affiliates and operating data relating to the Obligated Group to the Dissemination Agent by not later than 180 days following the end of the Institution's fiscal year beginning with the fiscal year ending September 30, 2004 (the "Annual Report") and by not later than 75 days after each of the first three fiscal quarters beginning with the fiscal quarter ending June 30, 2004 (the "Quarterly Statements"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the Quarterly Statements will be filed on behalf of the Obligated Group with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository if such repository is established. The notices of material events will be filed on behalf of the Obligated Group with the Municipal Securities Rulemaking Board and the State Repository, if any. The specific nature of the information to be contained in the Annual Report and the Quarterly Statements or to notices of material events is summarized in Appendix E -- "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission. The Obligated Group has complied with their previous continuing disclosure obligations. Failure to comply with these covenants is not an event of default under the Master Trust Indenture or the Agreement.

TAX EXEMPTION

In the opinion of Palmer & Dodge LLP, Bond Counsel ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series B Bonds. The Authority and the Institution have covenanted to comply with certain restrictions designed to ensure that interest on the Series B Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Series B Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series B Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Certain

requirements and procedures contained or referred to in the Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Series B Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series B Bonds may adversely affect the value of, or the tax status of interest on, the Series B Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Series B Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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

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

LEGALITY OF THE SERIES B BONDS FOR INVESTMENT AND DEPOSIT

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

RATING

Upon issuance of the Policy by the Bond Insurer, Moody's Investors Service ("Moody's") is expected to assign a rating of Aaa to the Series B Bonds, based upon the Policy. Such rating reflects only the views of Moody's and any desired explanation of the significance of such rating should be obtained from Moody's. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by Moody's, if in their judgment, circumstances so warrant. The above rating is not a recommendation to buy, sell or hold the Series B Bonds, and such rating may be subject to revision or withdrawal at any time by Moody's. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series B Bonds.

COMMONWEALTH NOT LIABLE ON THE SERIES B BONDS

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

UNDERWRITING

The Series B Bonds are being purchased by Goldman, Sachs & Co. (the "Underwriter") pursuant to a purchase contract for the Series B Bonds between the Authority and the Underwriter. The Underwriter will agree to purchase the Series B Bonds at an aggregate discount of $367,127.50 from the public offering price of the Series B Bonds set forth on the cover page hereof. The Underwriter may offer and sell the Series B Bonds to certain dealers (including dealers depositing Series B Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices lower than the public offering prices stated on the cover page hereof. The purchase contract will provide that the Underwriter will purchase all the Series B Bonds if any are purchased and requires the Obligated Group to deliver to the Underwriter and the Authority on the date the Series B Bonds are sold letters of representation constituting the agreement of the Obligated Group, in accordance with their terms, to indemnify the Underwriter and the Authority and certain other parties against losses, claims, damages, and liabilities arising out of any incorrect statements of information, including the omission of material facts, contained in this Official Statement and pertaining to the Obligated Group and other specified matters. The public offering price set forth on the cover page of this Official Statement may be changed after the initial offering by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series B Bonds by the Authority are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Series B Bonds will be delivered with the Series B Bonds. A copy of the proposed form of the opinion is attached hereto as Appendix D -- "PROPOSED FORM OF BOND COUNSEL OPINION." Certain legal matters will be passed on for the Obligated Group by their counsel, Ropes & Gray LLP, Boston, Massachusetts and for the Underwriter by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series B Bonds or questioning or affecting the validity of the Series B Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices, or to make a loan to the Institution to finance or refinance the Project in accordance with the provisions of the Act and the Agreement is being contested.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Chris D. Berens, CPA, P.C. will verify the accuracy of mathematical computations relating to the adequacy of the maturing principal of and interest earned on the Government Obligations and any initial cash balance held by the Refunding Bond Trustee to provide for the payment of the principal of, redemption premium and interest on the Series C Refunded Bonds when due, which computations support certain opinions of Palmer & Dodge LLP, Bond Counsel.

MISCELLANEOUS

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

Information relating to DTC and the book-entry system described under the heading "BOOK-ENTRY-ONLY SYSTEM" is based on information furnished by DTC and is believed to be reliable, but none of the

Authority, the Underwriter or the Obligated Group makes any representations or warranties whatsoever with respect to such information.

Attached hereto as Appendix A is a letter from the Institution to the Authority which contains certain information relating to the Obligated Group. At the closing, the Obligated Group will certify that Appendix A, Appendix B and the portions of this Official Statement describing the Obligated Group, the Project, the Plan of Refunding, the Estimated Sources and Uses of Funds, Continuing Disclosure and Bondowners' Risks do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they are made, not misleading. While such information is believed to be reliable and has been relied upon by the Authority and the Underwriter, the Authority and the Underwriter make no representations or warranties whatsoever with respect to such information.

The financial statements of Southcoast Health System, Inc. and Affiliates as of September 30, 2003 and 2002 and for each of the two years in the period ended September 30, 2003, included in this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

Appendix C-1 -- "DEFINITIONS OF CERTAIN TERMS," Appendix C-2 -- "SUMMARY OF THE MASTER TRUST INDENTURE," Appendix C-3 -- "SUMMARY OF THE SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATIONS NO. 4 AND 5," and Appendix C-4 -- "SUMMARY OF THE LOAN AND TRUST AGREEMENT" have been prepared by Palmer & Dodge LLP, Bond Counsel to the Authority.

Appendix D contains the Proposed Form of Bond Counsel Opinion to be issued by Palmer & Dodge LLP, in its capacity as Bond Counsel to the Authority.

Appendix E contains the Proposed Form of Continuing Disclosure Agreement prepared by Palmer & Dodge LLP.

Appendix F contains the Specimen Form of Municipal Bond Insurance Policy.

Appendix G contains the Auction Procedures.

All of the Appendices are incorporated herein as an integral part of this Official Statement.

The Obligated Group has reviewed the portions of this Official Statement describing the Obligated Group, Estimated Sources and Use of Funds, the Project, the Plan of Refunding, Continuing Disclosure and Bondowners' Risks and has furnished Appendix A to this Official Statement and has approved all such information for use with the Official Statement.

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

MASSACHUSETTS HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Benson T. Caswell
Executive Director

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SOUTHCOAST
HEALTH SYSTEM

May 6, 2004

Massachusetts Health and Educational Facilities Authority
99 Summer Street - Suite 1000
Boston, Massachusetts 02110

Dear Members of the Authority:

In connection with the issuance by the Massachusetts Health and Educational Facilities Authority of its Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities (the "Series B Bonds"), we are pleased to submit the following information regarding Southcoast Health System, Inc. and its affiliates and other pertinent information for inclusion in the Official Statement of the Authority. Unless otherwise indicated, all references to financial or statistical data herein are to the fiscal year ending September 30. Capitalized terms not otherwise defined herein have the respective meanings assigned thereto in the forepart of this Official Statement.

OVERVIEW

Southcoast Health System, Inc. ("Southcoast") is a Massachusetts non-profit corporation that oversees and coordinates a series of affiliated corporations that provide a broad range of health care and related services to the communities of southeastern Massachusetts and adjoining communities in Rhode Island. Southcoast and its controlled affiliates are collectively referred to herein as the "System." The System affiliates in the Obligated Group after the issuance of the Series B Bonds will include Southcoast, Southcoast Hospitals Group, Inc., Southcoast Physician Services, Inc., Southcoast Primary Care, Inc., and Visiting Nurse Association of Southeastern Massachusetts, Inc. Four System affiliates will not be in the Obligated Group, Health Management Initiatives, Inc., Charlton Long Term Care Services, Inc., Southcoast Ventures, Inc., and Saint Luke's Nursing Home, Inc.

Southcoast's acute care hospital line of business is operated by Southcoast Hospitals Group, Inc. (the "Hospitals Group"), of which Southcoast is the sole corporate member. The Hospitals Group currently operates three acute care hospitals under a single license in the southeastern Massachusetts municipalities of New Bedford, Fall River and Wareham. The Hospitals Group provides a full range of primary and secondary services, as well as selected tertiary services, with a licensed bed complement as of October 1, 2003 of 833 beds (including 32 rehabilitation, 32 psychiatric and 85 skilled nursing beds) and 74 bassinets. In addition to the three hospital sites, Southcoast affiliates operate or are joint venture owners of non-acute facilities at over 30 sites, including an assisted living center, outpatient rehabilitative and therapy centers, a women's center, an outpatient oncology center, and primary care physician sites. In addition to these sites of care, Southcoast provides home care services to patients throughout the region.

The Hospitals Group's primary and secondary service areas (see "SERVICE AREA") include over 30 communities with a population base estimated at 613,493 in 2003. In the primary market served by the Hospitals Group there is only one other acute care facility, St. Anne's Hospital in Fall River, and the Hospitals Group accounted for 70% of all inpatient discharges in 2002, the most recent year for which inpatient data is available. In the primary and secondary market combined, the Hospitals Group accounted for 47% of all inpatient discharges in 2002.

APPENDIX A

FORMATION OF SOUTHCOAST

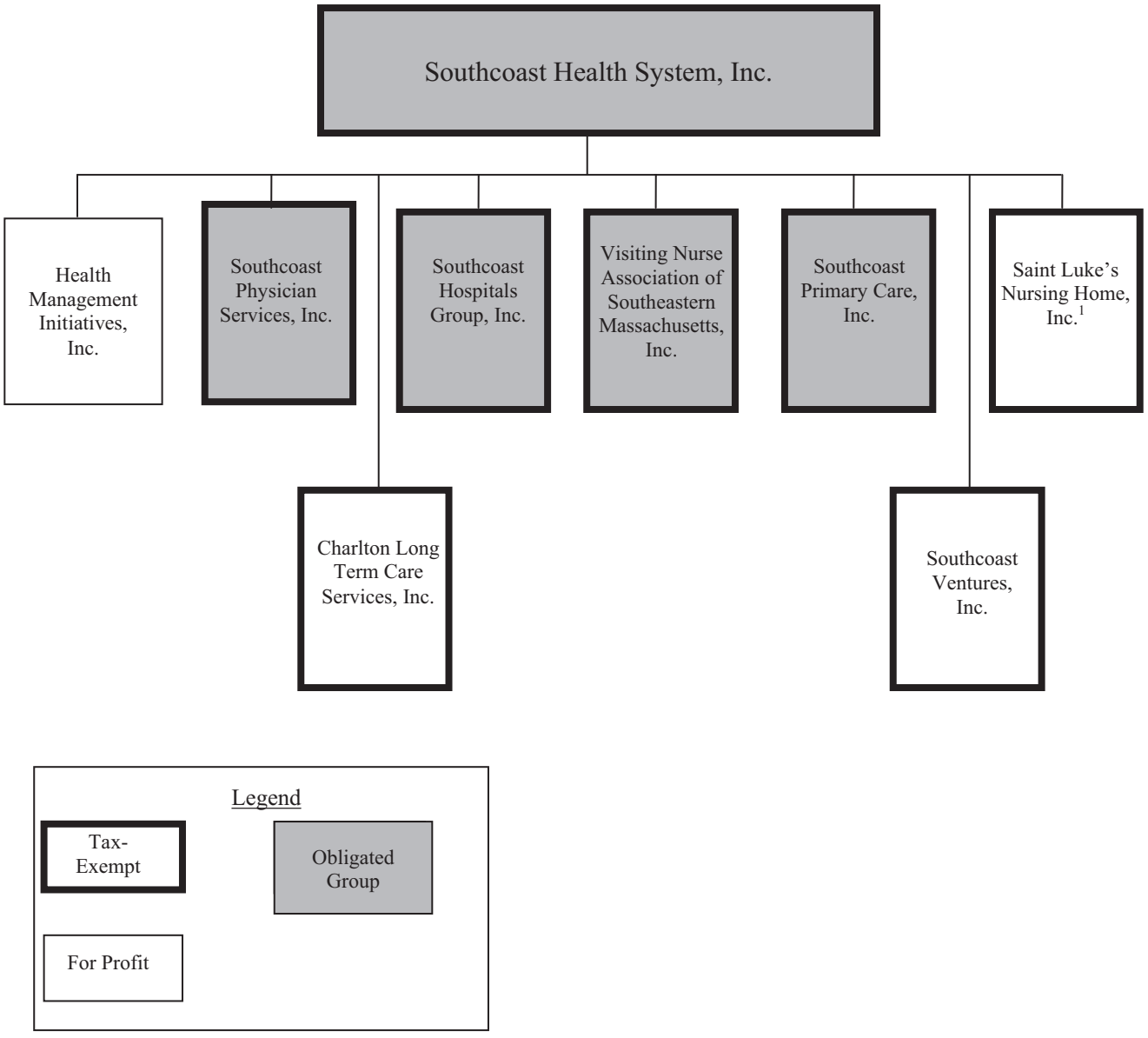
Southcoast was formed on June 9, 1996 by the statutory merger of Saint Luke's Health Care System, Inc. and Tobey Health System, Inc. with and into Charlton Health System, Inc. Each of these three corporations was the sole corporate member of a separate Massachusetts acute care hospital (Saint Luke's Hospital of New Bedford, Inc., Tobey Hospital, Inc., of Wareham, and Charlton Memorial Hospital, Inc., of Fall River, respectively). The surviving parent corporation was renamed Southcoast Health System, Inc. In addition to creating a single parent corporation, a single hospital corporation was also created through the statutory merger of St. Luke's Hospital and Charlton Memorial Hospital with and into Tobey Hospital. The surviving hospital corporation was renamed Southcoast Hospitals Group, Inc.

The merger that led to the formation of Southcoast occurred in response to significant changes in the Massachusetts health care market begun in the early 1990s that also fueled the formation of a number of other health care networks. In 1991, rate setting controls on payments to acute care hospitals were essentially deregulated. This change resulted in increased competition in the hospital marketplace, as all private payors were free to contract separately with individual hospitals rather than pursuant to a uniform contract subject to regulatory rate setting. At the same time, the market share, and thus bargaining strength, of managed care plans also continued to increase. In 1990, the percentage of the state population enrolled in managed care plans was 28%. By 1995, when the merger was being contemplated, the percentage had increased to 40%, based on reports published by the Massachusetts Hospital Association.

In contrast to a number of other states, the health care networks created in the Massachusetts market during the mid-1990s were generally formed by one or more large academic tertiary centers. While several attempts had been made prior to 1995 to link some of the community hospitals into a community based regional network, few of these attempts were successful. Faced with rapid changes in the local marketplace, management of the St. Luke's, Charlton and Tobey systems determined that the continued success of their stand-alone community hospitals was threatened. At the same time, however, management did not believe that the newly formed tertiary networks were sufficiently committed to ensuring that an appropriate range of services was available and geographically accessible in Southcoast's local communities. Management proposed the development of a local, community based system providing an integrated continuum of health care services that would be accessible at many locations. In addition to providing for strong local control, management believed that establishment of a local network would help position Southcoast as a cost-effective provider better able to compete in an increasingly competitive marketplace without being burdened by the expense of an academic medical center.

The following chart depicts the organizational structure of Southcoast and its affiliates:

Organizational Structure
Southcoast Health System, Inc.



[1] Organized as a business corporation, with tax-exempt status; presently inactive. Will withdraw from Obligated Group after issuance of the Series B Bonds.

APPENDIX A

OVERVIEW OF THE OBLIGATED GROUP

Through 2003, the Obligated Group included Saint Luke's Nursing Home, Inc ("Nursing Home"). In November 2003, the Nursing Home sold substantially all of its assets (see "AFFILIATES NOT IN THE OBLIGATED GROUP"), and effective as of the closing of the Series B Bonds will withdraw from the Obligated Group. All references herein to the Obligated Group for periods prior to the closing of sale of the Series B Bonds includes results of operations of the Nursing Home except as otherwise expressly noted. The Obligated Group (see "Description of System Affiliates in the Obligated Group") generated income from operations from 2001 to 2003. For each of these years, the unrestricted revenues of the Obligated Group ranged from 96% to 97% of the System's aggregate unrestricted revenues and the aggregate assets of the Obligated Group remained constant at 95% of the System's aggregate assets. Therefore, while the summary results presented below are for the Obligated Group, total System results are presented in later sections.

SUMMARY FINANCIAL RESULTS OF THE OBLIGATED GROUP[1]
(in thousands)

	Year Ended September 30, 2001	Year Ended September 30, 2002	Year Ended September 30, 2003	Four Months Ended January 31, 2003	Four Months Ended January 31, 2004
Unrestricted revenues	$ 402,619	$ 424,815	$ 469,858	$ 153,819	$ 162,768
Income from operations[2, 3]	$ 12,683	$ 279	$ 451	$ (372)	$ 4,781
Excess of revenues over expenses	$ 25,052	$ 4,768[4]	$ 12,546	$ 2,180	$ 9,220
Increase (decrease) in unrestricted net assets	$ 3,657	$ (5,293)	$ 28,334	$ 3,147	$ 34,490

[1] Includes financial results of the Nursing Home through 2003, which will withdraw from the Obligated Group.
[2] During the year ended September 30, 2003, the Obligated Group recorded interest income related to cash operating accounts, short-term investments (in which excess operating cash is invested), and funds held in trust under bond indenture agreements, within income from operations. Results have been reclassified to reflect this change for all periods presented.
[3] Included in income from operations is investment income of $2,638,000, $2,075,000 and $1,574,000 for the years ended September 30, 2001, 2002 and 2003, respectively. Included in income from operations is investment income of $617,000 and $438,000 for the four months ended January 31, 2003 and 2004, respectively.
[4] Excess of revenues over expenses excludes $28,461,000 of loss on other than temporary impairment for the year ended September 30, 2002. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE."

Description of System Affiliates in the Obligated Group

All members of the Obligated Group (other than Saint Luke's Nursing Home, Inc.) are Massachusetts non-profit corporations that have received letters of determination indicating that they are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Saint Luke's Nursing Home, Inc. is also exempt from federal income tax but is organized as a Massachusetts business corporation. At the present time, there are three affiliates not included in the Obligated Group. See "AFFILIATES NOT IN THE OBLIGATED GROUP."

Southcoast Health System, Inc.

Southcoast Health System, Inc. is the sole corporate member of the Hospitals Group and the sole corporate member or sole shareholder of all other Southcoast affiliates. Southcoast's purpose is to improve the health and welfare of the community, and it is operated exclusively for the benefit of its charitable affiliates. Southcoast and its Board of Trustees have system-wide responsibility for strategic planning, financial operations, and network development.

Southcoast Hospitals Group, Inc.

Southcoast Hospitals Group, Inc. operates acute care hospitals at three separate sites under a single hospital license. Given historic support for these campuses by each of the three communities, the Hospitals Group continues to do business under the names of each of the constituent hospitals.

The New Bedford site, known as St. Luke's Hospital ("St. Luke's") was founded in 1884. St. Luke's currently has 356 licensed acute medical/surgical beds and 28 bassinets and offers a full range of inpatient services. In addition to medical/surgical beds, St. Luke's has a 32-bed psychiatric unit and 32 licensed skilled nursing beds. The skilled nursing beds were operated as a transitional care (sub-acute) unit until its closure in 2003 to provide medical/surgical capacity. St. Luke's also provides home care services and has several satellite locations that provide ambulatory surgery services, rehabilitative services, women's health services, and oncology services.

The Fall River site, known as Charlton Memorial Hospital ("Charlton"), provides a full range of inpatient services and currently has 296 licensed acute medical/surgical beds and 37 bassinets. In addition to acute medical/surgical beds, Charlton has a 32-bed rehabilitation unit and 32 licensed skilled nursing beds. The skilled nursing beds were used as a 32-bed transitional care (sub-acute) unit until its closure in 2001 to provide capacity for the expansion of medical/surgical beds. Charlton was founded in 1885 as the Fall River Hospital. An early consolidation resulted in the formation of Union Hospital. In 1975, Union Hospital merged with Truesdale Hospital, and the resulting hospital was renamed the Charlton Memorial Hospital in 1979. In addition to inpatient services, Charlton provides a comprehensive mix of rehabilitative services and therapies on an ambulatory basis. Charlton also provides diagnostic services both on-site at the main campus and throughout neighboring communities in physicians' offices and other off-site locations.

The Wareham site, known as Tobey Hospital ("Tobey"), currently has 64 licensed acute medical/surgical beds and nine bassinets. Tobey also has 21 licensed skilled nursing beds which until June 2003 were operated as a transitional care unit. The unit was closed in 2003 to provide space for acute medical/surgical expansion. Tobey was founded in 1938 through a gift from the Alice Tobey Jones estate. In addition to inpatient services, Tobey maintains an emergency department as well as certain ambulatory services. Tobey's maternity service offers a variety of childbirth options, including care by staff obstetricians, certified nurse midwives or family practice physicians. During the past year, construction began on a significant expansion and renovation project, which will expand and replace the operating room suite and intensive care unit. The project, which is expected to be fully funded through philanthropic support, is scheduled for occupancy in May 2004.

Southcoast Physician Services, Inc. and Southcoast Primary Care, Inc.

Southcoast Physician Services, Inc. ("SPS") and Southcoast Primary Care, Inc. ("SPC") own and operate a number of physician practices with an aggregate of 18 primary care physicians and two neurosurgeons as of December 31, 2003. Both SPS and SPC are governed by Boards of Trustees elected by Southcoast and by physician Boards of Governors. The physician Boards of Governors are responsible for all matters pertaining to the practice of medicine and quality of care. The physician practices are distributed throughout the Southcoast region at nine different practice locations.

Visiting Nurse Association of Southeastern Massachusetts, Inc.

The Visiting Nurse Association of Southeastern Massachusetts, Inc. ("VNASM") was incorporated in 1925 as the Taunton Visiting Nurse Association, Inc. In 1986, VNASM adopted its present name. In September 1996, Southcoast became the sole corporate member of VNASM. In April 1997, the State of Rhode Island Department of Health approved the merger of the Little Compton Nursing Association, Inc. into VNASM. Effective October 1, 1997, Hospice Outreach, Inc. ("Hospice Outreach") merged with VNASM, with VNASM as the surviving entity. Hospice Outreach was a small agency operating in the city of Fall River. VNASM provides comprehensive nursing, rehabilitative therapies, medical social work, hospice care, adult day care health programs and home

health aide services. VNASM has three sites and services 42 communities in southeastern Massachusetts and southern Rhode Island.

FACILITIES

Southcoast's three primary facilities include St. Luke's Hospital, Charlton Memorial Hospital and Tobey Hospital. St. Luke's main campus, located in New Bedford, Massachusetts, is located on approximately 15.2 acres of land and consists of approximately 486,262 square feet. Charlton's main campus, located in Fall River, Massachusetts, sits on approximately 15.8 acres of land and has a total square footage of approximately 645,895. Tobey's main campus, in Wareham, Massachusetts, encompasses approximately 5.5 acres of land and consists of approximately 165,000 square feet.

PROJECT DESCRIPTION

The project involves a $32.1 million expansion and renovation of the St. Luke's campus consisting of 62,095 square feet of new construction and 35,385 square feet of renovations for a total of 97,480 square feet. The project primarily entails expanding the emergency department ("ED") by 17 beds and adding various service abilities to the ED. The project also involves adding 32 inpatient beds to the St. Luke's campus, while increasing the St. Luke's number of private beds by 14 (to a total of 57 private rooms), and relocating the cardiac catheterization service to a newly constructed area below the ED (the "Expansion and Renovation Project"). Approximately $13.1 million of proceeds of the Series B Bonds will go toward funding the St. Luke's Hospital Expansion and Renovation Project. Other sources of funding include proceeds from the sale of The Oaks, investment earnings available from long-term investments, and proceeds from a fundraising campaign.

GOVERNANCE

Southcoast serves as the sole corporate member or sole stockholder of each of the members of the Obligated Group and the other affiliates. As such, it elects the trustees or directors of each affiliate, and with respect to certain of the affiliates, exercises specified reserve powers. Southcoast is governed by a Board of Trustees. The role of the Southcoast board is to maintain a system perspective with a regional emphasis and a broad focus across all activities in the organization. Primary functions of the Southcoast board include strategic planning, network growth and development, and overall fiscal responsibilities. Each affiliate board is expected to focus on its own activities, addressing community needs within its scope of services. Southcoast has adopted a conflict of interest policy which applies to the Boards of Trustees, senior management, department managers, and employed physicians of Southcoast and its affiliates.

The establishment of two separate boards, one for Southcoast and one for the Hospitals Group, reflected the desire of the merging organizations to create a governance structure that was sufficiently large to include community and physician leaders from each of the three communities. However, in order to have an integrated structure and limit redundancy, a matrix committee structure was created, which establishes a single finance/audit committee and a single investment committee. Strategic planning for all affiliates is the responsibility of the Southcoast board with input from the other affiliate boards.

The Southcoast board consists of not less than ten nor more than 15 individuals, including the chief executive officers of Southcoast and the Hospitals Group (ex officio with vote).

Members of the Southcoast board may serve a maximum of three three-year terms, and no individual may serve more than an aggregate of 12 years on the boards of Southcoast and the Hospitals Group. There are no requirements for specific community representation as new board members are elected. Standing committees include the following: Governance (including responsibility for nominating officers and directors), Finance/Audit, and Investment. While an Executive Committee is authorized under the Southcoast Bylaws to manage essential activities between board meetings, it does not meet regularly.

As elected at the Annual Meeting on December 9, 2003, the Board of Trustees of Southcoast consisted of the following 15 persons:

SOUTHCOAST HEALTH SYSTEM, INC.
BOARD OF TRUSTEES

Member	Term Expires December	Principal Affiliation
R. William Blasdale, Chair	2005	President, Seamark Financial Services, Mattapoisett
John M. Almeida, Vice Chair	2006	Senior Partner, Meyer, Regan & Wilner CPAs, Fall River
John B. Day, President	ex officio	CEO, Southcoast Health System, Inc.
Ronald B. Goodspeed, MD	ex officio	CEO, Southcoast Hospitals Group, Inc.
Joseph Ciffolillo	2005	Retired Executive and Community Leader
Stephen Heacox, MD	2006	Physician, Tobey Hospital Medical Staff
Robert S. Karam	2004	Treasurer, Karam Insurance Agency, Inc., Fall River
John D. Kelleher	2004	Executive Vice President, Compass Bank, New Bedford
William H. Lapointe	2006	President, H.W. Lapointe Insurance Agency, Fall River
Elizabeth O'Neill LaStaiti	2006	Judge, Probate Court and Family Court Division, Bristol Division, New Bedford
Jean F. MacCormack	2005	Chancellor, University of Massachusetts Dartmouth, Dartmouth
George B. Mock	2005	Chairman and Treasurer, Nye Lubricants, Inc., Fairhaven
Carol A. O'Connell	2004	Community Leader, Fall River
Barry Robbins	2005	President, Robbins Manufacturing Company, Inc., Fall River
Gilbert L. Shapiro, MD	2004	Physician, St. Luke's Hospital Medical Staff
Frederic C. Dreyer, Jr. Trustee Emeritus (non-voting)		

APPENDIX A

As of December 9, 2003, the Board of Trustees of the Hospitals Group consisted of the following 18 persons:

SOUTHCOAST HOSPITALS GROUP, INC.
BOARD OF TRUSTEES

Member	Term Expires December	Principal Affiliation
Dana C. Keyes, Sr., Chair	2005	President, Dana C. Keyes Insurance Agency, Inc., Wareham
Eileen T. Farley, Vice Chair	2004	Past President, Bristol Community College, Fall River
Ronald B. Goodspeed, MD, President	ex officio	CEO, Southcoast Hospitals Group, Inc.
John B. Day	ex officio	CEO, Southcoast Health System, Inc.
Douglas Beaton	2004	President, Beaton Cranberries, Inc., Wareham
R. William Blasdale	2005	President, Seamark Financial Services, Mattapoisett
Daniel Bogan	2006	President, Borden & Remington Corp., Fall River
Peter Bullard	2006	Attorney, Lang, Xifaras & Bullard, New Bedford
Charles J. Gormley, MD	2004	Physician, St. Luke's Hospital Medical Staff
Michelle Hughes, M.D.	ex officio	President, Charlton Memorial Hospital Medical Staff
William L. Kasdon, MD	2004	Physician, Charlton Memorial Hospital Medical Staff
Elizabeth Kunz	2006	Attorney, Schaefer & Kunz, Mattapoisett
Arlene McNamee	2005	Executive Director, Catholic Services, Fall River
Kevin Murphy, MD	2006	Physician, Tobey Hospital Medical Staff
Triffin Psyhojos, M.D.	ex officio	President, St. Luke's Hospital Medical Staff
Donald H. Ramsbottom	2005	Executive Director, University of Massachusetts Dartmouth Foundation, North Dartmouth
M. Paula Raposa	2005	Executive Director, SER-Jobs for Progress, Inc., Fall River

Lynn Whitney	2004	Attorney, Law Office of Lynn Whitney, New Bedford

Earle P. Charlton, II
Trustee Emeritus (non-voting)

MANAGEMENT

The operations of Southcoast are managed by a team of individuals who jointly constitute the Office of the President: President of Southcoast, President of the Hospitals Group, Chief Operating Officer of Southcoast, and Chief Financial Officer of Southcoast. Other vice presidents and directors report to members of the Office of the President.

The biographies of the members of the Office of the President are set forth below.

John B. Day, age 53, has been President and CEO of Southcoast since the merger. Prior to the merger, Mr. Day was the President and CEO of the Saint Luke's Healthcare System and St. Luke's Hospital. Mr. Day came to St. Luke's in September 1978 as an Administrative Resident from The George Washington University and held various administrative positions before assuming his current role as CEO of Southcoast. Mr. Day received a Bachelor of Arts degree in Political Science from The George Washington University (Washington, D.C.) in 1973. He also received a Master of Arts degree in Secondary Education in 1975 from The George Washington University and a Master of Arts degree in Health Care Administration in 1979 from The George Washington University. Mr. Day is a member of the American Hospital Association. He serves on the Board of Directors of the Massachusetts Hospital Association and the Massachusetts Council of Community Hospitals. He is President and Chair of the National Association of Urban Hospitals in Washington, D.C. Mr. Day is active on numerous councils including the National Council of Arts and Sciences at The George Washington University, the Southcoast Education Compact, and the Advisory Board of the Charlton School of Business at the University of Massachusetts, Dartmouth.

Ronald B. Goodspeed, M.D., age 57, has served as President and Chief Executive Officer of the Hospitals Group since the merger. He is also President of SPS and SPC (Southcoast's two affiliated physician corporations) and Executive Vice President of Southcoast. Prior to the merger, Dr. Goodspeed was President and Chief Executive Officer of Charlton Memorial Hospital. Prior to his role as President, Dr. Goodspeed served as Chief Operating Officer/Executive Vice President of Charlton from April 1990 to December 1994. He joined Charlton in January 1990, as Vice President of Medical Affairs. Prior to joining Charlton, Dr. Goodspeed served as Assistant Vice President and Medical Director at CIGNA Corporation. He also served on the full-time faculty as assistant professor at the University of Connecticut School of Medicine (Farmington, CT). In addition, Dr. Goodspeed has been in private group practice and worked full-time in emergency medicine. Dr. Goodspeed earned a B.S. degree from the College of Pharmacy of Union University (Albany, NY), an M.D. degree from Albany Medical College of Union University (Albany, NY), and a Master's degree in Public Health from the University of Connecticut. He is board certified by the American Board of Internal Medicine, the American Board of Medical Management, and is a Fellow of the American College of Physicians. Dr. Goodspeed is a member of the governing boards of the Fall River Area Chamber of Commerce & Industry and the United Way of Greater Fall River.

Linda A. Bodenmann, age 48, was appointed Chief Operating Officer of Southcoast as of April 1, 2004. Previously, she had been Senior Vice President and Chief Financial Officer of Southcoast since the merger. Prior to the merger, Ms. Bodenmann was employed as Senior Vice President and Chief Financial Officer at St. Luke's since 1994. Prior to St. Luke's, she worked at Children's Hospital in Boston, Massachusetts, in various financial positions from 1983 to 1994. Before joining Children's Hospital, she worked at Coopers & Lybrand as an auditor in Boston, Massachusetts and Binghamton, New York. She received a B.A. degree from Douglass College, Rutgers University (New Brunswick, NJ) and an M.B.A. degree in finance from Cornell University (Ithaca, NY), and in 1981 she received a C.P.A. certification in New York. Ms. Bodenmann is a Board Member of the Massachusetts Chapter of the Healthcare Financial Management Association, the Community Foundation of

Southeastern Massachusetts and a former Board Member and Treasurer of the Visiting Nurse Association of Cambridge.

A search for a new Chief Financial Officer is underway.

THE HOSPITALS GROUP

While there are several Obligated Group members, the activities and financial performance of the Hospitals Group represent the majority of revenues and assets of the Obligated Group. In 2003, of the total unrestricted revenues of $468.9 million generated by the Obligated Group, $430.4 million, or 92%, were attributable to the Hospitals Group. Also in 2003, the Hospitals Group's income from operations was $2.1 million as compared to the total of $451,000 for the Obligated Group. Finally, of the excess of revenues over expenses of $12.5 million generated by the Obligated Group in 2003, $6.2 million was attributable to the Hospitals Group and the remaining $6.3 million was primarily investment income generated by Southcoast.

PATIENT CARE SERVICES

The Hospitals Group provides a full range of general medical and surgical services to inpatients and outpatients at its three main campuses and satellite locations throughout the region. The Hospitals Group also provides inpatient psychiatric care at the St. Luke's campus and inpatient rehabilitative services at the Charlton campus. Emergency services are provided at all three campuses. As of October 1, 2003, the licensed beds for the Hospitals Group were as follows:

Medical/Surgical		716
Adult Acute	544	
Pediatric	31	
Obstetrical	51	
Intensive/critical care	58	
Psychiatric	32	
Rehabilitation		32
Skilled nursing (not in service)		85
Total licensed beds		833
Total Beds In Service		762
Bassinets		74

Source: Hospitals Group Records.

The Hospitals Group is licensed by the Massachusetts Department of Public Health and accredited by the Joint Commission of Accreditation of Healthcare Organizations (JCAHO), the American Association of Blood Banks, the American Board of Radiology and the College of American Pathology. The Hospitals Group is a member of the American and Massachusetts Hospital Associations and a member of the National Association of Urban Critical Access Hospitals.

In addition to the services provided at the three hospital campuses, a wide range of ambulatory services are provided as follows:

- Aquatic Center, Middleboro
- Center for Women's Health at Faunce Corner, North Dartmouth
- Southcoast Home Care Services and Hospice, Fairhaven and Marion
- Southcoast Laboratory Outreach, six laboratory sites and eight patient service centers

- Southcoast Mobile Health and Blood Donor Van
- Southcoast Radiology Services at Hanover, Fall River
- Southcoast Radiology Services at the Greater New Bedford Community Health Center, New Bedford
- Southcoast Radiology Services at Narragansett Mills, Fall River
- Southcoast Radiology Services at the Truesdale Clinic, Fall River
- Southcoast Radiology and Rehabilitation Services at Linden Tree, Portsmouth, Rhode Island
- Southcoast Rehabilitation Services at Dartmouth Place, North Dartmouth
- Southcoast Rehabilitation Services at Recover Road, Wareham
- Southcoast Rehabilitation Services, Somerset
- Southcoast Surgery Center, North Dartmouth
- St. Luke's Outpatient Clinic, New Bedford
- The Oncology Center, Dartmouth
- Work Med Occupational Health Services, Fall River, New Bedford and Wareham

MEDICAL STAFF

As of December 31, 2003, the Medical Staff of the Hospitals Group consisted of 675 physicians and 6 dentists, for a total of 681. Of those, approximately 95% were members of the Active Staff, who actively admitted patients to the Hospitals Group. The remaining 5% were physicians who do not have admitting privileges, but refer patients for inpatient and outpatient services.

Most Active Medical Staff members reside and practice within the Hospitals Group's primary service area (see "SERVICE AREA"). Clinical privileges are granted separately for each of the sites. Medical Staff governance is accomplished through the use of separate Medical Staff Executive Committees at each of the hospital sites. The activities of these committees are coordinated through the Chief Medical Officer, who is responsible for all three sites and an overarching Southcoast Medical Executive Committee. The board and the quality committee of the Hospitals Group also coordinate and address all Medical Staff issues among the sites.

The following chart sets forth the number of physicians and discharges by department and the average age of physicians by service.

APPENDIX A

ACTIVE MEDICAL STAFF BY SERVICE
AS OF DECEMBER 31, 2003

DISCHARGES FOR FISCAL YEAR 2003

Service	Number of Physicians	Average Age of Physicians	Number of Discharges*	Percent of Total Discharges
Anesthesiology	40	46	-	-
Cardiology	31	47	3,078	8.4%
Cardiology - interventional	6	46	26	.1
Cardiac and thoracic surgery	4	49	341	.9
Dentistry	6	54	-	-
Dermatology	10	57	-	-
Emergency medicine	54	48	14	.0
Gastroenterology	14	50	865	2.4
Medicine:				
Endocrinology	6	55	231	.6
Infectious Disease	8	48	751	2.1
Nephrology	14	46	766	2.1
Pulmonary medicine	16	45	1,455	4.0
Internal medicine, family practice, and other specialties	133	49	15,627	42.6
Neurology	12	47	30	.1
Neurosurgery	4	46	658	1.8
Obstetrics, gynecology and related specialties	46	49	5,056	13.8
Oncology and related specialties	14	50	413	1.1
Ophthalmology	27	49	4	.0
Otorhinolaryngology	10	56	66	.2
Pathology	9	52	-	-
Pediatrics and pediatric specialties, including neonatology	68	45	668	1.8
Physical and occupational medicine	6	43	254	.7
Psychiatry	15	52	1,531	4.2
Radiology	35	45	4	.0
Surgery:				
Orthopedic	24	53	1,553	4.2
Vascular	6	49	695	1.9
General and other specialties	53	50	2,025	5.5
Urology	10	50	560	1.5
Total	681		36,671	100%

* Excludes newborns.

Source: Hospitals Group Records.

Since the beginning of calendar year 2000, the number of Active Medical Staff has increased by 53, or 8.4%. Management attributes the increase in Active Medical Staff to implementation of a variety of clinical initiatives.

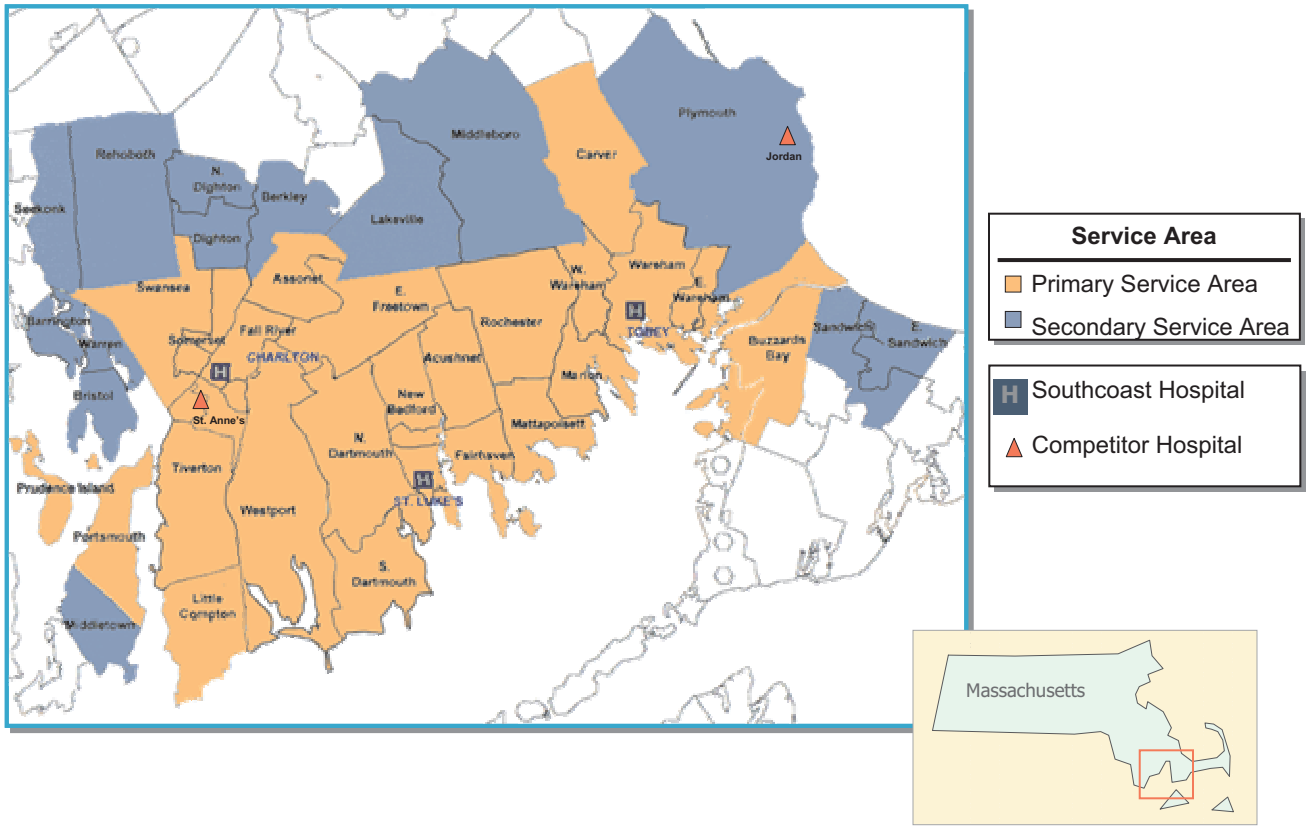
No single physician accounted for more than 3.8% of total discharges in 2003. The top ten physicians who individually discharged the largest number of hospital patients accounted for 14.2% of total discharges in 2003.

SERVICE AREA

The Hospitals Group's primary service area is defined in accordance with Massachusetts Department of Public Health criteria which include 1) communities which, when ranked ordinally from greatest to least number of inpatient discharges, account cumulatively for 90% of discharges and 2) communities included from step one for which at least 5% of the community's discharges are cared for by the Hospitals Group. The secondary service area is comprised of those communities that additionally bring the cumulative market share to 95% with no other market share dependency test. The test was last performed using 2000 data from Solucient Market Planner.

A map showing the location of the main hospital campuses and the primary and secondary service areas is set forth below.

Southcoast Hospitals Group Service Area



Based on data from the U.S. Census and accumulated by Claritas, Inc., the Hospitals Group's total service area is estimated to have experienced approximately a 6.4% growth in population from 1996 (576,732) through 2003 (613,493). Of particular note is the significant increase in the population in the secondary market: between 1996 and 2003, the population in the secondary market is estimated to have grown from 239,045 to 272,526, a growth rate of almost 14%.

OTHER HOSPITALS AND MARKET SHARE INFORMATION

There are two other acute care hospitals located within the Hospitals Group's primary and secondary service areas. They include St. Anne's Hospital in Fall River and Jordan Hospital in Plymouth. Also of importance are the regional academic health systems and tertiary hospitals located in Boston, Massachusetts and Providence, Rhode Island, which have consistently admitted inpatients who live within the Hospitals Group's primary and secondary markets. The largest regional health system is Partners HealthCare System ("Partners"), a diversified health care system that was initially created in 1994 through the affiliation of the Brigham and Women's Hospital and the

Massachusetts General Hospital. Partners has continued to expand in recent years with the addition of a primary care network of over 750 physicians and a number of community hospital affiliates. In 2002, the two principal academic hospitals associated with Partners (Brigham and Women's and Massachusetts General Hospital) accounted for 4.7% of the discharges in the Hospitals Group's markets. The largest healthcare system in Rhode Island, Lifespan Corporation ("Lifespan"), was also created in 1994 through an affiliation of the Rhode Island and Miriam Hospitals. Lifespan has subsequently expanded to include community hospitals as well. In 2002, Lifespan hospitals (Rhode Island Hospital, Newport Hospital and Miriam Hospital) accounted for 11.0% of the discharges in the Hospitals Group's markets.

The following chart presents the characteristics of some of these local and regional competitors and the market share for each from the combined Hospitals Group's primary and secondary market. As depicted in the chart, in 2002, the Hospitals Group market share was 46.8%. St. Anne's Hospital, the only other acute care provider located in the Hospitals Group's primary market, accounted for 6.9% of the primary and secondary market share. Jordan Hospital, located in the secondary market, accounted for 6.6%. The remaining market share (39.7%) is attributable to other regional providers.

PRIMARY AND SECONDARY MARKET SHARE BY HOSPITAL – 2002

Hospital	System Affiliation	Licensed Beds	Total Discharges*	Discharges from Southcoast Primary and Secondary Markets	Percent Discharges of Primary and Secondary Markets
Southcoast Hospitals Group	Southcoast Health System	786	38,072	37,018	46.8%
St. Anne's Hospital	Caritas Christi Healthcare System	160	5,612	5,473	6.9
Jordan Hospital	N/A	150	8,036	5,258	6.6
Rhode Island Hospital, RI	Lifespan Corporation	719	30,239	4,335	5.5
Newport Hospital, RI	Lifespan Corporation	148	6,393	3,130	4.0
Women & Infants Hospital, RI	Care New England	137	22,628	2,692	3.4
Massachusetts General Hospital	Partners HealthCare System	875	46,367	2,011	2.5
Morton Hospital	N/A	152	7,300	1,864	2.4
Brigham & Women's Hospital	Partners HealthCare System	719	48,688	1,748	2.2
Falmouth Hospital	Cape Cod Healthcare	83	6,646	1,518	1.9
New England Medical Center	N/A	374	17,235	1,476	1.9
Miriam Hospital, RI	Lifespan Corporation	247	12,279	1,171	1.5
South Shore Hospital	N/A	305	21,117	1,168	1.5
Beth Israel Deaconess Medical Center	Care Group	526	36,995	1,092	1.4
Boston Medical Center		417	26,625	830	1.0
Children's Hospital	N/A	325	16,393	822	1.0
Roger Williams Medical Center	N/A	142	8,041	806	1.0
All Other Providers (less than 1% each)	N/A	N/A	N/A	6,739	8.5
Total				79,151	100%

* Includes newborns.

Source: Discharges: Solucient Market Planner Plus; Licensed Beds: Massachusetts Hospital Association and American Hospital Association.

The 2002 aggregate primary and secondary market share of 46.8% for the Hospitals Group declined by 1% from the market share achieved in 2000 (47.9%). During the same two-year period, the aggregate primary and secondary market share attributable to other providers in the primary and secondary market area (St. Anne's Hospital and Jordan Hospital) decreased from 14.3% in 2000 to 13.5% in 2002. As a result, the primary and secondary market share attributable to providers located outside the primary and secondary market area increased from 37.8% in 2000 to 39.7% in 2002. Management attributes Southcoast market share changes from 2000 to 2002 principally to two factors: renovations to accommodate implementation of the cardiac surgery program, which significantly curtailed access to 32 acute care beds; and a decrease in Medicaid discharges. During the three year period from 2000 to 2003, Southcoast maintained a primary market share in excess of 70%. The following chart presents market share data for 2000, 2001 and 2002.

APPENDIX A

PRIMARY AND SECONDARY MARKET SHARE DATA BASED ON INPATIENT DISCHARGES

2000 – 2002

	2000	2001	2002
	Market Share	Market Share	Market Share
Southcoast Hospitals Group	47.9%	48.3%	46.8%
Other Local Providers[1]	14.3	14.0	13.5
All Other Regional Providers	37.8	37.7	39.7
Total	**100%**	**100%**	**100%**

[1] "Other Local Providers" includes St. Anne's Hospital and Jordan Hospital.
Source: Solucient Market Planner Plus.

HOSPITAL UTILIZATION

The following table summarizes selected statistical data of the Hospitals Group for the past three years ended September 30, 2003 and the four months ended January 31, 2003 and January 31, 2004. All statistics are compiled on the basis of the unit from which the patient is discharged.

HOSPITAL UTILIZATION

	2001	2002	2003	Four Months Ended January 31, 2003	Four Months Ended January 31, 2004
Inpatient Statistics					
Discharges					
Acute	31,867	31,442	34,171	10,912	11,686
Newborn	3,875	3,791	3,874	1,170	1,236
Other	3,616	2,814	2,500	970	656
Total Discharges	39,358	38,047	40,545	13,052	13,578
Average Inpatient Length of Stay	5.79	5.87	5.56	5.70	5.55
Total Inpatient Days	227,994	223,381	225,416	74,420	75,293
Licensed Beds	790	808	833	833	833
Medicare Case Mix Index	1.2437	1.2391	1.2838	1.2863	1.2866
Observation patients	5,005	5,500	4,988	2,973	2,417
Ancillary Statistics					
Surgery (Cases)					
Inpatient	10,951	11,408	12,187	3,928	3,998
Outpatient	25,793	27,521	28,755	9,798	9,248
Total Surgery	36,744	38,929	40,942	13,726	13,246
Laboratory (Tests)					
Inpatient	1,700,642	1,851,795	2,061,492	659,620	714,136
Outpatient	2,298,430	2,545,043	2,590,739	850,823	844,590
Total Laboratory	3,999,072	4,396,838	4,652,231	1,510,443	1,558,726
Radiology (Procedures)					
Inpatient	107,032	111,263	122,042	39,079	41,063
Outpatient	220,309	236,180	279,460	91,803	89,759
Total Radiology	327,341	347,443	401,502	130,882	130,822
Emergency Room Visits	160,202	162,275	162,752	54,000	55,755
Home Care Visits	113,349	101,366	91,648	32,426	27,198

Source: Hospitals Group Records.

MANAGEMENT'S DISCUSSION OF HOSPITAL UTILIZATION

Total inpatient discharges increased from 39,358 in 2001 to 40,545 in 2003, an increase of 1,187 or 3.0%. During the same time frame, acute medical and surgical discharges increased from 31,867 to 34,171, an increase of 2,304 or 7.2%. Management attributes this increase in acute medical/surgical discharges to the availability of additional medical/surgical beds to meet the demand following the elimination of the transition care beds and replacement of those beds with acute medical/surgical beds. At the Charlton campus, the transitional care beds were converted to acute medical/surgical beds in December 2001 to provide capacity for a new, invasive cardiac program. At the St. Luke's and Tobey campuses, some of the transitional care beds were used as acute care beds primarily during the winter months of 2002 and 2003 and were then permanently converted to acute medical/surgical beds in June 2003. Therefore, from 2001 to 2003, 85 licensed transitional care beds were converted to acute medical/surgical beds. As a result, transitional care discharges decreased from 1,520 in 2001 to 409 in 2003. The decrease in the number of transitional care beds has not resulted in an increased average length of stay for acute patients due to the availability of similar beds at nursing homes throughout the Southcoast region.

Management attributes the increase in acute medical/surgical discharges, in part, to the establishment of the cardiac surgery program in April 2002 and the establishment of the elective angioplasty program in November 2002. In 2003, the admissions associated with the new cardiac program totaled 1,807 (596 angioplasty procedures, 1,007 inpatient diagnostic catheterizations and 204 open heart surgical procedures). All of this additional volume occurred at the Charlton campus. The St. Luke's campus has been running near or at capacity during peak times of the year for the last several years. While inpatient discharges increased from 2001 to 2003, there was a decline in 2002. Management believes this decline was due in part to the lack of a flu season that year and to the closure of beds at the Charlton campus as part of the construction of additional facilities for the cardiac surgery program. The St. Luke's site continues to have inpatient bed capacity issues. The Expansion and Renovation Project will address this through the addition of 32 medical/surgical beds. See "PROJECT DESCRIPTION." The Expansion and Renovation Project is scheduled to be complete the winter of 2006-2007.

Surgical cases increased 11.4% from 36,744 cases in 2001 to 40,942 cases in 2003. The percentage of outpatient cases remained relatively constant over the same time frame at approximately 70%. Management attributes this growth in surgical cases primarily to the commitment of the Hospitals Group to improve surgical facilities and expand capacity in an effort to increase market share. Since the merger, the Hospitals Group has focused on increasing surgical capacity. In 1998, an outpatient surgery center was constructed at the Faunce Corner site in North Dartmouth to attract outpatient cases away from the St. Luke's campus and provide more capacity for longer, more intensive surgical cases at the St. Luke's campus. In 2000, the construction of a new surgical suite at the Charlton campus was completed, which consolidated and expanded the ambulatory and main perioperative suites. Construction is currently underway for a new surgical suite at the Tobey campus. As part of the Expansion and Renovation Project, construction has commenced at the St. Luke's site to move the cardiac catheterization laboratory out of the surgical suite to a newly constructed area on the ground floor under the Emergency Department, which will make two operating rooms available for surgical procedures. Management has also focused on bringing new surgical services to the region through the establishment of a cardiac surgical program at the Charlton campus in April 2002. As a result, surgical procedures include 67 and 204 open heart procedures in 2002 and 2003, respectively.

The Hospitals Group has also engaged in a concentrated effort to expand the provision of certain outpatient procedures, particularly in the areas of laboratory and radiological services. The increase in outpatient laboratory tests from approximately 2.3 million in 2001 to approximately 2.6 million in 2003, or an increase of 13.0%, reflects Management's efforts to provide laboratory services on an outreach basis to other providers throughout the region. This strategy is designed to lower the unit cost of providing laboratory services so that the Hospitals Group remains competitive. Plans are currently underway to add specialized molecular biology laboratory services so as to reduce the number of tests for hospitals patients sent to specialty labs and to expand the outreach service for other area providers. Outpatient radiological services also increased from approximately 220,000 procedures in 2001 to more than 279,000 sessions in 2003. Management attributes the increase primarily to the

establishment of an outreach radiology service at a large multi-specialty physician practice location in 2003. This location alone accounted for more than 37,000 procedures in 2003.

Emergency room visits remained relatively constant from 2001 to 2003, with an increase of 1.6% from 160,202 visits in 2001, to 162,752 visits in 2003. While many industry experts predicted a decline in emergency room visits, this trend has not materialized in Massachusetts, and many hospitals are experiencing overcrowding and delays in their emergency rooms. Additionally, with the cutbacks in state funding for Medicaid, eligibility for state funded insurance programs has been reduced and hospitals are experiencing increases in emergency room visits by individuals with no health care coverage. Given the recent trends and overcrowding at the St. Luke's emergency department, Management is planning to significantly expand the emergency department at that site through the Expansion and Renovation Project which will be funded in part with proceeds of the Series B Bonds. In addition to expanded capacity, the plans include the creation of separate areas for less urgent care, observation services and patients with psychiatric disorders and substance abuse issues. Imaging services will also be located in the emergency department to facilitate patient flow.

Home care visits decreased from 2001 to 2003 in response to the introduction of the Medicare prospective payment system for home care in October 2000. Management believes this decline is consistent with national trends following the change in the Medicare reimbursement system. In 2003, the Hospitals Group home care department provided 91,648 visits, a decrease of 21,701 visits from the 113,349 visits provided in 2001.

During the four-month period ending January 31, 2004, total discharges increased by 526, as compared to the same time period in the prior year. The 4.0% increase resulted in a discharge total of 13,578. Most of the increase in discharges occurred at the Charlton campus. Management attributes the increase in discharges to the continued growth of the cardiac surgery program and growth in the elective angioplasty program. For the first four months of fiscal year 2004, average inpatient length of stay was 5.55 days and total inpatient days increased a fraction to 75,293 from 74,420 during the same time period in the prior year. The Medicare case mix index was virtually unchanged at 1.2866. Inpatient surgical cases of 3,998 were 70 cases greater for the four months ended January 31, 2004, while outpatient surgical cases declined by 550 to 9,248, as compared to the same time period in the prior year. Outpatient surgeries decreased, due in part to the retirement or relocation of selected surgeons. The decrease, which was primarily a decline in minor cases, is believed to be temporary and recruitment efforts to replace the surgeons are ongoing. Laboratory tests increased by 48,283 in the four-month period due to the increase in discharges. The volume of radiology procedures was essentially unchanged. Emergency room visits increased to 55,755 from 54,000. The growth in emergency visits is consistent with trends seen in prior periods. Home care visits decreased for the four months ended January 31, 2004, which is consistent with national trends following the implementation of Medicare prospective payment for home care in October 2000.

SOURCES OF PATIENT SERVICE REVENUE

Reimbursement for Hospital Care

The Hospitals Group maintains participating provider agreements with the federal Medicare program administered by the Centers for Medicare & Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services, with the state Medicaid program administered by the Division of Medical Assistance for the Commonwealth, with Blue Cross and Blue Shield of Massachusetts, and with various managed care programs. These agreements, together with applicable federal and state law, govern payments to the Hospitals Group for services rendered to patients covered by these programs.

Medicare

Medicare pays acute care hospitals for most general medical/surgical services provided to eligible inpatients under a prospective payment system ("PPS") known as "inpatient PPS." Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnostic related group ("DRG") for the discharge subject to a geographic adjustment that takes into

account wage differentials. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient's principal diagnosis. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRG payment. DRG rates are updated and DRG weights are recalibrated annually. A hospital input price index for operating costs (commonly referred to as the hospital "market basket") is used to adjust the DRG rates. The market basket measures the inflation experienced by hospitals in purchasing goods and services for inpatient care. Historically, the percentage increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. Hospitals also receive additional payments for certain costs, such as new technology and capital-related costs as well as atypical cases (known as outliers). Disproportionate share hospitals (hospitals that serve a disproportionate number of low-income patients, specifically Medicaid and Supplemental Security Income patients) also receive enhanced payments. There is no assurance that these payments will be sufficient to cover the actual cost of providing hospital services.

Hospital inpatient facilities that qualify as psychiatric hospitals or psychiatric units are excluded from inpatient PPS and are reimbursed for inpatient psychiatric services by the Medicare program based on the reasonable costs incurred to provide services subject to a per discharge ceiling. The per discharge ceiling is calculated based on an annual allowable rate of increase over costs in a specific base year. Capital-related costs are exempt from this limitation and are reimbursed separately. The Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999 required CMS to develop and implement an inpatient psychiatric *per diem* PPS effective October 1, 2002. CMS, however, did not issue a proposed rule until November of 2003 and has yet to issue a final rule. The impact of such a PPS system, once developed in final form and implemented, cannot be determined. The Hospitals Group has an inpatient psychiatric unit.

Most hospital outpatient services are also reimbursed on a PPS. Payments under the outpatient PPS are based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. Using hospital outpatient claims and cost report data, CMS determines the median costs for services and procedures in each APC group. APC rates are subject to a geographic adjustment that takes into account wage differentials. APCs are also adjusted annually based on the hospital inpatient market basket percentage. Hospitals are also eligible to receive additional payments for certain new or high cost drugs and devices as well as certain outlier payments. There can be no assurance that the hospital outpatient PPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services.

Payments for home health services are also based on a PPS. Payments are on a per episode basis, which includes all home health services (skilled nursing and home health aide visits, covered therapy and medical social services, and supplies) for a particular patient during a sixty day period. The episode payment is a national standard payment subject to several adjustments. Adjustments address circumstances such area wage differences as beneficiary case mix (which takes into account clinical severity, functional status and service utilization), significant changes in condition, and low visit utilization. The PPS payment is subject to annual updates. Because the home health PPS payments are not based on actual costs, there are no assurances that the payments will cover the cost of services provided. The Hospitals Group has an unincorporated division that provides home health services and the VNASM provides home health services.

Over the past several years, various laws have modified payment methodologies and levels. The Balanced Budget Act of 1997 ("BBA") contains numerous provisions intended to reduce or contain Medicare expenditures for hospital services. The BBA has been generally viewed as an important factor in the adverse financial results experienced by many acute care hospitals. The Medicare, Medicaid and SCHIP Balanced Budget Retirement Act of 1999 and the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 modified and delayed some of the reductions contained in the BBA. In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The legislation mandates substantial and wide ranging changes to the Medicare program which will be implemented over a number of years. Some significant changes include, without limitation, the expansion of outpatient prescription drug coverage through the creation of a new voluntary prescription drug benefit, the replacement of the current Medicare managed care program with

a new program that offers additional health plan options, modifications to coverage and payment for various providers under traditional fee-for-service Medicare, changes to combat waste, fraud and abuse and reforms to regulatory procedures. Some changes specific to hospital services include: an annual inpatient PPS rate equal to the full market basket increase from federal fiscal years 2004 through 2007 (with the increase in 2005 through 2007 contingent upon the submission of quality data), changes in the treatment of new technology under inpatient PPS, and revisions to payments for hospital outpatient drugs. The individual or collective impact of these changes cannot be determined. Additional actions by the federal government in future years affecting Medicare coverage and payment may occur.

The Hospitals Group is one of 278 hospitals participating in a three-year quality demonstration project sponsored by CMS in cooperation with Premier, Inc. The purpose of the project is to provide a financial incentive and public recognition for hospitals that improve quality outcomes in five specific clinical areas using predefined measurement indicators. Outcome measures are based on evidence-based practices in the medical literature combined with best practice recommendations by leading national organizations such as the National Quality Forum, JCAHO, the Leapfrog Group, the Agency for Healthcare Research and Quality and using indicators from the National Voluntary Hospital Reporting Initiative (NVHRI): a public resource on hospital performance. Southcoast is also a participant in the NVHRI demonstration project. Top decile performers in the CMS demonstration project are eligible to receive additional reimbursement of one to two percent for services provided in each top performing clinical condition for each year of the project. The CMS demonstration project has just begun and no results have yet been released.

Medicaid

Under Title XIX of the Social Security Act, 42 U.S.C. Section 1396, et seq., the Federal government supplements the funds provided by the Commonwealth of Massachusetts for medical assistance under the Medical Assistance Program ("Medicaid"). The Massachusetts Division of Medical Assistance ("DMA") generally administers the Medicaid program in Massachusetts. Medicaid rates for acute hospitals are set by contracts between the hospitals and DMA. Under the contract that the Hospital has signed with DMA, Medicaid pays for acute inpatient and outpatient services prospectively on a per discharge or per episode basis. The payment amount per discharge ("SPAD") or payment amount per episode ("PAPE") is a standardized statewide average cost per discharge or episode (for services provided on a single calendar day) adjusted by several factors, including the hospital-specific case mix index. With respect to inpatient payments, pass-through costs are added for malpractice, capital and direct medical education and hospitals are further eligible for outlier payments and transfer per diem payments. With respect to outpatient payments, the PAPE outpatient payment system represents a revised payment system implemented in October of 2003. The per discharge or episode amount is established from prior year cost data as submitted by all hospitals to the Massachusetts Division of Health Care Finance and Policy, updated for inflation and changes in case mix.

The Commonwealth has also received a federal waiver that allows the Commonwealth to enroll Medicaid beneficiaries in managed care programs. As a consequence, DMA has contracted with private MCOs to provide health care services to Medicaid beneficiaries who enroll and has also established a network of primary care providers that manage the care provided to their patients under Medicaid's primary care clinician program. The Hospitals Group and some of the employed physicians in SPC and SPS are participating providers in these programs. The Hospitals Group also has two managed care contracts that specifically cover Medicaid beneficiaries. These contracts pay on the basis of discounted charges. Medicaid has also subcontracted for mental health services through a network contract with the Massachusetts Behavioral Health Partnership ("MBHP"). The Hospitals Group participated in the MBHP network as a contracting provider until July 2003 when the contract was not renewed due to failure of the parties to reach agreement on payment provisions.

Future actions by the federal government and the Commonwealth are expected to continue the trend toward more restrictive limits on payment for hospital services. There is no assurance that these payments are, or will continue to be, adequate. A study undertaken by an independent consulting firm pursuant to a state legislative mandate

considered hospital Medicaid reimbursement rates from 1992 through 2001. Findings from the study indicate that hospitals were generally reimbursed below their costs.

Uncompensated Care Pool

Massachusetts operates an Uncompensated Care Pool (the "Pool"). The Pool is funded by payments from the Commonwealth (which are supported through federal matching funds), hospitals and the insurance industry. Hospital payments into the Pool are based on a statewide rate applied to each hospital's private sector patient care gross revenues. Payments from the Pool are made to hospitals and community hospitals and, in recent years, have been used by the Commonwealth to support other healthcare programs and demonstration projects. Total funding for the Pool is capped and the cap varies year to year depending upon the level of funding. There is generally a shortfall in funding each year and through 2003, each hospital shared in that shortfall based on each hospital's share of statewide costs. Beginning in 2004, the payment methodology for the Pool changed from a formula based on each hospital's actual free care costs to a block grant methodology. Under the new methodology, a hospital's payment from the Pool is set prospectively (based in part on prior years' uncompensated care costs) and is not dependent upon a hospital's actual provision of free care services. While this new methodology was expected to be only an interim adjustment while a longer term solution was developed, the Governor's proposed budget for 2005 includes a continuation of the block grant methodology. In 2004, under the new block grant methodology, the Hospitals Group is a net receiver from the Pool (the block grant payments to the Hospitals Group are greater than the assessment paid into the Pool). However, given significant political controversy surrounding the Pool, it is not possible to accurately predict future funding from the Pool.

Non-Governmental Payors

In 1991, the acute care hospital industry payment system in Massachusetts was essentially deregulated by a legislative act that permitted each payor (other than Medicare) to contract separately with each hospital. Deregulation has resulted in significant changes and increased competition in the hospital marketplace. Management believes that competition between acute care hospitals based largely on price will continue to intensify for the foreseeable future.

Commercial Insurance

Since the deregulation of hospital payments in 1991, commercial insurers have been free to negotiate contracts directly with hospitals, and the Hospitals Group has several such contracts. Under these contracts, commercial insurers make payments either directly or on behalf of self-funded employer accounts, health benefit plans or other entities, primarily on the basis of established and/or discounted charges for covered services. Patients carrying such coverage are generally responsible to the hospitals providing services for certain co-payments and deductibles.

Managed Care Programs

Managed care providers, including health maintenance organizations and preferred provider organizations (collectively "Managed Care Organizations" or "MCOs"), are organizations that provide insurance coverage and a network of providers of medical services to members for a fixed monthly premium. To control costs, these organizations typically contract with hospitals and other providers for discounted prices, review medical services for medical necessity, and channel patients to contracted providers of healthcare services.

Under the traditional fee-for-service method of health care delivery, hospitals, physicians and other providers are compensated on a per-service basis and thus have a financial incentive to provide more services, which, in turn, generate revenue. MCOs may contract with providers to provide health care services under a fee-for-service payment methodology or under a capitated methodology. Under the fee-for-service payment methodology, providers are generally compensated on a per-service basis with the payment less than their usual and customary charges. A portion of the payment may be withheld or an additional payment provided contingent upon the

provider meeting certain utilization or other performance goals. Under a capitated payment arrangement, providers are compensated on a "per member, per month" basis and, consequently, the provider bears some or all of the risk if the cost of services provided exceeds the amount of the capitated payments. This payment methodology creates an incentive to control utilization of services.

The Hospitals Group has contracts with all the major MCOs in the region including, but not limited to, Blue Cross and Blue Shield of Massachusetts, Harvard Pilgrim Health Care, Tufts Health Plan, Blue Cross Blue Shield of Rhode Island, and United Healthcare. During the time period 2001 to 2003, the Hospitals Group renegotiated several contracts to eliminate all capitated payment arrangements and return to traditional fee-for-service payments. Payments to the Hospitals Group for inpatient services under these contracts are based on either DRGs or negotiated per diems. Payments for outpatient services are on the basis of fee schedules or discounted charges. Effective January 1, 2004, none of these contracts include any risk-sharing arrangements based on costs, although some of the contracts now include quality-based incentives. The return to fee-for-service payments, however, does not ensure adequate payment, for there can be no assurance that the Hospitals Group will be able to negotiate payment rates sufficient to cover its costs.

Settlements from Third Party Payors

Cost reports are prepared annually for and are subject to audit by the Medicare program and the state Division of Health Care Finance and Policy. Changes occur frequently in the rules and regulations of various payors, in their interpretation of such rules and regulations, and in the data used to estimate amounts due to third parties. When appropriate, accruals for estimated settlements with Medicare and other third-party payors are established for unresolved items and incomplete data. The Hospitals Group recognizes changes in accounting estimates for net patient service revenue and third party settlements as new events occur or additional information is obtained, however, in the interpretation of rules and regulations changes are often retroactively effective and it is therefore difficult to predict accurately the level of net patient service revenue or third party settlements. Management believes that adequate accruals for estimated settlements with third-party payors have been established based on information consistent with the current regulatory environment.

The following table shows the distribution of net patient service revenue for the Hospitals Group by payor source for the prior three years ended September 30.

SUMMARY OF NET PATIENT SERVICE REVENUE

	2001	2002	2003
Medicare/Medicare/HMO	50.0%	48.3%	46.9%
Other Managed Care	17.5	17.1	17.8
Blue Cross Blue Shield	14.3	15.2	15.8
Medicaid/Medicaid/HMO	11.2	11.4	11.7
Other	3.7	4.9	5.0
Commercial	3.3	3.1	2.8
Total	100%	100%	100%

Source: Hospitals Group Records.

OVERVIEW OF FINANCIAL PERFORMANCE OF THE SYSTEM

The following consolidated statement of operations for the three years ended September 30, 2003 for the System were derived from the consolidated financial statements of Southcoast and affiliates audited by PricewaterhouseCoopers, LLP, independent accountants. Appendix B to this Official Statement sets forth the consolidated balance sheets as of September 30, 2003 and 2002 and related consolidated statements of operations, changes in net assets, and cash flows for the years then ended of Southcoast and its affiliates. The financial information contained in this Appendix A should be read in conjunction with the financial statements and related

notes and the accountant's report included in Appendix B. The following consolidated statement of operations also includes information for the four month period ending January 31, 2004 with comparative information for the four month period ending January 31, 2003.

The consolidated financial statements set forth in Appendix B for Southcoast and its affiliates reflect the financial position of the System. Supplemental information to the consolidated financial statements of Southcoast as set forth in Appendix B contains selected financial information for the Obligated Group. As noted earlier, because the Obligated Group represents approximately 97% of the revenues of the System and 95% of the total assets of the System in 2003, the following information is presented for the System as a whole and includes some information pertaining to Non-Obligated Affiliates.

None of the assets or revenues of the Non-Obligated Affiliates are available to pay debt service on the Series B Bonds or are pledged to secure the Series B Bonds.

APPENDIX A

SOUTHCOAST HEALTH SYSTEM, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF OPERATIONS
(in thousands)

	Years ended September 30,			Four Months ended January 31,	
	2001*	2002*	2003	2003	2004
Unrestricted revenues					
Net patient service revenue	$404,131	$425,590	$472,339	$154,478	$162,397
Other revenue	14,859	13,449	12,036	4,554	4,357
Net assets released from restrictions for operations	207	220	279	-	-
Total unrestricted revenues	419,197	439,259	484,654	159,032	166,754
Operating expenses					
Salaries and wages	202,865	215,770	236,867	78,808	77,714
Fringe benefits	49,028	52,915	57,347	18,541	19,666
Supplies and other expenses	119,932	127,629	144,460	46,728	48,186
Provision for depreciation and amortization	19,938	21,146	21,744	7,227	7,163
Interest and amortization of bond discount	9,105	8,897	7,923	2,846	2,423
Provision for bad debts	12,207	11,901	18,801	4,753	6,735
Total operating expenses	413,075	438,258	487,142	158,903	161,887
Change in prior year estimated settlements	7,579	1,008	3,366	(29)	137
Income from operations	13,701	2,009	878	100	5,004
Nonoperating income					
Investment income	12,841	4,762	11,100	2,615	3,046
Gain on sale of land	-	-	1,420	-	-
Gain on sale of Nursing Home	-	-	-	-	6,105
Minority interest	(167)	(180)	(37)	(30)	(2)
Loss on other than temporary impairment of investments	-	(29,268)	-	-	-
Excess of revenues over expenses	26,375	(22,677)	13,361	2,685	14,153
Change in unrealized appreciation in investments	(22,532)	18,196	12,741	979	14,530
Net assets released from restrictions for capital acquisitions	527	645	2,660	33	1,127
Cash distribution to minority partner	-	(500)	(340)	-	-
Write-off of net assets of disaffiliated entity	(541)	-	-	-	-
Increase in unrestricted net assets	$ 3,829	$ (4,336)	$ 28,422	$ 3,697	$ 29,810

* Certain of these numbers have been reclassified. See footnotes 2 and 3 to the SUMMARY FINANCIAL RESULTS OF THE OBLIGATED GROUP table on page A-4.

Source: Year-end results derived from audited financial statements of Southcoast.

The following tables set forth the cash and investments, estimated pro forma coverage of maximum annual debt service, and debt to capitalization of the Obligated Group on a historical and pro forma basis.

OBLIGATED GROUP
CASH AND INVESTMENTS
(in thousands)

	2001	2002	2003	Four Months Ended January 31, 2004
Unrestricted funds				
Cash and cash equivalents	$27,781	$36,894	$47,738	$35,985
Investments	15,006	13,489	29,002	44,233
Board designated for quasi-endowment and funded depreciation	148,101	142,411	147,162	161,933
Total unrestricted funds	190,888	192,794	223,902	242,151
Donor restricted funds	62,698	57,619	64,503	73,159
Funds whose use is limited under bond indenture agreements	15,710	13,894	12,342	19,523
Total Funds	$269,296	$264,307	$300,747	$334,833
Unrestricted days cash on hand[1]	184.27	173.83	181.03	198.77

[1] Calculated as unrestricted funds divided by the quotient of (x) operating expenses less depreciation and amortization divided by (y) the number of calendar days in the period.

Source: Information for 2001, 2002 and 2003 is derived from audited financial statements.

OBLIGATED GROUP
ESTIMATED PRO FORMA COVERAGE OF MAXIMUM ANNUAL DEBT SERVICE
(in thousands)

	2001	2002	2003
Excess of revenues over expenses before loss on other than temporary impairment of investments	$25,052	$4,768	$12,546
Depreciation and amortization	19,420	20,724	21,337
Interest expense and amortization of bond discount	7,885	7,779	6,817
Income available for debt service	$52,357	$33,271	$40,700
Pro forma maximum annual debt service on long term debt[1]	$10,386	$10,386	$10,386
Pro forma coverage of estimated annual debt service (x)	5.04	3.20	3.92

[1] Includes the annual debt service for Southcoast Series A Bonds and projected annual debt service on Series B Bonds based on an average interest rate of 3.37%, taking into account the effect of the interest rate swap agreement.

Source: Southcoast records.

OBLIGATED GROUP
DEBT TO CAPITALIZATION
(in thousands)

	ACTUAL 2003	PRO FORMA 2003
Long-Term Debt		
Southcoast Series B Bonds	-	$56,050
Existing debt	$123,235	83,613
Less: Current Maturities	(4,681)	(4,681)
Net Long-Term Debt	118,554	134,982
Unrestricted Net Assets	244,692	244,692
Total Capitalization	363,246	379,674
Net long-term debt as a percentage of capitalization	32.6%	35.6%

Source: Southcoast records.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE

Overview

In 2001, 2002 and 2003, the System's Excess of Revenues over Expenses before loss on other than temporary impairment of investments was $26.4 million, $6.6 million, and $13.4 million, respectively. In 2002, the System recorded a loss of $29.3 million on other than temporary impairment of investments that was included in the Excess of Revenues over Expenses, resulting in a deficiency of revenues over expenses of $22.7 million for that year. This loss was described as unusual and infrequent in the audited financial statements and reflected a multi-year decline in market values of equity securities in the long-term investment portfolio. As a result of recording a large portion of the unrealized depreciation in investment values in the System's Excess of Revenues over Expenses as an impairment and therefore changing the cost basis of those investments in accordance with generally accepted accounting principles, the change in unrealized appreciation of investments was a positive $18.2 million in 2002 when the equity market began to recover. The overall market value of the portfolio partially recovered in 2003 with an increase in unrealized appreciation of $12.7 million for the year.

The System generated income from operations of $13.7 million, $2.0 million and $878,000 in 2001, 2002, and 2003, respectively. Included in income from operations are changes in prior year estimated settlements from third-party payors. These settlements, which occurred primarily in the Hospitals Group, totaled $7.6 million, $1.0 million and $3.4 million in 2001, 2002, and 2003, respectively. Settlements generally include the resolution of Medicare payment issues when Medicare cost reports are finalized or the resolution of amounts due to or from the Pool. As such, the timing of the settlements is dependent upon CMS or the Commonwealth of Massachusetts and is not consistent from year to year.

Excluding changes in prior year estimated settlements, the System generated income from operations of $6.1 million and $1.0 million in 2001 and 2002, respectively, and incurred a loss from operations of $2.5 million in 2003. The decline in operating results is due, in large part, to the results of the Hospitals Group. The Hospitals Group generated operating income before changes in prior year estimated settlements of $6.3 million and

$837,000 in 2001 and 2002, respectively, but incurred a loss before changes in prior year estimated settlements of $1.4 million in 2003. Management attributes the decline in operating results from 2001 to 2002, in part, to the first year startup expenses of the newly established cardiac surgical program that opened in April 2002. The further decline in 2003 was due, in large part, to the significant cuts in Medicaid payment rates and funding from the Pool. In 2002, the net payments from the Pool approximated $3.6 million, compared to only $506,000 in 2003. The Hospitals Group's net payment from the Pool for 2004 is expected to approximate $5.4 million, although final funding cannot be assured at this time.

The physician practices, SPC and SPS, incurred combined losses from operations of $2.7 million, $2.9 million and $2.2 million for 2001, 2002, and 2003, respectively. The decrease in the loss in 2003 reflects an increase in net patient service revenue without a corresponding increase in operating expenses.

The VNASM generated income from operations of $1.4 million, $1.2 million and $635,000 in 2001, 2002, and 2003, respectively. The results in 2001 and 2002 reflect Management's efforts to respond to the incentives of the Medicare PPS. The decline in results for 2003 reflects the less than inflationary increase in Medicare and Medicaid payment rates for home health services.

The other affiliates that are not members of the Obligated Group generated combined income from operations of $932,000, $1.6 million and $348,000 in 2001, 2002, and 2003, respectively. These results include operating results from the Greater New Bedford Community Health Center in 2001, which disaffiliated from the System during 2001; 80% of the operations of Sarah Brayton Nursing Center, which was sold in January 2004; and 50% of the operations of the Southcoast Nursing and Rehabilitation Center, which was sold in January 2004. (The Sarah Brayton Nursing Center and the Southcoast Nursing and Rehabilitation Center were owned by Charlton Long Term Care Services, Inc.) The remaining Non-Obligated Affiliates include Southcoast Ventures, which generated income from operations of $322,000 in 2003, Health Management Initiatives, which incurred a loss of $39,000 in 2003, and the Heritage at Dartmouth, which generated income of $107,000 for Charlton Long Term Care Services, Inc. in 2003.

Unrestricted revenues for the System increased 16.3%, from $416.6 million in 2001 to $484.7 million in 2003. This increase of $68.1 million or 16.3% was due, in large part, to the increase of $66.7 million in net patient revenues at the Hospitals Group. Of the $484.7 million in System unrestricted revenues in 2003, Hospitals Group net patient service revenue of $420.7 million accounted for 86.8%. Other large components include net patient revenue of $14.8 million and $15.3 million at the physician practices and the VNASM, respectively. The increase in net patient revenues at the Hospitals Group is attributable to both increases in patient volume (see "HOSPITAL UTILIZATION") and increases in payment rates.

Operating expenses for the System increased from $413.1 million in 2001 to $487.1 million in 2003. Of the $74.0 million increase, $72.7 million is attributable to an increase in operating expenses at the Hospitals Group. Hospitals Group salaries and employee benefits increased by a combined $42.0 million, or approximately 19.6%, to $256.6 million in 2003. The large increase reflects an increase in staffing in response to the growth in patient volume, especially in the areas of cardiac surgery and outpatient radiology. The increase also reflects the continuing need to make market adjustments for nursing and other clinical staff in response to staffing shortage and the upward pressure on wages. Supplies and other expenses increased 20.5% between 2001 and 2003 to $144.5 million in 2003. This growth reflects increases in the cost of implants associated with increases in surgical volume and a continuing increase in the cost of drugs and pharmaceuticals. Also included in operating expenses is an increase in payments for physician services, particularly in the emergency departments. The emergency departments at the three hospital sites are staffed by independent groups, to which the Hospitals Group pays a fee for 24-hour coverage. Another significant increase is the increase in the provision for bad debts from $12.0 million in 2001 to $18.5 million in 2003. The increase is due, in part, to the increase in gross patient service revenue from $624.5 million in 2001 to $790.2 million in 2003. If the relationship of bad debts to gross revenue had remained at the 2001 level of 1.9%, then the increase would have approximated $3.0 million. The additional increase of $3.5 million reflects Management's efforts in 2003 to write-off uncollectible accounts over a year old, such that the percentage of accounts in that category dropped from 9.2% at the end of 2002 to only 4.4% at the

end of 2003. Management's goal for the future is to maintain the receivables aging at the level achieved at the end of 2003.

Investment income totaled $15.5 million, $4.8 million and $11.1 million in 2001, 2002 and 2003, respectively. Management attributes the decline in 2002 to the industry-wide decrease in investment earnings associated with the downturn in the equity markets. Investment income includes interest and dividends and realized gains and losses. Changes in the unrealized appreciation or depreciation of investments are presented separately. Long-term investments are combined in a pooled account, which is actively managed by several investment managers with oversight by an independent investment counselor and the investment committee of the System. The investment committee includes trustees and senior management and meets quarterly to review the performance of the portfolios managed by each of the investment managers and the allocation of investments among investment classes. The investment policy, which was developed by the investment committee and approved by the Southcoast board, essentially segregates investments into two categories: long-term and short-term.

Non-operating income also includes a $1.4 million gain on the sale of land in 2003. The minority interest included in non-operating income each year reflects the 20% ownership interest in the Sarah Brayton Nursing Center by an unaffiliated co-owner. In January 2004, an affiliate not in the Obligated Group sold its interest in the Sarah Brayton Nursing Center.

Excluded from the Excess of Revenues over Expenses but included in the change in unrestricted net assets are assets released from restrictions for capital acquisition, a write-off of net assets of a disaffiliated entity, and cash distributions to a minority partner. For the three years presented, assets released from restrictions for capital acquisition totaled $3.8 million. The $541,000 write-off of net assets for a disaffiliated entity reflected the disaffiliation of the Greater New Bedford Community Health Center in 2001. Cash distributions to a minority partner totaled $840,000 for 2002 and 2003 combined and reflected 20% of the cash distributions from the Sarah Brayton Nursing Center. Eighty percent (80%) of the distributions were retained by Charlton Long Term Care Services, Inc., while the 20% shown on the change in unrestricted net assets was transferred to an unaffiliated co-owner.

Cash and Investments

The System's unrestricted cash and investments increased in recent years. Year-end unrestricted cash and investment balances (including board designated funds) for 2003 were $233.0 million, an increase of $32.8 million from 2001. The increase in unrestricted cash and investments reflects Management's commitment to grow unrestricted investments despite cutbacks in payment and continuing capital improvements.

The long-term investments are designated for strategic purposes as defined by the board of Southcoast. The board of Southcoast has also adopted a spending policy that provides that an amount equal to 4.0% of the average market value over a 36-month period be available to Management annually for spending. All other income and gains are reinvested in the portfolio. During 2001, 2002 and 2003, these funds were used to support Hospitals Group capital projects and to subsidize the operations of SPC and SPS. The investment policy also establishes goals for diversification of the long-term portfolio between equities and fixed income securities and domestic and international markets. In August 2002, the investment committee recommended to the Southcoast board that the policy be revised to include an allocation of alternative investments including real estate, hedge funds, absolute return funds, and private equity investments.

Short-term investments are available to Management for on-going operations and capital expenditures. Pursuant to the investment policy, short-term investments are segregated into three categories: operating cash, operating reserve and liquidity reserve. The policy also establishes target ranges for each of these categories and permitted investments. Management is responsible for the investment of these funds with quarterly reporting to the investment committee.

Results for the Four Months Ending January 31, 2003 and 2004

The System generated an Excess of Revenues over Expenses for the four months ending January 31, 2004 of $14.2 million, an increase of $11.5 million over the results generated for the same time period in the prior year. Much of the improvement in results came from an improvement in operating results, with income from operations of $5.0 million for the four months ending January 31, 2004 as compared to income from operations of $100,000 for the same time period in the prior year. Also contributing to the improvement in financial results was the sale of three long-term care facilities. St. Luke's Nursing Home sold the Oaks, resulting in a gain of $1.5 million, and Charlton Long Term Care Services, Inc. sold the Sarah Brayton Nursing Care Center and the Southcoast Nursing and Rehabilitation Center, resulting in a gain of $4.6 million.

The improvement in operating results was due, in large part, to the improvement in operating results of the Hospitals Group. For the four months ending January 31, 2004, the Hospitals Group generated income from operations of $5.2 million, as compared to income from operations of $270,000 generated during the four months ending January 31, 2003.

For the Hospitals Group, net patient revenues of $148.0 million for the four months ending January 31, 2004, were $10.6 million or 7.7% higher than the same period in the prior year. Of the total increase, approximately $7.1 million was attributable to higher patient volume. Inpatient discharges for the four months ending January 31, 2004 were 13,578 or 4.0% higher than the four months ending January 31, 2003. Emergency room visits increased by 1,755 or 3.25%. Payment rates were higher, contributing to an increase in revenues of approximately $4.3 million. Other deductions including free care, the Pool and denials reduced net revenues by $800,000 between these two time periods. Increases in Hospitals Group operating expenses were held to a 3.9% increase, a result of many cost containment and reduction efforts implemented as a part of the 2004 budget process. Management believes its most significant cost reduction effort is reflected in the relatively small increase in personnel services costs. For the four months ending January 31, 2004, personnel services of $68.6 million were less than 1.0% greater than the same period during the prior year. Benefits increased 8.0%, with the most significant increase occurring in the cost of health insurance, which increased by 12.0%. Of the total benefits cost of $8 million for the four months ending January 31, 2004, health insurance accounted for 40.0% or $7.2 million. The 5.3% increase in supplies is primarily attributable to increases in the cost of blood and blood products, implants (due primarily to the introduction of the angioplasty program in late November 2002) and other medical and surgical supplies. Other expenses are also up from the comparable prior year period by 5.0%. The provision for bad debts increased $2 million. A portion of the increase is due to timing with more timely recording of bad debt in the four months ending January 31, 2004 than in the previous year.

The following comments provide a summary discussion for the other members of the Obligated Group. On a combined basis, SPS and SPC incurred an operating loss of $733,000 for the four months ending January 31, 2004, which was slightly higher than the comparable prior year period loss of $718,000. Included in the current year loss is a write-off of goodwill totaling $320,000 in connection with the disaffiliation of one of the primary care practices. Results for the VNASM were improved for the four months ending January 31, 2004, with income from operations of $264,000. For the four months ending January 31, 2003, the VNASM generated operating income of $122,000. As noted earlier, St. Luke's Nursing Home, Inc. sold The Oaks. Since the sale was effective on November 1, 2003, the results presented for the four months ending January 31, 2004, reflect operations through October 31, 2003. Excluding the gain on the sale, Saint Luke's Nursing Home, Inc. incurred a loss of $29,000 for the four months ending January 31, 2004. In addition, Charlton Long Term Care Services, Inc. sold the Sarah Brayton Nursing Home and Southcoast Nursing and Rehabilitation Center. Since these sales were effective on January 4, 2004, the results presented for the four months ending January 31, 2004 reflect operations for these facilities through December 31, 2003.

Strategic Planning

In the first years after the merger, Southcoast completed a comprehensive strategic planning process with input from trustees, senior management, physicians, and selected community leaders. This process resulted in the

adoption of a multi-year strategic plan by the Southcoast Board of Trustees. The planning process systematically examined the Southcoast service area to determine the need for and feasibility of a comprehensive range of services, consistent with the needs of the service area population and the capabilities of Southcoast. During those first years after the merger, Management focused on building infrastructure and integrated systems. Some of the projects during these years include the installation of the integrated information system among all three hospital sites, a single financial system and finance department and a single wage and benefit program for all hospital employees. Management also focused on creating a Southcoast culture with the values of quality and caring; integrity, trust and openness; and adaptability and flexibility to drive operations and future efforts. More recently, Management worked with the Southcoast Board of Trustees to determine clinical priorities. The top six clinical priorities identified by the strategic planning process included cardiac services, surgical services, the expansion of inpatient acute beds, emergency services, radiology services and the establishment of a brain/spine center. Since this completion of the strategic plan, Management has focused operational and capital resources on the growth of these priorities.

Management does not anticipate any significant capital projects (other than the Expansion and Renovation Project and routine expenditures) for the next three years.

AFFILIATES NOT IN THE OBLIGATED GROUP

Health Management Initiatives, Inc. ("HMI") is a taxable Massachusetts business corporation, wholly-owned by Southcoast. HMI is a partner in a joint venture, which owns and operates the Southcoast Wellness Center in North Dartmouth, Massachusetts. HMI also owns and operates the Linden Tree Family Health Center in Portsmouth, Rhode Island. The Hospitals Group provides outreach laboratory, radiology and rehabilitative services and SPS provides primary care services at the Linden Tree Family Health Center.

Charlton Long Term Care Services, Inc. ("CLTCS") is a tax-exempt Massachusetts business corporation of which Southcoast is the sole stockholder. CLTCS is a co-owner with two unaffiliated entities of an assisted living center in Dartmouth (the "Heritage at Dartmouth"). CLTCS was a co-owner in two long-term care facilities (the Sarah Brayton Nursing Care Center located in Fall River and the Southcoast Nursing and Rehabilitation Center in Somerset) until the sale of those facilities on January 5, 2004.

Southcoast Ventures, Inc. ("Ventures") is a tax-exempt non-profit corporation of which Southcoast is the sole corporate member. Ventures is a limited partner in a partnership that provides magnetic resonance imaging ("MRI") services in Dartmouth and New Bedford and is the owner of a medical office building in Middleborough and land located in Wareham on Route 28 at the intersection of routes 195 and 495. Ventures also provides loans to physicians recruited to the Southcoast region to fill a documented need for a particular specialty and offers cardiac wellness services.

Until 2003, Saint Luke's Nursing Home, Inc. ("Nursing Home") owned and operated a 122-bed long-term care center in northern New Bedford under the name of "The Oaks." The Nursing Home is organized as a Massachusetts business corporation and has obtained tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. All outstanding shares of common stock in the Nursing Home are held by Southcoast. The financial results of the Obligated Group for 2001, 2002 and 2003 include the operations of The Oaks. Effective November 1, 2003, The Oaks was sold. With the sale of The Oaks, the Hospitals Group assumed responsibility for the outstanding balance of St. Luke's Series C Bonds issued to finance the construction of The Oaks. See footnote F to Appendix B. In conjunction with the Hospitals Group assumption of the outstanding bonds, the proceeds from the sale of The Oaks (approximately $6.8 million) were also transferred to the Hospitals Group to fund future capital projects.

OUTSTANDING INDEBTEDNESS

As of September 30, 2003, Southcoast's long-term indebtedness, including the current portion thereof and net of unamortized bond discount, totaled $134,023,000 including:

1.	Massachusetts Health and Educational Facilities Authority Revenue Bonds, St. Luke's Hospital of New Bedford, Series C[1]	$	39,622,000
2.	Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System, Inc., Series A	$	82,148,000
3.	Mortgage agreement (for Sarah Brayton Nursing Care Center)[2]	$	9,201,000
4.	Note payable due December 5, 2006	$	1,189,000
5.	Installment note	$	1,033,000
6.	Other long-term indebtedness	$	398,000
7.	Capital leases	$	432,000

[1] The Massachusetts Health and Educational Facilities Authority Revenue Bonds, St. Luke's Hospital of New Bedford, Series C Bonds will be defeased with the proceeds of the Series B Bonds.
[2] The mortgage for the Sarah Brayton Nursing Care Center was assumed by the purchaser upon the sale of the facility on January 5, 2004.

For a description of guarantees of the System in an aggregate principal amount of approximately $1,587,000 relating to indebtedness of HMI as of September 30, 2003, see footnote I to Appendix B. Guarantees reflected therein relating to the Sarah Brayton Nursing Care Center and Southcoast Nursing and Rehabilitation Center facilities were terminated as of the sale of those facilities. See "AFFILIATES NOT IN THE OBLIGATED GROUP."

EMPLOYEES

During 2003, the Hospitals Group employed 4,275 full time equivalent ("FTEs") personnel consisting of 2,193 FTEs in patient services, 897 in allied health services, 484 in support services and 701 in other administrative and supportive departments. Included in these statistics are 1,188 registered nurses and 107 licensed practical nurses.

The Hospitals Group provides employees with a compensation and benefit package that rewards employees for length of service and meritorious performance and that Management believes is competitive with other local hospitals. The Hospitals Group employees, including those represented by collective bargaining agreements, are covered by a unified benefits program across the three campuses, which includes health insurance, dental insurance, an earned time off program, disability insurance, a pension plan, life insurance, HIV insurance and tuition reimbursement on a flexible benefit basis.

At the Tobey site of the Hospitals Group, approximately 124 employees (representing approximately 80 FTEs) are represented for collective bargaining by the Massachusetts Nursing Association ("MNA"). The term of the current collective bargaining agreement expires on September 30, 2004.

Also at the Tobey site, approximately 190 employees (representing approximately 152 FTEs) are represented for collective bargaining by the Hospitals Workers Union, Local 767, Services Employees International Union

("SEIU"), AFL-CIO and are organized into two bargaining units, a licensed practical nurse unit with approximately ten members (not FTE) and a technical, clerical, service, and maintenance unit with approximately 186 members (not FTE). The current term of the collective bargaining agreement for SEIU members expires on September 30, 2005.

There were approximately 525 individuals employed (including per diems) at the Tobey site as of December 2003. Except as noted above, no other employees at the Tobey site or the other sites of the Hospitals Group are represented by collective bargaining agreements. The last union organizing activity, which occurred at the St. Luke's campus and was related to registered nurses, was approximately three years ago and no vote was taken. Management continues to communicate actively with employees about changes in hospital operations, benefits plans and general changes in the industry. Management believes its relationship with its employees to be generally positive.

Approximately 108 employees of VNASM (representing approximately 75 FTEs of which approximately 59% are registered nurses) are represented by Local 285, SEIU, AFL-CIO-CLC. On March 13, 2004, the VNASM and the union completed negotiations on a three-year wage and benefit contract. The agreement, which extends through February 28, 2007, is subject to ratification by the union members. The ratification vote is expected to be taken in early May, 2004.

The Hospitals Group maintains a noncontributory defined benefit/retirement plan for certain employees at the Tobey site. Benefits under this plan have been frozen with respect to new enrollees. For a discussion of the funding of such benefit plan, see footnote G to Appendix B.

INSURANCE

Southcoast carries comprehensive general liability and hospital professional liability insurance through ProMutual (Medical Professional Mutual Insurance Company) as follows: (i) general liability bodily injury limits of $2,000,000 per occurrence and $20,000,000 aggregate and (ii) hospital professional liability of $2,000,000 per occurrence and $20,000,000 million aggregate. General liability is covered on an occurrence basis. The System's professional liability is covered on a claims-made basis. The System's employees and non-professional volunteers are included as additional insureds. The System's non-professional volunteers are covered under the general liability policy while performing duties related to the conduct of Southcoast business.

Professional liability insurance for approximately 32 full-time salaried physicians and 28 part-time physicians employed by Southcoast or affiliates is also carried through ProMutual (Medical Professional Mutual Insurance Company) on an occurrence basis with separate policies in the amount of $2,000,000 per claim, and $6,000,000 annual aggregate.

Southcoast carries comprehensive property insurance from Chubb for all buildings and contents in the amount of $177,297,000 and business interruption insurance in the amount of $137,318,000. The coverage is subject to a $25,000 deductible per occurrence for property damage; a $50,000 deductible for flood damage, excluding the Wareham campus; a $100,000 deductible for flood damage at the Wareham campus; and a $50,000 deductible for earthquake damage.

The Hospitals Group self-insures for workers' compensation claims, while other affiliates have coverage through premium-based policies.

The Southcoast Board of Trustees has approved the establishment of a self insurance program including professional and general liability insurance (but not property insurance) for the Hospitals Group and certain other affiliates of Southcoast. Management currently anticipates the self insurance program will be implemented in 2004 or early 2005 and will be established with the assistance of professional liability insurance consultants.

LITIGATION

There is no litigation pending or threatened against the members of the Obligated Group (other than claims for malpractice or of a routine nature and against which the members of the Obligated Group are insured) that Management believes would adversely affect the ability of the members of the Obligated Group to meet their obligations with respect to the Series B Bonds in the event of an adverse result.

BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY

In addition to the risks set forth in the forepart of this Official Statement, the following factors, among others, constitute risks with respect to the Series B Bonds. The ability of the Obligated Group to pay amounts due with respect to the Series B Bonds is subject to significant risks relating to both the health care industry generally and, more specifically, to the enforceability of the Master Trust Indenture and the Agreement against the Obligated Group.

In General

Future revenues and expenses of the Obligated Group will be affected by events and conditions relating generally to, among other things, demand for the services of the Obligated Group, the ability of the Obligated Group to provide the services required by patients, physicians' relationships with the Obligated Group, management capabilities, the correctness of the design and success of the Obligated Group's strategic plans, the degree of cooperation among and competition with other hospitals in the Obligated Group's area, changes in private philanthropy, malpractice claims and other litigation, economic developments in the Obligated Group's service area, the Obligated Group's ability to control expenses and maintain relationships with HMOs and other managed health care organizations and third-party payers, competition, rates, costs, third-party reimbursement, legislation, and government regulation. While the Obligated Group reasonably expects to generate sufficient revenues in the future to cover its expenses, third-party payments, regulations, and contractual terms and provisions may change, and unanticipated events and circumstances may occur that cause variations from this expectation, and the variations may be material.

Accordingly, there can be no assurance that the financial condition of the Obligated Group and/or utilization of the Obligated Group's facilities will not be adversely affected, and there can be no guarantee that there will be sufficient revenues to make payments with respect to the Series B Bonds. The following general factors, among others, could affect the level of revenues to the Obligated Group or its financial condition or otherwise result in risks for Bondholders in addition to the risks set forth in the Official Statement under "Bondowners' Risks" in the forepart hereof.

Risks Related to Bond Insurance

There can be no assurance that the Bond Insurer will be financially able to meet its contractual obligations under the Insurance Policy.

So long as the Bond Insurer performs its obligations under the Insurance Policy, the Series B Bonds cannot be accelerated without the prior written consent of the Bond Insurer, including, without limitation, if the tax-exempt status of the interest on the Series B Bonds is lost. In the event that the Bond Insurer is unable to make payments of principal of or interest on the Series B Bonds as such payments become due, the Series B Bonds are payable solely from moneys received by the Trustee as set forth in the Agreement.

In the event that the Bond Insurer is required to pay principal of or interest on the Series B Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series B Bonds. Owners of the Series B Bonds should note that, although the Insurance Policy will insure payment of the principal amount (but not any premium) that is paid to any Owner in connection with the optional or extraordinary redemption of any Bond and that is recovered from such Owner as a voidable

preference under applicable bankruptcy laws, such amounts will be repaid by the Bond Insurer to such Owner only at such times and in such amounts as would have applied in the absence of such redemption.

Interest Rate Agreements

As described under the caption "Security and Sources of Payment for the Series B Bonds", the Obligated Group expects to enter into an Interest Rate Agreement with respect to the Series B Bonds, secured on a parity with the Series B Bonds pursuant to Supplemental Obligation number five. The Interest Rate Agreement may be subject to periodic "mark-to-market" valuations and may have a negative value to the Obligated Group. The Provider may be able to terminate the Interest Rate Agreements upon certain events of default under such agreements. If either the Provider or the Obligated Group terminates an Interest Rate Agreement during a negative value situation, the Obligated Group may be subject to a termination payment to the Provider, and such payment could be material.

Increased Competition

Following Massachusetts' transition in the 1990s to a deregulated rate system for acute care hospitals, competition among these hospitals and in some instances their affiliated health systems has increased significantly. In an effort to improve market share and profitability, a number of acute care hospitals have embarked on significant expansion and refurbishment projects.

Hospitals are also expanding or reconfiguring their service lines in order to capture incremental market share, to enter potentially lucrative service lines, or to reduce or limit services in service lines that generate losses. For example, a number of community hospitals have recently opened invasive cardiac surgery programs that compete directly for cardiac cases formerly performed exclusively at academic medical centers.

Other forms of competition may affect the Obligated Group's ability to maintain or improve its market share, including increasing competition (i) with other hospitals for physician recruitment, (ii) between physicians who generally use hospitals and non-physician practitioners such as nurse-midwives, nurse practitioners, chiropractors, physical and occupational therapists and others who may not generally use hospitals, and (iii) from home health agencies, ambulatory care facilities, surgical centers, rehabilitation and therapy centers, physician group practices and other non-hospital providers of many services for which patients generally and currently rely on the Obligated Group.

In addition, no assurance can be made that the Obligated Group will be able to obtain or maintain contracts with various MCOs, or that if obtained, such contracts will be on financially viable or favorable terms.

In order to recruit and retain professional and nursing staff to strengthen clinical services, the Obligated Group has offered and in the future intends to offer competitive salaries to both newly recruited individuals and existing staff. In some years such salaries have increased, and in the future may continue to increase more than the rate of inflation. Such increases also have exceeded and in the future may exceed increases in the Obligated Group's rate of reimbursement.

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

Legislative, Regulatory and Contractual Matters Affecting Revenues

The Obligated Group is subject to a wide variety of federal and state regulatory actions and is dependent on governmental sources for a substantial portion of revenues. It is also subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors and governmental payors and actions by, among others, JCAHO, the Centers for Medicare and Medicaid Services

("CMS") of the DHHS, and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Obligated Group.

In the past, there have been frequent and significant changes in the methods and standards used by government agencies to compensate and to regulate the operations of hospitals. There is reason to believe such legislative bodies may enact legislation that imposes significant new burdens on the operations of the Obligated Group in the future. Legislation is periodically introduced in Congress and in the Massachusetts legislature that could result in limitations on hospital revenues, third-party payments and costs or charges, or that could require an increase in the quantity of indigent care required to maintain the Obligated Group members' tax-exempt status, or that could eliminate such status altogether regardless of the level of indigent care. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide universal health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that adversely affect the Obligated Group's ability to generate revenues or effect the favorable utilization of the Obligated Group's facilities.

Payment Uncertainty

Governmental sources of revenue are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. Many of these changes are implemented retroactively, resulting in significant subsequent year adjustments. There is no assurance that payments made under such programs will remain at levels comparable to the present levels or that they will ever be sufficient to cover all operating and fixed costs. Currently, the Commonwealth, like several other states, is experiencing financial difficulties, and has had to reduce budgeted spending. If these factors continue or escalate in severity, the impact on health care providers could be material. Restrictive policies and budget cuts at both the state and federal level have contributed to declining revenues and operating losses for many Massachusetts hospitals. In recent years, a number of hospitals in New England, as well as in other areas of the United States, have closed or have been converted to non-acute care facilities.

The Obligated Group also is subject to regulatory and administrative actions by those governmental and private entities that administer the federal health programs and by the Department of Public Health ("DPH"), the Commonwealth's Division of Health Care Finance and Policy, the Food and Drug Administration, the Department of Labor, the National Labor Relations Board, JCAHO and other federal, state and local government agencies and private bodies. Actions of these organizations could adversely affect future operations of the Obligated Group. Renewal and continuation of the Obligated Group's operating licenses, certifications and accreditations are based on inspections, surveys, investigations and other reviews, some of which may require or include affirmative action or response by the Obligated Group. These activities are conducted in the normal course of business of health facilities, both in connection with periodic renewals and in response to specific complaints, which may be made to governmental agencies, private agencies or even the media by patients, ombudsmen or employees, among others.

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

Changes in Patient Service Volume and Revenue

Reduction in patient service volume could have a material adverse effect on patient service revenue. The Obligated Group's percentage of net patient service revenue attributable to managed care plans has remained between 17 and 18 percent from 2001 to 2003. However, an increase in the number of persons enrolled in managed care plans may result in material reductions in patient volume levels, reduced payment levels, and other changes which may challenge Management to operate under different payment incentives, including capitated arrangements. Such changes may have a material adverse effect on future revenue levels of the Obligated Group. (See "SOURCES OF PATIENT SERVICE REVENUE" herein).

Determination of Need Restrictions; Limits on Reduction of "Essential Services"

The Commonwealth maintains a Determination of Need ("DON") program pursuant to which health care facilities, including acute care hospitals, are required to obtain state approval before expending funds in excess of a specified dollar threshold on capital projects or offering certain innovative services or new technologies. With respect to acute care hospitals, the capital expenditure threshold for inpatient services is approximately $10 million, subject to annual indexing for inflation. Without DON approval, acute care hospitals may not offer new technologies or innovative services including, but not limited to, open heart surgery, cardiac catheterization services, magnetic resonance imaging, free standing ambulatory surgery or certain non-acute services.

The existence of the DON program has two different implications for providers such as the Obligated Group. First, the program may limit a provider's ability to respond on a timely basis to competitive programs offered by other providers who may not be subject to similar DON requirements. The time required for approval of a DON application is sometimes several years. Further, a moratorium on the filing of new DON applications has been imposed on occasion, and in certain instances, DPH has refused to accept or consider pending applications due to the absence of need for a particular program, or delays in processing DON applications have occurred. Second, while the existence of the DON program may limit a provider's ability to expand or add services needed to compete, the program has also, in certain instances, served as a barrier to entry that prevents would-be competitors from entering or expanding operations in a particular field of service.

Pursuant to legislation enacted in calendar year 2000, new limits have been imposed on the ability of an acute care hospital to terminate "essential services" without prior notice to DPH, a public hearing, and various remedial actions, including in certain circumstances financial payments to support or continue public access to such services through other means. This law will limit the flexibility of acute care hospitals to reconfigure their service lines in pursuit of cost reduction initiatives or other goals.

Reimbursement for Uncompensated Care

As discussed under "SOURCES OF PATIENT SERVICE REVENUE" herein, the Commonwealth operates an Uncompensated Care Pool, which is funded by payments from hospitals, insurance companies and the Commonwealth. Adequate funding for the Pool has been an issue in the past and Management expects it to be a more significant issue in the future. Notwithstanding efforts over the last several years to shift reliance for coverage of the poor from the Pool to other programs administered by the Commonwealth, funding for the Pool continues to be inadequate. To the extent that funding is inadequate, hospitals will not receive payment for all of the care that they provide and may be responsible for paying an increased portion of the Pool's shortfall.

Currently, the Pool faces several pressures due to program and eligibility reductions in the Commonwealth's Medicaid program, as well as increases in the statewide unemployment rate. The Commonwealth is reviewing several options to reduce hospitals' liability for financing free care services. The adoption of any such measures and their success, the possibility of future changes in the operation and funding of the Pool and their effect on the Obligated Group cannot be predicted, but may be material.

Fraud and Abuse Enforcement and other Governmental Enforcement

Health care fraud and abuse laws have been enacted at the federal and state levels to regulate both the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to such beneficiaries. Under these laws, individuals and organizations can be penalized for various activities, including submitting claims for services that are not provided, are billed in a manner other than as actually provided, are not medically necessary, are provided by an improper person, are accompanied by an illegal inducement to utilize or refrain from utilizing a service or product, or are billed in a manner that does not comply with applicable government requirements.

Federal and state governments have a range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud and abuse, including exclusion of the provider from participation in the Medicare/Medicaid programs, civil money penalties, and suspension of payments. Fraud and abuse cases may be prosecuted by one or more government entities and/or private individuals, and more than one of the available penalties may be imposed for each violation.

Laws governing fraud and abuse apply to a hospital and 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, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs"), third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on such entities and potentially a material adverse impact on the financial condition of other entities in the integrated health care delivery system of which that entity is apart. The Hospitals Group has previously entered into a corporate integrity agreement which it completed in April 2002.

Federal Fraud and Abuse Liability of Health Care Providers. Both individuals and organizations are subject to prosecution under the criminal and civil fraud and abuse statutes relating to health care providers. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines, which permit the imposition of substantial fines, but which permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. Criminal conviction for an offense related to a health care provider's participation in the Medicare program results in the provider's exclusion and debarment from all government programs; exclusion may also result from other types of health care fraud convictions. Exclusion from the Medicare or other federal or state funded program would have a material adverse effect on the Obligated Group's financial condition.

False Claims Act. The criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called qui tam actions. These *qui tam* plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil FCA 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. Other civil FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. 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. However, if a provider is faced with a civil FCA prosecution based on one of these theories, the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties. To avoid or reduce civil FCA liability, health care providers may choose to maintain a corporate culture of compliance with all applicable legal requirements, establish systems that enable them to learn of potential problems before a *qui tam* plaintiff files suit, consider making voluntary disclosures of information to the government if they discover wrongdoing or attempt to persuade the government not to proceed by cooperating with the government's investigation.

Anti-Kickback Law. The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is covered by any federal or state health care program. The Anti-Kickback Law applies to virtually every person and entity with which a hospital does business. In recent years, the Anti-Kickback Law has been aggressively enforced. Health care providers, their subsidiaries, affiliates, and physicians, all have some exposure relating to the Anti-Kickback Law. A major area of recent Anti-Kickback enforcement has been non-hospital health care providers such as nursing homes, home health agencies, hospices and other ancillary service providers with respect to their relationships with each other, with hospitals, and with third party payors, including HMOs.

Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $250,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of the Inspector General ("OIG"), the enforcement arm of the DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of $10,000 per item or service in noncompliance ($50,000 in some cases) or an "assessment" of three times the amount claimed may be imposed for some violations. These penalties may be applied to many cases in which hospitals and physicians conduct joint business activities including; practice acquisitions; physician recruiting and retention programs; various forms of hospital assistance to individual physicians, medical practices or physician contracting entities; physician referral services; hospital-physician service or management contracts; and space or equipment rentals between hospitals and physicians.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due to lack of case law or material guidance of the OIG. Health care providers may act to reduce their financial exposure for Anti-Kickback violations through prompt repayment of sums received as a result of inaccurate claims, prompt voluntary reporting to the government of illegal arrangements, implementation of effective corporate compliance programs, and by taking steps to require that their subsidiaries and affiliates do the same.

HIPAA. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would 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, among others, that conduct certain financial and administrative transactions electronically. Health care providers, such as the Obligated Group, were required to come into compliance with the applicable federal standards for privacy of individually identifiable health information (the "Privacy Rule") by April 14, 2003.

Compliance with the requirements of the Privacy Rule 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. Management does not believe that HIPAA will have a material effect on its operations or on its financial condition.

Stark Referral Law. The federal Stark statute prohibits the referral of Medicare and Medicaid patients for certain "designated health services" (including inpatient and outpatient hospital services, home health services, clinical laboratory services, radiology services and radiation therapy services and supplies, physical and occupational therapy, and durable medical equipment and supplies) to entities with which the referring physician or an immediate family member has a financial relationship. It also prohibits the entity furnishing the "designated health services" from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Most providers of the "designated health services" with physician relationships have some exposure to liability under the Stark statute. A financial relationship includes both an ownership or an investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. Although the statute excludes numerous categories of arrangements from its definition of "financial relationships" if certain requirements are met, many ordinary business practices and economically desirable arrangements with physicians would constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing.

Upon determination that there is a Stark violation, a Medicare carrier or intermediary must deny payment of the affected claims, and the entity providing the designated health services must refund the amounts collected from the Medicare program and any other payor or for services rendered pursuant to the prohibited referral. Further, DHHS may seek civil monetary penalties. Additionally, the entity may be liable to pay damages of up to three times the amount of any monetary penalty and be excluded from the Medicare and Medicaid programs. Such enforcement actions would have a material adverse impact on the financial condition of a health care provider, including the Obligated Group. Providers may act to reduce their exposure for Stark violations by establishing an effective corporate compliance program that periodically reviews hospital-physician relationships for compliance with Stark, promptly returning to the government any payments received by way of illegal referrals, and responding in an effective manner to complaints regarding prohibited referrals or financial arrangements that would trigger the Stark prohibitions.

EMTALA. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"), the so-called "anti-dumping" statute. The EMTALA requires hospitals with emergency rooms, including those of the Obligated Group, 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. A hospital that violates EMTALA is subject to civil penalties of up to $50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Administrative Enforcement. As with civil laws, administrative regulations require a relatively low standard of proof of a violation, and thus, health care providers have a high risk of imposition of monetary penalties as a result of an administrative enforcement action.

Civil Monetary Penalty Act. The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented,

improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gainsharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of the claim. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

Exclusions from Medicare or Medicaid Participation. The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, 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. The Secretary of DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty, or other financial misconduct relating either to the delivery of health care in general, or to participation in a federal, state or local government program.

Enforcement Activity. Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an investigation, audit or inquiry regarding billing practices or false claims. Management believes that it has properly complied with the laws concerning billing practices and the submission of claims. Nevertheless, because of the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in enforcement action against the Obligated Group.

Enforcement authorities are sometimes in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold Medicare, Medicaid or similar payments or by threatening the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby, and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Obligated Group could experience materially adverse settlement costs, as well as materially adverse costs associated with the implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Obligated Group, regardless of the outcome, and could have material adverse consequences on the financial condition of the Obligated Group.

Limitations on Contractual and Other Arrangements with Physicians Imposed by the Internal Revenue Code

Third party reimbursement methodologies create financial incentives for hospitals to recruit and retain physicians who will admit patients and utilize hospital services. The Obligated Group's use of these incentives is limited, however, by legal restrictions, including limitations with respect to permitted activities of tax-exempt organizations. As a tax-exempt organization, a hospital is limited with respect to its use of practice income guarantees, reduced rent on medical office space, below market-rate loans, joint venture programs, and other means of recruiting and retaining physicians. The Internal Revenue Service (the "IRS") has intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals, including the issuance of detailed hospital audit guidelines and the commencement of intensive audits of selected health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The

IRS has also indicated that, in certain circumstances, violation of the Anti-Kickback Law could constitute grounds for revocation of a hospital's tax-exempt status.

The Obligated Group, like many hospitals, may have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation, or revocation of the Obligated Group's tax-exempt status or assessment of significant tax liability could have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Series B Bonds. Management is not aware of any current inquiry, challenge or investigation, and believes that all such arrangements entered into by the Obligated Group are consistent in material respects with the limits imposed on tax-exempt organizations.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, acquisition and affiliation activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, merger, acquisition and affiliation activity and use of a hospital's local market power for entry into related health care businesses. From time to time, the Obligated Group is or may be involved with all of these types of activities. In general, it cannot be predicted when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case. With respect to payor contracting, the Obligated Group may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time.

If any medical group or other provider with which the Obligated Group becomes affiliated is determined to have violated the antitrust laws, the Obligated Group also may be subject to liability as a joint actor, or the value of any investment in such group or provider may be affected.

Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes with physicians regarding credentialing and peer review and therefore, may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities and also may be liable with respect to such indemnity. Recent court decisions also have established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Obligated Group.

Revocation of Tax Exemption; Private Inurement

Revocation of the tax-exempt status of the Obligated Group under Section 501(c)(3) of the Internal Revenue Code could subject the interest paid to Bond owners to federal income tax retroactively to the date of issuance of the Series B Bonds. Section 501(c)(3) of the Internal Revenue Code specifically conditions the continuing exemption of all organizations described in such section upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its status as tax exempt under Section 501(c)(3). 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, regulations or public advisory rulings that address many common arrangements between exempt hospitals and non-exempt individuals or entities. While Management of the Obligated Group believes that the arrangements between the Obligated Group and private persons and entities are generally consistent with the IRS's guidance, there can be no assurance concerning the outcome of an audit or other investigation by the Internal Revenue Service given the lack of clear authority interpreting the range of activities undertaken by the Obligated Group.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption, or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the "disqualified person" receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it to involve "excess benefit." "Excess benefit transactions" include transactions in which a "disqualified person" receives unreasonable compensation for services, or receives other economic benefit from the organization that either exceeds fair value or is determined in sole or in part by the revenues of one or more activities of such organization. "Disqualified persons" include "insiders" such as board members, officers, and senior management.

Although Management believes that the sanction of revocation of tax-exempt status is likely to be imposed only in cases of pervasive excess benefit, the imposition of penalty excise taxes in lieu of revocation based upon a finding that the Obligated Group engaged in an "excess benefit transaction" is likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Obligated Group.

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the Obligated Group, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors and JCAHO. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Obligated Group. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Obligated Group's scope of licensure, certification or accreditation, could reduce the payment received, or could require repayment of amounts previously remitted to the provider.

Environmental Laws and Regulations

Health care providers 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, provider operations or facilities and properties owned or operated by providers. The types of regulatory requirements faced by health care providers include: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, 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; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as an owner and/or operator of properties or facilities, the Obligated Group 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 health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

Management is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues or any instance of contamination which, if determined adversely to the Obligated Group, would have material adverse consequences to the Obligated Group.

Professional Liability Claims and General Liability Insurance

In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages 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 the Obligated Group, from the Obligated Group'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 Obligated Group if determined or settled adversely.

The Obligated Group currently carries malpractice, directors' and officers' liability and general liability insurance, which Management considers adequate, but no assurance can be given that the Obligated Group will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Obligated Group or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Obligated Group, including coverage by a captive insurer, see "Insurance" herein.

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 B Bonds, to an extent that cannot be determined at this time.

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

(b) Reduced demand for the services of the Obligated Group that might result from decreases in population.

(c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.

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

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

(f) The occurrence of a natural or man-made disaster that could damage the Obligated Group's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Obligated Group's operations and the generation of revenues from the, facilities.

(g) Adoption of a so-called "flat tax" 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 B Bonds.

This letter and information contained herein are submitted to the Authority for inclusion in its Official Statement relating to its Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004) Periodic Auction Reset Securities. The use of this letter by the Authority in connection with the sale and initial public offering of the Series B Bonds, and its execution and delivery by the undersigned on behalf of each member, have been duly authorized by the respective governing board of each member of the Obligated Group.

SOUTHCOAST HEALTH SYSTEM, INC.

SOUTHCOAST HOSPITALS GROUP, INC.

SOUTHCOAST PHYSICIAN SERVICES, INC.

SOUTHCOAST PRIMARY CARE, INC.

VISITING NURSE ASSOCIATION OF SOUTHEASTERN MASSACHUSETTS, INC.

By: /s/ John B. Day

Authorized Signatory

By: /s/ Linda A. Bodenmann

Authorized Signatory

Southcoast Health System, Inc. and Affiliates

Consolidated Financial Statements
September 30, 2003 and 2002

Southcoast Health System, Inc. and Affiliates
Index
September 30, 2003 and 2002

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston, MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

Report of Independent Auditors

To the Board of Trustees of
Southcoast Health System, Inc. and Affiliates

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in net assets and cash flows present fairly, in all material respects, the consolidated financial position of Southcoast Health System, Inc. and Affiliates (the "System") as of September 30, 2003 and 2002, and the consolidated results of their operations, changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the System's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating information included on pages 24 to 26 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual affiliates. Accordingly, we do not express an opinion on the financial position and results of operations of the individual affiliates. However, the consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

November 24, 2003

Southcoast Health System, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 51,883	$ 43,198
Patient accounts receivable less allowance for doubtful accounts of $18,267 and $18,572 for 2003 and 2002, respectively	58,155	54,342
Estimated third-party payor settlements (Notes A and C)	1,294	5,029
Due from affiliates (Note L)	2	14
Prepaid expenses and other assets	13,061	12,650
Current portion of assets whose use is limited or restricted (Notes A and E)	1,485	2,963
Investments (Notes A and E)	15,753	9,928
Total current assets	141,633	128,124
Property, plant and equipment, net (Note D)	159,242	160,574
Assets whose use is limited or restricted (Notes A and E)		
By Board for quasi-endowment	148,294	143,386
Under indenture agreement - held by trustee for debt service	10,909	10,983
Deferred compensation (Note G)	1,058	26
Pledges receivable	3,731	2,854
Perpetual trusts	28,920	25,935
Restricted long-term investments	35,583	31,684
Total assets whose use is limited or restricted, net of current portion	228,495	214,868
Other assets		
Notes receivable	2,771	1,614
Long-term investments (Notes A and E)	17,022	5,819
Investments in general partnership (Notes A and I)	2,099	1,897
Prepaid pension cost (Note G)	1,151	1,225
Bond issuance costs, net	2,091	2,260
Intangible assets, net	2,711	2,261
Other	2,356	2,421
Total other assets	30,201	17,497
Total assets	$ 559,571	$ 521,063
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$ 27,640	$ 27,068
Accrued compensation and other related expenses	25,745	23,939
Current portion of long-term debt and capital lease obligations (Note F)	4,799	4,439
Estimated third-party payor settlements (Notes A and C)	344	20
Insurance reserves (Note I)	13,490	11,481
Total current liabilities	72,018	66,947
Massachusetts Health and Educational Facilities Authority Revenue Bonds, net of current portion (Note F)	117,770	121,728
Long-term debt and capital lease obligations, net of current portion (Note F)	11,454	11,827
Estimated third-party payor settlements, net of current portion (Notes A and C)	22,710	22,783
Accrued postretirement benefit cost, net of current portion (Note H)	5,810	5,222
Other long-term liabilities (Note G)	2,305	1,236
Total liabilities	232,067	229,743
Commitments and contingencies (Notes A, C, E, F and I)		
Net assets (Note K)		
Unrestricted	259,270	230,848
Temporarily restricted	31,573	26,984
Permanently restricted	36,661	33,488
Total net assets	327,504	291,320
Total liabilities and net assets	$ 559,571	$ 521,063

Southcoast Health System, Inc. and Affiliates
Consolidated Statements of Operations
Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002
Unrestricted revenues (Note F)		
Net patient service revenue (Notes A, B and C)	$ 472,339	$ 425,590
Other revenue	12,036	13,449
Net assets released from restrictions for operations	279	220
Total unrestricted revenues	484,654	439,259
Operating expenses (Note J)		
Salaries and wages	236,867	215,770
Employee benefits	57,347	52,915
Supplies, contracted services and other expenses	144,460	127,629
Provision for depreciation and amortization	21,744	21,146
Interest	7,923	8,897
Provision for bad debts	18,801	11,901
Total operating expenses	487,142	438,258
Change in prior year estimated settlements (Note A)	3,366	1,008
Income from operations	878	2,009
Nonoperating gains (losses)		
Gain on sale of land	1,420	-
Investment income	11,100	4,762
Minority interest	(37)	(180)
Excess of revenues over expenses before loss on other than temporary impairment of investments	13,361	6,591
Loss on other than temporary impairment of investments (Note A)	-	(29,268)
Excess (deficiency) of revenues over expenses	13,361	(22,677)
Change in unrealized appreciation on investments, net	12,741	18,196
Net assets released from restrictions for capital acquisitions	2,660	645
Cash distribution to minority partner (Note L)	(340)	(500)
Increase (decrease) in unrestricted net assets	$ 28,422	$ (4,336)

Southcoast Health System, Inc. and Affiliates
Consolidated Statements of Changes in Net Assets
Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002
Unrestricted net assets		
Excess (deficiency) of revenues over expenses	$ 13,361	$ (22,677)
Change in unrealized appreciation on investments, net	12,741	18,196
Net assets released from restrictions for capital acquisitions	2,660	645
Cash distribution to minority partner (Note L)	(340)	(500)
Increase (decrease) in unrestricted net assets	28,422	(4,336)
Temporarily restricted net assets (Note K)		
Bequests, contributions and pledges	3,712	3,045
Loss on other than temporary impairment of investments	-	(4,125)
Change in unrealized appreciation on investments, net	2,557	2,123
Net assets released from restrictions for operations	(279)	(220)
Net assets released from restrictions for capital acquisitions	(2,660)	(645)
Investment income	1,259	(80)
Increase in temporarily restricted net assets	4,589	98
Permanently restricted net assets (Note K)		
Bequests, contributions and pledges	187	1
Change in market value of perpetual trusts	3,319	(4,307)
Change in donor designation restricted for capital acquisitions	(333)	-
Increase (decrease) in permanently restricted net assets	3,173	(4,306)
Increase (decrease) in net assets	36,184	(8,544)
Net assets, beginning of year	291,320	299,864
Net assets, end of year	$ 327,504	$ 291,320

Southcoast Health System, Inc. and Affiliates
Consolidated Statements of Cash Flows
Years Ended September 30, 2003 and 2002

(dollars in thousands)	2003	2002
Cash flows from operating activities		
Change in net assets	$ 36,184	$ (8,544)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Cash distribution to minority partner	340	500
Gain on sale of land	(1,420)	-
Forgiveness of notes receivable	529	-
Provision for depreciation and amortization	21,744	21,146
Provision for bad debts	18,801	11,901
Net realized (gains) losses on investments	(7,101)	590
Restricted contributions	(2,907)	(1,497)
Change in market value of perpetual trusts	(3,319)	4,307
Change in unrealized appreciation on investments	(15,298)	(20,319)
Loss on other than temporary impairment of investments	-	33,393
(Increase) decrease in assets		
Patient accounts receivable	(22,614)	(3,799)
Due from affiliates	12	(5)
Prepaid expenses and other assets	(101)	(204)
Pledges receivable	(877)	(872)
Prepaid pension cost	74	(1,225)
Increase (decrease) in liabilities		
Accounts payable, accrued expenses and other liabilities	3,650	2,933
Accrued compensation and other related expenses	1,806	1,753
Estimated third-party payor settlements	3,986	53
Accrued postretirement benefit cost	588	167
Net cash provided by operating activities	34,077	40,278
Cash flows from investing activities		
Acquisition of radiology practice	(1,110)	-
Acquisition of property, plant and equipment	(19,504)	(22,542)
Cash proceeds from sale of land	1,420	-
Issuance of notes receivable	(1,686)	(1,111)
Purchases of investments	(204,062)	(141,468)
Proceeds from sale of investments	201,480	138,524
Cash distribution to minority partner	(340)	(500)
Net cash used in investing activities	(23,802)	(27,097)
Cash flows from financing activities		
Restricted contributions	2,907	1,497
Repayment of long-term debt and capital lease obligations	(4,497)	(4,412)
Net cash used in financing activities	(1,590)	(2,915)
Increase in cash and cash equivalents	8,685	10,266
Cash and cash equivalents at beginning of year	43,198	32,932
Cash and cash equivalents at end of year	$ 51,883	$ 43,198
Supplemental data		
Interest paid (includes interest capitalized of $267,000 and $43,000, respectively)	$ 6,935	$ 8,151
Change in market value of perpetual trusts	3,319	(4,307)
Acquisition of equipment through capital leases	526	-

A. Significant Accounting Policies

Organization

Southcoast Health System, Inc. (the "System") is the parent of Southcoast Hospitals Group, Inc., (the "Hospitals Group"), Southcoast Primary Care, Inc. (SPC), Southcoast Physician Services, Inc. (SPS), Southcoast Ventures, Inc. (SCV), St. Luke's Nursing Home, Inc. (SLNH), Health Management Initiatives, Inc. (HMI), Charlton Long-Term Care Services, Inc. (CLTCS), which includes the Sarah Brayton Nursing Care Center, and the Visiting Nurse Association of Southeastern Massachusetts, Inc. (VNA). The aforementioned entities are collectively referred to as the "System". The Hospitals Group is a nonprofit health care organization with hospitals located in Fall River, New Bedford and Wareham, Massachusetts.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting as defined by Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*.

In fiscal 2001, the Corporation adopted SFAS No. 136, *Transfers of Assets to a Not-For-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. SFAS No. 136 establishes standards for transactions in which an entity, the donor, makes a contribution by transferring assets to a not-for-profit organization or charitable trust, the recipient organization, that accepts the assets from the donor and agrees to use those assets on behalf of or transfer those assets, the return on investment of those assets, or both to another entity, the beneficiary, that is specified by the donor.

It is the System's policy to transfer contributions received by it to the specified beneficiary. The specified beneficiary appropriately recognizes the fair value of the assets it receives as a contribution received.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The primary estimates relate to collectibility of receivables from patients, settlements with third-party payors and self-insured reserves.

Income Taxes

The System and its affiliates, other than HMI, have received determination letters from the Internal Revenue Service (IRS) stating that they qualify for tax-exempt status under Section 501(c)(3) of the Internal Revenue Code. HMI is a for-profit entity.

Principles of Consolidation

The consolidated financial statements include the accounts of the above-named entities, for the years ended September 30, 2003 and 2002. All significant intercompany transactions have been eliminated.

Charity Care
Certain affiliates of the System provide care to patients who meet certain criteria under charity care policies without charge or at amounts less than established rates. These affiliates do not pursue collection of amounts determined to qualify as charity care, accordingly, charity care is not reported as revenue (Note B).

Cash and Cash Equivalents
Cash and cash equivalents include money market funds, certificates of deposit, commercial paper and investments in certain mutual funds whose underlying investments have average maturities of three months or less.

Net Patient Service Revenue
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. The System recognizes changes in accounting estimates for net patient service revenue and third-party payor settlements as new events occur, as more experience is acquired or as additional information is obtained. These changes in estimates are reported separately on the statement of operations.

Property, Plant and Equipment
The System's property, plant and equipment is stated at cost or at fair market value at the time of donation, less accumulated depreciation. The System's policy is to capitalize expenditures for major improvements and charge maintenance and repairs currently for expenditures which do not extend the lives of the related assets. The provision for depreciation has been determined using the straight-line method at rates which are intended to amortize the cost of the assets over their estimated useful lives which range from 2 to 40 years. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization expense in the financial statements.

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

Concentration of Credit Risk
Financial instruments which potentially subject the System to concentration of credit risk consist of accounts receivable and certain investments. Temporary cash investments also potentially subject the System to concentrations of credit risk. Investments include marketable equity securities, mutual funds, government securities, certain alternative investments (Note E) and corporate bonds. Certain affiliates of the System receive a significant portion of their payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, Blue Cross of Massachusetts, Harvard Pilgrim Health Care, Inc., United Healthcare of New England and Blue Cross of Rhode Island.

The fair value of the System's financial instruments approximates the carrying amount reported in the balance sheet for cash and cash equivalents, receivables and payables. See Note E for the fair value of investments and assets whose use is limited or restricted and Note F for the fair value of long-term debt.

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

Investments
Investments in equity and debt securities are measured at fair value in the balance sheet. The value of publicly traded securities is based upon quoted market prices. Investments, for which no quoted market prices are readily available, are carried at fair value as calculated and provided by external investment managers or general partners. Investment income or loss (including realized gains and losses on investments, the change in unrealized appreciation/depreciation on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law. Investments recorded as current assets include investments with original maturities of three months to one year and certain securities that have maturities of greater than one year which management intends to use for current operations.

Investments recorded as long-term assets are investments and securities that have maturities of greater than one year which management does not intend to use for current operations.

The System owns partnership interests at or below 50 percent in Dartmouth Assisted Living LLC, Somerset Nursing and Rehabilitation Center, Faunce Corner Wellness Associates, Seacoast Health Alliance, Inc., and New England Healthcare EDI Network, LLC which are each accounted for on the equity method. The individual operations of each are immaterial to the overall financial results of the System.

Assets Whose Use is Limited or Restricted
Assets whose use is limited or restricted include assets held by trustees under indenture agreements, assets held under third-party payor agreements, pledges receivable, perpetual trusts, restricted funds and designated assets set aside by the Board of Trustees. Unconditional promises to give cash and other assets to the System 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 condition is met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets consist of assets whose use by the System has been limited by donors to a specific time period or purpose and accumulated realized and unrealized gains on restricted funds. Permanently restricted net assets have been restricted by donors to be maintained by the System in perpetuity.

Perpetual Trusts
The System is the beneficiary of several trust funds administered by trustees or other third parties. Trusts wherein the System has the irrevocable right to receive the income earned on the trust assets in perpetuity are recorded as permanently restricted net assets at the fair value of the trust at the date of receipt. Income distributions from the trusts are reported as investment income that increase unrestricted net assets, unless restricted by the donor. Annual changes in market value of the trusts are recorded as increases or decreases to permanently restricted net assets.

Excess of Revenues Over Expenses
The System has deemed all activities as ongoing, major or central to the provision of health care services and, accordingly, they are reported as operating revenue and expenses. Included in other operating revenue is investment income earned on operating cash, operating cash reserves and funds held by trustees for the Hospitals Group. All other investment income is recorded as nonoperating gains (losses). In addition, gains (losses) on the sales of property, plant and equipment and minority interest are also recorded as nonoperating gains (losses).

The statement of operations includes the excess of revenues over expenses. Changes in unrestricted net assets which are excluded from the excess of revenues over expenses, consistent with industry practice, include unrealized appreciation on investments, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and transfers of assets to affiliates.

Loss on Other than Temporary Impairment of Investments
The System reviews its portfolio of investments to determine if those securities whose market value is below the original cost of the security is impaired for a period of time which is considered other than temporary. The System utilizes the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to make this determination. During the year ended September 30, 2002, the System determined that the decline in market value of several securities was other than temporary and, accordingly, has recorded realized losses of approximately $29,268,000 for unrestricted securities and $4,125,000 for restricted securities. Due to the unusual, infrequent and material nature of these adjustments, the impairment losses are reported as a separate line item on the statement of operations for unrestricted securities and on the statement of changes in net assets for restricted securities. There was no other than temporary decline in the market value of the System's investments for fiscal 2003.

Bond Issuance Costs
Bond issuance costs are being amortized using the effective interest method over the repayment period of the bonds.

Intangible Assets
Intangible assets consist of goodwill and other intangible assets resulting from the acquisition of certain businesses. The intangible assets are being amortized over a period of 10 to 40 years using the straight-line method. The System reviews its intangibles and other long-lived assets when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If an asset is determined to be impaired, an impairment is recognized.

Notes Receivable
The System maintains a promissory note receivable from its former affiliate, Greater New Bedford Community Health Center (GNB). This note provided for the borrowing of up to $500,000 with interest payable monthly at a rate of 6 percent per annum. This note is included in the Community Benefit Grant (Note I) offered to GNB as part of its disaffiliation agreement. As of September 30, 2003, $500,000 was outstanding on this note.

SCV maintains promissory notes totaling $2,268,000 from certain physicians. These notes bear interest at rates ranging from 4.75 percent to 6.75 percent and will be forgiven over the terms of the loans, pursuant to the completion of certain requirements of the notes. During fiscal 2003, approximately $529,000 was forgiven on these loans.

Reclassification
Certain fiscal year 2002 balances have been reclassified to conform to the fiscal year 2003 presentation.

B. Charity Care and Community Services

Charity care of the Hospitals Group represents patient services provided at no or a reduced charge to individuals who meet certain financial criteria under established charity care policies. The Hospitals Group maintains records to identify and monitor the level of charity care they provide. Since the Hospitals Group does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The following information measures the level of charity care provided by the Hospitals Group (dollars in thousands):

	For the Years Ended September 30, 2003	2002
Charges foregone, based on established rates	$ 17,320	$ 11,885
Estimated costs incurred to provide charity care		
Total expenses	431,795	386,262
Total gross patient service revenue and other revenue	807,459	682,823
Ratio of total expenses to gross patient service revenue and other revenue	53.48%	56.57%
Estimated costs incurred to provide charity care	$ 9,262	$ 6,723

The Hospitals Group also provides a variety of services aimed at contributing to the well-being of individuals and families in the local community. Services include education programs on health related topics, support groups to assist patients and their families cope with difficult adjustments to illness and loss, and free communitywide health screenings, which are offered at all three sites and throughout the community by means of the Hospitals Group's mobile van and local health fairs. The Hospitals Group also provides medical services to the community through its emergency rooms, which operate 24 hours a day and are available to all regardless of ability to pay.

The VNA has a policy of providing free care to patients who are unable to pay. Such services are based on financial information obtained from the patient. Free care provided by the VNA during fiscal years 2003 and 2002, based on established rates, was $51,000 and $44,000, respectively.

C. Net Patient Service Revenue

The System maintains agreements with the Medicare Program, the Medicaid Program and various managed care payors that govern payment to the affiliates of the System for services rendered to patients covered by these agreements. The agreements generally provide for per case or per diem rates or payments based on allowable costs, subject to certain limitations, for inpatient care and discounted charges or fee schedules for outpatient care.

The System provides care to all patients regardless of their ability to pay. Uncompensated care services are partially reimbursed to the acute care hospitals through the statewide uncompensated care pool. All acute care hospitals within the state are assessed a uniform allowance based on estimates of the statewide cost of uncompensated care and are reimbursed for their estimated levels of uncompensated care subject to certain limits. The net assessment is reported as a deduction from revenue for contractual allowances. Charity care and the net assessment are reported in accordance with the provisions of the statewide uncompensated care pool.

Contracts, laws and regulations governing Medicare, Medicaid, Blue Cross, the uncompensated care pool program and various HMO and PPO contracts are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. A portion of the accrual for settlements with third-party payors has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year.

D. Property, Plant and Equipment

At September 30, 2003 and 2002, property, plant and equipment, included the following (dollars in thousands):

	2003	2002
Land	$ 7,046	$ 7,046
Land improvements	3,690	3,680
Buildings and improvements	183,063	179,584
Fixed equipment	9,860	10,067
Leasehold improvements	1,839	1,808
Major movable equipment	113,424	102,734
Construction in progress	4,803	657
	323,725	305,576
Less accumulated depreciation and amortization	164,483	145,002
	$ 159,242	$ 160,574

Depreciation and amortization expense for the years ended September 30, 2003 and 2002 amounted to approximately $21,344,000 and $20,825,000, respectively. Interest expense capitalized for the years ended September 30, 2003 and 2002 was $267,000 and $43,000, respectively.

During the years ended September 30, 2003 and 2002, the System retired $1,502,000 and $216,000, respectively, in plant assets which consisted primarily of fully depreciated equipment.

E. Investments and Assets Whose Use Is Limited or Restricted

The composition of investments and assets whose use is limited or restricted at September 30, 2003 and 2002 is set forth in the following table (dollars in thousands):

	2003		2002	
	Cost	Market	Cost	Market
Current portion of assets whose use is limited or restricted				
Cash and cash equivalents	$ 1,485	$ 1,485	$ 2,963	$ 2,963
Total	$ 1,485	$ 1,485	$ 2,963	$ 2,963
Investments (unrestricted current)				
Corporate bonds	$ 7,474	$ 7,492	$ 7,891	$ 7,768
Mutual funds	8,030	8,261	1,991	2,160
Total	$ 15,504	$ 15,753	$ 9,882	$ 9,928
Long-term investments				
Cash and cash equivalents	$ 455	$ 455	$ 1,245	$ 1,245
U.S. Government obligations	3,612	3,592	876	852
Corporate bonds	6,902	6,842	268	289
Corporate common stock	794	865	473	468
Mutual funds	3,144	3,324	2,693	2,515
Foreign common stock	30	37	12	14
Foreign mutual funds	1,095	1,150	-	-
Alternative investments	699	757	466	436
Total	$ 16,731	$ 17,022	$ 6,033	$ 5,819
By Board for quasi-endowment				
Cash and cash equivalents	$ 5,688	$ 5,688	$ 12,471	$ 12,471
U.S. Government obligations	10,865	11,085	14,428	15,535
Corporate bonds	4,447	4,878	13,312	13,949
Common stock	20,323	23,552	23,142	22,256
Mutual funds	44,182	50,677	54,673	57,458
Foreign common stock	764	1,009	615	660
Foreign mutual funds	28,040	31,013	20,668	21,057
Alternative investments	17,881	20,392	-	-
Total	$ 132,190	$ 148,294	$ 139,309	$ 143,386

	2003		2002	
	Cost	Market	Cost	Market
Under indenture agreement - held by trustee for debt service				
Cash and cash equivalents	$ 3,902	$ 3,902	$ 106	$ 106
U.S. Government obligations	7,014	7,007	10,889	10,877
Total	$ 10,916	$ 10,909	$ 10,995	$ 10,983
Deferred compensation				
Cash and cash equivalents	$ 110	$ 110	$ -	$ -
U.S. Government obligations	183	183	4	4
Corporate bonds	93	93	9	9
Mutual Funds	672	672	14	13
Total	$ 1,058	$ 1,058	$ 27	$ 26
Pledges receivable	$ 3,731	$ 3,731	$ 2,854	$ 2,854
Perpetual trusts	$ 28,920	$ 28,920	$ 25,935	$ 25,935
Restricted long-term investments				
Cash and cash equivalents	$ 4,001	$ 4,001	$ 5,043	$ 5,043
U.S. Government obligations	2,402	2,421	2,777	3,099
Corporate bonds	978	1,059	2,556	2,775
Common stock	4,514	5,142	4,557	4,525
Mutual funds	10,436	11,540	11,682	11,915
Foreign common stock	169	220	117	132
Foreign mutual funds	6,178	6,753	4,554	4,195
Alternative investments	3,950	4,447	-	-
Total	$ 32,628	$ 35,583	$ 31,286	$ 31,684

The System earned total unrestricted investment income of $12,674,000 and $6,837,000 for the years ended September 30, 2003 and 2002, respectively, of which net realized gains/(losses) on investments was $5,899,000 and $(497,000), respectively. Included in other revenue is investment income of $1,574,000 and $2,075,000 for the years ended September 30, 2003 and 2002, respectively.

Temporarily restricted investment income earned for the years ended September 30, 2003 and 2002 was $1,259,000 and $(80,000), respectively, of which net realized gains/(losses) amounted to $1,202,000 and $(93,000), respectively.

Alternative investments consist of real estate trusts, hedge funds, absolute return funds, and privately-held partnerships. These investments are carried at fair value as calculated and provided by the investment managers of these funds or the general partners. These values may differ significantly from the values that would have been used had a ready market for the investments existed and differences could be material.

The System has agreed to make additional capital contributions of up to $4,300,000 for certain alternative investments. The timing and amounts of the contributions will be determined by the general partner.

F. Long-Term Debt

The System's long-term debt was issued under the terms of a Master Trust indenture dated May 4, 1993 and subsequent supplements to the Master Trust Indenture. The Master Trust Indenture provides that any obligation issued thereunder is a joint and several obligation of all members of the obligated group. The System, the Hospitals Group, SLNH, SPS, SPC and VNA (the "Obligated Group") are the members of the Obligated Group.

As provided in the Master Trust Indenture, each member of the Obligated Group has granted to the Master Trustee a collateral interest in all of its gross receipts as collateral for its obligation to remit payments under all obligations issued under the Master Trust Indenture. In addition, the Obligated Group is required under the Master Trust Indenture to maintain certain financial ratios and indebtedness tests. The agreement also places certain limitations on the disposition of assets and the Obligated Group must maintain a minimum debt service coverage ratio of 1.10.

Indenture indebtedness is comprised of two series of Massachusetts Health and Educational Facilities Authority (MHEFA) Revenue Bonds: Series C and Series A. Effective June 8, 1993, $48,545,000 of MHEFA Revenue Bonds, St. Luke's Hospital of New Bedford, Series C, were issued by MHEFA. The Series C bonds were issued in connection with the advance refunding of the existing Series B Bonds of $32,115,000. The proceeds from the sale of the Series C bonds provided for the defeasance of the Series B Bonds, financing capital equipment and renovations for St. Luke's Hospital, as well as the refinancing of the construction of the principal facility of SLNH in the amount of $5,300,000. The Obligated Group is jointly and severally liable for the Series C Bonds.

Effective February 4, 1998, $95,000,000 of MHEFA Revenue Bonds, Southcoast Health System, Inc., Series A, were issued by MHEFA. The Series A Bonds were issued in connection with the advance refunding of the Charlton Memorial Hospital Series B Bonds $50,000,000 Issue (Charlton Series B Bonds). The proceeds from the sale of the Series A Bonds provided for the defeasance of the Series B Bonds, as well as financing the acquisition of land and buildings, construction, renovations and purchases of capital equipment. The Obligated Group is jointly and severally liable for the Series A Bonds. The Charlton Series B Bonds were redeemed in full on July 2, 2001.

Long-term debt consisted of the following at September 30, 2003 and 2002 (dollars in thousands):

	2003	2002
2.75% to 5.84% Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series C, payable in annual maturities through 2023, net of unamortized original issue discount of $43 and $45 at September 30, 2003 and 2002, respectively	$ 39,622	$ 40,760
4.0% to 5.5% Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series A, payable in annual maturities through 2027; net of unamortized original issue discount of $507 and $547 at September 30, 2003 and 2002, respectively	82,148	84,774
Mortgage agreement, 9.75% (for Sarah Brayton Nursing Care Center)	9,201	9,254
Note payable, fixed at 7.74%, due December 5, 2006	1,189	1,233
Installment note (interest rate of 5.0%)	1,033	1,558
Other long-term debt (interest rate of 7.74%)	398	413
Capital leases (various interest rates)	432	2
	134,023	137,994
Less current portion	4,799	4,439
	$ 129,224	$ 133,555

The maturities of long-term debt for the fiscal years subsequent to September 30, 2003 are as follows (dollars in thousands):

	Debt	Capital Lease	Total
2004	$ 4,670	$ 129	$ 4,799
2005	4,828	133	4,961
2006	4,425	113	4,538
2007	5,921	57	5,978
2008	4,926		4,926
2009 and thereafter	108,821		108,821

The Hospitals Group entered into an installment sale and security agreement for the purchase of equipment. Monthly installments are payable over the five-year period beginning August 1, 2001 and ending July 1, 2005.

During fiscal 2003, the Hospitals Group entered into a capital lease agreement for computer software. Monthly installments are payable over a four-year period beginning January 2003 and ending December 2006.

The fair value of the System's long-term debt is estimated using current traded value or a discounted cash flows analysis based on the System's current incremental borrowing rates for similar types of borrowing arrangements. At September 30, 2003, carrying value approximates fair value except as noted below:

	Fair Value
Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series A	$84,415,000
Massachusetts Health and Educational Facilities Authority Revenue Bonds, Series C	$41,922,000

The VNA had a line of credit with an aggregate amount available of $3,000,000, at an interest rate of prime plus one percent. At September 30, 2003 and 2002, $0 was outstanding on the VNA's line of credit.

Sarah Brayton Nursing Care Center maintains a mortgage agreement with a mortgage company. Monthly installments are payable over the next 30 years ending in December 2033. The mortgage is collateralized by all assets of the center.

G. Pension and Deferred Compensation Plans

The System maintains a defined contribution pension plan for substantially all employees at the St. Luke's and Charlton sites and all nonunion employees at the Tobey site of the Hospitals Group and employees at SPS and SPC. Under this plan all eligible employees receive a core contribution of 3 percent based on the employee's compensation. Any employee who is eligible for the core contribution and who makes salary reduction contributions generally is also eligible for a matching contribution of up to 3 percent of an employee's compensation. Pension expense for the defined contribution plans totaled $9,529,000 and $8,704,000 for the years ended September 30, 2003 and 2002, respectively.

The Hospitals Group also maintains a noncontributory defined benefit retirement plan covering both union and nonunion employees of the Tobey site. This plan, which may be terminated at any time by the Board of Trustees, provides benefits to employees upon retirement that are based on career earnings and are correlated to the Social Security law. During fiscal 1998, benefits under this plan were frozen for all nonunion employees and for participants who are members of the Massachusetts Nursing Association Tobey Hospital Site Bargaining Unit (MNA). On March 31, 2003, benefits under this plan were also frozen for participants who are members of the Service Employees International Union (SEIU).

The following table sets forth the Tobey site plan's funded status reconciled with the amounts shown in the balance sheets at September 30, 2003 and 2002 (dollars in thousands):

	2003	2002
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 4,654	$ 4,184
Service cost	114	197
Interest cost	326	306
Actuarial (gain)/loss	218	65
Benefits paid	(111)	(98)
Reduction due to benefit freeze	(111)	
Projected benefit obligation at end of year	5,090	4,654
Change in plan assets		
Fair value of plan assets at beginning of year	4,588	3,252
Actual return on plan assets	629	(375)
Employer contribution	-	1,809
Benefits paid	(111)	(98)
Fair value of plan assets at end of year	5,106	4,588
Funded status	16	(66)
Unrecognized actuarial gain	1,135	1,291
Prepaid pension cost	$ 1,151	$ 1,225
Weighted-average assumptions as of September 30		
Discount rate	6.75%	7.25%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	4.0%	4.0%
Components of net periodic pension cost		
Service cost	$ 114	$ 197
Interest cost	326	306
Actual return on plan assets	(367)	(283)
Recognized net actuarial loss	23	12
Net periodic pension cost	$ 96	$ 232

During fiscal 2002, the Hospitals Group adopted and established a deferred compensation plan in accordance with the provisions of Section 457 of the Internal Revenue Code that provides benefits to present and future members of a select group of management or highly compensated employees.

The plan permits eligible employees to defer a portion of their salary until future years. Deferred compensation amounts are not available for dispersion to employees until termination, retirement, death or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are, until paid or made available to the employee or other beneficiary, held for the exclusive benefit of participants and their beneficiaries. The amount deferred and recorded as assets whose use is limited and other long-term liabilities in the balance sheet totaled $1,058,000 and $26,000 at September 30, 2003 and 2002, respectively.

H. Postretirement Benefits Other Than Pensions

The Hospitals Group has defined benefit postretirement plans that provide certain health care benefits for retired employees. The following table sets forth the combined funded status reconciled with the amounts shown in the balance sheets at September 30, 2003 and 2002 (dollars in thousands):

	2003	2002
Change in benefit obligation		
Postretirement benefit obligation at beginning of year	$ 9,444	$ 7,477
Service cost	215	190
Interest cost	656	522
Plan participants' contributions	149	106
Actuarial gain	992	1,856
Benefits paid	(713)	(707)
Postretirement benefit obligation at end of year	10,743	9,444
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Employer contribution	564	601
Plan participants' contribution	149	106
Benefits paid	(713)	(707)
Fair value of plan assets at end of year	-	-
Funded status	(10,743)	(9,444)
Unrecognized actuarial gain	4,249	3,472
Unrecognized net obligation at transition	139	163
Unrecognized prior service cost	11	11
Accrued postretirement benefit cost	(6,344)	(5,798)
Less estimated amount payable within one year and classified as a current liability	(534)	(576)
Accrued postretirement benefit cost, net of current portion	$ (5,810)	$ (5,222)
Weighted-average assumptions as of September 30		
Discount rate	6.25%	6.9%

For measurement purposes, the assumed annual rates of increase in the per capita cost of covered medical healthcare was 10 percent in 2003, 9.5 percent in 2004 graded down to 5 percent in 2013. The assumed annual rates of increase in the per capita cost of covered prescription drugs was 17 percent in 2003, 15 percent in 2004 graded down to 5 percent in 2014. These rates are for St. Luke's and Charlton only. No healthcare cost trend rate is required for Tobey Hospital.

	2003	2002
Components of net periodic benefit cost		
Service cost	$ 215	$ 190
Interest cost	656	522
Amortization of net obligation at transition	24	24
Recognized net actuarial loss	215	64
Amortization of prior service cost	1	1
Net periodic benefit cost	$ 1,111	$ 801
Impact of 1% increase in health care cost trend		
on interest cost plus service cost during past year	$ 47	$ 33
on accumulated postretirement benefit obligation	619	564
Impact of 1% decrease in health care cost trend		
on interest cost plus service cost during past year	(44)	(30)
on accumulated postretirement benefit obligation	(586)	(520)

I. Commitments and Contingencies

Community Benefit Grant
The System was the sole corporate member of GNB. Effective April 1, 2001, the Board of Trustees of the System voted to approve GNB's disaffiliation with the System.

As part of the System's disaffiliation agreement with GNB, the System has an agreement to provide GNB with a "Plan of Forgiveness." This is a five-year community benefit grant for GNB beginning April 1, 2001, in a maximum aggregate amount of $1,000,000. Under this plan, the $1,000,000 owed by GNB to the System and its affiliates will be forgiven at a rate of $200,000 per year over a five-year period, subject to GNB's continued operation and compliance with the community benefits standards required by the System. The $1,000,000 of debt that would be forgiven represents the principal amount of $500,000 owed to the System pursuant to the Amended Credit Agreement/Promissory Note and $500,000 owed to the Hospitals Group and SPS for services rendered to GNB over the past several years. During each of fiscal years 2003 and 2002, $200,000 of this community benefit grant was applied toward the forgiveness of debt and expensed in the statements of operations.

Malpractice Insurance
The Hospitals Group and VNA maintain malpractice insurance coverage on a claims-made basis. Under this type of policy, claims based on occurrences during its term but reported subsequently will be uninsured should the policy not be renewed or replaced with other coverage. Management of these entities expects to be able to obtain renewal or other coverage in future periods. An accrual for incurred but not reported claims is recorded by the System.

Workers' Compensation
The Hospitals Group maintains workers' compensation insurance under a self-insured plan. The plan offers, among other provisions, certain specific and aggregate stop loss coverage to protect against excessive losses. Other entities of the System maintain retrospectively rated workers' compensation policies.

Litigation
Various legal claims, generally incidental to the conduct of normal business, are pending or have been threatened against the System. The System intends to defend vigorously against these claims. While ultimate liability, if any, arising from any such claim is presently indeterminable, it is management's opinion that the ultimate resolution of these claims will not have a material adverse effect on the financial condition of the System.

Regulatory
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 and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Compliance with such laws and regulations are subject to government review and interpretations as well as regulatory actions unknown or unasserted at this time.

The Hospitals Group received a letter from the Office of the United States Attorney for the District of Massachusetts notifying it of a noncriminal investigation conducted by that office and the Office of the Inspector General (OIG). The investigation, which arises under the federal Civil False Claims Act, is part of a nationwide initiative under which the Office of the United States Attorney is examining Medicare claims. The Office of the United States Attorney conducted a focused review of certain claims from the Hospitals Group and engaged in other investigative activity. The investigation was completed and a settlement amount of approximately $3.0 million was paid by the Hospitals Group in July 2002. Expense was recorded for this settlement prior to fiscal year 2002.

Guarantor Obligations
The System provides guarantees on the Letter of Credit and Revolving Loan Agreement, which are collateral for the Massachusetts Industrial Finance Agency (MIFA) Bonds of the Somerset Nursing and Rehabilitation Center Partnership. CLTCS is a 50 percent owner of the Somerset Nursing and Rehabilitation Center (Somerset). The System's guarantee on the Letter of Credit and Revolving Loan Agreement is limited to $5,210,000 (or one-half of the collateral) until stabilization. Once stabilization is met the guarantee is reduced to $500,000. The System believes stabilization was met at September 30, 2003. In addition, on September 25, 2001, the System entered into an "Incremental Guaranty" with the Lender resulting from the bankruptcy filing of the parent company of the other 50 percent owner of Somerset and due to Somerset's noncompliance with its debt service coverage ratio at September 30, 2000. The "Incremental Guaranty" is limited to 100 percent of Somerset's annual debt service, which amounted to $472,000 as of September 30, 2003. As part of the "Incremental Guaranty" the lender revised the debt service coverage ratio requirement to 1.00.

CLTCS is a 50 percent partner in Dartmouth Assisted Living, LLC ("Dartmouth"). CLTCS accounts for its partnership interest by use of the equity method. The System had guaranteed Dartmouth's line of credit with a bank; however, during fiscal year 2002 the agreement was amended and the bank released the System from its obligations under the guarantee and terminated all guarantees.

Effective September 30, 2001, HMI became the sole corporate member of Linden Tree Family Health Center LLC, when the other corporate member withdrew as a member of the LLC. At September 30, 2003 and 2002, the System guaranteed Linden Tree's collateralized loans of $1,420,000 and $480,000. The guarantee is in effect until full payment of the obligation.

J. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended September 30, 2003 and 2002 are as follows (dollars in thousands):

	2003	2002
Health care services	$ 464,119	$ 415,315
General and administrative	23,023	22,943
	$ 487,142	$ 438,258

K. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2003 and 2002 (dollars in thousands):

	2003	2002
Health care services		
Research and education	$ 602	$ 596
Capital campaign	6,112	5,119
Health education and program services	1,521	1,422
Other	80	84
Capital appreciation		
Accumulated realized and unrealized gains	23,258	19,763
	$ 31,573	$ 26,984

Permanently restricted net assets at September 30, 2003 and 2002 are restricted to (dollars in thousands):

	2003	2002
Investments to be held in perpetuity, the income from which is expended to support health care services	$ 6,676	$ 6,444
Investments to be held in perpetuity, the income from which is restricted for various purposes	1,065	1,109
Perpetual trusts	28,920	25,935
	$ 36,661	$ 33,488

L. Related Parties

Seacoast Health Alliance, Inc. ("Seacoast") was established in 1994 as a physician hospital organization owned 50 percent by the Hospitals Group. Amounts due from Seacoast of $2,000 and $14,000 at September 30, 2003 and 2002, respectively, represent advances made by the Hospitals Group to fund operating expenses of Seacoast. The Hospitals Group's investment in Seacoast is recorded on the equity method and amounted to $29,000 and $43,000 at September 30, 2003 and 2002, respectively. Equity losses on this investment amounted to $10,000 and $11,000 for the years ended September 30, 2003 and 2002, respectively.

During fiscal 2003 and 2002, Sarah Brayton Nursing Care Center made $1,700,000 and $2,500,000 in cash distributions to its two partners, CLTCS, an 80 percent partner and its minority partner, a 20 percent partner. The cash distributions of $340,000 and $500,000, respectively, to the minority partner were recorded directly against unrestricted net assets.

M. Subsequent Event

On November 3, 2003, the System completed a transaction to sell all personal and real property used in connection with the ownership, operation and occupancy of SLNH's healthcare facility located at 4525 Acushnet Avenue, New Bedford, Massachusetts. SLNH maintains its membership in the Obligated Group and accordingly, remains liable for all obligations under MHEFA Revenue Bonds Series A and C.

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SUPPLEMENTARY INFORMATION

Southcoast Health System, Inc. and Affiliates
Consolidating Balance Sheets
September 30, 2003 with comparative data as of September 30, 2002

	Southcoast Hospitals Group, Inc.	Southcoast Health System, Inc.	St. Luke's Nursing Home Inc.	Physician Practices*	VNA of SE Mass	Eliminations	Total Obligated Group	Southcoast Ventures, Inc.	HMI	CLTCS	Eliminations	2003 Total	2002 Total
Assets													
Cash and cash equivalents	$ 42,347	$ 170	$ 993	$ 1,663	$ 2,565	$	$ 47,738	$ 832	$ 684	$ 2,629	$	$ 51,883	$ 43,198
Patient accounts receivable less allowance for doubtful accounts of $18,267 and $18,572 for 2003 and 2002, respectively	52,636		1,040	1,780	1,102		56,558			1,597		58,155	54,342
Estimated third-party payor settlements	1,281		13				1,294					1,294	5,029
Due from affiliates	812	(484)		(64)		(247)	17	(11)		94	(98)	2	14
Prepaid expenses and other assets	11,492	69	53	200	122	(5)	11,931	121	26	942	41	13,061	12,650
Current portion of assets whose use is limited or restricted	1,058	208	167				1,433		52			1,485	2,963
Investments	10,299	2,862			2,592		15,753					15,753	9,928
Total current assets	119,925	2,825	2,266	3,579	6,381	(252)	134,724	942	762	5,262	(57)	141,633	128,124
Property, plant and equipment, net	143,424		3,589	1,073	133		148,219	1,971	1,492	7,560		159,242	160,574
Assets whose use is limited or restricted													
By Board for quasi-endowment	46,322	100,628			212		147,162			1,144	(12)	148,294	143,386
Under indenture agreement-held by trustee for debt service	10,527		382				10,909					10,909	10,983
Deferred compensation	1,058						1,058					1,058	26
Pledges receivable	3,731						3,731					3,731	2,854
Perpetual trusts	27,900				1,020		28,920					28,920	25,935
Restricted long-term investments	35,042				541		35,583					35,583	31,684
Total assets whose use is limited or restricted, net of current portion	124,580	100,628	382	-	1,773		227,363		-	1,144	(12)	228,495	214,868
Other assets													
Notes receivable	-	1,549					1,549	2,268			(1,046)	2,771	1,614
Long-term investments	9,860	3,389					13,249	1,712		2,061		17,022	5,819
Investments in general partnership								249	1,515	335		2,099	1,897
Prepaid pension cost	1,151						1,151					1,151	1,225
Bond issuance costs, net	2,017		74				2,091					2,091	2,260
Intangible assets, net	1,388			1,323			2,711					2,711	2,261
Other	791	300		3			1,094	118		1,144		2,356	2,421
Total other assets	15,207	5,238	74	1,326			21,845	4,347	1,515	3,540	(1,046)	30,201	17,497
Total assets	$ 403,136	$ 108,691	$ 6,311	$ 5,978	$ 8,287	$ (252)	$ 532,151	$ 7,260	$ 3,769	$ 17,506	$ (1,115)	$ 559,571	$ 521,063

* Includes SPS and SPC.

Southcoast Health System, Inc. and Affiliates
Consolidating Balance Sheets, Continued
September 30, 2003 with comparative data as of September 30, 2002

	Southcoast Hospitals Group, Inc.	Southcoast Health System, Inc.	St. Luke's Nursing Home Inc.	Physician Practices*	VNA of SE Mass	Eliminations	Total Obligated Group	Southcoast Ventures, Inc.	HMI	CLTCS	Eliminations	2003 Total	2002 Total
Liabilities and Net Assets													
Current liabilities													
Accounts payable and accrued expenses	$ 26,197	$ 4	$ 268	$ 85	$ 549	$ (252)	$ 26,851	$ 7	$ 2	$ 782	$ (2)	$ 27,640	$ 27,068
Accrued compensation and other related expenses	23,160		211	1,646	728		25,745					25,745	23,939
Current portion of long-term debt and capital lease obligations	4,549		132				4,681		114	59	(55)	4,799	4,439
Estimated third-party payor settlements					326		326			18		344	20
Insurance reserves	13,490						13,490					13,490	11,481
Total current liabilities	67,396	4	611	1,731	1,603	(252)	71,093	7	116	859	(57)	72,018	66,947
Massachusetts Health and Educational Facilities Authority Revenue Bonds, net of current portion	113,542		4,228				117,770					117,770	121,728
Long-term debt and capital lease obligations, net of current portion	784						784		2,573	9,143	(1,046)	11,454	11,827
Estimated third-party payor settlements, net of current portion	22,710						22,710					22,710	22,783
Accrued postretirement benefit cost, net of current portion	5,810						5,810					5,810	5,222
Other long-term liabilities	1,058						1,058			1,247		2,305	1,236
Total liabilities	211,300	4	4,839	1,731	1,603	(252)	219,225	7	2,689	11,249	(1,103)	232,067	229,743
Net assets													
Unrestricted	125,163	108,687	1,472	4,247	5,123		244,692	7,253	1,080	6,257	(12)	259,270	230,848
Temporarily restricted	31,542				31		31,573					31,573	26,984
Permanently restricted	35,131				1,530		36,661					36,661	33,488
Total net assets	191,836	108,687	1,472	4,247	6,684		312,926	7,253	1,080	6,257	(12)	327,504	291,320
Total liabilities and net assets	$ 403,136	$ 108,691	$ 6,311	$ 5,978	$ 8,287	$ (252)	$ 532,151	$ 7,260	$ 3,769	$ 17,506	$ (1,115)	$ 559,571	$ 521,063

* Includes SPS and SPC.

Southcoast Health Systems, Inc. and Affiliates
Consolidating Statements of Operations
Year Ended September 30, 2003 with comparative data for the Year Ended September 30, 2002

	Southcoast Hospitals Group, Inc.	Southcoast Health System, Inc.	St. Luke's Nursing Home Inc.	Physician Practices*	VNA of SE Mass	Eliminations	Total Obligated Group	Southcoast Ventures, Inc.	HMI	CLTCS	Eliminations	2003 Total	2002 Total
Unrestricted revenues													
Net patient service revenue	$ 420,688	$	$ 8,284	$ 14,807	$ 15,349	$	$ 459,128	$	$	$ 13,211	$	$ 472,339	$ 425,590
Other revenue	9,491		18	476	652	(186)	10,451	1,155	520		(90)	12,036	13,449
Net assets released from restrictions for operations	223				56		279					279	220
Total unrestricted revenues	430,402	-	8,302	15,283	16,057	(186)	469,858	1,155	520	13,211	(90)	484,654	439,259
Operating expenses													
Salaries and wages	205,061		4,581	11,457	10,113		231,212	69		5,482	104	236,867	215,770
Employee benefits	51,502		718	2,006	2,079		56,305	17		1,025		57,347	52,915
Supplies, contracted services and other expenses	129,889	36	2,390	3,308	3,066	(186)	138,503	708	314	5,208	(273)	144,460	127,629
Provision for depreciation and amortization	20,742		221	321	53		21,337	39	39	329		21,744	21,146
Interest	6,118		257	439	3		6,817		206	900		7,923	8,897
Provision for bad debts	18,483		17		99		18,599			202		18,801	11,901
Total operating expenses	431,795	36	8,184	17,531	15,413	(186)	472,773	833	559	13,146	(169)	487,142	438,258
Change in prior year estimated settlements	3,462		(87)		(9)		3,366					3,366	1,008
Income from operations	2,069	(36)	31	(2,248)	635		451	322	(39)	65	79	878	2,009
Nonoperating gains (losses)													
Gain on sale of land	-	1,420	-	-	-		1,420	-	-	-	-	1,420	-
Investment income	4,091	6,378	26	16	164		10,675	(5)	12	497	(79)	11,100	4,762
Minority interest										(37)		(37)	(180)
Excess of revenues over expenses before loss on other than temporary impairment of investments	6,160	7,762	57	(2,232)	799	-	12,546	317	(27)	525	-	13,361	6,591
Loss on other than temporary impairment of investments												-	(29,268)
Excess (deficiency) of revenues over expenses	6,160	7,762	57	(2,232)	799		12,546	317	(27)	525		13,361	(22,677)
Change in unrealized appreciation on investments, net	3,886	8,220			252		12,358	293		90		12,741	18,196
Net assets released from restrictions for capital acquisitions	2,660						2,660					2,660	645
Transfers among affiliates	1,420	(2,420)	770	1,000			770	(770)				-	-
Cash distribution to minority partner										(340)		(340)	(500)
Increase (decrease) in unrestricted net assets	$ 14,126	$ 13,562	$ 827	$ (1,232)	$ 1,051	$	$ 28,334	$ (160)	$ (27)	$ 275	$	$ 28,422	$ (4,336)

* Includes SPS and SPC.

This Official Statement, in general, describes the Series B Bonds only during a PARS Rate Period, which is the period beginning on the delivery date of the Series B Bonds and ending on the date on which the Series B Bonds are converted to a variable rate mode or a fixed rate mode (as described in the Agreement). Provisions relating to such other modes are not included in the definitions and summaries which follow. For a complete description of such provisions, reference is made to the Loan and Trust Agreement.

DEFINITIONS OF CERTAIN TERMS

In addition to terms defined elsewhere in this Official Statement, the following terms have the following meanings in this Official Statement, unless the context otherwise requires:

"Act" means Chapter 614 of the Massachusetts Acts of 1968 as amended from time to time.

"Additional Indebtedness" means any Indebtedness (including all Indenture Indebtedness) incurred by any Member of the Obligated Group, subsequent to its becoming a Member of the Obligated Group, but shall not include the St. Luke's Series C Bonds, Obligation No. 1 securing such bonds or the loan of proceeds of such bonds, the System Series A Bonds, Obligation No. 3 securing such bonds or the loan of proceeds of such bonds or the System Series B Bonds, Obligation No. 4 securing such bonds or the loan of proceeds of such bonds.

"Adjusted Annual Operating Revenues" means, as to any Fiscal Year, the aggregate of operating revenues not including uncollectible accounts, of all Members of the Obligated Group for such year as shown on the consolidated or combined audited financial statements of the Obligated Group, less contractual allowances, free care and uncollectible accounts (to the extent uncollectible accounts are included in operating revenues), determined in accordance with generally accepted accounting principles and in such a manner that no portion of the operating revenues, contractual allowances, free care or uncollectible accounts of any Member is included more than once.

"Affiliate" shall mean 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: (a) which Controls or which is Controlled, directly or indirectly, by any Member or any Affiliate; or (b) a majority of the members of any Governing Body of which are members of the Governing Body of any Member.

"Aggregate Debt Service Requirement" means, as to any period, the aggregate of the Debt Service Requirements of all Members of the Obligated Group for such period, determined in such a manner that no portion of the Debt Service Requirement of any Member is included more than once.

"Aggregate Income Available for Debt Service" means, as to any period, the aggregate of Income Available for Debt Service of all Members of the Obligated Group for such period, determined in such a manner that no portion of Income Available for Debt Service of any such Member is included more than once.

"Agreement" or "Loan and Trust Agreement" means the Loan and Trust Agreement dated as of April 20, 2004, among the Authority, the Institution and a Trustee (the "Trustee") to be named therein.

"Assumed Rate" means (i) with respect to Variable Rate Indebtedness which is not subject to a Hedging Contract, the average interest rate on such Indebtedness for the recent prior twelve month period or for the period for which such Indebtedness has been outstanding if less than twelve months and (ii) with respect to Variable Rage Indebtedness or a potion thereof which subject to a Hedging Contract, the higher of the rate payable on a Hedging Contract applicable to Variable Rate Indebtedness or the actual interest rate on the relevant Variable Rate Indebtedness for the most recent prior twelve-month period or for the period for which such Indebtedness has been outstanding if less than twelve months. The Hedging Contract rate shall include the actual rate payable on the Hedging Contract plus any amounts required to be paid as a result of any differential between the rate received pursuant to such Hedging Contract and the rate required to be paid on such Variable Rate Indebtedness.

"Authorized Officer" means: (i) in the case of the Authority, the Chairman, Vice Chairman, Executive Director, Director of Financing Programs or Director Finance, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Institution, the Chairman or other presiding officer of the Board of Trustees or Directors, the President, Director or other chief executive or administrative officer, any Vice President or Vice Chairman, the Treasurer or other chief financial officer or any Assistant Treasurer, and when used with reference to an act or document of the Institution, also means any other person authorized to perform the act or execute the document.

"Authority" means the Massachusetts Health and Educational Facilities Authority and its successors.

"Balloon Indebtedness" means (i) Long-Term Indebtedness which is part of an issue of Indebtedness 25% or more of which has its Date of Maturity in the same 12 month period or (ii) any portion of an issue of Long-Term Indebtedness which is so designated by the Member whose debt it is pursuant to an Officer's Certificate stating that such portion shall be deemed to constitute a separate issue of Balloon Indebtedness.

"Bond Counsel" means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States, but shall not include counsel for the Institution.

"Bond Documents" means the Agreement, the Supplemental Master Trust Indenture for Obligations No. 4 and No. 5, Obligation No. 4, the Master Indenture, the Continuing Disclosure Agreement, the Refunding Trust Agreement and any documents entered into in connection therewith.

"Bond Insurance Policy" means the Financial Guaranty Insurance Policy issued by the Bond Insurer to the Trustee applicable to the Bonds.

"Bond Insurer" means MBIA Insurance Corporation, a New York stock insurance company, and its successors.

"Bond Insurer Event of Insolvency" means (i) institution of a proceeding in a court having jurisdiction in the premises seeking an order for relief, rehabilitation, reorganization, conservation, liquidation or dissolution in respect of the Bond Insurer and the continuance of such proceeding for period of sixty (60) consecutive days or such court enters an order granting the relief sought in such proceeding and such order is not reversed or action thereunder stayed with sixty (60) days of such entry; or (ii) the failure by the Bond Insurer to make any required payment with respect to its obligation to provide credit enhancement on any Obligations issued under the Indenture.

"Bond Year" means each one year period (or shorter period from the date of issue of the Bonds) ending on September 30.

"Bondowners" means the registered owners of the Bonds from time to time as shown in the books kept by the Trustee as bond registrar and transfer agent.

"Bonds" means the $56,050,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities, dated the date of original delivery (the "Bonds") and any Bond or Bonds duly issued in exchange or replacement therefor.

"Book Value," when used in connection with Property of any Member of the Obligated Group, means the cost of such Property, net of accumulated depreciation, calculated in conformity with generally accepted accounting principles, and when used in connection with Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of all Members of the Obligated Group determined in such a manner that no portion of such value of Property of any Member is included more than once.

"Business Day" means a day other than (i) a Saturday or Sunday, (ii) a day on which the principal offices of the Trustee and the Remarketing Agent, if any, are required or authorized to be closed, (iii) a day on which the office of the Credit Provider or Liquidity Provider at which it will pay draws or advances are required or authorized to be closed or (iv) a day on which the New York Stock Exchange is closed.

"Capitalization" means the sum of (i) the aggregate principal amount of all Outstanding Long-Term Indebtedness of the Members of the Obligated Group plus (ii) the aggregate Unrestricted Net Assets of the Members of the Obligated Group.

"Cash" means the aggregate amount of unrestricted and unencumbered or board designated (i) cash, (ii) cash equivalents and/or (iii) marketable debt and equity securities.

"Code" means the Internal Revenue Code of 1986, as it may be amended from time to time.

"Commonwealth" means The Commonwealth of Massachusetts.

"Completion Indebtedness" means any Long-Term Indebtedness incurred by any Member of the Obligated Group for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which Long-Term Indebtedness has theretofore been incurred to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time such prior Long-Term Indebtedness was originally incurred and for the purpose of financing a related debt service reserve fund, if any.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement dated as of May 18, 2004 between the Institution and the Trustee.

"Construction Index" shall mean the construction index based on unit costs as reported in the Repair & Remodel Quarterly as most recently published prior to the date in question by Marshall and Swift or its successor agency and, if such index is no longer published, or if such index is no longer acceptable to the Representative, such other index as is certified to be comparable and appropriate by the Representative in an Officer's Certificate delivered and acceptable to the Master Trustee.

"Consultant" means an independent firm which is a certified public accountant or professional management consultant, selected by the Representative, reasonably acceptable to the Master Trustee and, in the context of certain provisions of the Indenture, the Bond Insurer, and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

"Controlled" or "Controls" means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(l) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of such corporation's directors (or persons performing similar functions); (b) a not for profit corporation not having stock, the power to elect or appoint, directly or indirectly, a majority of the Governing Body of such corporation; (c) a partnership, the ownership, directly or indirectly, of general partnership interests equal to at least 50% of the general partnership interests; or (d) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Governing Body, by contract or otherwise.

"Corporate Trust Office" means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date hereof is located at Providence Washington Building, 121 South Main Street, 8th Floor, Providence, Rhode Island 02902.

"Current Value" means (a) with respect to Property, Plant and Equipment: (i) the aggregate fair market value specified in a written report of an appraiser selected by the

Representative and reasonably acceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (ii) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated; minus (iii) the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date as of which such Book Value was determined to the date of such report, as the case may be, to the earlier of the date of disposition of such Property, Plant and Equipment or the date as of which Current Value is to be calculated, and (b) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner reasonably acceptable to the Master Trustee.

"Date of Maturity" means as to any Indebtedness, as of any date of determination, the first date thereafter on which such Indebtedness is payable, whether at maturity, by mandatory (including sinking fund) redemption (or purchase) or by redemption (or purchase) at the option of the holders; provided that if portions of any Indebtedness are payable on different dates, the Date of Maturity shall be separately determined for each such portion. If there is a refinancing arrangement for any Indebtedness, in determining Dates of Maturity, such Indebtedness shall be deemed to be payable in accordance with the terms of the refinancing arrangement.

"Days Cash on Hand" means for the period tested, Cash divided by the quotient of (x) operating expenses less depreciation and amortization divided by (y) the number of calendar days in the period. Notwithstanding any of the foregoing to the contrary, Days Cash on Hand shall not include (A) self-insurance funds, (B) proceeds of any short-term borrowings including, without limitation, internal affiliate loans and draws on lines of credit regardless of the maturity date of the line of credit, (C) proceeds of accounts receivable financings or factoring, (D) proceeds of put debt not supported by a liquidity facility with term-out features, (E) funds or investments subject to any donor restrictions, permanent or temporary, regardless of whether such funds or investments are considered restricted for purposes of generally accepted accounting principles or (F) any collateral required under a Hedging Contract that has been posted or that is required to be but has not timely been posted. In addition, any non-scheduled payments made by a Member of the Obligated Group or any realized loss that has resulted from the Hedging Contract shall be included as an expense and excluded from Cash for purposes of calculating the covenants contained in the Indenture.

"Debt Service Requirement" means, with respect to each Member of the Obligated Group, as to any period of time, the aggregate of the amounts required to be paid to amortize principal of Outstanding Long-Term Indebtedness and to pay interest (other than capitalized interest) on Outstanding Long-Term Indebtedness of such Member during such period, taking into account in determining the Debt Service Requirement (A) for any future period that (i)

Indebtedness described in the sections captioned "Debt Service on Guaranties," "Debt Service on Balloon Indebtedness and Variable Rate Indebtedness," and "Debt Service on Discount Indebtedness" shall be deemed payable on the dates and in the amounts contemplated in such Sections, and (ii) except as otherwise expressly permitted in the Indenture, principal on all Indebtedness shall be deemed to be payable on the Date of Maturity thereof, (B) for any period with respect to Indebtedness that has been refunded or refinanced or is secured by an Irrevocable Deposit and that accordingly is not required to be carried on the books of any Member of the Obligated Group according to generally accepted accounting principles, the amounts of principal and interest taken into account during such period shall exclude amounts payable from proceeds (and/or the investment thereof) of such refunding or refinancing or from such Irrevocable Deposit, and (C) for any Indebtedness which is covered by a Hedging Contract, the Debt Service Requirement shall be calculated at the actual rate paid by the Member under the Hedging Contract plus any amounts required to be paid by the Member as a result of any differential between the rate received pursuant to the Hedging Contract and the rate required to be paid on the underlying Indebtedness.

"Debt Service Reserve Fund Requirement" means (i) while the Bonds bear interest as a Variable Rate or PARS Rate, 7.65% of the principal amount of Bonds Outstanding and (b) while the Bonds bear interest at a Fixed Rate, the least of (i) the greatest amount of principal and interest on the Bonds coming due in any Bond Year, (ii) one hundred and twenty-five percent (125%) of the average annual debt service on the Bonds in all Bond Years in which the Bonds are scheduled to be Outstanding and (iii) ten percent (10%) of the initial principal amount of the Bonds.]

"Discount Indebtedness" means an issue of Indebtedness which is originally sold by the issuer at a price (excluding accrued interest but without deduction of any underwriters' discount) of less than the principal amount of such Indebtedness.

"Event of Default" means any one or more of those events set forth in the Indenture.

"Fiscal Year" means the fiscal year ending September 30 or any other fiscal year designated from time to time in writing by the Representative to the Trustee; for purposes of making historical calculations or determinations set forth in the Indenture on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those Members whose actual fiscal year is different from that designated above, the actual fiscal year of such Members which ended within the Fiscal Year of the Obligated Group shall be used; provided, however, that for purposes of making any calculations or determinations as set forth in the Indenture, the Representative may designate in writing to the Master Trustee as the "Fiscal Year" any 12-month period. Whenever the Indenture refers to a Fiscal Year of an individual Member, such reference shall be to the actual Fiscal Year adopted by such Member.

"Governing Body" means, when used with respect to the Representative or any other Member of the Obligated Group, its board of directors, board of trustees, or other board or group of individuals, or the individual, in which the powers of the Representative or the Member of the Obligated Group are vested.

"Government or Equivalent Obligations" (A) (as it relates to the Indenture) means (i) 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 of the United States of America), (ii) obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and (ii) and the interest component of REFCORP Strips which have been stripped by request to the Federal Reserve Bank of New York, provided that such obligations are held in the custody of a bank or trust company satisfactory to the Master Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; (iv) certificates evidencing ownership of the right to the payment of the principal of and/or interest on obligations described in clause (i), known as "CATS" or "TIGRS"; and (v) prerefunded tax-exempt obligations of any state or instrumentality, agency or political subdivision thereof which are rated "Aaa" by Moody's and "AAA" by S&P (provided, however, if such obligations are only rated by S&P, then such obligations must be fully secured as to interest and principal due thereon by, or payments as to principal and interest on which shall be made from, obligations described in clauses (i) and (ii) or prerefunded tax-exempt obligations rated "AAA" by S&P) or (B) (as it relates to the Agreement) means (i) obligations issued or guaranteed by the United States and (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian.

"Governmental Issuer" means any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations.

"Gross Receipts" means all gross revenues, rents, profits, receipts, benefits, royalties, money and income of any Member arising from services provided by Members or arising in any manner with respect to, incident to or on account of the Members operations, including, without limitation, (i) the Members' rights under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organization, including rights to Medicare and Medicaid loss recapture under applicable regulations and (ii) gifts, grants, bequests, donations, contributions and pledges to any Member and (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings and all rights to receive the foregoing, whether now owned or hereafter acquired by any Member and regardless of whether generated in the form of accounts, accounts receivable, contract rights, chattel paper, documents, general intangibles, instruments, investment property, proceeds of insurance and all proceeds of the foregoing, whether cash or noncash; excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Member heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Indenture or on the Indebtedness except that gifts, grants, bequests, donations, contributions and pledges which may be applied at the discretion of a Member to the payments due under the Indenture on the Indebtedness for any period shall not be excluded for purposes of determining Gross Receipts of

the Member for such period and excluding proceeds of insurance with respect to equipment or improvements financed pursuant to Indebtedness secured by Permitted Liens hereunder.

"Guaranty" means all obligations of any Member of the Obligated Group guaranteeing in any manner whether directly or indirectly any obligation of any other Person for money borrowed provided that if such Person is not a member of the Obligated Group, such obligations would constitute Indebtedness under the Indenture if such other Person were a Member of the Obligated Group.

"Hedging Contract" means an interest rate swap, exchange, cap or other agreement between a Member and another party for the purpose of hedging payment, interest rate, spread or similar exposure. Any so-called mark to market charge or credit attributable to any Hedging Contract under Financial Accounting Standard 133 or otherwise shall be excluded from calculation of the revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants in the Indenture for all purposes of the Indenture. In addition, so long as any Indebtedness is deemed to bear interest at the net fixed rate payable by the Member under a Hedging Contract for such period of time taking into account the Hedging Contract, any payments made by the Member on such Hedging Contract shall be excluded from expenses and any payments received by a Member on such Hedging Contract shall be excluded from revenues, in each case, for all purposes of the Indenture.

"Historical Test Period" means, with respect to an event, the most recent full Fiscal Year of the Obligated Group preceding the event for which audited financial statements are available.

"Income Available for Debt Service" means, subject to the definition of Hedging Contract under the Indenture, with respect to each Member of the Obligated Group, as to any period of time, the excess of revenue and gains over expenses and losses (excluding from revenue and expenses any unrealized gain or loss resulting from periodic valuation of investments, Hedging Contracts or similar agreements, extraordinary items, infrequently occurring items, unusual items, the cumulative effect of changes in accounting principles, and income from Irrevocable Deposits; and excluding from expenses depreciation, interest on Long-Term Indebtedness, and amortization of bond discount and financing expenses).

"Indebtedness" means all obligations for borrowed money, or installment sale and capitalized lease obligations, incurred or assumed by any Member of the Obligated Group, including Guaranties (other than any Guaranty by any Member of the Obligated Group of Indebtedness of any other Member of the Obligated Group), Long-Term Indebtedness, Short-Term Indebtedness, subordinated Indebtedness or any other obligation of a Member for payments of principal and interest with respect to money borrowed except obligations of a Member of the Obligated Group to another Member of the Obligated Group.

"Indenture" or "Master Indenture" means the Amended and Restated Master Trust Indenture and Mortgage and Security Agreement dated as of May 4, 1993 and amended and restated as of April 20, 2004 among the Institution, Southcoast Health System, Inc., Southcoast Physician Services, Inc., Southcoast Primary Care, Inc., Visiting Nurse Association of

Southeastern Massachusetts, Inc. and the Master Trustee, as supplemented from time to time in accordance with the provisions thereof.

"Indenture Indebtedness" means any Indebtedness or other obligation evidenced by or the repayment of which is secured by an Obligation or Obligations issued and delivered under the Indenture and authenticated by the Master Trustee pursuant to thereof.

"Initial Members" means the Southcoast Health System, Inc., Southcoast Hospitals Group, Inc., Southcoast Physician Services, Inc., Southcoast Primary Care, Inc. and Visiting Nurse Association of Southeastern Massachusetts, Inc.

"Institution" means Southcoast Hospitals Group, Inc. (with its successors).

"Insurance Consultant" means an independent Person or firm which is selected by the Representative or other Member of the Obligated Group, as the case may be, and acceptable to the Master Trustee and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

"IRC" means the Internal Revenue Code of 1986, as it may be amended and applied to each series of Bonds from time to time.

"Irrevocable Deposit" means the irrevocable deposit in trust of cash in an amount (or Government or Equivalent Obligations the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a portion of the principal of, premium, if any, and interest on, as the same shall become due, any Indebtedness which immediately prior to the time of such deposit is Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

"Lien" means any mortgage or pledge of, security interest in or lien 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, excluding liens applicable to Property in which the Member of the Obligated Group has only a leasehold interest unless the lien secures Indebtedness of any Member of the Obligated Group.

"Long-Term Indebtedness" means any Indebtedness which is not Short-Term Indebtedness.

"Master Trustee" means J.P. Morgan Trust Company, National Association, and its successors as Master Trustee under the Master Indenture.

"Maximum Annual Debt Service" means the highest Aggregate Debt Service Requirement calculated using the Assumed Rate in the case of variable rate Indebtedness for the then current or any succeeding Fiscal Year during which any Obligations are Outstanding.

"Maximum Annual Debt Service Ratio" means the ratio determined by dividing Maximum Annual Debt Service by Aggregate Income Available for Debt Service.

"Maximum Rate" means the lesser of eleven percent (11%) per annum (or such separate rates for Bonds and Liquidity Provider Bonds as may be provided for by amendment to the Agreement) and the maximum rate of interest permitted by applicable law. Any change in the Maximum Rate must be approved by the Bond Insurer.

"Member" means a Member of the Obligated Group, as defined in the Master Indenture.

"Member of the Obligated Group" or "Member" means (i) the Initial Members, (ii) Southcoast Physician Services, Inc., Southcoast Primary Care, Inc. and Visiting Nurse Association of Southeastern Massachusetts, Inc. who will become Members of the Obligated Group upon issuance of the Series A Bonds, and (iii) any other Person which at any time after the delivery of the Indenture has become a Member of the Obligated Group, but excluding any Person who has withdrawn from the Obligated Group.

"Moody's" shall mean Moody's Investors Service, a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Institution after consultation with the Remarketing Agent.

"Mortgage" means the Mortgage granted pursuant to the Indenture.

"Mortgaged Property" means the premises described in Exhibit A to the Indenture, all rights and easements appurtenant thereto and all buildings, structures, fixtures and improvements thereon, whether in existence on the date hereof or later coming into existence and whether owned by the Institution on the date hereof or acquired hereafter, together with any additional real property not included in the foregoing provisions which may be added to the Mortgaged Property by a Related Supplement but shall not include the Restricted Property.

"Note" means the Obligation No. 4 issued under the Master Indenture.

"Obligated Group" means the Initial Members and each other Member of the Obligated Group, if any.

"Obligation" means an instrument evidencing or securing the repayment of particular Indenture Indebtedness, provided such instrument has been issued and executed and authenticated.

"Obligation Holder" or "Holder" means the registered owner of any Obligation.

"Obligation No. 1" means the Obligation No. 1 issued pursuant to Related Supplement No. 1.

"Obligation No. 2" means the Obligation No. 2 issued pursuant to Related Supplement No. 2.

"Obligation No. 3" means the Obligation No. 3 issued pursuant to Related Supplement No. 3.

"Obligation No. 4" means the Obligation No. 4 issued pursuant to Related Supplement No. 4 and 5.

"Obligation No. 5" means the Obligation No. 5 issued pursuant to Related Supplement No. 4 and 5.

"Officer's Certificate" means an original certificate of which shall be received by the Master Trustee, signed by the chief financial officer or such other person designated in writing by the chief financial officer or by resolution of the Governing Body of the Representative or other Member as the case may be.

"Opinion of Bond Counsel" means an opinion in writing signed by Palmer & Dodge LLP or another attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Outstanding" (A) (with respect to the Indenture) when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding or for which the requirements have been satisfied from proceeds of Long-Term Indebtedness or from any other funds, and (iii) Obligations and any coupons appurtenant thereto in lieu of which other Obligations have been authenticated and delivered pursuant to the provisions of the Related 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 (B) (with respect to the Agreement) when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or a sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds for which there have been irrevocably set aside sufficient funds, or Government or Equivalent Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

"PARS Mode" means the mode during which the Bonds bear interest at a PARS Rate.

"Person" means any natural person, corporation, limited liability company, partnership, trust, joint venture, association, company, estate, unincorporated organization or any other entity or organization, including a government or any agency or political subdivision or instrumentality thereof.

"Permitted Liens" has the meaning given in Appendix C-2 – Summary of the Master Indenture.

"Person" means an individual, association, unincorporated organization, a corporation, trust, partnership, joint venture, or a government or an agency or a political subdivision thereof.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the following:

(i) Existing Part of the Project: The project financed and refinanced with the proceeds of the St. Luke's Series C Bonds which financed and refinanced the construction of a new building to connect the west and south of the Jones Building (approximately 133,300 sq. ft.), the acquisition of a CAT body scanner, the construction of a two-level parking facility, three one-level surface parking lots, and related site improvements; renovations to Jones, Memorial, Century, Administrative Services and Storage Buildings and White Home (including renovation and construction of the main entrance and expansion of the emergency department), all located on the Institution's main campus at 101 Page Street, New Bedford (the "St. Luke's Hospital Campus"); construction and equipping of a 122 bed nursing home located at 4525 Acushnet Avenue, New Bedford; and construction, renovation and equipment purchases and working capital relating thereto at the foregoing addresses and at the following addresses of the Institution: in New Bedford at 178 Hawthorne Street, 98 West Street, 37 and 45 Taber Street, 141 and 157 Page Street, and 4543 Acushnet Avenue, and in North Dartmouth at 76 Faunce Corner Road, Building 6, and 49 State Road, Watuppa Building; and

(ii) New Part of the Project: Expansion, renovation, furnishing and equipping of the Institution's main campus located at the St. Luke's Hospital Campus, consisting of (i) approximately 62,095 square feet of new construction to be used for emergency services, inpatient beds and surgery and cardiac services; (ii) approximately 35,385 square feet of renovations; (iii) the addition of approximately 17 beds to the emergency department and 32 inpatient beds; and (iv) relocating the cardiac catheterization service to a newly constructed area below the emergency department; and other renovation, furnishing and equipping and other capital expenditures at the Institution's main campus at the St. Luke's Hospital Campus, at 363 Highland Avenue, Fall River, and at 43 High Street, Wareham.

The word "Project" also refers to the facilities which result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased upon certification by the Project Officer on behalf of the Institution to the Authority and the Trustee describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: (i) that

the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or health care laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Agreement; (ii) that the changes are covered by a Determination of Need (which shall mean a determination pursuant to Chapter 111, Section 25C, of the Massachusetts General Laws) or are exempt from the requirement of a Determination of Need; (iii) with respect to any portion of the Project to which the amendment relates and for which a Determination of Need has been obtained, that the amendment is consistent with the Determination of Need and is not expected to increase its cost beyond the amount approved in the Determination of Need; (iv) with respect to any portion of the Project to which the amendment relates and which is exempt from the requirement of a Determination of Need, that the amendment is consistent with the exemption; and (v) as to any portion to which the amendment relates and which is exempt by reason of its cost being not more than the amount exempted by statute, that the amendment is not expected to increase its cost beyond that amount. The scope of the Project may be increased only upon receipt by the Trustee and the Bond Insurer of an Opinion of Bond Counsel regarding the increase in scope.

"Project Costs" means the costs of issuing the Bonds and carrying out the Project, including repayment of external loans and internal advances for the same to the extent permitted by the Agreement and the Tax Certificate, working capital expenditures directly related to the Project to the extent permitted by the IRC, and interest prior to, during and for up to one year after construction is substantially complete, but excluding general administrative expenses, overhead of the Institution and interest on internal advances.

"Project Officer" means Chief Financial Officer and/or Controller or an alternate or successor appointed by the Institution.

"Projected Debt Service Coverage Ratio" means, for any future forecast period of time, the ratio determined by dividing projected or forecasted Aggregate Income Available for Debt Service during such period by Maximum Annual Debt Service during such period.

"Projection" means a forecast or determination of the Projected Debt Service Coverage Ratio or a determination of historical coverage of pro forma Indebtedness.

"Property" means with respect to each Member any and all of its rights, titles and interests in and to any and all property, whether real or personal, tangible or intangible and wherever situated including, without limitation, accounts, accounts receivable, contract rights and general intangibles, and all proceeds of all of the foregoing, whether cash or non-cash.

"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.

"Rebate Year" means the one year period (or shorter period beginning on the date of issue) ending on September 30.

"Refunding Trust Agreement" means the Refunding Trust Agreement dated as of April 20, 2004 among the Authority, the Institution and U.S. Bank National Association as Refunding Bond Trustee which relates to the refunding of the St. Luke's Series C Bonds.

"Related Bond Indenture" means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued, together with any mortgage, note, loan agreement or similar instrument securing such series of Related Bonds.

"Related Bond Issuer" means the Governmental Issuer of any issue of Related Bonds.

"Related Bonds" means the revenue bonds, notes, other evidences of indebtedness or any other obligations issued by a Governmental Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to or for the benefit of a Member of the Obligated Group, directly or indirectly, in consideration, in whole or in part, of the execution, authentication and delivery of an Obligation or series of Obligations to or for the order of such Governmental Issuer or Related Bond Trustee.

"Related Bond Trustee" means the trustee and its successors in the trust created under any Related Bond Indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

"Related Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Indenture for the purpose of authorizing Obligations to evidence or secure Indenture Indebtedness.

"Related Supplement No. 1" means the Supplemental Master Indenture for Obligation No. 1 between Saint Luke's Hospital of New Bedford, Inc. and Shawmut Bank, N.A., as Master Trustee, dated as of May 4, 1993.

"Related Supplement No. 2" means the Supplemental Master Indenture for Obligation No. 2 between Southcoast Hospitals Group, Inc. and Fleet National Bank, as successor Master Trustee, dated as of May 31, 1996.

"Related Supplement No. 3" means the Supplemental Master Indenture for Obligation No. 3 between Southcoast Health System, Inc. and State Street Bank and Trust Company, as successor Master Trustee, dated as of January 13, 1998.

"Related Supplement No. 4 and 5" means the Supplemental Master Indenture for Obligations No. 4 and No. 5 between Southcoast Health System, Inc. and J.P. Morgan Trust Company, National Association, as Master Trustee, dated as of April 20, 2004.

"Representative" means Southcoast Health System, Inc. (with its successors) or such other Member of the Obligated Group as may be designated from time to time pursuant to written notice to the Master Trustee executed by each Member of the Obligated Group.

"Revenues" means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds

derived from any security, payable to the Authority or the Trustee under the Agreement or the Note, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

"S&P" means Standard & Poor's Ratings Services, a division of McGraw-Hill, duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Institution after consultation with the Remarketing Agent.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Institution which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"St. Luke's Series C Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Saint Luke's Hospital of New Bedford Issue, Series C, dated May 15, 1993.

"Short-Term Indebtedness" means any issue of Indebtedness no portion of which has a Date of Maturity more than one year from the date of original issuance thereof.

"Supplemental Master Indenture for Obligations No. 4 and No. 5" means the Supplemental Master Indenture for Obligations No. 4 and No. 5, dated as of April 20, 2004, between the Institution and the Master Trustee.

"System Series A Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series A.

"System Series B Bonds" means the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B.

"Tax Certificate" means the Tax Certificate and Agreement between the Authority and the Institution dated the date of original issuance of the Bonds.

"UCC" means the Massachusetts Uniform Commercial Code.

"Unrestricted Net Assets" means, as of any date of determination, (i) for each Member which is a tax-exempt entity, the aggregate unrestricted net assets of such Member, and (ii) for each Member which is not a tax-exempt entity or which is a tax-exempt entity in a business form, the excess of assets over liabilities and stockholders' equity of such Member, in each case as shown on the most recent audited financial statements of or including the Member.

The following is a brief summary prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Master Trust Indenture. This summary does not purport to be complete, and reference is made to the document for full and complete statement of such and all provisions.

SUMMARY OF THE MASTER TRUST INDENTURE

Amount of Indenture Indebtedness

The number of Obligations evidencing or securing Indenture Indebtedness or other obligations of the Obligated Group, including those under Hedging Contracts, that may be created under the Master Indenture is not limited. The aggregate principal amount of Indenture Indebtedness and the principal amount of each Obligation that may be issued, authenticated and delivered under the Master Indenture is not limited except as limited by the provisions of the Master Indenture or of the Related Supplements. (Section 2.01)

Designation of Indenture Indebtedness

Obligations shall be issued in such forms as may from time to time be determined by Related Supplements permitted under the Master Indenture. Each Obligation or series of Obligations shall be created by a different Related Supplement and each Obligation shall be designated in such a manner as will differentiate such Obligation from any other Obligation. (Section 2.02)

Security for Obligations

Subject to certain limitations in the Master Indenture, any Obligation issued under the Master Indenture may be secured by security (including, without limitation, letters or lines of credit, insurance or permitted Liens on Property, or security interests in depreciation reserves, debt service or interest reserves or debt service or similar funds) in addition to the Lien on Gross Receipts and the Mortgage on the Mortgaged Property, which additional security need not extend to any other Indebtedness (including any other Obligations).

Notwithstanding anything in the Indenture to the contrary, counter-parties on Hedging Contracts secured by Obligations issued under the Indenture shall not be deemed to be Holders for purposes of any voting, consent, waiver or notice rights under the Indenture or any Related Supplement but shall be entitled to share on a parity basis on any payments made pursuant to the Indenture. (Section 2.06)

Pledge of Gross Receipts

Under the Master Indenture, each Member of the Obligated Group pledges and grants to the Master Trustee a Lien on and security interest in its Gross Receipts to secure all Indenture Indebtedness subject to its right to grant a prior lien pursuant to the Master Indenture. If any required payment on any Indenture Indebtedness is not made when due, any Gross Receipts with

respect to which this security interest remains perfected pursuant to law shall, to the extent permitted by law, be transferred or paid over immediately to the Master Trustee without being commingled with other funds (unless already commingled) and any Gross Receipts thereafter received shall upon receipt by a Member of the Obligated Group be transferred to the Master Trustee in the form received (with necessary endorsements) to the extent necessary to cure the deficiency. Each Member of the Obligated Group represents and warrants that the Lien on Gross Receipts is and at all times will be a first Lien, subject only to (a) Liens permitted below under "Permitted Liens" and (b) non-consensual Liens arising by operation of law. (Section 2.07)

Mortgaged Property

Under the Indenture, the Institution grants WITH MORTGAGE COVENANTS the Mortgaged Property to the Master Trustee in trust upon the terms of the Indenture and, to the extent the Mortgaged Property is or may be treated as collateral under the UCC, grants to the Master Trustee a security interest therein and in the proceeds thereof, including without limitation all proceeds of insurance, eminent domain or sale, to secure the payment of all sums required to be paid by the Obligated Group under the Indenture and the satisfaction and performance of all other covenants, agreements and obligations made or undertaken by the Obligated Group under the Indenture for the benefit of the Obligation Holders and the Master Trustee. (Section 2.08)

Title

Under the Indenture, the Institution represents and warrants that it is lawfully seized in fee simple of the Mortgaged Property, free from all liens and encumbrances except those described in the Indenture; and that the Institution has the full right, power and authority to mortgage and pledge the Mortgaged Property under the Indenture. The Institution covenants that it will warrant and defend the Mortgaged Property against the lawful claims and demands of all persons and that it will not act in any way so as to encumber the interests of the Master Trustee in the Mortgaged Property except as permitted by the Indenture or pursuant to the written consent of the Master Trustee. The Representative and the Master Trustee shall from time to time execute, deliver and register, record and file such instruments as the Master Trustee may reasonably require to confirm, perfect or maintain the security created or intended to be created by the Indenture or to release or subordinate the Liens created by the Master Indenture as permitted thereby. (Section 2.09)

Conditions for Membership

A Person may become a Member of the Obligated Group upon the following conditions:

(a) Such Person shall agree (i) to become a Member of the Obligated Group under the Master Indenture and thereby to become subject to compliance with all provisions of the Master Indenture pertaining to a Member of the Obligated Group; (ii) to unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding under the Master Indenture will be paid in accordance

with the terms thereof when due; and (iii) to grant to the Master Trustee a Lien on its Gross Receipts in accordance with the Master Indenture;

(b) Receipt by the Master Trustee of an Opinion of Counsel to the effect that (i) the Master Indenture and the instrument executed and delivered by such Person in accordance with paragraph (a) above are valid and binding obligations of such Person, enforceable against such Person in accordance with their terms, which opinion may be qualified; and (ii), subject to Permitted Liens, the grant of a Lien on Gross Receipts by such Person constitutes a valid and perfected security interest in such Gross Receipts;

(c) Receipt by the Master Trustee of an Officer's Certificate to the effect that the Representative consents to such person becoming a Member of the Obligated Group;

(d) Receipt by the Master Trustee of an Opinion of Counsel to the effect that the conditions relating to membership in the Obligated Group have been satisfied, and that under then existing law such Person's becoming a Member of the Obligated Group will not subject any Obligation or Indenture Indebtedness to the registration provisions of the Securities Act of 1933, as amended (or that such Obligation or Indenture Indebtedness has been so registered if registration is required) or to qualification under the Trust Indenture Act of 1939, as amended (or that such Obligation or Indenture Indebtedness has been so qualified);

(e) If any Related Bond which bears interest that is not includable in gross income under the Code has not been fully paid, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Person's becoming a member of the Obligated Group would not cause the interest payable on such Related Bond to become includable in gross income under the Code;

(f) Receipt by the Master Trustee of an Officer's Certificate of the Representative's chief financial officer to the effect that (i) the Obligated Group would, after the addition of the new Member, be able to incur one dollar of Long-Term Indebtedness pursuant to the Master Indenture, or (ii) the Projected Debt Service Coverage Ratio for the Obligated Group for the first full Fiscal Year following such addition is greater than it would be if such addition did not occur, or (iii) a report of a Consultant to the effect that the Projected Debt Service Coverage Ratio for each of the first two Fiscal Years succeeding the date of admission and assuming the admission of such Person will be at least equal to 1.25, or (iv) an Officer's Certificate of the Representative's chief financial officer to the effect that the ratio under (iii) above will be at least 1.40 or (v) if all Indenture Indebtedness has been issued by one or more Governmental Issuers, the prior written approval of such Governmental Issuer or Issuers to the admission of such Person based on a determination (which may but need not be supported by one or more opinions of counsel or reports of management Consultants) that the admission of such Person is reasonably likely to improve the financial stability of the Obligated Group and the prior written consent of the Bond Insurer to the admission of such Person; or (vi) an Officer's Certificate of the Representative's chief financial officer to the effect that taking into account the admission of such Person as a Member, on a consolidated basis, the combined net assets of the Obligated Group, including such Person, will not be less than 90% of the combined net assets of the Obligated Group as shown on the most recent combined audited financial statements; and

(g) Receipt by the Master Trustee of an Officer's Certificate from the Representative to the effect that, immediately after the admission of such Person to the Obligated Group, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed under the Master Indenture; provided that the Master Trustee may waive the provisions of this paragraph upon determining that it is in the interests of the Holders of a majority in the Principal Amount of Indenture Indebtedness to do so. (Section 3.01)

Withdrawal From the Obligated Group

(a) Any Member of the Obligated Group may withdraw from the Obligated Group, provided that:

(i) the Representative consents to such withdrawal in writing; and

(ii) if such Member is a party to a Related Bond Indenture and/or is primarily liable for the payment of any Indenture Indebtedness with respect to Related Bonds then Outstanding, such Member either makes provision prior to withdrawal for the payment or defeasance of such Related Bonds in accordance with the provisions of the Related Bond Indenture, or Indenture Indebtedness, or such Member meets the conditions for withdrawal contained in the Related Bond Indenture; and

(iii) if any Related Bond which bears interest that is not includable in gross income under the Code has not been paid, the Master Trustee shall have received 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 would not cause the interest payable on such Related Bond to become includable in gross income under the Code; and

(iv) the Master Trustee shall have received (A) an Officer's Certificate of the Representative's chief financial officer to the effect that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service for the Historical Test Period, assuming the withdrawal of such Member is at least 1.75; or (B) a Consultant's report that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service for the Historical Test Period would be greater if such withdrawal occurred; or (C) a Consultant's report stating that the Projected Debt Service Coverage Ratio for the next full Fiscal Year is not less than 1.50, after giving effect to such withdrawal, and would not be reduced by more than 30% of what such ratio would be if such withdrawal did not occur; and

(v) the Master Trustee shall have received an Officer's Certificate to the effect that, immediately after the withdrawal of such Member from the Obligated Group, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Master Indenture; and

(vi) Southcoast Hospitals Group, Inc. may not withdraw as a Member of the Obligated Group without the prior written consent of the Bond Insurer.

(b) Upon compliance with the conditions contained in paragraph (a) above, the Master Trustee shall execute any documents reasonably requested by the withdrawing Member and the remaining Members to evidence the termination, in whole or in part, as appropriate, of such Member's obligations under the Master Indenture, under any Related Supplements and under all Obligations, including the termination of the Lien on Gross Receipts of such Member.

(c) Notwithstanding the provisions of paragraph (a) above, so long as the Bond Insurer is deemed to be the owner of any Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing, the Institution may not withdraw as a Member of the Obligated Group without the prior written consent of the Bond Insurer.

(d) If the Obligated Group is unable to satisfy the above requirements or the requirements of Section 5.11 of the Master Indenture, such otherwise unmet requirements shall be deemed satisfied if there shall be filed with the Master Trustee a report by a Consultant containing the following opinions:

(1) That applicable laws or regulations, and contracts generally applicable to all similar health care providers in The Commonwealth of Massachusetts have prevented or will prevent generation of the required level of Aggregate Income Available for Debt Service, and, if requested by the Master Trustee, an accompanying Opinion of Counsel acceptable to the Master Trustee setting forth any conclusions of law relevant to such opinion;

(2) That the Obligated Group has generated the maximum amount of Aggregate Income Available for Debt Service which could reasonably be generated given such governing laws and regulations during the applicable period and that the Maximum Annual Debt Service Ratio for the period was at least 1.00; and

(3) That based upon forecasts and estimates contained in the report, the Obligated Group will generate the maximum amount of Aggregate Income Available for Debt Service which can reasonably be generated given such governing laws and regulations during the applicable period and that the Projected Debt Service Coverage Ratio for the applicable period is not less than 1.00. (Section 4.03)

Joint and Several Obligation; Individual Obligation

Each Member of the Obligated Group unconditionally and irrevocably agrees that it shall be jointly and severally obligated, and agrees, to pay all amounts becoming due and payable on all Obligations issued under the Master Indenture according to the terms thereof. If for any reason any payment required pursuant to the terms of any Obligation issued under the Master Indenture has not been timely paid, each Member shall be obligated to make such payment.

Each Member agrees with each other Member that, as among themselves, with respect to Indenture Indebtedness incurred on its behalf or the net proceeds of which have been received by it or for its direct benefit and evidenced or secured by an Obligation, it will be primarily liable to make full and timely payment on such Indenture Indebtedness. (Section 4.02)

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

Each Member of the Obligated Group, respectively, covenants:

(a) To preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualifications; provided, however, that nothing contained in the Master Indenture 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 or affairs.

(b) At all times to cause its Properties to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subheading shall be construed (i) to prevent it from ceasing to operate any portion of its Properties if in its judgment it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in its judgment, useful in the conduct of its business or affairs so long as it continues to operate acute care hospitals at the Saint Luke's and Charlton Hospital sites.

(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 and with all material and 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) Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Properties; 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 procure and maintain all necessary licenses and permits and to use its best efforts to procure and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available or, except in the case of the Hospital, is deemed by the Member to be unnecessary or undesirable) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body, when and as

available, and the status of its health care facilities (if it owns or operates such facilities) as a provider of health care services eligible for reimbursement under the Medicare, Medicaid, and comparable governmental programs, including future governmental programs in which the Member is a participant; provided, however, that it need not comply with this paragraph (e) if and to the extent that its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate, 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. (Section 5.02)

Limitations on Creation of Liens

(a) Each Member of the Obligated Group, respectively, agrees that it will not create or suffer to be created or exist any Lien upon any Mortgaged Property, Restricted Property or Gross Receipts now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

(i) Any judgment lien or notice of pending action against any Member of the Obligated Group so long as such judgment or pending action is being contested and execution thereon is stayed within sixty (60) days of entry or while the period for responsive pleading has not lapsed;

(ii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Mortgaged Property, Restricted Property or Gross Receipts, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of the Member's Mortgaged Property, Restricted Property or Gross Receipts or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Mortgaged Property, Restricted Property or Gross Receipts; (B) any liens on any Mortgaged Property, Restricted Property or Gross Receipts 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 Mortgaged Property or Restricted Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, and laborers, have been due for less than sixty (60) days; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Mortgaged Property or Restricted Property which do not materially impair the use of such Mortgaged Property or Restricted Property or materially and adversely affect the value thereof; and (D) rights reserved to or vested in any municipality or public authority to control or regulate any Mortgaged Property, Restricted Property or Gross Receipts or to use such Mortgaged Property or Restricted Property in any manner, which rights do not materially impair the use of such Mortgaged Property, Restricted Property or Gross Receipts or materially and adversely affect the value thereof;

(iii) Any Lien which is existing or will come into existence on the date of authentication and delivery of Obligation No. 4 provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Mortgaged Property, Restricted Property or Gross Receipts of any Member of the Obligated Group not subject to such Lien on such date, unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(iv) Purchase money security interests and security interests existing on any Mortgaged Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Mortgaged Property to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles and insurance proceeds attributed to the property subject to such leases; provided that the aggregate principal amounts secured by any such interests shall not exceed at the time of incurrence or assumption the fair market value of such Mortgaged Property;

(v) Any Lien in favor of the Master Trustee securing all Indenture Indebtedness equally and ratably;

(vi) Liens arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(vii) Except as to the Mortgaged Property, Restricted Property or accounts receivable, 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 similar arrangements, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien granted to a bank or similar entity providing a letter or line of credit to secure any obligation of the kind referred to in this clause (vii) or any lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

(viii) Any Lien arising by reason of an Irrevocable Deposit;

(ix) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds or on moneys to repay Indebtedness while held in a debt service reserve fund or on any moneys to secure payment of the trustee's fees;

(x) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;

(xi) Liens on Mortgaged Property, Restricted Property or Gross Receipts received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Mortgaged Property, Restricted Property or Gross Receipts or the income thereon, up to the fair market value of such Mortgaged Property, Restricted Property or Gross Receipts;

(xii) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. §291 et seq. and similar rights under other federal and state statutes;

(xiii) Liens for taxes or special assessments not then delinquent or which are being contested in accordance with the Master Indenture;

(xiv) Liens on Mortgaged Property, Restricted Property or Gross Receipts due to rights of third-party payers for recoupment or offset of amounts paid to any Member;

(xv) Any Lien created or permitted by the Master Indenture;

(xvi) Leases that relate to Mortgaged Property or Restricted Property of a Member, as lessor, that is of a type that is customarily the subject of such leases, such as office space for physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-specialty services, pharmacy and similar departments; leases, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture to use Mortgaged Property or Restricted Property owned on such date by any Person who was a Member on such date, and any renewal extensions thereof; and any leases, licenses or similar rights to use Mortgaged Property or Restricted Property whereunder a Member is lessee, licensee or the equivalent thereof;

(xvii) Liens resulting from a Person's becoming an Obligated Group Member pursuant the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the Master Indenture;

(xviii) Except as to Mortgaged Property, Restricted Property and accounts receivable, any Lien on Property other than accounts receivable, provided that: (A) the Current Value of Property encumbered by all Liens under this clause (xviii) does not exceed 20% of the Current Value of all Property of the Obligated Group at the time of creation of such Lien, or (B) the Book Value of all Property encumbered by all Liens under this clause (xviii) does not exceed 20% of the Book Value of all Property of the

Obligated Group at the time of creation of such Lien; or (C) the principal amount of Indebtedness secured by all Liens under this clause (xviii) does not exceed 20% of the lesser of the Current Value or the Book Value of all Property of the Obligated Group at the time of creation of such Lien;

(xix) Any Lien on accounts receivable of the Obligated Group and on amounts due the Obligated Group from Medicare, Medicaid and other third party payors, in each case which may be senior to or on a parity with the Lien on Gross Receipts granted under the Master Indenture, securing Short-Term Indebtedness (including Guaranties) in an amount not to exceed 20% of the aggregate amount of such accounts, accounts receivable and amounts due from Medicare, Medicaid and other third party payors, net of bad debt, as shown as patients accounts receivable, less allowances for uncollectible accounts, on the most recent year-end audited combined or consolidated financial statements of the Obligated Group at the time such Short-Term Indebtedness (or Guaranty) is incurred; and

(xx) Leases for fair market value, not exceeding in the aggregate at any time more thatn 10% of the net square footage of the Mortgaged Property or leases for fair market value that are expressly subordinated to the Mortgage in form reasonably satisfactory to the Bond Insurer.

If the Obligated Group or any one or more Members thereof elects to grant a Lien pursuant to Paragraphs (v) or (xix) which is senior to, or otherwise which is on a parity with, the Lien on Gross Receipts or Mortgaged Property granted pursuant to the Indenture, the Master Trustee and the Authority, upon the request of the Representative, shall execute such documents as are necessary to effectuate such subordination or parity status, as the case may be.

A determination by the Master Trustee that a Lien is a Permitted Lien pursuant to Section 5.04 shall not be required, but if such a determination is made, it shall be binding upon the Obligation Holders. (Section 5.04)

Limitations on Incurrence of Additional Indebtedness

Each Member of the Obligated Group, respectively, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term or Short-Term Indebtedness, including Indenture Indebtedness, if immediately after the incurring of such Additional Indebtedness, the aggregate principal amount of all Outstanding Indebtedness will not exceed sixty-five percent (65%) of the aggregate Capitalization of the Obligated Group for the most recent Fiscal Year reported on by independent certified public accountants.

(b) Completion Indebtedness in an amount not greater than fifteen percent (15%) of the Indebtedness originally incurred to finance the facilities being completed, upon delivery to the Master Trustee of an architect's certificate certifying the estimated cost of completion and an Officer's Certificate delivered to the Master Trustee stating (i) the

Completion Indebtedness will be sufficient to complete the facility and (ii) the reasons the original Indebtedness was not sufficient to complete the facility.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Long-Term Indebtedness if the conditions described in Section 4.03 are met with respect to such proposed Long-Term Indebtedness or if upon the incurrence thereof:

(i) An Officer's Certificate is delivered to the Master Trustee stating that, taking the proposed Long-Term Indebtedness and the refunding of the existing Long-Term Indebtedness into account, Maximum Annual Debt Service will not be increased by more than 10%;

(ii)(1) the proceeds of such proposed Long-Term Indebtedness, together with any other funds, are deposited in an escrow account with the Master Trustee or other depository, in the form of either cash or Government or Equivalent Obligations, in an amount the principal of and interest on which when due will provide money sufficient, as verified in a written report to the Master Trustee by an independent certified public accountant, to pay the principal or redemption price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Outstanding Long-Term Indebtedness to be refunded, as such principal or redemption price and interest become due, provided that the Master Trustee or other depository shall be irrevocably instructed to apply such money to the payment of such principal or redemption price and interest with respect to such Outstanding Long-Term Indebtedness; and (2) there is delivered to the Master Trustee either (I) a written release and discharge of such Outstanding Long-Term Indebtedness by the holders, or the trustee on behalf of the holders, of such Outstanding Long-Term Indebtedness, or (II) an Opinion of Counsel stating that the holders, or the trustee on behalf of the holders, of such Outstanding Long-Term Indebtedness would not be empowered to accelerate such Outstanding Long-Term Indebtedness following the issuance of such proposed Long-Term Indebtedness.

(d) Indebtedness on a parity with Indenture Indebtedness relating to letters of credit or similar credit facilities used to secure Additional Indebtedness incurred in accordance with the provisions of Section 5.05.

(e) Indebtedness to secure its obligations to make payments under Hedging Contracts on a parity with the Obligations issued hereunder. (Section 5.05)

Debt Service on Guaranties

In determining the Debt Service Requirement of any Member, whether historical or projected, computations of debt service on Long-Term Indebtedness shall include an amount equal to twenty percent (20%) of the debt service on obligations of others for borrowed money guaranteed by any Member of the Obligated Group for the period during which such Debt Service Requirement is computed; provided, however, that debt service on such guaranteed obligations with respect to which a payment has been made or monetary advances have been made or monetary advances have been made to the guaranteed entity by an Member during the preceding twelve (12) months or with respect to which the primary obligor is in default by reason of bankruptcy or insolvency shall be included at one hundred percent (100%) of such debt

service and, provided further, at the election of the Representative if income available for debt service of the guaranteed entity for each of the three most recent Fiscal Years was at least 1.35 times its maximum annual debt service for such Fiscal Year, no debt service on such guaranteed obligation shall be included for purposes of calculating the Debt Service Requirement of any Member. (Section 5.06)

Debt Service on Balloon Indebtedness and Variable Rate Indebtedness

(a) Balloon Indebtedness may be deemed to be Indebtedness payable over the shorter of the remaining term of such Balloon Indebtedness to maturity or 20 years, (i) at the actual rate of interest, if fixed, or (ii) at the Assumed Rate if the Balloon Indebtedness bears interest at a variable rate.

(b) In determining the Debt Service Requirement of any Member, whether historical or projected, the interest deemed to be payable on Indebtedness which bears interest at other than a fixed rate shall be calculated at the Assumed Rate.

(c) In determining the Debt Service Requirement of any Member, the interest deemed to be payable on Indebtedness which is the subject of a Hedging Contract shall be computed as described in clause (C) of the definition of Debt Service Requirement. (Section 5.07)

Debt Service on Discount Indebtedness

At the election of any Member, for the purpose of any Projection, the principal and interest payable on Discount Indebtedness of such Member shall be deemed to be payable as set forth below:

(a) If the Member has obtained a binding commitment of a responsible financial institution satisfactory to the Master Trustee to refinance such Discount Indebtedness (or a portion thereof), including without limitation, a letter of credit or a line of credit, which commitment is subject only to such conditions as are reasonably acceptable to the Master Trustee, the Discount Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or

(b) If the Member has entered into a binding agreement satisfactory to the Master Trustee providing for the deposit by such Member with a responsible financial institution in trust of amounts equal in aggregate to the principal amount of such Discount Indebtedness (or a portion thereof) and for the payment of such principal amount when due from the sums so deposited, the principal amount of the Discount Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of such agreement. (Section 5.08)

Debt Service Coverage Ratios

The Obligated Group agrees, subject to any limitations imposed by applicable governmental regulations, limitations on its legal authority and its fiduciary obligations (collectively, "Legal Limitations") to charge and collect rates and charges which shall, together

with other available moneys, provide moneys sufficient at all times to make any payments required under the Indenture and to comply with the Indenture in all other respects, and to satisfy all other obligations of the Obligated Group in a timely fashion. Without limiting the generality of the foregoing, the Obligated Group shall, subject to Legal Limitations, charge and collect rates and charges which, together with other available moneys, in each fiscal year will produce revenue at least sufficient to meet expenses (excluding from revenues and expenses any unrealized gain or loss resulting from periodic valuation of investments; Hedging Contracts or similar agreements; extraordinary items; infrequently occurring items; unusual items; the cumulative effect of changes in accounting principles; and income from Irrevocable Deposits, and excluding from expenses depreciation; but including interest on and amortization of Long-Term Indebtedness). Within one hundred fifty (150) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate (or, in the event that limitations imposed by applicable governmental regulations are relied upon, a Consultant's report or an Opinion of Counsel stating that they were subject to such governmental regulations) stating, based on calculations shown in such certificate, that the Obligated Group has complied with the requirement of the foregoing sentence during the Fiscal Year.

The Obligated Group agrees to maintain the Maximum Annual Debt Service Ratio at least equal to 1.10 calculated as of the end of each Fiscal Year. Within one hundred fifty (150) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate stating, based on calculations shown in such Certificate, that the requirement of the foregoing sentence was met as of the end of such Fiscal Year. If the Maximum Annual Debt Service Ratio, as calculated as of the end of any Fiscal Year, is less than 1.10, the Obligated Group covenants to retain a Consultant to make recommendations, the scope of which shall be acceptable to the Bond Insurer, to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group, respectively, agrees that it will, to the extent permitted by law and subject to Legal Limitations, substantially follow the recommendations of the Consultant or file with the Master Trustee and the Bond Insurer its reasons for not following the recommendations. So long as the Obligated Group shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations except as set forth above, this section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year, calculated as of the end of such Fiscal Year, is less than 1.10. So long as the Bond Insurer is deemed to be the owner of Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing, such reasons for not following the recommendations of the Consultant described in the previous sentence must be reasonably acceptable to the Bond Insurer. If in any Fiscal Year the Maximum Annual Debt Service Ratio is less than 1.10, calculated as of the end of such Fiscal Year, the Obligated Group will not be required to retain a Consultant to make such recommendations if a written report of a Consultant is filed with the Master Trustee and the Bond Insurer which contains an opinion of such Consultant that (i) applicable laws or regulations have prevented the maintenance of the 1.10 ratio, (ii) the Members of the Obligated Group have generated the maximum amount of Income Available for Debt Service which in the opinion of such Consultant could reasonably have been generated given such laws and regulations during the period affected thereby and (iii) the ratio actually achieved was at least 1.00. The Obligated Group shall not be required to cause the Consultant's report

referred to in this paragraph to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Obligation Holder, Related Bond Trustee and Related Issuer) an Opinion of Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. Notwithstanding any provision of this section to the contrary, if as of the end of any Fiscal Year the Maximum Annual Debt Service Ratio is less than 1.00, then the Obligated Group shall be deemed to be in default under the Indenture. (Section 5.09)

Sale, Lease or Other Disposition of Property

Each Member of the Obligated Group, respectively, agrees that it will not in any Fiscal Year sell, lease or otherwise dispose of any Property (a "Transfer"), the disposition of which would cause the aggregate Book Value of Property so transferred by Members of the Obligated Group in such year to exceed 10% of the Book Value of the Property, Plant and Equipment of the Obligated Group as shown on its most recently available audited financial statements except in the ordinary course of business and except for a Transfer of Property:

(a) To any Person if prior to the Transfer there is delivered to the Master Trustee an Officer's Certificate stating that in the judgment of the signer such Property has become, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the Transfer thereof will not impair the structural soundness, efficiency or economic value of the remaining Property in any material respect;

(b) To another Member of the Obligated Group;

(c) To any Person provided that prior to the Transfer there is delivered to the Master Trustee (i) a Consultant's Report stating that the Projected Debt Service Coverage Ratio for the first two full Fiscal Years immediately following such Transfer is at least 1.50 and would not be reduced by more than 30% of what it would have been if such transaction did not occur; or (ii) an Officer's Certificate of the Representative stating that the Maximum Annual Debt Service Ratio for the two most recent Fiscal Years, assuming such transfer to have occurred during such Fiscal Year, would have been at least 1.75; or (iii) a Consultant's report stating that the Maximum Annual Debt Service Ratio for the Historical Test Period, assuming such Transfer to have occurred in such Historical Test Period is at least 1.00; or

(d) As part of a merger, consolidation, sale or conveyance permitted by the Indenture;

(e) To any Person if in exchange therefor such Member receives the fair market value of the Property so transferred, provided that, in the case of Transfers of real property, prior to such Transfer there is delivered to the Master Trustee an Officer's Certificate certifying that the Member will receive at least the fair market value of such real property;

(f) To any Person in connection with a "sale and lease back" transaction that would constitute and be treated as a true sale and lease back under the Code;

(g) In the case of accounts receivable, up to an amount not to exceed 20% of the aggregate amount of such accounts receivable, net of uncollectible accounts, as shown on the Obligated Group's most recent audited consolidated financial statements; provided that accounts receivable transferred under subsection (f) shall be included in the measure of accounts receivable subject to Permitted Liens;

(h) To an entity controlled by, under common control with, or contractually affiliated with, one or more Members of the Obligated Group for establishing, capitalizing, and maintaining a program of insurance that provides insurance coverage to one or more Members of the Obligated Group, provided that prior to such transfer, an Insurance Consultant shall have issued a report stating that the establishment of such insurance and the proposed funding thereof are consistent with reasonable insurance practices; which transferee entity may be organized under the laws of any jurisdiction or nation and which may include an entity providing insurance to entities other than Members of the Obligated Group; and

(i) The Hospital shall not sell, lease or dispose of substantially all of its assets without the prior consent of the Bond Insurer so long as the Bond Insurer is deemed to be the owner of Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing. (Section 5.10)

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group, respectively, covenants that it will not merge or consolidate with any other corporation not a Member of the Obligated Group or sell or convey all or substantially all of its assets to any Person not a Member of the Obligated Group unless:

(i) Either it will be the surviving corporation, or the successor corporation (if other than a Member of the Obligated Group) shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation, if not a Member of the Obligated Group, shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a supplement satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such corporation;

(ii) If any Related Bond which bears interest that is not includable in gross income under the Code has not been fully paid, the Master Trustee shall have received 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 cause the interest payable on such Related Bonds to be includable in gross income under the Code;

(iii) The Master Trustee shall have received an Officer's Certificate to the effect that the combined net assets of the Obligated Group following such merger or consolidation would be at least ninety percent (90%) of the combined net assets of the Obligated Group as shown on its most recently available audited financial statements; and (A) an Officer's Certificate to the effect that after such proposed merger, consolidation or conveyance, the Obligated Group could issue at least one dollar of Additional Indebtedness under Section 5.05(a) of the Master Indenture and that on a consolidated basis for any surviving or resulting entity or entities, the Maximum Annual Debt Service Ratio for the Historical Test period is not less than thirty percent (30%) less than the ratio would have been without the transaction; or (B) a report of a Consultant stating that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, taking into account such merger, consolidation or conveyance, would be greater than if such transaction did not occur; or (C) a report of a Consultant to the effect that taking into account the merger, consolidation or conveyance on a consolidated basis for any surviving or resulting entity or entities, the Maximum Annual Debt Service Ratio for the Historical Test Period is not less than the ratio would have been without the transaction, or (D) if all Indenture Indebtedness has been issued by one or more Governmental Issuers, the prior written approval of such Governmental Issuer or Issuers to the transaction based on a determination (which may but need not be supported by one or more opinions of counsel or reports of management Consultants) that the transaction is reasonably likely to improve the financial stability of the Obligated Group and so long as the Bond Insurer is deemed to be the owner of any Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing, the prior written consent of the Bond Insurer to the transaction; and

(iv) The Master Trustee shall have received an Officer's Certificate to the effect that immediately following such transaction the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed under the Master Indenture; provided that the Master Trustee may waive the provisions of this paragraph upon determining that it is in the interests of the Holders of a majority in the Principal Amount of Indenture Indebtedness to do so.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named as a Member of the Obligated Group.

(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 as may be appropriate.

(d) The Master Trustee shall receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this section, that any such assumption is valid and that it is proper for the

Master Trustee under the provisions of the Master Indenture to join in the execution of the supplement.

(e) The Hospital shall not sell, lease or dispose of substantially all of its assets without the prior consent of the Bond Insurer is deemed to be the owner of Indebtedness secured by Obligations issued under the Master Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing. (Section 5.11)

Insurance

Each Member of the Obligated Group shall (i) keep its plant, equipment and furnishings included in its Property insured against fire, lightning and extended coverage perils and against such other risks as are customarily insured against by similar institutions in the area; (ii) to the extent required by law, carry worker's compensation insurance (which may be through the so-called Massachusetts Self-Insurance Group), disability insurance and other insurance covering injury, sickness, disability or death of employees; (iii) maintain insurance against liability of the Member imposed by law or assumed by contract for injuries to persons (excluding liability covered by clauses (iv) and (v)), and for death of persons from such injuries; (iv) maintain motor vehicle liability insurance covering owned, unowned and hired motor vehicles, protecting the Member against liability for property damage; and (v) if it provides health care services, maintain insurance against liability of the Member for professional malpractice.

In lieu of obtaining third-party coverage for the risks described in (ii), (iii), (iv) or (v) above, a Member may self-insure any of the required coverages or a portion thereof (or may participate in captive insurance programs sponsored by the Representative, any Affiliate, or any association or organization exposed to comparable risks); provided that such Member delivers to the Master Trustee a report of an Insurance Consultant stating that the self-insurance of such risks (or such participation) is consistent with reasonable management and insurance practices; and further provided that the Institution may not self-insure any of the coverages required in section (i) of the above paragraph.

As long as any Member maintains any self-insurance (or participates in any captive insurance program) pursuant to the preceding paragraph, it will provide the Master Trustee and the Bond Insurer (so long as the Bond Insurer is deemed to be the owner of any Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing) annually with a report of an Insurance Consultant concerning the adequacy of funding and the funding determination processes employed in connection therewith; provided, however, that the insurance required under clause (ii) of the first paragraph of this section shall be subject to review by an Insurance Consultant not more often than every two (2) years only. The insurance maintained by any Member pursuant to the first paragraph of this section, other than self-insurance, shall also be subject to the review of an Insurance Consultant who shall, initially upon a Person becoming a Member and every two years thereafter, prepare and file with the Master Trustee and Bond Insurer a report on the adequacy of such insurance. Each Member of the Obligated Group, respectively, agrees that it will follow any reasonable recommendations of the Insurance Consultant to the extent permitted by law. (Section 5.03)

Insurance and Condemnation Proceeds

Any Member of the Obligated Group may make agreements and covenants with the holder of secured Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Lien with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

Subject to any agreement or covenant made pursuant to the above paragraph, amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards in an amount less than five percent (5%) of the Obligated Group's Property, Plant and Equipment (net of accumulated depreciation), as shown on the most recent audited financial statements of the Obligated Group, shall be paid to the Obligated Group as directed by the Representative and applied to any lawful corporate purpose of the Obligated Group. If such insurance proceeds are in an amount greater than or equal to five percent (5%) of the Obligated Group's Property, Plant and Equipment (net of accumulated depreciation), as shown on the most recent audited statements of the Obligated Group, such proceeds shall be paid to such Member and applied as follows:

(i) if there is delivered to the Master Trustee an Officer's Certificate of the Member's chief financial officer (the "Coverage Certificate"), to the effect that (A) the Projected Debt Service Coverage Ratio for the Fiscal Year immediately following such loss or condemnation is at least 1.40 (or is at least 1.20 if a Consultant's report is provided to that effect); or (B) the Maximum Annual Debt Service Ratio for the most recent Fiscal Year for which audited financial statements are available, assuming such loss or condemnation to have occurred during the Fiscal Year immediately following such loss or condemnation, would have been at least 1.10; or (C) the Projected Debt Service Coverage Ratio for the Fiscal Year immediately following such loss or condemnation is not less than it would be if such loss or condemnation had not occurred, and is not less than 1.00; or (D) immediately after such loss or condemnation the aggregate principal amount of all Outstanding Long-Term Indebtedness (other than Guaranties for which no Member has made a payment during the preceding twelve months) will not exceed sixty-seven five (65%) of the aggregate Capitalization of the Obligated Group as shown on its most recently available financial statements reported on by independent certified public accountants, then the Member may retain the amounts for its own use; provided, however, that the Member shall retain such amounts unexpended until the end of the Fiscal Year following the Fiscal Year in which the loss or taking occurred, at which time there shall be filed with the Master Trustee an Officer's Certificate showing a Maximum Annual Debt Service Ratio for the preceding Fiscal Year meeting the requirements applicable to a Coverage Certificate at which time the retained amounts shall become available to the Member for its own use; and provided further that if the Maximum Annual Debt Service Ratio does not meet the requirements applicable to a Coverage Certificate, the Member shall either apply such amounts to restoration, replacement or acquisition as provided in the following clause (ii) or shall apply such amounts to debt service as provided in the following clause (iii);

(ii) if the Member is not able to deliver the Coverage Certificate, chooses not to deliver such Coverage Certificate or is unable to deliver proof of such required Debt Service Coverage Ratio under clause (i) above, the Member may project expenditures to restore or replace the property lost or taken or to acquire other capital assets and project income taking into account the income to be generated from such restoration, replacement or acquisition, and if on the basis of such projection the Member delivers to the Master Trustee an Officer's Certificate showing for the Fiscal Year following completion of the restoration, replacement or acquisition, a Projected Debt Service Coverage Ratio equal to the amount required for a Coverage Certificate, the Member may expend so much of such amounts to restore or replace the property lost or taken or to acquire other capital assets until either (A) all the amounts are expended or (B) a sufficient portion of the amounts are expended as are necessary to permit the Member to justify the Projected Debt Service Coverage Ratio shown in such projection, provided that the Member shall retain the remaining amounts unexpended until the end of the following Fiscal Year at which time there shall be filed with the Master Trustee an Officer's Certificate indicating an Maximum Annual Debt Service Ratio for the last Fiscal Year showing an Maximum Annual Debt Service Ratio at least equal to that required in a Coverage Certificate at which time the retained amounts shall become available to the Member for its own use; and provided further, that if the Member is unable to deliver proof of such an Maximum Annual Debt Service Ratio, it shall either provide the Master Trustee with a Consultant's report to the effect that applying the remaining amounts for additional restoration, replacement or acquisition will result in a Projected Debt Service Coverage Ratio at least equal to that required in a Coverage Certificate or it shall apply the remaining amounts as provided in the following clause (iii); or

(iii) to the payment of debt service on or the prepayment of the Outstanding Obligations pro rata in accordance with the respective principal amounts thereof outstanding, either directly or indirectly by paying underlying Indenture Indebtedness.

The Representative shall notify the Master Trustee of the receipt of any such proceeds in excess of 5% of the Obligated Group's Property, Plant and Equipment (net of accumulated depreciation). Prior to any application of insurance or condemnation proceeds as provided above there shall be delivered an Opinion of Bond Counsel to the effect that such application shall not adversely affect the exclusion from gross income of the interest on any Related Bond.

Notwithstanding the foregoing provisions of Section 5.13 with respect to any condemnation or casualty to the Mortgaged Property the following provisions shall apply:

(i) Condemnation and Eminent Domain. The Master Trustee shall be entitled to receive any and all sums which may be awarded or become payable to the Hospital for the condemnation of, or taking upon exercise of the right of Eminent Domain with respect to, any of the Mortgaged Property for public or quasi-public use, or by virtue of private sale in lieu thereof, and any sums which may be awarded or become payable to the Hospital for damages caused by public works or construction on or near the Mortgaged Property except with respect to any single event which produces proceeds of less than $500,000.

The Hospital shall give immediate written notice to the Master Trustee of any such proceedings affecting the Mortgaged Property, and shall afford the Master Trustee an opportunity to participate in any proceeding or settlement of awards with respect thereto. All such sums are hereby assigned to the Master Trustee, and the Hospital shall, upon request of the Master Trustee, make, execute, acknowledge, and deliver any and all additional assignments and documents as may be necessary from time to time to enable the Master Trustee to collect and receive for any such sums. The Master Trustee shall not be, under any circumstances, liable or responsible for failure to collect, or exercise diligence in the collection of, any of such sums. Any sums so collected shall first be applied by the Master Trustee to the expenses, if any, of collection. Notwithstanding the foregoing, if, after such proceedings or private sale in lieu thereof, the Master Trustee determines in its reasonable judgment that the remainder of the Mortgaged Property can be restored in such a manner as to preserve substantially the economic value thereof and no Event of Default has occurred and is continuing hereunder, upon request of the Hospital such sums so held by the Master Trustee shall be made available for such restoration and disbursement by the Master Trustee during the course of such restoration under safeguards reasonably satisfactory to the Master Trustee. Any sums remaining after completion of restoration shall be applied in accordance with Section 5.13. In the event of any partial taking of the Mortgaged Property under Section 5.13, the Master Trustee may, at its sole discretion, apply the funds received first to the expenses, if any, of collection; second, to any unpaid interest which is due and delinquent and, third, to principal of the Outstanding Obligations, in lieu of applying the funds pursuant to Section 5.13.

(ii) Insurance Proceeds. The Master Trustee is authorized and empowered to collect and receive the proceeds of any of the Mortgaged Property except with respect to any single event which produces proceeds of less than $500,000. So long as no Event of Default has occurred and is continuing hereunder, such proceeds (together with any other amounts deposited by the Hospital with the Master Trustee) are sufficient to rebuild and restore the Mortgaged Property, such rebuilding and restoration can be completed within six (6) months, and the value of the Mortgaged Property after restoration will be the same as or greater than the value of the Mortgaged Property on the date hereof, the Master Trustee shall make such proceeds available to rebuild or restore the Mortgaged Property in accordance with disbursement procedures established by the Master Trustee or, if such conditions are not met, the Master Trustee may apply the same to the Outstanding Obligations in the order and manner set forth in a request by the Master Trustee and prior to such application, may deduct therefrom any expenses incurred in connection with the collection or handling of such proceeds, it being understood that the Master Trustee shall not be, under any circumstances, liable, or responsible for failure to collect, or exercise diligence in the collection of, any of such proceeds. (Section 5.13)

Days Cash on Hand

The Obligated Group shall maintain Days Cash on Hand of at least 85 days at the end of each Fiscal Year. Within one hundred fifty (150) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate stating, based on calculations shown in such Certificate, that the requirement of the foregoing sentence was met at

the end of the Fiscal Year, calculated as of the end of such Fiscal Year. If the Days Cash on Hand, as calculated at the end of any Fiscal Year, is less than 85 days, the Obligated Group covenants to retain a Consultant to make recommendations to increase the Days Cash on Hand for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member of the Obligated Group, respectively, agrees that it will, to the extent permitted by law and subject to Legal Limitations, substantially follow the recommendations of the Consultant or file with the Master Trustee and the Bond Insurer its reasons for not following the recommendations. So long as the Obligated Group shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations except as set forth above, this section shall be deemed to have been complied with even if the Days Cash on Hand for any subsequent Fiscal Year is less than 85 (so long as the Bond Insurer is deemed to be the owner of any Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing, such reasons for not following the recommendations of the Consultant described in the previous sentence must be reasonably acceptable to the Bond Insurer). If at the end of any Fiscal Year the Days Cash on Hand is less than 85, the Obligated Group will not be required to retain a Consultant to make such recommendations if a written report of a Consultant is filed with the Master Trustee which contains an opinion of such Consultant that (i) applicable laws or regulations have prevented the maintenance of 85 Days Cash on Hand, (ii) the Members of the Obligated Group have generated the maximum amount of Income Available for Debt Service which in the opinion of such Consultant could reasonably have been generated given such laws and regulations during the period affected thereby and (iii) the Days Cash on Hand actually achieved was at least 70. The Obligated Group shall not be required to cause the Consultant's report referred to in this paragraph to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group provides to the Master Trustee (who shall provide a copy to each Obligation Holder, Related Bond Trustee and Related Issuer) and the Bond Insurer an Opinion of Counsel (which counsel and opinion, including without limitation the scope, form, substance and other aspects thereof, are acceptable to the Master Trustee) to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. Notwithstanding any provision of this section to the contrary, if at the end of any Fiscal Year the Days Cash on Hand is less than 70, then the Obligated Group shall be deemed to be in default under the Indenture. (Section 5.16)

Substitution of Master Trust Indenture

(a) In connection with any merger, consolidation or similar transaction involving an affiliation of the Obligated Group with an entity or entities subject to an existing master trust indenture or similar financing document, the Obligation Holders, by their acceptance of an Obligation, agree to surrender the Obligations to the Master Trustee upon presentation to the Obligation Holders and the Master Trustee of the following:

(i) original replacement notes or similar obligations (the "Substitute Obligations") issued by the Obligated Group or a surviving, resulting or transferee entity meeting the requirements of the section captioned "Consolidation, Merger, Sale or Conveyance" (the "Substitute Obligated Group") under and pursuant to and secured by such existing master

trust indenture or similar financing document (the "Substitute Master Indenture") executed by the Obligated Group or any Substitute Obligated Group, all then current Obligated Groups and any other parties named therein (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") (which may be the Master Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Indenture, which Substitute Obligations have been duly authenticated by the New Trustee;

(ii) the Substitute Master Indenture which shall contain (a) a pledge of the Gross Receipts of the New Group, (b) the agreement of each member of the New Group (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Substitute Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Substitute Master Indenture) to jointly and severally make payments upon each obligation, including the Substitute Obligations, issued under the Substitute Master Indenture at the times and in the amount provided in each such obligation and (c) terms, covenants and provisions which substantially cover the matters and do not materially weaken the requirements imposed for the benefit of the Obligation Holders contained in the Indenture (including the defined terms used in the Indenture);

(iii) evidence of compliance with the tests for adding a new member of the Obligated Group set forth in the Indenture;

(iv) an Opinion of Bond Counsel that the replacement of the Obligations will not adversely affect the validity of any Indenture Indebtedness or any exemption for the purposes of federal income taxation to which interest on such Indenture Indebtedness would otherwise be entitled;

(v) an Opinion of Counsel to the Obligated Group that the conditions in this section for the surrender of the Substitute Obligation have been met and that, as of the date of such surrender, no event of default shall have occurred and be continuing under the Indenture or the Substitute Master Indenture;

(vi) an original executed counterpart of the Substitute Master Indenture; and

(vii) such other opinions and certificates as the Master Trustee and the Obligation Holders may reasonably require, together with such reasonable indemnities as the Master Trustee and the Obligation Holders may request.

(b) The provisions of this section described herein may be implemented by the Obligated Group, notwithstanding any provisions of the Indenture relating to supplements not requiring consent of Obligation Holders and supplements requiring consent of Obligation Holders, so long as the provisions of this section are substantially complied with by the Obligated Group.

(c) Following the surrender of the Obligations, and satisfaction of the conditions set forth above in this section, and receipt of security and indemnity satisfactory to the Master Trustee, the Master Trustee will cancel the Obligations and assign, set over and transfer all of its right, title and interest in and to the trust estate under the Indenture, to the New Trustee, and shall execute such documents and instruments as are necessary and appropriate to effect such transfer and assignment and to discharge the lien of the Indenture upon the trust estate. Then and thereafter, Obligation Holders shall no longer be entitled to any rights and remedies under the Indenture, but shall have all of the rights and remedies granted under the Substitute Master Indenture.

(d) Any Substitute Master Indenture shall be subject to the approval of the Bond Insurer so long as the Bond Insurer is deemed to be the owner of Indebtedness secured by Obligations issued under the Indenture and no Bond Insurer Event of Insolvency has occurred and is continuing. (Section 5.17)

Cash to Indebtedness Ratio

The Obligated Group shall maintain a ratio of Cash to Indebtedness of not less than 0.9 calculated as of the end of each Fiscal Year. Failure to maintain a ratio of not less than 0.9 at the end of any Fiscal Year shall be a default under the Indenture unless waived in writing by the Bond Insurer. (Section 5.18)

Events of Default

Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) Any payment of the principal of, the premium, if any, and interest on any Obligation issued and Outstanding under the Master Indenture is not made after same shall become due and payable, and after any applicable grace period, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture and the Related Supplement;

(b) Any Member of the Obligated Group shall fail duly to observe or perform any covenant or agreement on its part under the Master Indenture for a period of 60 days (or such longer period as permitted in writing by the Master Trustee at the direction of the Holders of at least a majority in aggregate principal amount of the Obligations then Outstanding) 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 by the Master Trustee, or to the Members of the Obligated Group and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding;

(c) With respect to Indebtedness for borrowed money, a breach shall occur (and continue beyond any applicable grace period) with respect to a payment by any Member of Indebtedness, or with respect to the performance of any agreement securing such other Indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, and as a result of such breach or occurrence a holder or holders of such Indebtedness or

a trustee or trustees under any such agreement accelerates or, with respect to a default of the character referred to in paragraph (a) of this section only, is empowered to accelerate, any such Indebtedness in an amount exceeding $500,000; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (c) if (i) the Member is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (ii) such breach or event is remedied and the acceleration is wholly annulled. Each Member shall notify the Master Trustee of any such breach or event immediately upon becoming aware of its occurrence and shall from time to time furnish such information as the Master Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph has occurred and whether such power of acceleration has been exercised;

(d) The Obligated Group shall fail to make any payment of the principal of, premium, if any, or interest on any note or under any loan agreement or similar agreement securing any Related Bonds within 14 days after the same shall become due and payable and following any grace periods, if applicable, in accordance with the terms thereof;

(e) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Member of the Obligated Group a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days or the consent of such Member to such decree or order;

(f) The institution by any Member of the Obligated Group of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(g) The Debt Service Coverage Ratio shall be less than 1.00 on any date of determination pursuant to Section 5.09 unless waived in writing by the Bond Insurer.

(h) The Days Cash on Hand shall be less than seventy (70) days on any date of determination pursuant to Section 5.09 unless waived in writing by the Bond Insurer.

(i) The Cash to Indebtedness ratio shall be less than 0.9 as of the end of any Fiscal Year unless waived in writing by the Bond Insurer. (Section 6.01)

Acceleration; Annulment of Acceleration; Rights as to Gross Receipts and Mortgaged Property

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 at least a majority in aggregate principal amount of the Obligations Outstanding, shall, by notice to the Members of the Obligated Group, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable without any further action or notice, anything in the Obligations or in the Master Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues to the date of payment.

At any time after the principal of the Outstanding Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree on 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 moneys sufficient to pay all matured installments of interest, and interest on installments of principal and interest, and principal or redemption prices 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 moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents incurred as a result of such Event of Default, (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, then, unless otherwise directed in writing by Holders of not less than 50% in aggregate principal amount of the Obligations then Outstanding, the Master Trustee shall annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by its terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

The Master Trustee may exercise all of the rights and remedies of a secured party, under the UCC or otherwise, with respect to the Lien on Gross Receipts created under the Master Indenture. Without limiting the generality of the foregoing, to the extent permitted by law, the Master Trustee may realize upon such lien by any one or more the following actions: (i) take possession of the financial books and records of any Member of the Obligated Group relating to the Gross Receipts and of all checks or other orders for payment of money and cash in the possession of the Member representing Gross Receipts or proceeds thereof; (ii) notify account debtors obligated on any Gross Receipts to make payment directly to the order of the Master Trustee, (iii) collect, compromise, settle, compound or extend Gross Receipts which are in the form of accounts receivable or contract rights from the 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) require the Member to deposit all cash, money and checks or other orders for the payment of money which represent Gross Receipts within five (5) business days after receipt of written notice of such requirement, and thereafter as received, into a fund or

account to be established for such purpose by the Master Trustee, provided, however, that the requirement to make such deposits shall cease, and the balance of such fund or account shall be paid to the Member, when all Events of Default have been cured; (v) forbid the Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent 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; and (vi) endorse in the name of the Member any checks or other orders for the payment of money representing Gross Receipts or the proceeds thereof.

Upon the occurrence and during the continuation of an Event of Default under the Indenture, the Master Trustee may at any time enter the Mortgaged Property without being liable for any prosecution or damages therefor, may take complete and peaceful possession of the Mortgaged Property, in whole or in part, with or without process of law, and may dispossess the Institution therefrom, and the Institution covenants that in any such event it will peacefully and quietly yield up and surrender the Mortgaged Property. The Master Trustee may operate and manage the property either directly or through its agents, receivers or other similar officials; exercise all of the powers and privileges and remedies of the Institution with respect thereto, either in the name of the Institution or otherwise; receive all rents, profits, revenues and other income of the Mortgaged Property; and make such repairs or alterations in or to the Mortgaged Property as it may deem necessary to place and maintain the same in good order and condition. Notwithstanding entry by the Master Trustee, the Institution agrees that any utility services, including heat, furnished by the Institution to the Mortgaged Property prior to such entry shall continue to be furnished by the Institution to the Mortgaged Property at the expense of the Institution. Entry under this subsection shall not operate to release the Institution from any sums to be paid or other obligations under the Indenture. Any such entry shall not cause the Master Trustee to become so-called mortgagee in possession unless the Master Trustee declares itself so to be.

Upon the occurrence and during the continuance of an Event of Default under the Indenture, the Master Trustee, with or without an entry under the foregoing paragraph, may sell the Mortgaged Property or any part or parts of the same, either as a whole or in parts or parcels, together with any improvements thereon, by public auction on or near the premises described in the Indenture in accordance with the statutes of The Commonwealth of Massachusetts relating to the foreclosure of a mortgage by the exercise of a power of sale, and may convey the same by proper deed or deeds or bill or bills of sale to the purchaser or purchasers absolutely and in fee simple; and such sale shall forever bar the Institution and all persons claiming under it from all right and interest in the Mortgaged Property, whether at law or in equity. The Institution covenants that it will, upon request, execute, acknowledge and deliver to the purchaser or purchasers a deed or deeds of release confirming such sale, and the Master Trustee is hereby irrevocably appointed the Institution's attorney to execute and deliver a full transfer of all policies of insurance on the Mortgaged Property at the time of such sale, with credit to the Institution for any unearned premiums paid by the Institution. In the exercise of any power of sale under the Indenture, it is agreed that a part or parcel may consist wholly of real estate, wholly of tangible personal property or any combination of both. Any sale under the foregoing provisions shall be on not less than ten (10) days' notice published in a newspaper or newspapers of general circulation in New Bedford, Massachusetts, and sent to the Institution, or given in

such other manner as may be required or permitted by law. The Institution, the Master Trustee, the Trustee or any Bondowner may become the purchaser at any such sale.

Upon the occurrence and during the continuance of an Event of Default under the Indenture, the Master Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to the Obligations issued under the Indenture and that portion of the Mortgaged Property pledged under the Indenture which is or may be treated as collateral under the UCC. The Master Trustee may deal with such property as collateral under the UCC or as provided in the Indenture or in part the one and in part the other. To the extent permitted by law, the Master Trustee may treat all or any portion or portions of the Mortgaged Property as personal property and may remove the same for the purposes of exercising its rights and remedies under the Indenture. (Section 6.02)

Additional Remedies and Enforcement of Remedies

Subject to the provisions in the section captioned "Security for Obligations," 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 25% in aggregate principal amount of the 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 Obligation Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Obligation 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 Obligation Holders;

(iv) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Obligation Holders or to specifically enforce any covenant, obligation or agreement contained in the Master Indenture; and

(v) Enforcement of the provisions of the Master Indenture or any other right of the Obligation Holders conferred by law or under the Master Indenture including (to the extent the Master Indenture may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the provisions of the Master Indenture and the rights of the Obligation Holders.

Subject to the provisions in the section captioned "Security for Obligations," regardless of the occurrence of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and

proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture or which with the giving of notice or the passage of time or both would constitute an Event of Default. (Section 6.03)

Application of Revenues and Other Moneys After Default

During the continuance of an Event of Default, the Master Trustee may by written notice to the Representative require that all payments of Outstanding Obligations be made to the Master Trustee when due in immediately available funds. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances, including expenses incurred or made by the Master Trustee with respect thereto shall be applied as follows:

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; and

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, without regard to 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 amount of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date 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 coupon or Obligation until such coupon or such Obligation and all unmatured coupons, if any, appertaining to such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Members of the Obligated Group, their successors, or as a court of competent jurisdiction may direct. (Section 6.04)

Obligation Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, subject to the provisions in the section captioned "Security for Obligations," the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, 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 thereof and is not unduly prejudicial to the interest of Obligation Holders not joining in such direction. (Section 6.07)

Waiver of Event of Default

The Master Trustee 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.

The Master Trustee, subject to the provisions in the section captioned "Security for Obligations," upon the written request of the Holders of at least a majority in aggregate principal amount of the Obligations Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that 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, subject to the provisions in the section captioned "Security for Obligations," without the written consent of the Holders of all the Obligations at the time Outstanding unless (i) the conditions set forth in above under "Annulment of Acceleration" are satisfied and (ii) if the principal of the Obligations has been declared due and payable, such declaration has been annulled.

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 Obligation 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. (Section 6.09)

Limitations on Responsibility of Master Trustee

The Master Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the direction, subject to the provisions in the section captioned "Security for Obligations," of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture.

The Master Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. (Section 7.01)

Except as specifically provided in the Master Indenture, the Master Trustee shall not be required to monitor the financial condition of the Members of the Obligated Group or the physical condition of the Property and, except as specifically provided in the Master Indenture, shall not have any responsibility with respect to reports, notices, certificates or other documents filed or to be filed with it under the Master Indenture. The Master Trustee shall not be required to take notice of any breach or default under the Master Indenture by the Institution or any Member of the Obligated Group, except for (i) those of which it receives written notice by an Obligation Holder, and (ii) the failure of the Master Trustee to receive certificates, reports, or opinions specifically required to be furnished to the Master Trustee by the Master Indenture. The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member of the Obligated Group, personally or by agent or attorney. (Section 7.02)

Supplements Not Requiring Consent of Obligation Holders

The Representative, on behalf of each Member of the Obligated Group, and the Master Trustee may, without the consent of or notice to any of the Holders, but with notice to the Bond Insurer, enter into one or more supplements for one or more of the following purposes:

(i) With the consent of the Bond Insurer, to cure any ambiguity or formal defect or omission in the Master Indenture.

(ii) With the consent of the Bond Insurer, to correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising under the Master Indenture which shall not materially and adversely affect the interests of the Holders.

(iii) 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.

(iv) 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.

(v) To create and provide for the issuance of Obligations as permitted under the Master Indenture.

(vi) To obligate a successor to the Representative or other Member of the Obligated Group as provided in the Master Indenture.

(vii) To add additional property to the Mortgaged Property or to add additional security for the benefit of the Holders. (Section 8.01)

Supplements Requiring Consent of Obligation Holders

Other than supplements referred to above in "Supplements to Master Indenture Not Requiring Consent of Obligation Holders" and subject to the terms and provisions and limitations contained in the Master Indenture, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding, together with the Bond Insurer, shall have the right, from time to time, to consent to and approve the execution by each Member of the Obligated Group, 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 in this section shall permit or be construed as permitting a supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Obligations or reduce the principal amount of or the redemption premium, if any, or rate of interest payable on any Obligations;

(ii) Make any Obligation redeemable other than in accordance with its terms;

(iii) Create a preference or priority of one Obligation over any other Obligation; or

(iv) Reduce the aggregate principal amount of Obligations the consent of the Holders of which is required to authorize any such supplement

without the unanimous written consent of the Holders of Obligations then Outstanding affected (in the sole determination of the Master Trustee) by such supplement. (Section 8.02)

Satisfaction and Discharge of Master Indenture

If (a)(i) all Members of the Obligated Group shall deliver to the Master Trustee for cancellation all Obligations, or (ii) all Obligations have become due and payable and shall have been paid, or (iii) the Members of the Obligated Group shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Representative and such bank or trust company in form acceptable to the Master Trustee) as trust funds Government or Equivalent Obligations bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem in full all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and (b) 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. If any Obligation is to be redeemed prior to Maturity thereof, then the Master Indenture shall not cease to be in effect until all action necessary to redeem such Obligation shall have been taken or irrevocable provision satisfactory to the Master Trustee has been made for the taking of such action. (Section 9.01)

Audited Financial Statements

In the event the Obligated Group does not produce combined audited financial statements, any references to such combined audited financial statements shall be deemed to refer to information derived from the audited financial statements of the Members of the Obligated Group, after consideration of appropriate accounting adjustments and elimination for transactions between the Members of the Obligated Group, if any. (Section 11.09)

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The following is a brief summary prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Supplemental Master Trust Indenture for Obligations No. 4 and No. 5. This summary does not purport to be complete, and reference is made to the document for full and complete statement of such and all provisions.

SUMMARY OF THE SUPPLEMENTAL MASTER TRUST INDENTURE FOR OBLIGATIONS NO. 4 AND NO. 5

Issuance of Obligation No. 4

The Supplemental Master Trust Indenture for Obligations No. 4 and No. 5 creates and authorizes the issuance of an Obligation under the Master Indenture ("Obligation No. 4") in an aggregate principal amount of $56,050,000. (Section 3)

Payments on Obligation No. 4; Credits

Principal of, premium, if any, and interest on Obligation No. 4 are payable in lawful money of the United States of America. Principal and interest on Obligation No. 4 shall be payable on such dates and in such amounts as are required under the Agreement to provide for payment of the principal (including sinking fund installments), premium, if any, and interest on the Bonds when due.

The Institution's payments under Obligation No. 4 may be prepaid at such times and with such notice to the Bond Trustee as will accomplish simultaneous prepayment under the Agreement of the Bonds otherwise payable therefrom. Such payments may also be reduced (and the Institution's obligations with respect thereto correspondingly credited) to the extent that the principal (including sinking fund installments) of and interest on the Bonds payable therefrom is actually paid from other sources.

When all Outstanding Bonds are deemed to have been paid in full when due or prepaid in whole and all other conditions imposed by the Agreement are satisfied, Obligation No. 4 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture. (Sections 4 and 7)

Default

Upon the occurrence of certain "Events of Default" (as defined in the Master Indenture), the principal of all Outstanding Obligations may be declared, and thereupon shall become due and payable as provided in the Master Indenture.

The Holder of Obligation No. 4 shall have no right to enforce the provisions of the Master Indenture, institute any action to enforce the covenants of the Master Indenture, take any action with respect to any default under the Master Indenture, or institute, appear in or defend any other suit or proceeding with respect to the Master Indenture, except as provided in the Master Indenture. (Section 7)

The following is a brief summary prepared by Palmer & Dodge LLP, Bond Counsel to the Authority, of certain provisions of the Loan and Trust Agreement. This summary does not purport to be complete, and reference is made to the document for full and complete statement of such and all provisions.

SUMMARY OF THE LOAN AND TRUST AGREEMENT

The Note and Pledge of Revenues; Funds

The Authority directs the Trustee to receive and hold the Note in trust upon the terms of the Agreement. The Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Members or derived from any security provided under the Agreement and (b) all rights to receive such Revenues and the proceeds of such rights. The assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions of the Agreement. As additional security for its obligations to make payments to the Debt Service Fund, the Redemption Fund, the Rebate Fund, the Debt Service Reserve Fund and the Construction Fund, and for its other payment obligations under the Agreement, the Institution grants to the Trustee with respect to the Debt Service Fund, Redemption Fund and Debt Service Reserve Fund, and to the Authority with respect to the Expense Fund and the Construction Fund, a security interest in its interest in the moneys and other investments and any proceeds thereof held from time to time in such Funds established under the Agreement. (Section 201)

Establishment of Funds

The following funds shall be established and maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement:

Debt Service Fund
Debt Service Reserve Fund
Redemption Fund
Rebate Fund

The Construction and Expense Funds shall be established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Agreement. (Sections 303, 304, 305, 306, 307, 401)

Construction Fund

The Authority shall apply moneys in the Construction Fund and any investments held as part of such Fund to the payment or reimbursement of Project Costs. Upon completion of the Project any balance then remaining in the Construction Fund and not then needed to pay Project

Costs of the Project shall be transferred to the Debt Service Reserve Fund to the extent necessary to cause the amount therein to equal the Debt Service Reserve Requirement. The remainder may be used to reimburse sums deposited in the Construction Fund by the Institution other than any amounts derived from gifts, grants or bequests received or expected to be received for the purposes of the Project, and other than amounts representing an equity contribution required by a Determination of Need, and the remainder thereafter shall be transferred to the Redemption Fund. (Section 401)

Debt Service Fund

The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments), purchase price of redemption premium, if any, and interest on the Bonds. (Section 303)

Debt Service Reserve Fund

The moneys in the Debt Service Reserve Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the payment of the principal (including sinking fund installments) of and interest on the Bonds.

Subject to certain Bond Insurer requirements, if on any date the amount in the Rebate Fund is less than the amount then required by the Agreement, the Trustee shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency, except that the Trustee shall not so apply any amount necessary to pay or redeem the Bonds in full pursuant to the section captioned "Defeasance." If on any date the amount in the Debt Service Fund is less than the amount then required to pay the principal (including sinking fund installments) and interest then due on the Bonds, the Trustee, after making all payments to the Rebate Fund required under this paragraph, shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any required sums which it has not paid to the Rebate Fund or Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

Subject to certain Bond Insurer requirements, if and to the extent that the amount in the Debt Service Reserve Fund on August 15 or February 15 of any year is less than the Debt Service Reserve Fund Requirement, the Institution shall pay to the Trustee for deposit in the Debt Service Reserve Fund the amount of the deficiency except to the extent that the deficiency is otherwise overcome.

The Institution may satisfy the Debt Service Reserve Fund Requirement by the deposit in the Debt Service Reserve Fund of an irrevocable bank letter of credit (the "Letter of Credit"), in form and substance satisfactory to the Bond Insurer and the Trustee. The Letter of Credit shall be held in trust as a part of the Fund. The Letter of Credit shall be valued at its available balance, which for this purpose shall mean its original amount less the total amount deposited in the Fund, including amounts drawn down under the Letter of Credit. (Section 304)

Redemption Fund

The moneys and investments held in the Redemption Fund shall be applied by the Trustee on behalf of the Authority solely to the redemption of Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Bonds shall be paid from the Debt Service Fund.

If on any date the amount in the Debt Service Fund is less than the amount then required to be applied by the Trustee to pay the principal (including sinking fund installments) and interest then due on the Bonds or if on any date the amount in the Rebate Fund is less than the amount then required to be paid to the United States, in either case after any required transfer from the Debt Service Reserve Fund, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) first, to the Rebate Fund, and second, to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund or Rebate Fund and any subsequent payment thereof shall be used to restore the funds so applied. (Section 305)

Rebate Fund

A Rebate Fund shall be established by the Trustee for the purpose of complying with IRC Section 148(f) and the regulations thereunder (the "Rebate Provision"). Amounts in the Rebate Fund shall not be available to pay principal, interest, or redemption premium on the Bonds. (Section 306)

Expense Fund

The moneys and investments held in the Expense Fund shall be held in trust and shall be applied by the Authority at the written direction of the Institution solely to the payment or reimbursement of the costs of issuing the Bonds. The Authority shall pay from the Expense Fund the costs of issuing the Bonds, including the Initial Administrative Fee, the reasonable fees and expenses of financial consultants and bond counsel, the reasonable fees and expenses of the Trustee incurred prior to the completion of the Project in accordance with the Agreement, any recording or similar fees and any expenses of the Institution in connection with the issuance of the Bonds which are approved by the Authority. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Bonds, but shall be transferred to the Construction Fund as provided in the Agreement. After all costs of issuing the Bonds have been paid any amounts remaining in the Expense Fund shall be transferred to the Construction Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 307)

Application of Moneys

If available moneys in the Debt Service Fund after any required transfers from the Debt Service Reserve Fund and Redemption Fund are not sufficient on any day to pay all principal (including sinking fund installments), redemption price and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all reasonable and customary charges and disbursements of the Trustee in accordance with the Agreement, be applied (in the order such Funds are named in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to this section, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 308)

Investments

Pending their use under the Agreement, moneys in the Funds and Accounts established pursuant to the Agreement may be invested by the Trustee or the Authority, as the case may be, in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee or the Authority, as appropriate, provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as "arbitrage bonds" as defined in IRC §148. Notwithstanding the foregoing, any amount of moneys deposited in the Construction Fund which has not been expended within three (3) years of the date of closing shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Bonds, unless otherwise permitted by an Opinion of Bond Counsel. Any investments pursuant to this subsection shall be held by the Trustee or the Authority, as applicable, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings (which for this purpose include net profit and are after deduction of net loss) on proceeds from the sale of Bonds deposited in the Debt Service Reserve Fund during the construction period and on the Expense Fund shall be transferred to the Construction Fund not less often than quarterly. Earnings on other moneys deposited in the Debt Service Reserve Fund, on proceeds from the sale of Bonds in the Debt Service Reserve Fund after the construction period and on the Redemption Fund shall be transferred to the Debt Service Fund and credited against payments otherwise required to be made thereto not less often than quarterly; provided, however, that earnings on the Debt Service Reserve Fund shall be retained in the Fund to the extent necessary to make the amount therein equal to the Debt Service Reserve Fund Requirement.

The term "Permitted 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 or 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; and

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. Student Loan Marketing Association (SLMA or "Sallie Mae")
   Senior debt obligations;

5. Resolution Funding Corp. (REFCORP) obligations; and

6. 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, and having a rating by S&P of AAAm-G; AAA-m; or AA-m and if rated by Moody's rated Aaa, Aa1 or Aa2.

(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 bondholders 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 the Federal Deposit Insurance Corporation, including BIF and SAIF.

(G) Investment Agreements, including GIC's, Forward Purchase Agreements and Reserve Fund Put Agreements acceptable to the Bond Insurer.

(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 ("Repurchase Agreements") for 30 days or less must follow the following criteria. Repurchase Agreements which exceed 30 days must be acceptable to the Bond Insurer;

(L) Repurchase Agreements provide 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. Any such investments may be purchased from or through the Trustee;

1. Repurchase Agreements must be between the municipal entity and a dealer bank or securities firm

    a. Primary dealers on the 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 and Moody's.

2. The written Repurchase Agreement 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 & FHLMC)

    b. The term of the Repurchase Agreement may be up to 30 days

    c. The collateral must be delivered to the municipal entity, trustee (if 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

        (l) 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 Agreement plus accrued interest. If the value of securities held as collateral slips below l04% 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%; and.

(M) The Authority's STAR Fund, so long as it is rated at least "AA-m" by S&P; and (N) Any other investment approved by the Bond Insurer.

Any investments may be purchased from or through the Trustee. (Section 312)

Payments by the Institution

Not later than the opening of business on the second Business Day preceding an Interest Payment Date or the date on which a payment of principal (including sinking fund installments) is due, the Institution shall pay or cause to be paid to the Trustee for deposit in the Debt Service Fund an amount available on such payment date equal to such payment less the amount, if any, in the Debt Service Fund and available therefor.

The payments to be made under the foregoing paragraph shall be appropriately adjusted to reflect the date of issue of Bonds, any earnings on amounts in the Debt Service Fund or the Debt Service Reserve Fund (to the extent they have been transferred to the Debt Service Fund), and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal or sinking fund installment due or coming due on the Bonds.

At any time when any principal (including sinking fund installments) of the Bonds is overdue, the Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required under this section shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund under the Agreement shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay principal (including sinking fund installments) and interest on the Bonds when due, the Institution shall supply the deficiency.

Within thirty (30) days after notice, the Institution shall pay to the Authority all expenditures reasonably incurred by the Authority or the Trustee by reason of the Agreement. (Section 309)

Rights of the Bond Insurer

Notwithstanding anything in the Agreement to the contrary, for so long as the Bond Insurance Policy shall be in full force and effect and provided that the Bond Insurer shall not have defaulted and is not continuing to default on its obligations under the Bond Insurance Policy, (a) the Bond Insurer shall be deemed to be the sole Owner of all Bonds for all purposes of the provisions in the Agreement relating to default by the Institution and actions for protection of the Bondowners and (b) the Bond Insurer shall be deemed to be the sole Owner of all Bonds at all times for the purpose of giving consent and direction when consent of the Bondowners is required by the Agreement, other than for the purpose of making amendments which pursuant to the Agreement require the unanimous written consent of the affected Bondowners.

Provided that no Bond Insurer Event of Insolvency has occurred and the Bond Insurer has not failed to make a payment under the Bond Insurance Policy, the following provisions shall apply with respect to the Bonds:

Payments to the Bond Insurer. The Institution shall pay or reimburse the Bond Insurer for any and all amounts due under the Insurance Agreement pursuant to its terms.

Requirements Concerning the Trustee. The Bond Insurer shall receive notice of resignation or removal of the Trustee. No successor Trustee shall be appointed without the prior written consent of the Bond Insurer. The Bond Insurer shall have the right to direct removal of the Trustee. For so long as the Bond Insurance Policy remains in effect and there is no Bond Insurer Event of Insolvency, the Bond Insurer, at any time, may remove the Trustee for "cause" by notice to the Authority, the Trustee and the Institution. The Trustee shall continue to act as Trustee under the Agreement and have the right to proceed to cure any gross negligence, willful misconduct or failure to perform its duties (any of which shall be deemed to constitute "cause"), for a period of two (2) weeks. If such cure is not effected within such time, the Trustee's functions under the Agreement will be terminated immediately upon appointment of a successor trustee by the Institution with the prior written approval of the Bond Insurer.

Amendments and Supplements to the Bond Documents. None of the Bond Documents shall be amended or supplemented without the prior written consent of the Bond Insurer except for supplements providing for additional parity bonds. Copies of all documents that are amended/supplemented shall be provided to S&P. In connection with the issuance of such additional parity bonds, the Institution shall deliver to the Bond Insurer a copy of the disclosure document, if any, circulated with respect to such additional bonds.

Copies of Notices to Bond Insurer. The Bond Insurer shall receive copies of all notices required to be delivered to Bondowners or to the Trustee.

Debt Service Reserve Fund. The Bond Insurer shall receive notice in event of application of amounts in the Debt Service Reserve Fund.

In the event that the Debt Service Reserve Fund Requirement is met with a letter of credit or surety bond, any substitute letter of credit or surety bond shall be subject to the prior written consent of the Bond Insurer.

Funds on deposit in the Debt Service Reserve Fund shall be valued once every six (6) months and if less than the Debt Service Reserve Requirement, shall be replenished by the Institution within one hundred twenty (120) days of such valuation.

If there is a shortfall in the Debt Service Reserve Fund as a result of a draw on such Fund, then the Institution shall replenish such shortfall in twelve (12) equal monthly installments.

Default/Remedies. The Bond Insurer shall have the sole right to waive Events of Default. The Bond Insurer requires notice in the Event of Default. The Bond Insurer shall control and direct all remedies in the Event of Default. Neither the Note nor the Bonds shall be accelerated for any cause without the prior written consent of the Bond Insurer.

Payments under the Bond Insurance Policy. (A) In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Bond Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency. (B) If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Bond Insurer or its designee. (C) In addition, if the Trustee has notice that any Bondholder has been required to disgorge payments of principal or interest on the Bonds to a trustee in bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Bond Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

Bond Insurer Consent Required with Bondowner Consent and in connection with Tender/Purchase Agreements. Any action requiring Bondowner consent shall also require the prior written consent of the Bond Insurer.

Except as provided in the Agreement with respect to Bonds in a Short-Term Mode (as described in the Agreement) or a PARS Mode, neither the Authority nor the Institution shall enter into any agreement or consent to or participate in any arrangement pursuant to which Bonds are tendered or purchased for any purpose other than the redemption and cancellation of such Bonds without the prior written consent of the Bond Insurer. (Section 606)

Default by the Institution

"Event of Default" under the Agreement means any one of the events set forth below and "default" means any Event of Default without regard to any lapse of time or notice.

Debt Service. Any principal (including sinking fund installments) of, premium, if any, or interest on any Bond shall not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise or any Purchase Price for Bonds shall not be paid as provided in the Agreement.

Other Obligations. The Institution shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Authority or the Trustee to the Institution, or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement or the Tax Certificate and such failure is not remedied within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Institution.

Warranties. There shall be a material breach of warranty made in the Agreement or in the Tax Certificate by the Institution as of the date it was intended to be effective.

Voluntary Bankruptcy. The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or other similar official or agent for itself or any substantial part of its property.

Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

Involuntary Bankruptcy. The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of indebtedness of the Institution for borrowed money with respect to loans exceeding $100,000, or with respect to the performance of any agreement securing indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this paragraph, so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates or is empowered to accelerate any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this paragraph if (A) the Institution is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, (B) the power of acceleration is not exercised and it ceases to be in effect, or (C) such breach or event is remedied and the acceleration, if any, is wholly annulled. The Institution shall notify the Authority and the

Trustee of any such breach or event immediately upon the Institution's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph has occurred and whether such power of acceleration has been exercised or continues to be in effect.

Default under the Master Indenture. An Event of Default shall occur under the Master Indenture.

Insurance Agreement. An Event of Default shall occur under the Master Indenture.

If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may, subject to Section 606, waive the default and its consequences, including any acceleration, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the Owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Bond Insurer shall be deemed to be the Bondowner for such purpose so long as no Bond Insurer Event of Insolvency has occurred or the Bond Insurer has not failed to make a payment under the Bond Insurance Policy. (Section 601)

Remedies for Events of Default

If an Event of Default occurs and is continuing:

Acceleration. The Trustee may, with the consent of the Bond Insurer or shall at the direction of the Bond Insurer, by written notice to the Institution and the Authority and certain other parties as described in the Agreement declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

Rights as a Secured Party. The Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer, exercise all its rights and remedies under the Master Indenture as the holder of the Note, including but not limited to directing the Master Trustee as to the exercise of its remedies and the conduct of proceedings, the acceleration of Obligations (as defined in the Master Indenture), the annulment of any such acceleration and the waiver of Events of Default (as defined in the Master Indenture).

Rights as Note Holder. The Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer, exercise all its rights and remedies under the Master Indenture as the holder of the Note, including but not limited to directing the Master Trustee as to the exercise of its remedies and the conduct of proceedings, the acceleration of Obligations (as defined in the Master Indenture), the annulment of any such acceleration and the waiver of Events of Default (as defined in the Master Indenture). If the Note is declared to be due and payable because of an Event of Default under the Master Indenture which does not arise from or

cause (otherwise than by such declaration) and Event of Default under the Agreement, and if the Trustee determines in good faith that such Event of Default under the Master Indenture is cured and the conditions of the Master Indenture are satisfied, the Trustee shall refrain from directing the Master Trustee not to annul such declaration and its consequences. (Section 602)

Court Proceedings

The Trustee may enforce the obligations of the Authority under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained therein, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations under the Agreement. (Section 603)

Remedies Cumulative

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. (Section 605)

Limitations on Bondowners' Remedies

Upon a failure of the Institution to make certain debt service payments required of it under the Agreement when the same becomes due and payable, the Trustee shall give written notice thereof to the Authority and the Institution. The Trustee shall not be required to take notice of any other breach or default by the Institution or the Authority except when given written notice thereof by the owners of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Trustee shall give default notices and accelerate payments when instructed to do so by the written direction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Trustee shall enforce the Agreement by legal proceedings for the benefit of the Bondowners in accordance with the written directions of the owners of a majority in principal amount of the Outstanding Bonds. The Trustee shall not be required, however, to take any remedial action (other than acceleration or the giving of notice) unless reasonable indemnity is furnished for any expense or liability to be incurred therein.

No Bondowner shall have the right it institute any legal proceedings for the enforcement of the Agreement or any applicable remedy thereunder, unless the Authority and the Trustee have failed and refused to take action as required by the Agreement. (Sections 702 and 902)

Tax Matters

The Institution shall not take or omit to take any action if such action or omission (i) would cause the Bonds to be "arbitrage bonds" under Section 148 of the IRC, (ii) would cause the Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. Without limiting the foregoing, the Institution shall not permit the $150,000,000 nonhospital bond limitation of IRC §145(b) to be exceeded. To the extent consistent with its status as a nonprofit hospital, the Institution agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution. (Section 1002)

Amendment

The Agreement may be amended by the parties subject to the section captioned "Rights of the Bond Insurer" without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of the Agreement, (b) to provide for the establishment or amendment of a book entry system of registration for the Bonds through a securities depository (which may or may not be DTC), (c) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds or (e) to make any necessary changes to the Agreement to facilitate the conversions of Bonds to a different mode (as described in the Agreement).

Provisions of the Agreement may also be amended by the parties with the written consent of the Bond Insurer without Bondowner consent on the date of any mandatory tender of the Bonds, provided that notice of any such amendment is included in the notice of mandatory tender for purchase described in the Agreement, and provided further that if less than all of the Bonds are subject to mandatory tender on such date, the provisions of the Agreement being amended may affect only the Bonds subject to mandatory tender on such date. The Institution, with the consent of the Bond Insurer subject to the section captioned "Rights of the Bond Insurer," may amend the Maximum Rate to a higher interest rate without Bondowner consent, provided that, if a Liquidity Facility is then in effect, it entitles the Trustee to draw upon or demand and receive in immediately available funds an amount equal to the principal amount of the Bonds then outstanding plus a number of days of accrued interest at such amended Maximum Rate at least equal to the number of days required to be covered under the Agreement.

In addition to amendments made in accordance with the Auction Procedures, with the consent of the Broker-Dealer, the provisions of the Agreement concerning the Auction Procedures, including without limitation the mandatory tender provisions and amending the Auction Period, Auction Date and Interest Payment Dates as provided in the Agreement, and the definitions applicable thereto, including without limitation, the definition of Maximum Rate, may also be amended (i) by obtaining the consent of the Trustee if the Trustee determines that such amendment does not materially adversely affect the rights of any Bondowner (it being agreed that in making such determination the Trustee may rely upon a certificate to such effect of the Broker-Dealer) or (ii) by obtaining the consent of the beneficial owners of the Bonds.

Except as provided in the foregoing paragraph and in the Auction Provisions, the Agreement may be amended only with the written consent of the Bond Insurer, subject to the section captioned "Rights of the Bond Insurer," and the Owners of at least two-thirds (2/3) in principal amount of the Outstanding Bonds; provided, however, that the Bond Insurer shall be deemed to be the Owner of the Bonds so long as no Bond Insurer Event of Insolvency has occurred and the Bond Insurer has not failed to make a payment under the Bond Insurance Policy; and provided further that no amendment of the Agreement may be made without the consent of the Bond Insurer and the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Bond, (ii) to reduce the principal amount or interest rate of any Bond, (iii) to make any Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment. (Section 1101)

Defeasance

When there are in the Debt Service Fund, Debt Service Reserve Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem the Bonds in full and, prior to a conversion to the Fixed Rate, to pay the purchase price thereof whenever the same may be payable, and when all the rights under the Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose and moneys held for defeasance shall be invested only as provided above in this paragraph. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for payment into the Rebate Fund, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require. (Section 202)

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PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

PROPOSED FORM OF BOND COUNSEL OPINION

May 18, 2004

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the following bonds (the "Bonds"):

$56,050,000
Massachusetts Health and Educational Facilities Authority
Revenue Bonds, Southcoast Health System Obligated Group Issue,
Series B (2004), Periodic Auction Reset Securities,
dated May 18, 2004 (the "Bonds")

We have examined the law and such certified proceedings and other papers as deemed necessary to render this opinion, including the Loan and Trust Agreement (the "Agreement") dated as of April 20, 2004 among the Authority, Southcoast Hospitals Group, Inc. (the "Institution") and J.P. Morgan Trust Company, National Association (the "Trustee"); the Amended and Restated Master Trust Indenture and Mortgage and Security Agreement (the "Indenture") dated as of May 4, 1993 and amended and restated as of April 20, 2004, among the Institution, Southcoast Health System, Inc. (the "System"), Southcoast Physician Services, Inc., Southcoast Primary Care, Inc., Visiting Nurse Association of Southeastern Massachusetts, Inc. (collectively, the "Obligated Group") and J.P. Morgan Trust Company, National Association, as Master Trustee (the "Master Trustee"); and the Supplemental Master Indenture for Obligations No. 4 and 5 (the "Related Supplement No. 4" and collectively with the Indenture, the "Master Indenture") dated as of April 20, 2004 between the System and the Master Trustee.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement and of the Obligated Group contained in the Master Indenture, the certified proceedings and other certifications of public officials furnished to us, and certifications by officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement and secured by Obligation No. 4 issued under the Related Supplement No. 4. Under the Agreement the Institution has agreed to make

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payments sufficient to pay when due the principal (including sinking fund installments) and purchase price of, and premium (if any) and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements) are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues. Such payments are secured by Obligation No. 4 issued under the Related Supplemental No. 4. Payment of Obligation No. 4 is secured by a security interest in the Gross Receipts of the Obligated Group and by a mortgage of certain real property of the Institution.

Reference is made to an opinion of even date of Ropes & Gray LLP, counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to carry out the Project (as defined in the Agreement) being financed in part by the Bonds, the power of the Obligated Group to enter into and perform their respective obligations under the Agreement, the Indenture and Related Supplement No. 4 (such instruments and agreements being collectively called the "Bond Documents), the authorization, execution and delivery of the Bond Documents by the Obligated Group and the extent to which the Bond Documents are binding and enforceable upon the Obligated Group.

We express no opinion with respect to compliance by the Institution with applicable legal requirements in connection with the construction, equipping or operation of the Project.

As security for its obligations under the Indenture, the Institution has mortgaged certain real property and the Obligated Group has granted security interests in its Gross Receipts (as described in the Master Indenture). As to matters relating to title and the recording of the mortgage, reference is made to a policy of title insurance, and as to matters relating to the filing under the Uniform Commercial Code (the "Code") with respect to the Gross Receipts of the Obligated Group, reference is made to an opinion of even date of Ropes & Gray LLP. To maintain a perfected security interest in the Gross Receipts under the Code, the Trustee must file a continuation statement every five years.

The security interest in Gross Receipts includes the rights of the Obligated Group to receive the same and the proceeds of such rights. Pursuant to the Code, a security interest in these proceeds may not continue to be perfected if the proceeds are not paid over to the Trustee by the Obligated Group within twenty days of their receipt, are commingled with other funds of the Obligated Group, or are paid by the Obligated Group to other parties in the ordinary course. The Obligated Group is obligated to pay over these proceeds within twenty days of receipt only in the event of its earlier failure to make a required payment under the Agreement when due and until such payment has been made. In the event that the Obligated Group fails to make a required payment when due, the Obligated Group is obligated, to the extent necessary to make such payment, to pay over immediately to the Trustee the receipts theretofore received which have not been commingled with other funds and as to which the security interest remains perfected and to pay over to the Trustee upon receipt any proceeds thereafter received of the rights to receive the receipts.

Under the federal Bankruptcy Code, the security interest in receipts may cease to be effective to the extent derived from rights coming into existence on or after a date ninety days (or, in some circumstances, one year) prior to the filing of a petition in bankruptcy with respect to a Member of the Obligated Group.

Based on our examination, we are of opinion, as of the date hereof and under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.

2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable upon the Authority. As provided in Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues and amounts received by the Trustee pursuant to Obligation No. 4.

4. Under existing law, interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986 (the "IRC") on individuals and corporations. However, we call your attention to the fact that interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). We also call your attention to the fact that failure by the Authority or the Institution to comply subsequent to the issuance of the Bonds with certain requirements of the IRC may cause interest on the Bonds to become includable in the gross income of the owners of the Bonds for federal income tax purposes retroactive to the date of issuance of the Bonds. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to take all lawful action necessary under the IRC to ensure that interest on the Bonds will remain excluded from the gross income of the owners of the Bonds for federal income tax purposes and to refrain from taking any action which would cause interest on the Bonds to become included in such gross income. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Under existing law, interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds and the Agreement are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "**Disclosure Agreement**") is executed and delivered by Southcoast Health System, Inc. (the "**Obligated Group Representative**") and J.P. Morgan Trust Company, National Association, as trustee (with its successors, the "**Trustee**") in connection with the issuance of $56,050,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities (the "**Bonds**"). The Bonds are being issued pursuant to a Loan and Trust Agreement (the "**Agreement**") dated as of April 20, 2004 among the Massachusetts Health and Educational Facilities Authority (the "**Authority**"), the Trustee and Southcoast Hospitals Group, Inc. (the "**Institution**"), and the proceeds of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The obligation of the Institution to make payments under the Agreement is secured by an obligation issued pursuant to the Master Trust Indenture dated as of May 4, 1993 and amended and restated as of April 20, 2004 (the "**Master Trust Indenture**") among the Obligated Group (as defined below) and J.P. Morgan Trust Company, National Association, as Master Trustee (the "**Master Trustee**"). Pursuant to the Master Trust Indenture, the Obligated Group Representative, the Institution, Southcoast Physician Services, Inc., Southcoast Primary Care, Inc. and Visiting Nurse Association of Southeastern Massachusetts, Inc. (each an "**Obligated Group Member**" and collectively, together with any future additional Obligated Group Members under the Master Trust Indenture, the "**Obligated Group**") have agreed to be jointly and severally liable with respect to all Obligations issued under the Master Trust Indenture. The Obligated Group Representative, on behalf of each Member of the Obligated Group, and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Group Representative and the Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Obligated Group Representative and the Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures. The Trustee, except as provided in Section 3(d), has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner, with respect to any such reports, notices or disclosures except for its negligent failure to comply with its obligations under Section 3(d).

SECTION 2. Definitions. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Obligated Group Representative pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bondowner" shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or Obligated Group Representative.

"Dissemination Agent" shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Obligated Group Representative and which has filed with the Obligated Group Representative, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be Obligated Group Representative. In the absence of a third-party Dissemination Agent, the Obligated Group Representative shall serve as the Dissemination Agent.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories as of the date of execution of this Disclosure Agreement are listed in Exhibit B.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Quarterly Statement" shall mean any Quarterly Statement provided by the Dissemination Agent pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Repository" shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts as a state repository for the purpose of the Rule.

SECTION 3. Provision of Annual Reports and Quarterly Statements.

(a) The intent of the parties hereto is that all financial information provided hereunder, whether audited or unaudited, shall be provided with respect to the consolidated financial statements that include the Members of the Obligated Group and certain other affiliates (collectively, the "**System**"). Each such report or statement shall specify the percentage of total operating revenues and total assets of the System represented by the Members of the Obligated Group.

To the extent that the operating revenues of the Obligated Group are less than 90% of the System, all financial information or reports provided hereunder shall be provided with consolidating schedules, or separate financial information or reports shall be provided for the Obligated Group.

(b) The Dissemination Agent, not later than 180 days after the end of each fiscal year beginning with the fiscal year ending September 30, 2004 (the "**Annual Report Filing Deadline**"), shall provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Commencing with the Institution's fiscal quarter ending June 30, 2004, the Dissemination Agent, not later than 75 days after the end of each of the first, second and third fiscal quarters (i.e., the fiscal quarters ending December 31, March 31 and June 30) (the "**Quarterly Statement Filing Deadline**" and together with the Annual Report Filing Deadline, the "**Filing Deadline**"), shall provide to each Repository a Quarterly Statement which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than two (2) Business Days prior to each Annual Report Filing Deadline, the Obligated Group Representative (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. Not later than two (2) Business Days prior to each Quarterly Statement Filing Deadline, the Obligated Group Representative (if it is not the Dissemination Agent) shall provide the Quarterly Statement to the Dissemination Agent. The Obligated Group Representative may provide Quarterly Statements directly to each Repository by the Quarterly Statement Filing Deadline in lieu of providing Quarterly Statements to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the System may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the System at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Obligated Group Representative shall submit the audited financial statements to the Dissemination Agent and the Trustee as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to each Repository as soon as practicable thereafter. The Obligated Group Representative shall provide a copy of each Annual Report and Quarterly Statement to the Trustee.

(c) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days of the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination Agent, the Obligated Group Representative or the Trustee, as applicable, may rely conclusively on the list of National Repositories maintained by the United States Securities and Exchange Commission);

(ii) file a report with the Obligated Group Representative, the Authority and the Trustee certifying that the Annual Report or Quarterly Statement, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided (the "**Compliance Certificate**"); such report shall include a certification from the Obligated Group Representative that the Annual Report complies with the requirements of this Disclosure Agreement; and

(iii) upon request of any Bondowner or Beneficial Owner to the Dissemination Agent, the Dissemination Agent shall provide the most recent Quarterly Statements directly to such requesting Bondowner or Beneficial Owner, and the costs of complying with such requests will be borne by the Obligated Group Representative.

(d) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send a notice to the State Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(e) If the Dissemination Agent has not provided the Annual Report or Quarterly Statement to the Repositories by the applicable Filing Deadline, the Obligated Group Representative shall send, or cause the Dissemination Agent to send, a notice substantially in the form of Exhibit A irrespective of whether the Trustee submits such written request.

SECTION 4. Content of Annual Reports and Quarterly Statements.

Subject to the provisions of Section 3, the Annual Report submitted by the Obligated Group Representative shall contain or incorporate by reference the following data as of the most recently completed fiscal year:

(i) Audited Financial Statements of the System,

(ii) To the extent not included in the Audited Financial Statements, the information set forth in the tables of the Official Statement (defined below) captioned "Hospital Utilization," "Summary of Net Patient Service Revenue," "Southcoast Health System, Inc. and Affiliates Consolidated Statement of Operations," "Cash and Investments," "Estimated Pro Forma Coverage of Maximum Annual Debt Service" and "Debt to Capitalization;"

each of the above items to be supplied in a form similar to that included as Appendix A in the final Official Statement dated May 6, 2004 for the Bonds (the "**Official Statement**").

The financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which an Obligated Group Member is an "obligated person" (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Obligated Group Representative shall clearly identify each such other document so incorporated by reference.

Each Quarterly Statement submitted by the Obligated Group Representative shall contain information relating to the fiscal quarter and for the year to date of the type included in Appendix A to the Official Statement in the tables captioned "Hospital Utilization," "Summary of Net Patient Service Revenue" and "Southcoast Health System, Inc. and Affiliates Consolidated Statement of Operations."

In the event an additional Obligated Group Member joins the Obligated Group and such Obligated Group Member accounts for more than 20% of net patient service revenues of the Obligated Group (or if such term is inapplicable to such additional Obligated Group Member, gross revenues less any provision for bad debt and contractual allowances), the following financial and operating data shall be provided with respect to such Obligated Group Member on a consolidated basis (if such Obligated Group Member engages in a similar line of business) or on an individual basis (if such Obligated Group Member is engaged in a different line of business): the same financial and operating data (to the extent applicable) as for existing Obligated Group Members.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

(i) Principal or interest payment delinquencies.

(ii) Non-payment related defaults.

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties.

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties.

(v) Substitution of credit or liquidity providers, or their failure to perform.

(vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

(vii) Modifications to the rights of the Bondowners.

(viii) Bond calls (the giving of notice of regularly scheduled mandatory sinking fund redemptions shall not be deemed material for this purpose under clause (b) of this Section 5.)

(ix) Defeasance of the Bonds.

(x) The release, substitution, or sale of property securing repayment of the Bonds.

(xi) Rating changes.

(b) Upon the occurrence of a Listed Event, if such Listed Event is material, the Obligated Group Representative shall, in a timely manner, file, or direct the Dissemination Agent to file, a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository. The Obligated Group Representative shall provide a copy of each such notice to the Authority and the Trustee. The Dissemination Agent, if other than the Obligated Group

Representative, shall have no duty to file a notice of an event described hereunder unless it is directed in writing to do so by the Obligated Group Representative, and shall have no responsibility for verifying any of the information in any such notice or determining the materiality of the event described in such notice.

SECTION 6. Termination of Reporting Obligation. The Obligated Group Representative's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Obligated Group Representative and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule; provided, however, that the Obligated Group Representative shall be required to provide Quarterly Statements in the manner required hereunder for so long as the Obligated Group Representative is required to comply with the other provisions of this Disclosure Agreement regardless of whether the provision of Quarterly Statements is required by the Rule. If the Obligated Group Representative's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Obligated Group Representative and the original Obligated Group Representative shall have no further responsibility hereunder. If any Obligated Group Member ceases to be an Obligated Group Member in conformity with the release provisions of the Master Trust Indenture, the disclosures required under this Disclosure Agreement shall cease to include data or information relating to such former Obligated Group Member. If any Obligated Group Member does not meet or ceases to meet the criteria specified in Section 4, the individual disclosures required under this Disclosure Agreement with respect to such Obligated Group Member shall not be required for such Obligated Group Member.

SECTION 7. Dissemination Agent. The Obligated Group Representative may, from time to time with notice to the Trustee and the Authority, appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Authority, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Obligated Group Representative) may resign upon 30 days' written notice to the Obligated Group Representative, the Trustee and the Authority. The initial Dissemination Agent shall be Obligated Group Representative.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Group Representative and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Institution and which does not affect the rights and remedies of the Trustee or Dissemination Agent) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Obligated Group Representative and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule; provided, however, that no amendment or waiver which eliminates or diminishes the requirement to deliver Quarterly Statements may be made unless the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1101 of the Agreement. Without limiting the foregoing, the Obligated Group Representative and the Trustee may amend this Disclosure Agreement if (a)

such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1101 of the Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment is made to an undertaking specifying a change in the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made should present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Group Representative from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, Quarterly Statement or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Group Representative chooses to include any information in any Annual Report, Quarterly Statement or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Obligated Group Representative shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Obligated Group Representative or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Obligated Group Representative or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Obligated Group Representative or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Group Representative, the Trustee, or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. In no event

shall the Obligated Group or the Dissemination Agent be liable for monetary damages in the event of a default under this Disclosure Agreement.

SECTION 11. Duties. Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article VII of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Dissemination Agent (if other than the Obligated Group Representative) shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Obligated Group agrees to indemnify and save the Dissemination Agent (if other than the Obligated Group Representative), its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including reasonable attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Obligated Group under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Obligated Group Representative covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

The Trustee shall have no obligation under this Disclosure Agreement to report any information to any Repository or any Bondowner. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 5 hereunder, whether or not such event is material, the Trustee shall timely notify the Obligated Group Representative of such occurrence, provided, however, that any failure by the Trustee to give such notice to the Obligated Group Representative shall not affect the Obligated Group's obligations under this Disclosure Agreement or give rise to any liability by the Trustee for such failure.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Obligated Group, the Trustee, the Dissemination Agent, the Participating Underwriters and the Bondowner, and shall create no rights in any other person or entity.

SECTION 13. Disclaimer. No Annual Report, Quarterly Statement or notice of a Listed Event filed by or on behalf of the Obligated Group under this Disclosure Agreement shall obligate the Obligated Group to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Obligated Group or any Obligated Group Member or raise any inference that no other material events have occurred with respect to the Obligated Group, any Obligated Group Member or the Bonds or that all material information regarding the Obligated Group, each Obligated Group Member or the Bonds has been disclosed. The Obligated Group shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

SECTION 14. All Obligated Group Members Bound. The Obligated Group Representative hereby represents and warrants that it has full authority to bind each current Obligated Group Member to provide to the Obligated Group Representative on a timely basis all information with respect to such Obligated Group Member required for the Obligated Group Representative to comply with its undertakings under this Disclosure Agreement. The Obligated

Group Representative further represents and warrants that it is a condition to the entry into the Obligated Group of any additional Obligated Group Member that such additional Obligated Group Member agree in writing to provide (i) to the Obligated Group Representative all such information on a timely basis and (ii) to the Trustee an opinion of counsel that such agreement is valid, binding and enforceable, subject to bankruptcy and other normal exceptions. The Obligated Group Representative covenants to enforce the undertakings of each Obligated Group Member to provide all such information to the Obligated Group Representative on a timely basis.

SECTION 15. 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.

SECTION 16. Governing Law. This Agreement shall be construed in accordance with the laws of The Commonwealth of Massachusetts.

SECTION 17. Entire Agreement. This Agreement, including the Exhibits hereto, constitutes the sole and entire agreement and understanding of the parties with respect to the subject matter hereof. All Exhibits hereto are incorporated herein by reference.

INTENDING TO BE LEGALLY BOUND, the parties hereto have duly executed this Agreement to be effective as of the date written below.

Date: May 18, 2004

SOUTHCOAST HEALTH SYSTEM, INC.

By:_____

Signature:_____

Title:_____

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, as Trustee

By:_____

Signature:_____

Title:_____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT OR QUARTERLY STATEMENT

Name of Issuer: Massachusetts Health and Educational Facilities Authority

Name of Bond Issue: Massachusetts Health and Educational Facilities Authority Revenue Bonds, Southcoast Health System Obligated Group Issue, Series B (2004), Periodic Auction Reset Securities

Name of Obligated Person: Southcoast Health System, Inc.

Date of Issuance: May 18, 2004

NOTICE IS HEREBY GIVEN that Southcoast Health System, Inc. (the "Obligated Group Representative"), has not provided an Annual Report or Quarterly Statement with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated May 18, 2004 between the Obligated Group Representative and the Trustee.

Dated:_____

J.P. MORGAN TRUST COMPANY, NATIONAL ASSOCIATION, on behalf of SOUTHCOAST HEALTH SYSTEM, INC.

cc: Southcoast Health System, Inc.

EXHIBIT B

NATIONAL REPOSITORIES

Bloomberg Municipal Repository
100 Business Park Drive
Skillman, New Jersey 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
http://www.bloomberg.com/markets/muni_contactinfo.html
Email: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
http://www.dpcdata.com
Email: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, New York 10038
Phone: (212) 771-6999
Fax: (212) 771-7390 (Secondary Market Information)
(212) 771-7391 (Primary Market Information)
http://www.interactivedata.com
Email: NRMSIR@FTID.com

Standard & Poor's Securities Evaluations, Inc.
55 Water Street
45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
www.jjkenny.com/jjkenny/pser_descrip_data_rep.html
Email: nrmsir_repository@sandp.com

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest: _____
Assistant Secretary

STD-R-6
4/95

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PARS PROVISIONS

ARTICLE I.

DEFINITIONS

In addition to the words and terms elsewhere defined in this Agreement, the following words and terms as used in this Appendix G and elsewhere in this Agreement have the following meanings with respect to the Bonds in a PARS Rate Period unless the context or use indicates another or different meaning or intent. intent.

"Agent Member" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"All Hold Rate" means, as of any Auction Date, with respect to the Bonds 55% of the PARS Index in effect on such Auction Date.

"Auction" means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auctioneer appointed in accordance with Section 3.01 or 3.02 of this Appendix and shall initially be Wilmington Trust Company.

"Auction Agreement" means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix, with respect to the Bonds while bearing interest at a PARS Rate, as such agreement may from time to time be amended or supplemented.

"Auction Date" means, (a) if the Bonds are in a daily Auction Period, each Business Day, (b) if the Bonds are in a Special Auction Period, the last Business Day of the Special Auction Period, and (c) if the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for the Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or a Special Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion. The first Auction Date for the Bonds is May 24, 2004.

"Auction Period" means with respect to PARS Bonds:

(a) a Special Auction Period;

(b) with respect to PARS Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(c) with respect to PARS Bonds in a seven day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally seven days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to PARS Bonds in a 14-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 14 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the second Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 14 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the second Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 14 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the second Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 14 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the second Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 14 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the second Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to PARS Bonds in a 28-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 28 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to PARS Bonds in a 35-day Auction Period and with Auctions generally conducted on (i) Fridays, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Mondays, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Tuesdays, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Wednesdays, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Thursdays, a period of generally 35 days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(g) with respect to PARS Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first

day of the month that is the third calendar month following the beginning date of such Auction Period (unless such first day of the month is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day); and

(h) with respect to PARS Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding August 14 or February 14;

provided, however, that:

(a) if there is a conversion of PARS Bonds with Auctions generally conducted on Fridays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(b) if there is a conversion of PARS Bonds with Auctions generally conducted on Mondays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date

for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(c) if there is a conversion of PARS Bonds with Auctions generally conducted on Tuesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion;

(d) if there is a conversion of PARS Bonds with Auctions generally conducted on Wednesdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion; and

(e) if there is a conversion of PARS Bonds with Auctions generally conducted on Thursdays (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior

Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 14-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than seven days but not more than 14 days from such date of conversion, (iii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iv) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i. e. the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

"Auction Procedures" means the procedures for conducting Auctions for the Bonds during a PARS Rate Period set forth in this Appendix G.

"Auction Rate" means for each Auction Period, (a) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate with respect to the Bonds and (b) if Sufficient Clearing Bids do not exist, the Maximum Rate with respect to the Bonds.

"Available Bonds" means on each Auction Date, the aggregate principal amount of the Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subsection (a) of Section 2.01 of this Appendix G.

"Bidder" means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix G that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Institution, with the consent of the Authority and Goldman, Sachs & Co., so long as Goldman, Sachs & Co. is a Broker-Dealer, and that is a party to a Broker-Dealer Agreement with the Auction Agent, a copy of which has been provided to the Trustee. There shall be an incumbent Broker-Dealer at all times.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Institution and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from to time be amended or supplemented, provided that any Broker-Dealer Agreement executed after the date of issuance of the Bonds or any amendment to an existing Broker-Dealer Agreement shall not modify the circumstances pursuant to which the Broker-Dealer can resign, without prior consent of the Bond Insurer.

"Conversion Date" means the date on which the Bonds convert from one interest rate period to another interest rate period.

"Existing Owner" means a Person who is listed as the beneficial owner of the Bonds in the records of the Auction Agent.

"Hold Order" has the meaning specified in subsection (a) of Section 2.01 of this Appendix G.

"Initial Period" means the period from the Closing Date to but not including May 25, 2004.

"Interest Payment Date" with respect to Bonds bearing interest at PARS Rates, means May 25, 2004 and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Special Auction Period, or (ii) more than 182 days, each February 15 and August 15 and on the Business Day immediately following such Special Auction Period.

"LIBOR" means, on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Order" means a Hold Order, Bid or Sell Order.

"PARS Mode" means the Mode during which the Bonds bear interest at the PARS Rate.

"PARS Index" shall have the meaning specified in Section 2.06 of this Appendix G.

"PARS or PARS Bonds" means the Bonds while they bear interest at the PARS Rate.

"PARS Rate" means the rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.03 of this Appendix G; provided, however, in no event may the PARS Rate exceed the Maximum Rate.

"PARS Rate Conversion Date" means with respect to the Bonds, the date on which the Bonds convert from an interest rate period other than a PARS Rate Period and begin to bear interest at a PARS Rate.

"PARS Rate Period" means after the Initial Period any period of time commencing on the day following the Initial Period to but not including a Conversion Date and the period from and including a PARS Rate Conversion Date to but excluding the next Conversion Date

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any.

"Principal Office" means, with respect to the Auction Agent, the office thereof designated in writing to the Institution, the Trustee and each Broker-Dealer.

"Securities Depository" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Authority which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Sell Order" has the meaning specified in subsection (a) of Section 2.01 of this Appendix G.

"Special Auction Period" means, with respect to PARS Bonds, (a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of PARS Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of PARS Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of PARS Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of PARS Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of PARS Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) a period of more than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such PARS Bonds.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date for the Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for the Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in subsection (b) of Section 2.03 of this Appendix G.

"Submitted Hold Order" has the meaning specified in subsection (b) of Section 2.03 of this Appendix G.

"Submitted Order" has the meaning specified in subsection (b) of Section 2.03 of this Appendix G.

"Submitted Sell Order" has the meaning specified in subsection (b) of Section 2.03 of this Appendix G.

"Sufficient Clearing Bids" means with respect to the Bonds, an Auction for which the aggregate principal amount of the Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the aggregate principal amount of the Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"Winning Bid Rate" means with respect to the Bonds the lowest rate specified in any Submitted Bid for which if selected by the Auction Agent as the PARS Rate would cause the aggregate principal amount of the Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds.

ARTICLE II.

AUCTION PROCEDURES

Section 2.01. **Orders by Existing Owners and Potential Owners**

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period;

(B) the principal amount of the Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner); and/or

(C) the principal amount of the Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period.

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the Bonds, if any, which each such Potential Owner irrevocably offers to purchase if

the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b) (i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Bonds to be determined as described in subsection (a)(v) of Section 2.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the Bonds to be determined as described in subsection (b)(iv) of Section 2.04 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the Bonds as described in subsection (b)(iv) of Section 2.04 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Bonds as described in subsection (a)(vi) of Section 2.04 hereof if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the Bonds to be held, purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof shall be rounded down to the nearest $25,000, and the Auction Agent shall

conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted; and

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

Section 2.02. **Submission of Orders by Broker-Dealers to Auction Agent**.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the Bonds, if any, subject to any Sell Order placed by such Existing Owner.

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Bonds held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal

amount of the Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of the Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding Bonds held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the Bonds held by such Existing Owner over the principal amount of the Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the Bonds held by such Existing Owner over the principal amount of the Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the Bonds held by such Existing Owner over the principal amount of the Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of the Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner.

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the Bonds equal to the excess of the principal amount of the Bonds held by such Existing Owner over the sum of the principal amount of the Bonds considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid

submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the Bonds specified therein.

(f) None of the Authority, the Institution, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

Section 2.03. **Determination of PARS Rate**.

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for the Bonds, the Auction Agent shall advise the Broker-Dealers and the Trustee by telephone or other electronic communication acceptable to the parties of the All Hold Rate and the PARS Index for the Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for the Bonds, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Trustee by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Trustee shall promptly notify the Securities Depository of such Auction Rate.

(d) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 35 days or less, the new Auction Period shall be the same as the preceding Auction Period and the PARS Rate for the new Auction Period shall be the same as the PARS Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 35 days, the preceding Auction Period shall be extended to the next seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the PARS Rate in effect for the preceding Auction Period will continue in effect for the Auction Period as so extended. In the event an Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extend to take effect for an Auction Period beginning on the Business Day immediately following the last day of the Auction Period as extended which Auction Period will end on the date it would otherwise have ended on had the prior Auction Period not been extended.

(e) In the event of a failed conversion, with respect to the Bonds to a Term Rate Period, a Daily Rate Period, a Weekly Rate Period, a Flexible Rate Period or a Fixed Rate Period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the

PARS Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(f) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the PARS Rate shall be the Maximum Rate, the succeeding Auction Periods will be 7-day periods and the Bonds will be converted to a non-auction mode as soon as is practicable.

Section 2.04. **Allocation of Bonds**.

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the principal amount of the Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount

equal to the principal amount of the Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding Bonds which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders, for the Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate, shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate, shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the Bonds obtained by multiplying (A) the aggregate principal amount of the Bonds subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal

amount of the Bonds which is not an integral multiple of $25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $25,000 in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of PARS purchased on such Auction Date by any Potential Owner shall be an integral multiple of $25,000, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

Section 2.05. **Notice of PARS Rate**.

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to the Bonds for which an Auction was held on such Auction Date:

(i) the PARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of the Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of the Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of the Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to the Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the PARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of the Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

Section 2.06. **PARS Index**.

(a) The PARS Index is LIBOR.

(b) If for any reason on any Auction Date the PARS Index shall not be determined as hereinabove provided in this Section, the PARS Index shall be the PARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the PARS Index as provided herein shall be conclusive and binding upon the Institution, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Section 2.07. **Miscellaneous Provisions Regarding Auctions**.

(a) In this Appendix G, each reference to the purchase, sale or holding of "Bonds" shall refer to beneficial interests in the Bonds, unless the context clearly requires otherwise.

(b) During a PARS Rate Period with respect to the Bonds, the provisions of the Agreement and the definitions contained therein and described in this Appendix G, including without limitation the definitions of Maximum Rate, All Hold Rate, PARS Index, Interest Payment Date, and the PARS Rate, may be amended pursuant to the Agreement, by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at a PARS Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Agreement, (i) the PARS Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Institution, the Authority and the Trustee an Opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding Bonds bearing interest at a PARS Rate.

(c) If the Securities Depository notifies the Authority or the Institution that it is unwilling or unable to continue as owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, as the case may be, the Authority shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and authorized denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Authority and the Trustee.

During a PARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of the Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

Section 2.08. **Changes in Auction Period or Auction Date**.

(a) Changes in Auction Period.

(i) During any PARS Rate Period, the Institution may (and during an Event of Default, the Bond Insurer may), from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the Bonds in a PARS Rate Period among daily, seven-days, 14-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Bonds; provided, however, in the case of a change from a Special Auction Period, the date of such change shall be the Interest Payment Date immediately following the last day of such Special Auction Period. The Institution shall initiate the change in the length of the Auction Period by giving written notice to the Trustee, the Credit Provider, the Authority, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 14-days, 28-days, 35-days, three months, six months or a Special Auction Period and may be for all or a portion of the Bonds in a PARS Rate Period.

(iii) The change in the length of the Auction Period for the Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on

which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for the Bonds shall take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Institution consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds except to the extent such Existing Owner submits an Order with respect to the Bonds. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(v) On the conversion date for the Bonds selected for conversion from one Auction Period to another, any Bonds which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any PARS Rate Period, the Auction Agent, with the written consent of the Institution, may specify an earlier Auction Date for the Bonds (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Authority, the Institution, the Broker-Dealers and the Securities Depository. In the event the Auction Agent specifies an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Special Auction Period ends and the Interest Payment Date relating to a Special Auction Period shall be adjusted accordingly.

(c) Bond Insurer Requirements. Any conversion to the PARS Mode or from one Auction Period to a different Auction Period that is no longer than thirty (30) days shall require the receipt by the Institution of a firm underwriting commitment or contract of purchase from an investment bank or other purchaser acceptable to the Bond Insurer. Any change in the Mode shall require the consent of the Bond Insurer.

ARTICLE III.

AUCTION AGENT

Section 3.01. **Auction Agent**.

(a) The Auction Agent shall be appointed by the Trustee at the written direction of the Institution, to perform the functions specified herein. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Institution, the Authority, the Trustee and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Authority, the Institution and the Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.02. **Qualifications of Auction Agent; Resignation; Removal**.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $50,000,000, or (b) a member of NASD having a capitalization of at least $50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by this Agreement and a member of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by this Agreement by giving at least ninety (90) days notice to the Authority, the Credit Provider and the Trustee. The Auction Agent may be removed at any time by the Institution, with the consent of the Bond Insurer, or by the Bond Insurer, by written notice, delivered to the Auction Agent, the Authority, the Credit Provider, the Bond Insurer and the Trustee. Upon any such resignation or removal, the Institution shall select and shall give written instruction to the Trustee to appoint, and pursuant to such written direction of the Institution, the Trustee shall appoint, a successor Auction Agent meeting the requirements of this section. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and the Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Trustee. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving forty-five (45) days notice to the Authority, the Institution, the Bond Insurer and the Trustee even if a successor Auction Agent has not been appointed. Any successor Auction Agent must be approved by MBIA Insurance Corporation, as Bond Insurer.

Section 3.03. **Termination of Auction Procedures – Bond Insurer Requirements**.

The Auction Procedures may only be terminated as a result of: (i) a successful conversion from the PARS Mode to another Mode; or (ii) upon a failure by the Bond Insurer to pay amounts due under the Bond Insurance Policy.

The Auction Procedures may not be terminated for any other reason, including defaults under the Agreement by the Institution. If the Institution has failed to pay fees due to the Auction Agent, the Auction Agent shall provide the Bond Insurer with at least forty-five (45) days to cure the missed payments during which time the Auction Procedures may not be suspended.

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