NEW ISSUE - BOOK ENTRY ONLY **Rating:** *S&P "AAA/A-1+"*
(Underlying Rating: S&P "BBB")
See "RATINGS" herein.

In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, under existing law, assuming continued compliance with certain tax covenants and provisions of the Internal Revenue Code of 1986, as amended, interest on the Series D Bonds will not be included in the gross income of the holders of the Series D Bonds for federal income tax purposes. Interest on the Series D Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on individuals and corporations, although interest on the Series D Bonds will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., income on the Series D Bonds, including any profit made on the sale thereof, is exempt from Massachusetts personal income taxes, and the Series D Bonds are exempt from Massachusetts personal property taxes. For a discussion of federal and state tax matters, see "TAX EXEMPTION" herein.

$65,000,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Variable Rate Demand Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series D (2004)

Dated: Date of Delivery **Due:** November 15, 2035

The Series D Bonds will be issued only as fully registered bonds without coupons and will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series D Bonds. Purchases of the Series D Bonds while in the Weekly Mode will be made in book-entry form in denominations of $100,000 and multiples of $5,000 in excess thereof. For a description of purchases of Bonds in Modes other than the Weekly Mode, see "THE SERIES D BONDS" herein. Purchasers will not receive certificates representing their interests in the Series D Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Series D Bonds. See "THE SERIES D BONDS – Book-Entry Only System" herein.

Principal and redemption price of and interest on the Series D Bonds will be paid by U.S. Bank National Association, Boston, Massachusetts, as trustee and paying agent (the "Trustee"). So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest on the Series D Bonds while in the Weekly Mode will be payable on the first Business Day of each month commencing January 3, 2005 until maturity or prior redemption or conversion to a different Mode. For a description of interest on the Series D Bonds while in Modes other than the Weekly Mode, see "THE SERIES D BONDS" herein.

The Series D Bonds are subject to redemption and optional and mandatory tender for purchase prior to maturity in certain circumstances, as set forth herein. Bonds tendered for purchase will be subject to remarketing by Cain Brothers & Company, LLC, the initial remarketing agent for the Series D Bonds.

The Series D Bonds are special obligations of the Authority payable solely from the Revenues (as hereinafter defined) of the Authority, including payments to the Trustee for the account of the Authority by Cape Cod Healthcare, Inc., Cape Cod Hospital, Falmouth Hospital Association, Inc. and Cape Cod Healthcare Foundation, Inc. (the "Obligated Group") pursuant to the Loan and Trust Agreement dated as of June 1, 1993, as amended by the First Amendment to Loan and Trust Agreement dated as of October 4, 1994, and as amended and supplemented by the First Supplemental Loan and Trust Agreement dated as of August 11, 1998, the Second Supplemental Loan and Trust Agreement dated as of October 9, 2001 and the Third Supplemental Loan and Trust Agreement dated as of December 7, 2004 (as amended and supplemented, the "Loan and Trust Agreement") among the Authority, the Obligated Group and the Trustee. Such payments required to be paid by the Obligated Group will be in amounts sufficient to pay, when due, interest and principal of the Series D Bonds, all in accordance with the Loan and Trust Agreement. The payments pursuant to the Loan and Trust Agreement are a general obligation of the Obligated Group, and will be secured by a security interest in the Gross Receipts of the Obligated Group and by mortgages on the core hospital campuses of Cape Cod Hospital and Falmouth Hospital.

The scheduled payment of principal of and interest on the Series D Bonds when due will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the Series D Bonds by Assured Guaranty Corp. ("Assured Guaranty")

While the Series D Bonds are in the Daily Mode or Weekly Mode, payment of the purchase price of the Series D Bonds equal to the principal and interest due on such Bonds which are tendered for purchase or required to be tendered for purchase and not remarketed will be payable from a Standby Bond Purchase Agreement dated as of December 7, 2004 (the "Initial Liquidity Facility") provided by Fleet National Bank, a Bank of America Company, (the "Initial Liquidity Provider") expiring December 23, 2009.

Banc of America Securities

THE SERIES D BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE LOAN AND TRUST AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF MASSACHUSETTS OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, OR REDEMPTION PREMIUM IF ANY, OR INTEREST ON THE SERIES D BONDS. CHAPTER 614 OF THE MASSACHUSETTS ACTS OF 1968 AS AMENDED FROM TIME TO TIME, THE ACT UNDER WHICH THE SERIES D BONDS ARE TO BE ISSUED, 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 OBLIGATED GROUP. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

$65,000,000 Term Bonds Due November 15, 2035 @ 100% CUSIP No. 57586C DY 8

The Series D 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 approval of legality and certain other matters by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, PC., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Obligated Group by its counsel, Nutter, McClennen & Fish, LLP, Boston, Massachusetts; for Assured Guaranty by Winston & Strawn, LLP, New York, New York; for the Initial Liquidity Provider by Edwards & Angell, LLP, Boston, Massachusetts; and for the Underwriter by its counsel Nixon Peabody LLP, Albany, New York. The Series D Bonds are expected to be available for delivery through DTC on or about December 23, 2004.

CAIN BROTHERS

December 10, 2004

IN CONNECTION WITH THE OFFERING OF THE SERIES D BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES D 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 OR THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS WITH RESPECT TO THE SERIES D BONDS, OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY ANY OF THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY, AND THERE SHALL NOT BE ANY SALE OF THE SERIES D BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE. CERTAIN INFORMATION CONTAINED HEREIN HAS BEEN OBTAINED FROM THE OBLIGATED GROUP, 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.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING ASSURED GUARANTY CORP. UNDER THE CAPTION "BOND INSURANCE" HEREIN AND IN APPENDIX F HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY ASSURED GUARANTY CORP. AND ASSURED GUARANTY CORP. MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES D BONDS; OR (III) THE TAX STATUS OF INTEREST ON THE SERIES D BONDS.

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.

TABLE OF CONTENTS

Page

INTRODUCTORY STATEMENT 1
SOURCES OF PAYMENT AND SECURITY FOR THE SERIES D BONDS 2
ESTIMATED SOURCES AND USES OF FUNDS 6
THE AUTHORITY 6
BOND INSURANCE 9
THE INITIAL LIQUIDITY FACILITY 10
THE SERIES D BONDS 11
BONDOWNERS' RISKS 20
CONTINUING DISCLOSURE 23
LITIGATION 24
LEGAL MATTERS 25
TAX EXEMPTION 25
RATINGS 26
LEGALITY OF THE SERIES D BONDS FOR INVESTMENT AND DEPOSIT 26
COMMONWEALTH NOT LIABLE FOR THE SERIES D BONDS 26
UNDERWRITING 26
MISCELLANEOUS 26

APPENDIX A – LETTER FROM THE OBLIGATED GROUP A-1
APPENDIX B – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CAPE COD HEALTHCARE, INC. AND AFFILIATES, INCLUDING SUPPLEMENTAL CONSOLIDATING INFORMATION FOR THE OBLIGATED GROUP, FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2004 AND 2003 ..... B-1
APPENDIX C – DEFINITIONS OF CERTAIN TERMS C-1
APPENDIX D-1 – SUMMARY OF THE LOAN AND TRUST AGREEMENT D-1-1
APPENDIX D-2 – SUMMARY OF CERTAIN PROVISIONS OF THE FALMOUTH MASTER INDENTURE D-2-1
APPENDIX D-3 – SUMMARY OF THE AMENDED AND RESTATED PARITY INDEBTEDNESS AGREEMENT D-3-1
APPENDIX D-4 – SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY D-4-1
APPENDIX E – PROPOSED FORM OF BOND COUNSEL OPINION E-1
APPENDIX F – FORM OF FINANCIAL GUARANTY INSURANCE POLICY F-1

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

99 Summer Street, Boston, Massachusetts 02110

DAVID T. HANNAN, *Chairman*
JOSEPH G. SNEIDER, *Vice Chairman*
MARVIN 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

$65,000,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Variable Rate Demand Revenue Bonds,
Cape Cod Healthcare Obligated Group Issue, Series D (2004)

INTRODUCTORY STATEMENT

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority"), the Obligated Group (defined below) and the issuance of $65,000,000 Massachusetts Health and Educational Facilities Authority Variable Rate Demand Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series D (2004) (the "Series D Bonds"). The Series D Bonds will be issued pursuant to Chapter 614 of the Massachusetts Acts of 1968 as amended from time to time (the "Act") and a Loan and Trust Agreement dated as of June 1, 1993, as amended by the First Amendment to Loan and Trust Agreement dated as of October 4, 1994, and as amended and supplemented by the First Supplemental Loan and Trust Agreement dated as of August 11, 1998, the Second Supplemental Loan and Trust Agreement dated as of October 9, 2001 and the Third Supplemental Loan and Trust Agreement dated as of December 7, 2004 (as so amended and supplemented, the "Loan and Trust Agreement") among Cape Cod Healthcare, Inc., Cape Cod Hospital ("CCH"), Falmouth Hospital Association, Inc. ("FH") and Cape Cod Healthcare Foundation, Inc. (each individually an "Obligated Group Member" and, collectively, the "Obligated Group"), the Authority and U.S. Bank National Association, as successor trustee to The First National Bank of Boston (the "Trustee"). See "SOURCES OF PAYMENT AND SECURITY FOR THE SERIES D BONDS" and "THE SERIES D BONDS" herein. The information contained in this Official Statement is provided for use in connection with the initial sale of the Series D Bonds. The definitions of certain terms used and not defined herein are contained in Appendix C – "Definitions of Certain Terms."

Plan of Financing

The proceeds of the Series D Bonds will be used, together with other available moneys:

(i) to finance or reimburse internal advances for various capital projects of CCH and FH (the "2004 Project," more fully described in Appendix A hereto, under the heading "The 2004 Project;"

(ii) to fund interest on the Series D Bonds for a period of approximately 18 months;

(iii) to make a deposit into the Debt Service Reserve Fund for the Series D Bonds; and

(iv) to pay costs of issuance of the Series D Bonds and a premium for the Bond Insurance Policy defined below.

A more detailed description of the use of proceeds of the Series D Bonds, including approximate amounts and purposes, is included herein under "ESTIMATED SOURCES AND USES OF FUNDS."

The Series D Bonds will be equally and ratably secured with the Authority's Series A Bonds, Series B Bonds, Series C Bonds and Falmouth Series C Bonds (as defined below) by a security interest in the Gross Receipts of the Obligated Group and by mortgages on the core hospital campuses of Cape Cod Hospital and Falmouth Hospital. See "SOURCES OF PAYMENT AMD SECURITY FOR THE SERIES D BONDS."

Interest Rate Agreement. The Obligated Group will enter into an interest rate exchange to be effective December 23, 2004 for an interest rate swap (the "Swap") to hedge the variability of its interest payments. The Swap will be for an initial notional amount of $65,000,000, which amount will decline in accordance with the amortization schedule for the Series D Bonds. The swap counterparty will have minimum unsecured long-term debt ratings of "A1/A" by Moody's Investors Services, Inc. and Standard and Poor's Ratings Services, respectively. Under the Swap, the Obligated Group will be required to pay the swap counterparty monthly payments based on such notional amount at a fixed rate to be determined by bid, and the swap counterparty will be required to pay to the Obligated Group on each such day a floating rate amount equal to interest on the notional amount at a variable rate (to be reset monthly) equal to 67% of one month LIBOR. The fixed rate amount and the floating rate amount are to be netted against each other, the payment of one being due only to the extent it exceeds the other. The termination date for the Swap is the final maturity of the Series D Bonds, but the Swap is subject to early termination on the occurrence of certain specified events, including failure by either party to meet its payment of other obligations thereunder or a downgrade of the Obligated Group's or swap counterparty's ratings below "BBB-" or "Baa3" by S&P or Moody's, respectively. If an early termination occurs, payment from the Obligated Group to the swap counterparty or from the swap counterparty to the Obligated Group may be required in an amount determined as set forth in the Swap, and the amount of that payment could be substantial. The Swap will not affect or alter any of the obligations of the Obligated Group with respect to the payment of the principal of or interest on the Series D Bonds, and neither the holders of the Series D Bonds nor any person other than the Obligated Group will have any rights under the Swap against the swap counterparty. Payments due under the Swap will not be pledged to the payment of the principal of or interest on the Series D Bonds.

The Obligated Group

Under the Loan and Trust Agreement, the Obligated Group is jointly and severally liable for payments with respect to the principal or redemption price of and interest on the Series D Bonds. The Obligated Group consists of the following members: (i) CCH, which owns and operates a hospital in Hyannis, Massachusetts with 223 acute care beds and 10 bassinets in service; (ii) FH, which owns and operates a hospital in Falmouth, Massachusetts with 95 beds and eight bassinets in service; (iii) Cape Cod Healthcare Foundation, Inc. (the "Foundation"), which raises funds for the Obligated Group and its affiliates; and (iv) Cape Cod Healthcare, Inc., which is the parent organization of the other members of the Obligated Group. CCH and FH (the "Hospitals") are the only two acute care hospital facilities located on Cape Cod.

For additional information regarding the Obligated Group, see Appendix A hereto. The audited consolidated financial statements of Cape Cod Healthcare, Inc. and affiliates for the two fiscal years ended September 30, 2003 and 2004, including supplemental consolidating information for the Obligated Group, are included herein as Appendix B. As described in the organizational chart in Appendix A hereto, the consolidated financial statements include the accounts of affiliates of Cape Cod Healthcare, Inc. who are not members of the Obligated Group.

SOURCES OF PAYMENT AND SECURITY FOR THE SERIES D BONDS

General

The Series D Bonds shall be 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 Loan and Trust Agreement, the Revenues received by the Trustee for the account of the Authority pursuant to the Loan and Trust Agreement (including payments by the Obligated Group in respect of the principal of and interest on the Series D Bonds), all rights to receive such Revenues, and the proceeds of such rights, and all of the Authority's rights in the moneys and investments on deposit in the funds and accounts established under the Loan and Trust Agreement other than the Rebate Fund. The assignment and pledge to the Trustee by the Authority of its rights and interest under the Loan and Trust Agreement 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 Loan and Trust Agreement to enforce the provisions thereof.

Neither The Commonwealth of Massachusetts (the "Commonwealth") nor any political subdivision thereof shall be obligated to pay the principal or redemption price of, or interest on, the Series D Bonds, except from the Revenues pledged therefor under the Loan and Trust Agreement, and neither the faith and credit nor the taxing power of the Commonwealth is pledged to the payment of the principal or redemption price of, or interest on, the Series D Bonds. The Authority has no taxing power.

The Loan and Trust Agreement

Under the Loan and Trust Agreement, while the Series D Bonds are in the Weekly Mode, the Obligated Group is obligated to make payments to the Trustee, before each Interest Payment Date, in an amount equal to the interest becoming due on the Series D Bonds on such Interest Payment Date, and an amount equal to one-twelfth (1/12) of the principal (including any sinking fund installments) coming due on the Series D Bonds on the next November 15. Appropriate adjustments shall be made to reflect the date of issue of the Series D Bonds, the capitalized interest funded from proceeds of the Series D Bonds, any earnings on amounts in the Debt Service Fund or the Debt Service Reserve Fund (to the extent earnings remain in the Debt Service Fund), and any purchase or redemption of the Series D Bonds. The Trustee shall make transfers from the Debt Service Fund in amounts and at times necessary to provide for debt service payments on the Series D Bonds.

The obligation of the Obligated Group to make payments under the Loan and Trust Agreement is a joint and several, general obligation of each Member of the Obligated Group. The Loan and Trust Agreement shall remain in full force and effect until such time as all of the Series D Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

The Loan and Trust Agreement contains provisions permitting the addition, withdrawal, or consolidation of Obligated Group Members under certain conditions. Each current Obligated Group Member is, and any future Obligated Group Member would become, jointly and severally liable for the obligations of the Obligated Group under the Loan and Trust Agreement. See Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the headings "Additional Obligated Group Members" and "Withdrawal from the Obligated Group."

The Loan and Trust Agreement contains restrictions on the creation of certain liens and encumbrances with respect to the Property of the Obligated Group and the Gross Receipts of the Obligated Group, with certain exceptions. *See* Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Limitations on Creation of Liens." The Loan and Trust Agreement also contains provisions permitting transfer of assets to be made upon compliance with certain tests and limiting the amount of certain transfer of assets that may be made by the Obligated Group. *See* Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Sale, Lease or Other Disposition of Property."

Bond Insurance Policy and Initial Liquidity Facility

The payment of regularly scheduled principal and interest on the Series D Bonds will be secured by a financial guaranty insurance policy (the "Bond Insurance Policy") to be issued by Assured Guaranty upon issuance of the Series D Bonds. See "BOND INSURANCE" herein.

Payment of the purchase price of the Series D Bonds in the Daily Mode or Weekly Mode equal to the principal and interest due on the Series D Bonds that are tendered for purchase or required to be tendered for purchase and not remarketed will be payable from a Standby Bond Purchase Agreement dated as of December 7, 2004 (the "Initial Liquidity Facility") provided by Fleet National Bank, a Bank of America Company (the "Initial Liquidity Provider") expiring December 23, 2009. See "INITIAL LIQUIDITY FACILITY" and Appendix D-4 – "SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY."

Under certain circumstances under the Loan and Trust Agreement, a substitute Liquidity Facility may be provided by the Institution. See "THE SERIES D BONDS" under the heading "Credit Enhancement and Liquidity Facility."

UNDER CERTAIN CIRCUMSTANCES DESCRIBED UNDER APPENDIX D-4 – "SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY," THE OBLIGATION OF THE INITIAL LIQUIDITY PROVIDER TO PURCHASE THE SERIES D BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED. IN SUCH EVENT, THE OWNERS OF THE SERIES D BONDS WILL CEASE TO HAVE THE RIGHT TO TENDER THEIR BONDS FOR PURCHASE. THE BOND INSURANCE POLICY DOES NOT GUARANTEE THE PURCHASE PRICE OF THE SERIES D BONDS. IN ADDITION, THE INITIAL LIQUIDITY FACILITY DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF PRINCIPAL OF OR INTEREST OR PREMIUM, IF ANY, ON THE SERIES D BONDS.

Security Interest in Obligated Group's Gross Receipts; Mortgage on Core Hospital Campuses

As security for its obligations under the Loan and Trust Agreement, the Obligated Group has granted to the Trustee a security interest in its Gross Receipts, which includes accounts receivable. For a definition of Gross Receipts, see Appendix C hereto. As additional security, CCH and FH has granted to the Trustee mortgages (the "Mortgages") which create liens on the real property comprising the core hospital campuses and security interests in the equipment now or hereafter located thereon (the "Mortgaged Property"), except to the extent financed with a purchase money security interest which constitutes a Permitted Encumbrance (as defined in the Loan and Trust Agreement). The Mortgages and the security interest in Gross Receipts are

subject to certain Permitted Encumbrances, including those granted in connection with the Falmouth Series C Bonds, as described below. The enforcement of the security interest in Gross Receipts may be subject to a preference claim under the Bankruptcy Code and to the exercise of discretion by a court of equity which, under certain circumstances, may have power to direct the use of such receipts to meet expenses of the Obligated Group before paying debt service. In addition, to the extent Gross Receipts include accounts receivable and the proceeds thereof under the Medicare and Medicaid programs, the assignment of such accounts and proceeds to the Trustee may violate federal and state regulations and, therefore, may be unenforceable. See "BONDOWNERS' RISKS" under the heading "Enforceability of Lien on Gross Receipts..

Obligations Secured on a Parity with Series D Bonds

The Series D Bonds are equally and ratably secured under the Loan and Trust Agreement with three series of Bonds previously issued by the Authority thereunder: (i) the Authority's Revenue Bonds, Cape Cod Health Systems, Inc. Obligated Group Issue, Series A (the "Series A Bonds"), which were issued in 1993 and $45,400,000 of which are now outstanding; (ii) the Authority's Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series B (the "Series B Bonds"), which were issued in 1998 and $15,465,000 of which are now outstanding; and (iii) the Authority's Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series C (the "Series C Bonds"), which were issued in 2001 and $43,415,000 of which are now outstanding. The security interest in the Obligated Group's Gross Receipts and the Mortgages will secure the Series A Bonds, the Series B Bonds, the Series C Bonds and the Series D Bonds on a parity basis.

The Authority has previously issued its Revenue Bonds, Falmouth Hospital Issue, Series C (the "Falmouth Series C Bonds"), which were issued in 1993 and $11,485,000 of which are now outstanding. The Falmouth Series C Bonds were issued under a Loan and Trust Agreement dated as of February 2, 1993 (the "Falmouth Loan and Trust Agreement") among the Authority, FH and The First National Bank of Boston, predecessor to U.S. Bank National Association, as Trustee (in such capacity, the "Falmouth Trustee"). The Falmouth Series C Bonds are secured by an obligation issued under a Master Trust Indenture dated as of February 2, 1993 (the "Falmouth Master Indenture") between FH and The First National Bank of Boston, predecessor to U.S. Bank National Association, as Master Trustee (in such capacity, the "Falmouth Master Trustee"). On the date of issuance of the Series C Bonds, CCH, Cape Cod Healthcare, Inc. and the Foundation became members of the obligated group under the Falmouth Master Indenture and are jointly and severally liable for payment of the obligation issued thereunder to secure the Falmouth Series C Bonds and any other parity obligations issued under the Falmouth Master Indenture, including obligations issued to secure the Series A Bonds, the Series B Bonds, the Series C Bonds and the Series D Bonds. Under the Falmouth Master Indenture, the Obligated Group has granted a parity security interest in its Gross Receipts to secure its obligations thereunder. As additional security, CCH and FH have granted to the Falmouth Master Trustee mortgage liens on the Mortgaged Property (except to the extent financed with a purchase money security interest which constitutes a Permitted Encumbrance), which ranks on a parity with the Mortgages. In addition, FH has granted a parity mortgage lien and security interest on Falmouth Hospital to the bond insurer for the Falmouth Series C Bonds. For a summary of certain provisions of the Falmouth Master Indenture, *see* Appendix D-2. Neither the Trustee nor the holders of the Series D Bonds, however, will be entitled to enforce directly the performance of the provisions of the Falmouth Master Indenture, except through the Falmouth Master Trustee.

All obligations now or hereafter issued under the Loan and Trust Agreement or the Falmouth Master Indenture will be joint and several obligations of the Obligated Group and equally and ratably secured by security interests in the Gross Receipts of the Obligated Group and the property subject to the Mortgages.

The exercise of remedies with respect to the Series D Bonds, the Series A Bonds, the Series B Bonds, the Series C Bonds and the Falmouth Series C Bonds and the allocation of proceeds received from any such exercise will be governed by the provisions of the Amended and Restated Parity Indebtedness Agreement dated as of October 9, 2001, as amended and restated as of December 7, 2004 (the "Parity Indebtedness Agreement") by and among the Trustee, the Falmouth Master Trustee, the Authority and the Obligated Group. *See* "Appendix D-3 – "SUMMARY OF THE AMENDED AND RESTATED PARITY INDEBTEDNESS AGREEMENT."

Debt Service Reserve Fund

The Loan and Trust 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, which is defined as the combined maximum annual debt service requirements on Outstanding Bonds, other than Bonds for which the Supplement to the Loan and Trust Agreement authorizing their issuance provides that no deposit into the Debt Service Reserve Fund be made. Upon the issuance of the Series D Bonds, the Debt Service Reserve Fund will be funded from proceeds of the Series D Bonds in the amount of approximately $3,880,802. Amounts on deposit in the Debt Service Reserve Fund will be available to make payments on the Series D Bonds, the Series A Bonds, the Series B Bonds, the Series C Bonds and any other bonds hereafter issued under the Loan and Trust Agreement secured by the Debt Service Reserve Fund, if the Obligated Group fails to make meet its required payment obligations relating to the Bonds. *See* Appendix C – "DEFINITIONS OF CERTAIN TERMS" for the definition of "Debt Service Reserve Fund

Requirement" and Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the heading "Debt Service Reserve Fund."

Additional Indebtedness of Obligated Group

Under the Loan and Trust Agreement, additional Bonds may be issued by the Authority and Alternative Indebtedness may be incurred by the Obligated Group which is equally and ratably secured with the Series D Bonds. See Appendix D – "SUMMARY OF LOAN AND TRUST AGREEMENT – Additional Bonds" and "– Alternative Indebtedness." In addition, the Falmouth Loan and Trust Agreement permits the issuance of additional bonds by the Authority and additional indebtedness by the obligated group thereunder (which is the same as the Obligated Group), secured by the Gross Receipts of the Obligated Group and by the Mortgages, on a parity with the security interest securing the Series D Bonds.

Rate Covenant, Days Cash on Hand Covenant and Liquidity Covenant

In the Loan and Trust Agreement, the Obligated Group agrees that, so long as the Series D Bonds are outstanding, to maintain the ratio of its Aggregate Income Available for Debt Service to Maximum Annual Debt Service at least equal to 1.10 for each fiscal year. If such ratio, as calculated at the end of any fiscal year, is less than the required ratio, the Obligated Group covenants to retain a Consultant to make recommendations to increase such ratio for subsequent fiscal years to at least the required level, or if the Consultant believes attainment of such level is impracticable, to the highest practicable level. The Obligated Group agrees, to the extent permitted by law, to follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and the Obligated Group shall follow such Consultant's recommendations to the extent permitted by law, no Event of Default under the Loan and Trust Agreement shall be deemed to have occurred for failure to meet the required Debt Service Coverage Ratio, unless the required Debt Service Coverage Ratio is not met for two consecutive fiscal years, or the Debt Service Coverage Ratio declines to less than 1.05.

In the Loan and Trust Agreement, the Obligated Group agrees (the "Days Cash on Hand Covenant") that, so long as the Series D Bonds are outstanding, to maintain unrestricted cash and investments at least equal to 60 Days Cash on Hand as of the end of each fiscal year. Days Cash on Hand is defined generally as the quotient produced by dividing the sum of unrestricted cash, cash equivalents, and investments (excluding amounts on deposit in the accounts created with respect to payment of interest on and principal of outstanding bonds and borrowed construction funds) by operating expenses (excluding extraordinary items, infrequently occurring items or unusual items and the cumulative effect of changes in accounting principles, to the extent that such extraordinary items, infrequently occurring items or unusual items are included in operating expenses, and depreciation, amortization or other non-cash charges), and then multiplying the quotient by 365. Failure to meet the Days Cash on Hand Covenant as of the end of any Fiscal Year will require the Obligated Group to retain a Consultant to make a report and recommendations, which the Obligated Group will be required to implement, to the extent permitted by law. If the Consultant is retained and its recommendations are being followed, no Event of Default under the Loan and Trust Agreement shall be deemed to have occurred, unless the Days Cash on Hand Covenant is not met for any two consecutive test periods, or Days Cash on Hand declines below 50.

In addition, the Obligated Group agrees, so long as the Series D Bonds are outstanding, to maintain a ratio (the "Liquidity Ratio") of unrestricted cash, cash equivalents, and investments (excluding amounts on deposit in the accounts created with respect to payment of interest on and principal of outstanding bonds and borrowed construction funds) to Maximum Annual Debt Service (*i.e.*, the highest Long-Term Indebtedness Service Requirement for the then-current or any future fiscal year) of not less than 1.25, as of the last day of each fiscal year. Failure to meet the Liquidity Ratio will require the Obligated Group to retain a Consultant to make a report and recommendations, which the Obligated Group will be required to implement, to the extent permitted by law. If the Consultant is retained and its recommendations are being followed, no Event of Default under the Loan and Trust Agreement shall be deemed to have occurred, unless the Liquidity Ratio is not met for any additional test period, or the Liquidity Ratio declines below 1.00.

For more complete description, *see* Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the headings "Rate Covenant," "Liquidity Covenant" and "Days Cash on Hand Covenant."

Altermate Credit Enhancement and Liquidity Facility

If at any time there shall have been delivered to the Trustee (i) an Alternate Credit Enhancement or an Alternate Liquidity Facility in substitution for the Credit Enhancement or Liquidity Facility then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a written Opinion of Counsel for the provider of the Alternate Credit Enhancement or Alternate Liquidity Facility, as applicable, to the effect that such Alternate Credit Enhancement or Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof (subject to customary exceptions), (iv) unless waived by such entity, written evidence satisfactory to the Credit Provider and the Liquidity Provider of the provision for purchase from the Liquidity Provider of all Liquidity Provider Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest, and payment of all amounts due to the Credit Provider and the Liquidity Provider under the Reimbursement Agreement(s) on or before the effective

date of such Alternate Credit Enhancement or Alternate Liquidity Facility, (v) if the Series D Bonds to be covered by the Alternate Credit Enhancement are in the Fixed Rate Mode and are then rated by Moody's and/or S&P, a written confirmation from Moody's and/or S&P that the substitution will not result in the withdrawal or reduction of its rating on such Bonds and (vi) in the case of the substitution of an insurance policy for the Bond Insurance Policy, the written consent of the Initial Liquidity Provider to such substitution, then the Trustee shall accept such Alternate Credit Enhancement or Alternate Liquidity Facility on the Substitution Date and shall surrender the Credit Enhancement or Liquidity Facility then in effect to the provider thereof on the Substitution Date so long as the Credit Provider or Liquidity Provider has honored any necessary draws on the Credit Enhancement or Liquidity Facility then in effect prior to such surrender. The Trustee shall give notice of such proposed substitution by mail to the Beneficial Owners of the Series D Bonds no less than fifteen (15) days prior to the proposed Substitution Date. The prior written consent of the Initial Liquidity Provider shall be required before the surrender, cancellation, termination, amendment or other modification in any material respect of the Bond Insurance Policy shall take effect.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the Series D Bonds are expected to be as follows:

SOURCES OF FUNDS	Amount
Principal Amount of Series D Bonds	$65,000,000.00
USES OF FUNDS	
Construction Fund	$54,821,594.72
Debt Service Reserve Fund	3,880,802.64
Capitalized Interest Account	2,886,949.28
Cost of Issuance (including Underwriter's fee and Insurance Policy premium and other costs)	3,410,653.36
Total Uses of Funds	$65,000,000.00

THE AUTHORITY

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

Authority Membership and Organization

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

The members of the Authority are as follows:

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.

Joseph G. 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 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 has 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, 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 a degree 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 Round Table, 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. 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 Saint 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 expired July 1, 2004. Mr. Kavanagh will continue to serve until he is reappointed or his successor takes office.

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 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.

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

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

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

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., attorneys of Boston, Massachusetts, are serving as Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Series D Bonds in substantially the form attached hereto as Appendix E.

Public Financial Management, Inc. is serving as financial consultant to the Authority. 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 projects; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant, for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Act. Additionally, the Authority may undertake a joint project or projects for two or more participants.

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

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

BOND INSURANCE

The Bond Insurance Policy

The following information is not complete and reference is made to Appendix F for a specimen of Assured Guaranty Corp.'s ("Assured Guaranty" or the "Insurer") financial guaranty insurance policy (the "Policy").

Assured Guaranty has made a commitment to issue the Policy relating to the Series D Bonds, effective as of the date of issuance of such Bonds. Under the terms of the Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal and interest on the Series D Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment by the Authority (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Authority solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or default interest rates, amounts in respect of indemnification, or any other additional amounts payable by the Trustee by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment," when referring to the principal of the Series D Bonds means the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Authority to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on the Series D Bonds. It is further understood that the term Nonpayment in respect of a Series D Bond also includes any amount that is paid, credited, transferred or delivered to the holder of such Bond in respect of any Insured Payment by the Trustee, which amount has been rescinded or recovered from or otherwise required to be returned or repaid by such holders pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder within the meaning of any applicable bankruptcy law. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee or paying agent, if any, to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment by the Authority to the Trustee, as beneficiary of the Policy on behalf of the holders of the Series D Bonds on the later to occur of (i) the date such principal or interest becomes Due for Payment or (ii) the business day next following the day on which Assured Guaranty receives notice of claim therefor in accordance with the terms of the Policy.

Assured Guaranty shall be subrogated to the rights of the holders of the Series D Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Policy.

The Policy is not covered by the property/casualty insurance fund specified in Article 76 of the New York Insurance Law.

The Bond Insurer

Assured Guaranty is a Maryland-domiciled insurance company licensed as a financial guaranty insurance company in forty-six states and the District of Columbia. Assured Guaranty was formed in 1985 and commenced operations in 1988. Assured Guaranty has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed. Assured Guaranty is located at 1325 Avenue of the Americas, New York, New York 10019. Assured Guaranty is wholly owned by Assured Guaranty Ltd., a Bermuda company whose shares are publicly held and are listed on the New York Stock Exchange under the symbol "AGO" ("AGL"). AGL files annual, quarterly and special reports, information statements and other information with the United States Securities and Exchange Commission ("SEC"). Copies of AGL's SEC filings are available over the SEC's website at www.sec.gov or over AGL's website at www.assuredguaranty.com.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (among other limited state jurisdictions) that, among other things, (i) limit Assured Guaranty's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves and (vii) govern changes in control and transactions among affiliates. State laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty's financial strength is rated AAA by Standard and Poor's Ratings Group, a division of The McGraw-Hill Companies Inc. ("S&P"), and Aa1 by Moody's Investor's Service ("Moody's"). Assured Guaranty's ratings outlook from

S&P is "negative." Each rating of Assured Guaranty should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of Assured Guaranty and its ability to pay claims on its policies of insurance. Any further explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, 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 any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Assured Guaranty makes no representation regarding the Series D Bonds or the advisability of investing in the Series D Bonds. In addition, Assured Guaranty makes no representation regarding, nor does it 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 Assured Guaranty supplied by Assured Guaranty and presented under the heading "The Bond Insurer."

Capitalization of Assured Guaranty Corp.

As of December 31, 2003, Assured Guaranty had total admitted assets of $1,207,785,868, total liabilities of $952,203,218, total surplus of $255,582,650 and total statutory capital (surplus plus contingency reserves) of $655,582,596 determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. Copies of the statutory quarterly and annual statements filed with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at (212) 974-0100.

Assured Guaranty has filed the following information with the Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") and such information is hereby included by specific reference in this Official Statement:

(i) the audited financial statements of Assured Guaranty for the years ended December 31, 2003, 2002 and 2001 prepared in accordance with accounting principles generally accepted in the United States of America and the report of an independent registered public accounting firm relating to those statements; and

(ii) the unaudited financial statements of Assured Guaranty for the nine months ended September 30, 2004 and 2003 prepared in accordance with accounting principles generally accepted in the United States of America.

Any statement contained herein under the heading "The Bond Insurer – Capitalization of Assured Guaranty Corp." or in any documents included by specific reference herein shall be modified or superseded to the extent required by any statement in any document subsequently filed by Assured Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

THE INITIAL LIQUIDITY FACILITY

The Initial Liquidity Facility

Payment of the purchase price of the Series D Bonds in the Daily Mode or Weekly Mode equal to the principal and interest due on such Bonds which are tendered for purchase or required to be tendered for purchase and not remarketed will be payable by Fleet National Bank, a Bank of America Company, the Initial Liquidity Provider, pursuant to the Standby Bond Purchase Agreement, which expires December 23, 2009. See Appendix D-4 – "SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY."

Under certain circumstances under the Loan and Trust Agreement, a substitute Liquidity Facility may be provided by the Institution. See "THE SERIES D BONDS" under the heading "Credit Enhancement and Liquidity Facility."

Information Concerning the Initial Liquidity Provider

The following information concerning Fleet National Bank, a Bank of America Company (the "Bank") has been provided by representatives of the Bank and has not been independently certified or verified by the Authority, the Obligated Group or the Underwriter.

The Bank is a national banking association which, directly or through its subsidiaries, is engaged in retail banking, commercial banking and investment management and other financial services activities. Prior to the completion of the merger described below, the Bank was a subsidiary of FleetBoston Financial Corporation ("FleetBoston"). As of September 30, 2004, the Bank had total assets of $209.6 billion, total deposits of $138.0 billion and total equity capital of $46.9 billion.

On April 1, 2004, FleetBoston completed its merger with Bank of America Corporation, a Delaware corporation, a bank holding company, and a financial holding company ("Bank of America"). At that time, the Bank became a subsidiary of Bank of America. Bank of America, headquartered in Charlotte, North Carolina, operates in 21 states and the District of Columbia and has offices located in 30 countries. Bank of America and its subsidiaries provide a diversified range of banking and certain non-banking financial services and products both domestically and internationally through four business segments: Consumer and Small Business, Commercial Banking, Global Corporate and Investment Banking, and Wealth and Investment Management.

At a future date, the Bank is expected to merge with Bank of America, N.A., Bank of America's other principal banking subsidiary. Information presented or incorporated by reference herein concerning the Bank relates solely to the Bank on a stand-alone basis exclusive of Bank of America, N.A.

Additional Information

The foregoing summary information is provided for convenience purposes only. Important additional information with respect to Bank of America and the Bank is contained in the following documents:

(a) Bank of America's Annual Report on Form 10-K for the year ended December 31, 2003, on file with the Securities and Exchange Commission;

(b) Bank of America's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004, June 30, 2004 and September 30, 2004, on file with the Securities and Exchange Commission;

(c) Bank of America's Current Reports on Form 8-K filed with the Securities and Exchange Commission on January 2, 2004, January 15, 2004, January 29, 2004, February 17, 2004, February 19, 2004, March 2, 2004, March 10, 2004, March 15, 2004, March 18, 2004, March 22, 2004, March 23, 2004, March 30, 2004, April 1, 2004 (as amended on April 14, 2004, May 7, 2004, July 14, 2004 and October 14, 2004), April 9, 2004, April 14, 2004, April 16, 2004 (two reports), May 6, 2004, May 24, 2004, May 26, 2004, June 4, 2004, June 8, 2004, June 23, 2004, June 28, 2004, July 2, 2004, July 14, 2004, August 24, 2004, August 27, 2004, September 13, 2004, October 8, 2004, October 14, 2004, October 29, 2004, November 3, 2004 and November 16, 2004; and

(d) Unaudited financial information in the Call Reports of the Bank for the periods ended December 31, 2003, March 31, 2004, June 30, 2004 and September 30, 2004, each as filed with the Federal Deposit Insurance Corporation.

The Bank will provide, upon written request, copies of such reports to any purchaser or prospective purchaser of the Bonds. The Bank also refers any purchaser or prospective purchaser of the Bonds to (i) all annual, quarterly and current reports filed with the Securities and Exchange Commission by Bank of America subsequent to those reports described above and (ii) all Call Reports of the Bank for periods subsequent to those described above.

THE SERIES D BONDS

Description of the Series D Bonds

General

The Series D Bonds will be issued in the aggregate principal amount of $65,000,000, and will be dated the date of initial delivery thereof and will be issued initially in the Weekly Mode. At the option of the Obligated Group and upon certain conditions provided for in the Agreement, all or a portion of any series of the Series D Bonds may be (a) converted or reconverted to or from the Daily Mode, Flexible Mode, Weekly Mode or Term Rate Mode (collectively, the "Variable Rate Modes"), in which Modes the Interest Period is, respectively, one day, between one and 360 days, one week. six months or any period in excess thereof, (b) converted or reconverted to the Auction Mode or (c) converted to the Fixed Rate Mode. See "Conversion to Other Modes" herein. The Series D Bonds will mature on November 15, 2035.

If the Series D Bonds are converted to an Auction Rate Mode, the Loan and Trust Agreement will be amended, without consent of the Holders of any of the Series D Bonds, to include the necessary and appropriate provisions for such Series D Bonds in an Auction Rate Mode, including the form of the Series D Bonds in the Auction Rate Mode.

Interest on the Series D Bonds will be payable initially on January 3, 2005 and thereafter: (i) with respect to the Series D Bonds in the Flexible Mode, each Mandatory Purchase Date applicable thereto; (ii) with respect to the Series D Bonds in the

Daily Mode or Weekly Mode, the first Business Day of each month; (iii) with respect to the Series D Bonds in a Term Rate Mode or Fixed Rate Mode (collectively, a "Long-Term Mode"), on each May 15 and November 15, commencing with the first such date immediately following conversion to a Long-Term Mode and with respect to a Term Rate Period, the final day of the current Interest Period if other than a regular six-month interval; (iv) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and the Maturity Date; and (v) with respect to any Liquidity Provider Bonds, the day set forth in the applicable Liquidity Facility.

While the Series D Bonds are in the Weekly Mode, a new interest rate shall take effect on each Thursday while the Series D Bonds are in the Weekly Mode. While the Series D Bonds are in the Daily Mode, a new interest rate shall be determined at 9:30 A.M. on each Business Day effective for that day. While the Series D Bonds are in the Flexible Mode, a new interest rate shall take effect on the date such Mode takes effect, and on the Effective Date of the next Flexible Rate Period applicable to the Series D Bonds. While the Series D Bonds are in the Term Rate Mode, a new interest rate shall take effect on the date such Mode takes effect and thereafter on the day next succeeding the Interest Payment Date ending the Interest Period designated by the Institution. No Series D Bonds shall bear interest at an interest rate higher than the Maximum Rate.

While the Series D Bonds are in any Variable Rate Mode, the Variable Rate in effect for each Interest Period shall be determined on the Rate Determination Date for the applicable Mode. The Variable Rate shall be the rate of interest determined by, as applicable, Cain Brothers & Company, LLC, as remarketing agent for the Series D Bonds (the "Remarketing Agent"), for each Interest Period to be the lowest rate which in its judgment, on the basis of then existing market conditions, would permit the sale of the Series D Bonds bearing interest at the applicable Variable Rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The Rate Determination Date: (i) in the case of the Flexible Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Series D Bonds become subject to the Daily Mode; (iii) in the case of the Weekly Mode, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday or in the case of a reconversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter as described above; (iv) in the case of the Term Rate Mode, shall be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; and (v) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

If the Remarketing Agent fails to make such determination or fails to announce the interest rate as required, the rate to take effect on any Effective Date shall be the Alternate Rate. If the Remarketing Agent fails or is unable to determine the Interest Period and the Series D Bonds are in (i) the Weekly Mode, the next Interest Period shall remain the Weekly Rate Period, (ii) the Flexible Mode, the next Interest Period shall be a Flexible Rate Period with a duration of one day, (iii) the Daily Mode, the Interest Period shall remain the Daily Rate Period, or (iv) the Term Rate Mode, the Series D Bonds shall automatically convert to the Flexible Mode with a Flexible Rate Period with a duration of one day.

When the Series D Bonds bear interest at Flexible Rates, the interest rate for each particular Bond will be determined by the Remarketing Agent and will remain in effect from and including the commencement date of the Flexible Rate Period selected for that Bond by the Remarketing Agent to, but not including, the last date thereof. While the Series D Bonds are in the Flexible Mode, Bonds may have successive Flexible Rate Periods of any duration up to 360 days each and ending on a Business Day and any Bond may bear interest at a rate and for a period different from any other Bond.

Subject to the provisions discussed under "Book-Entry Only System," the Series D Bonds will be issued initially only as fully registered bonds in the denomination of $100,000 or any integral multiple of $5,000 in excess thereof. The Series D Bonds are issuable only in fully registered form in the following Authorized Denominations: (i) while in the Daily Mode or Weekly Mode, $100,000 or any integral multiple of $5,000 in excess thereof, (ii) while in the Flexible Mode, $100,000 or any integral multiple of $1,000 in excess thereof and (iii) while in the Fixed Rate Mode or Term Rate Mode, $5,000 or any integral multiple thereof. While the Series D Bonds are in the Daily Mode, Weekly Mode or Flexible Mode, interest shall be computed on the basis of a 365/366 day year and actual days elapsed. While the Series D Bonds are in the Term Rate or Fixed Rate Mode, interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Notwithstanding the foregoing, while any Series D Bond is a Liquidity Provider Bond, such Series D Bond shall bear interest and be payable at the times and in the amounts required under the Liquidity Facility then in effect. Principal or redemption price will be payable upon surrender of the Series D Bonds at the principal corporate trust office of the Paying Agent. Interest on the Series D Bonds will be paid by wire or bank transfer within the continental United States of immediately available funds from the Paying Agent to the registered owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books maintained by the Paying Agent. The "Record Date" shall mean (i) with respect to Series D Bonds in a Short-Term Mode, the last Business Day before an Interest Payment Date and (ii) with respect to Series D Bonds in a Long-Term Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

Book-Entry Only System

Portions of the following information concerning DTC and DTC's book-entry only system have been obtained from DTC. The Authority, the Obligated Group, the Trustee and the Underwriter make no representation as to the accuracy of such information.

Initially, the Series D Bonds will be available in book-entry form only. Purchasers of the Series D Bonds will not receive certificates representing their interests in the Series D Bonds purchased. DTC will act as securities depository for the Series D Bonds. The Series D 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 D Bond certificate will be issued for the Series D Bonds, in the aggregate principal amount of such issue, 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. 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 are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange L.L.C., 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 Series D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series D 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 D 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 D Bonds, except in the event that use of the book-entry system for the Series D Bonds is discontinued.

To facilitate subsequent transfers, all Series D 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 the Series D 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 D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series D 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 D Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Payments of the principal, purchase price or redemption price of the Series D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on 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 nor its nominee, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, purchase price or redemption price to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series D Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series D Bonds by causing the Direct Participant to transfer the Participant's interest in the Series D Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series D Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series D Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series D Bonds to the Trustee's DTC account.

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

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

So long as Cede & Co. is the registered owner of the Series D Bonds, as nominee of DTC, references herein to the bondholders or registered owners of the Series D Bonds means Cede & Co., not the Beneficial Owners of the Series D Bonds.

THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE TO ITS PARTICIPANTS OR THAT DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL DISTRIBUTE TO BENEFICIAL OWNERS OF THE SERIES D BONDS (I) PAYMENTS OF THE PRINCIPAL, PURCHASE PRICE OR REDEMPTION PRICE OF, OR INTEREST ON, THE SERIES D BONDS, OR (II) CONFIRMATION OF OWNERSHIP INTERESTS IN THE SERIES D BONDS, OR (III) REDEMPTION OR OTHER NOTICES, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH ITS PARTICIPANTS ARE ON FILE WITH DTC.

NONE OF THE AUTHORITY, THE OBLIGATED GROUP, THE TRUSTEE OR THE OBLIGATED GROUP WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OF THE SERIES D BONDS WITH RESPECT TO (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (II) THE PAYMENT BY DTC TO ANY DIRECT PARTICIPANT OR BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL, REDEMPTION PRICE OR PURCHASE PRICE OF, OR INTEREST ON, ANY Series D BONDS, (III) THE DELIVERY OF ANY NOTICE BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT, (IV) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES D BONDS, OR (V) ANY OTHER ACTION TAKEN BY DTC, ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT.

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

Series D Bonds. The Paying Agent will not be required to transfer or exchange any Bond during the notice period preceding any redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

Pledge of Revenues and Funds under the Loan and Trust Agreement

Under the Loan and Trust Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms of the Loan and Trust Agreement (a) all Revenues to be received from the Obligated Group or derived from any security provided under the Loan and Trust 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 Loan and Trust Agreement to enforce the provisions thereof.

Under the Loan and Trust Agreement, the Obligated Group grants to the Trustee a continuing security interest in all funds and accounts established thereunder, other than Rebate Fund.

Principal, Sinking Fund Installments and Interest Requirements on All Bonds Outstanding Under Loan and Trust Agreement, Falmouth Series C Bonds and Other Long-Term Indebtedness of the Obligated Group.

	Series D Bonds						
Fiscal Year Ending Sept.30	Principal Maturity or Sinking Fund Installment [1]	Interest [2]	Total Debt Service [2]	Total Debt Service on Series A, Series B and Series C Bonds	Total Debt Service on Falmouth Series C Bonds	Other Long-Term Indebtedness	Total Debt Service [2]
2005		$1,018,630	$1,018,630	$8,172,526	$1,649,026	$ 3,175,217	$14,015,399
2006		2,600,000	2,600,000	8,171,982	1,647,926	2,875,800	15,295,708
2007		2,600,000	2,600,000	8,168,435	1,648,800	2,336,544	14,753,779
2008		2,600,000	2,600,000	8,164,653	1,646,376	2,162,782	14,573,811
2009	$1,275,000	2,574,500	3,849,500	8,144,375	1,645,650	2,092,781	15,732,306 [3]
2010	1,325,000	2,522,500	3,847,500	8,025,806	1,649,776	1,825,272	15,348,354
2011	1,380,000	2,468,400	3,848,400	8,049,169	1,644,682	1,805,772	15,348,023
2012	1,435,000	2,412,100	3,847,100	8,055,306	1,650,650	1,786,272	15,339,328
2013	1,495,000	2,353,500	3,848,500	8,137,121	1,652,426	1,766,772	15,404,819
2014	1,560,000	2,292,400	3,852,400	8,131,469	0	1,747,272	13,731,141
2015	1,625,000	2,228,700	3,853,700	8,130,187	0	1,727,772	13,711,659
2016	1,690,000	2,162,400	3,852,400	8,123,283	0	1,708,272	13,683,955
2017	1,760,000	2,093,400	3,853,400	8,119,224	0	1,688,771	13,661,395
2018	1,835,000	2,021,500	3,856,500	8,117,214	0	2,569,271	14,542,985
2019	1,910,000	1,946,600	3,856,600	8,107,380	0	2,182,271	14,146,251
2020	1,990,000	1,868,600	3,858,600	8,104,519	0	2,082,272	14,045,391
2021	2,070,000	1,787,400	3,857,400	8,096,383	0	1,982,272	13,936,055
2022	2,155,000	1,702,900	3,857,900	8,093,322	0	1,882,272	13,833,494
2023	2,245,000	1,614,900	3,859,900	8,075,559	0	1,322,272	13,257,731
2024	2,340,000	1,523,200	3,863,200	8,067,236	0	700,000	12,630,436
2025	2,435,000	1,427,700	3,862,700	2,967,981	0	0	6,830,681
2026	2,540,000	1,328,200	3,868,200	2,969,831	0	0	6,838,031
2027	2,645,000	1,224,500	3,869,500	2,965,906	0	0	6,835,406
2028	2,750,000	1,116,600	3,866,600	2,961,075	0	0	6,827,675
2029	2,865,000	1,004,300	3,869,300	2,959,944	0	0	6,829,244
2030	2,985,000	887,300	3,872,300	2,957,119	0	0	6,829,419
2031	3,110,000	765,400	3,875,400	2,952,338	0	0	6,827,738
2032	3,235,000	638,500	3,873,500	2,945,338	0	0	6,818,838
2033	3,370,000	506,400	3,876,400	0	0	0	3,876,400
2034	3,510,000	368,800	3,878,800	0	0	0	3,878,800
2035	3,655,000	225,500	3,880,500	0	0	0	3,880,500
2036	3,810,000	76,200	3,886,200	0	0	0	3,886,200

(1) Principal of Series A Bonds, Series B Bonds, Series C Bonds and Series D Bonds is due on November 15 of the preceding calendar year.
(2) Interest calculated assuming the Series D Bonds bear interest at the rate of 4.0% per annum, which includes the fixed interest rate on the Swap, Initial Liquidity Facility fees, remarketing fees and related costs.
(3) Maximum Annual Debt Service

Redemption Provisions

Mandatory Sinking Fund Redemption.

Sinking fund installments on the Series D Bonds shall be payable on November 15 in each of the years as follows:

Year	Sinking Fund Installment	Year	Sinking Fund Installment
2008	$1,275,000	2022	$2,245,000
2009	1,325,000	2023	2,340,000
2010	1,380,000	2024	2,435,000
2011	1,435,000	2025	2,540,000
2012	1,495,000	2026	2,645,000
2013	1,560,000	2027	2,750,000
2014	1,625,000	2028	2,865,000
2015	1,690,000	2029	2,985,000
2016	1,760,000	2030	3,110,000
2017	1,835,000	2031	3,235,000
2018	1,910,000	2032	3,370,000
2019	1,990,000	2033	3,510,000
2020	2,070,000	2034	3,655,000
2021	2,155,000	2035*	3,810,000

[1] Maturity.

In addition, for so long as the Liquidity Facility is in effect, any Series D Bonds that are Liquidity Provider Bonds are subject to mandatory redemption by the Authority in quarterly installments equal to 1/20 of the principal amount thereof commencing with the last Business Day of the third full calendar month falling at least 180 days after the purchase thereof by the Liquidity Provider and continuing on the last Business Day of each third month thereafter until paid in full or, if earlier, the scheduled maturity date thereof. In the event the Liquidity Facility is replaced by an Alternate Liquidity Facility, the mandatory redemption provision described in this paragraph may be amended to the extent required under the terms of the Alternate Liquidity Facility in accordance with the Loan and Trust Agreement.

Optional Redemption. The Series D Bonds in the Daily Mode and Weekly Mode are subject to optional redemption at par plus accrued interest prior to the Fixed Rate Conversion Date for such Series D Bonds at the direction of the Obligated Group in whole or in part in Authorized Denominations on any date (in such order of sinking fund installments as directed by the Obligated Group).

Series D Bonds in the Flexible Mode are not subject to optional redemption prior to their respective Purchase Dates. Bonds in the Flexible Mode shall be subject to redemption at the option of the Obligated Group in whole or in part on their respective Purchase Dates at a redemption price equal to the principal amount thereof.

Series D Bonds in the Term Rate Mode shall be subject to redemption at the option of the Obligated Group, in whole or in part, on their individual Mandatory Purchase Dates. Series D Bonds in the Fixed Rate Mode and the Term Rate Mode are subject to redemption at the direction of the Obligated Group in whole at any time or in part on any Interest Payment Date at the following redemption prices expressed as a percentage of the principal amount redeemed, plus interest accrued to the redemption date:

Length of Long-Term Mode Interest Period	Commencement of Redemption Period	Redemption Price
Greater than or equal to to 15 years	Tenth Anniversary of the commencement of Long-Term Interest Rate Period	100%
Less than 15, and greater than or equal to 10 years	Seventh Anniversary of the commencement of Long-Term Interest Rate Period	100%
Less than 10, and greater than or equal to 5 years	Third Anniversary of the commencement of Long-Term Interest Rate Period	100%
Less than 5 years	Series D Bonds not subject to optional redemption	

In the event the Series D Bonds (or any portion thereof) are selected for redemption prior to the Fixed Rate Conversion Date notice will be mailed by the Trustee no fewer than seven days prior to the redemption date to the registered owners; provided, however that if the Series D Bonds are in the Term Rate Mode or Fixed Rate Mode, notice will be mailed by the Trustee no more than 30 or fewer than 15 days prior to the redemption date to the registered owners.

The Obligated Group may purchase Bonds and credit them against the final maturity or any sinking fund installment for the Series D Bonds of such maturity at the principal amount or applicable redemption price, as the case may be, by delivering them to the Trustee for cancellation at least sixty (60) days before the principal payment date.

Selection of Bonds for Redemption. The Series D Bonds to be redeemed shall be selected by the Trustee by lot or in any customary manner of selection as determined by the Trustee in units of $5,000, provided (i) that there shall be no partial redemption of Series D Bonds of any holder if the amount remaining outstanding is less than a minimum authorized denomination; and (ii) so long as DTC or its nominee is the Bondowner, if less than all of the Series D Bonds of a series or a Mode shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by DTC in such manner as DTC may determine; and (ii) Liquidity Provider Bonds shall be redeemed before any other Series D Bonds.

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

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

The Trustee shall give notice of redemption to the Bondowners not less than seven (7) days prior to the date fixed for redemption; provided, however, that if this bond is in the Term Rate Mode or the Fixed Rate Mode, notice will be mailed by the Trustee no more than 30 or fewer than 15 days prior to the redemption date to the Bondowners. Failure to mail notice to a particular Bondowner or any defect in the notice of such Bondowner, shall not affect the redemption of any other Bond. So long as DTC or its nominee is the Bondowner, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected shall not affect the validity of the redemption.

Conversion to Other Modes

While the Series D Bonds are in the Daily or Weekly Mode, conversions to any other Mode may take place on any Business Day, upon not less than seven days' prior written notice from the Tender Agent to the registered owners of the Series D Bonds. While the Series D Bonds are in the Term Rate Mode, conversions to any other Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, may take place only on an Interest Payment Date on which the Series D Bonds are subject to optional redemption or on the last Interest Payment Date of the current Term Rate Period, upon not less than five days' prior written notice from the Tender Agent to the registered owners of the Series D Bonds. While the Series D Bonds are in the Flexible Mode, conversions to any other Mode may take place only on the next Mandatory Purchase Date for such Bonds. "Tender Agent" shall mean the Trustee, or such other commercial bank, trust company or other entity which may from time to time be appointed to serve as Tender Agent under the Loan and Trust Agreement.

Upon such conversion or reconversion the Series D Bonds may be subject to mandatory tender for purchase as described below under "Mandatory Tender for Purchase." Each conversion of the Series D Bonds from one Mode to another Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, shall be subject to the conditions set forth in the Loan and Trust Agreement. In the event that the conditions for a proposed conversion to a new Mode, or conversions between Term Rate Periods of different lengths while in the Term Rate Mode, are not met, (i) such new Mode shall not take effect on the proposed conversion date, notwithstanding any prior notice to the Bondowners of such conversion, (ii) the Series D Bonds shall remain in their prior Mode, and (iii) the Series D Bonds shall be subject to mandatory tender for purchase as described below if notice has been sent to the registered owners stating that the Series D Bonds would be subject to mandatory purchase on such date. In no event shall the failure of the Series D Bonds to be converted to another Mode be deemed to be a default or an Event of Default as long as the Purchase Price is made available if the Series D Bonds are required to be purchased.

So long as the Initial Liquidity Facility is in effect, the ability of the Obligated Group to effect changes in Mode shall be subject to the written consent of the Bond Insurer and the conditions of the Initial Liquidity Facility, including a provision that the Obligated Group shall not effect a change in Mode to the Flexible Rate Mode, Term Rate Mode or Fixed Rate Mode without the consent of the Initial Liquidity Provider.

Optional Tender

Series D Bonds in the Flexible Mode, Term Rate Mode, Fixed Rate Mode are not subject to optional tender. While the Series D Bonds are in the Daily Mode or the Weekly Mode the registered owners shall have the right to tender the Series D Bonds for purchase in the amount of $100,000 or integral multiples of $5,000 in excess thereof at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, upon compliance with the conditions described below. In order to exercise the right to tender, the registered owners must deliver to the Tender Agent a written irrevocable notice of tender satisfactory to the Tender Agent. If the Series D Bonds are in the Daily Mode, in order to exercise the right to tender, the registered owners must give notice to the Tender Agent not later than 10:00 A.M., New York City time, on any Business Day stating that such owner irrevocably elects to tender the Series D Bond (or specified portion thereof) and stating the name, address and taxpayer identification number of such owner, the number of the Series D Bond and the principal amount being tendered, and the Series D Bond will be purchased on the date of such notice. If the Series D Bonds are in the Weekly Mode, they will be purchased on the Business Day specified in such Series D Bondowner's Tender Notice, provided such date is at least seven calendar days after receipt by the Tender Agent of such notice. If the registered owner of a Series D Bond has elected to require purchase as provided above, the registered owner shall be deemed, by such election, to have agreed irrevocably to sell such Series D Bond to any purchaser determined in accordance with the provisions of the Loan and Trust Agreement on the date fixed for purchase at a price (the "Purchase Price") equal to the principal amount of such Series D Bond plus accrued interest thereon, if any, to the Purchase Date. The Purchase Price of the Series D Bonds shall be paid to the registered owners by the Paying Agent on the delivery date, which shall be the Purchase Date or any subsequent Business Day on which such Series D Bonds are delivered to the Tender Agent. From and after the Purchase Date, no further interest on the Series D Bonds shall be payable to the registered owners who gave notice of tender for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. Tender of the Series D Bonds will not be effective and the Series D Bonds will not be purchased if at the time fixed for purchase an acceleration of the maturity of the Series D Bonds shall have occurred and not have been annulled in accordance with the Loan and Trust Agreement. Notice of tender of the Series D Bonds is irrevocable. All notices of tender of Series D Bonds shall be made to the Tender Agent. All deliveries of tendered Series D Bonds, including deliveries of Series D Bonds subject to mandatory tender, shall be made to the Tender Agent.

Under certain circumstances described under Appendix D-4 – "SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY," the obligation of the Initial Liquidity Provider to purchase the Series D Bonds tendered by the owners thereof or subject to mandatory purchase may be terminated or suspended. In such event, the owners of the Series D Bonds will cease to have the right to tender their Series D Bonds for purchase. The Bond Insurance Policy does not guarantee the purchase price of the Series D Bonds. In addition, the Initial Liquidity Facility does not provide security for the payment of principal of or interest or premium, if any, on the Series D Bonds. After the Fixed Rate Conversion Date, the registered owners of the Series D Bonds shall have no right to tender the Series D Bonds for purchase.

Mandatory Tender for Purchase

The Series D Bonds are subject to mandatory tender for purchase at a price of par plus accrued interest, if any, to the Purchase Date (i) with respect to a Flexible Rate Bond, on the first Business Day following the last day of each Flexible Rate Period with respect to such Series D Bonds, (ii) for Series D Bonds in the Term Rate Mode, on the first Business Day following the last day of each Term Rate Period, (iii) on any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode), (iv) on any Substitution Date (other than a substitution of an Alternate Credit Enhancement for Credit Enhancement while the applicable Series D Bonds are in the Fixed Rate Mode), (v) on the fifth Business Day prior to the Expiration Date (other than as a result of an Automatic Termination Event), and (vi) fourteen (14) Business Days following receipt by the Trustee of written notice from the Liquidity Provider or the Credit Provider following occurrence of an event of default (other than an Automatic Termination Event) under the Reimbursement Agreement then in effect, and in any event, at least two Business Days prior to the termination of the Liquidity Facility.]] Notice of mandatory tender shall be given or caused to be given by the Tender Agent in writing to the registered owners of the Series D Bonds subject to mandatory tender (a) no less than thirty (30) days prior to the Mandatory Purchase Date in the case of a mandatory purchase (i) at the end of an Interest Period for Series D Bonds in a Term Rate Mode or (ii) on a Substitution Date; (b) no less than seven (7) days prior to the Mandatory Purchase Date in the case of a mandatory purchase on a Mode Change Date; and (c) (i) not less than seven (7) Business Days following receipt by the Trustee of written notice from the Liquidity Provider or the Credit Provider of the occurrence of an event of default (other than an Automatic Termination Event) under the Reimbursement Agreement then in effect or (ii) immediately preceding any Expiration Date. No notice shall be given of the Mandatory Purchase Date at the end of each Interest Period for Flexible Rate Bonds. From and after the Purchase Date, no further interest on the Series D Bonds shall be payable to the

registered owners thereof, provided that there are sufficient funds available on the Effective Date to pay the purchase price. **After the Fixed Rate Conversion Date, the Series D Bonds are not subject to mandatory tender for purchase.**

Remarketing of Series D Bonds; Draw on Liquidity Facility

The Remarketing Agent shall use its best efforts to offer for sale:

(i) all Series D Bonds or portions thereof as to which notice of optional tender has been given; and

(ii) all Series D Bonds required to be purchased on a Mandatory Purchase Date constituting the first Business Day following the last day of each Flexible Rate Period and Term Rate Period and any Mode Change Date (except between the Daily and Weekly Modes); and

(iii) any Liquidity Provider Series D Bonds (A) that are, subject to clauses (B) and (C), purchased on a Purchase Date described in clause (i) or (ii) above, (B) with respect to which the Liquidity Provider has provided written notice to the Trustee and the Remarketing Agent that it has reinstated the Available Amount, (C) with respect to which an Alternate Liquidity Facility and Alternate Credit Enhancement is in effect (if such Series D Bonds were secured by a Credit Enhancement prior to becoming Liquidity Provider Series D Bonds which Credit Enhancement is no longer in effect), or (D) which are being marketed as Fixed Rate Series D Bonds.

On each date on which a Series D Bond is to be purchased, if the Remarketing Agent shall have given notice to the Paying Agent and the Tender Agent pursuant to the Loan and Trust Agreement that it has been unable to remarket any of the Series D Bonds, the Paying Agent shall immediately direct the Trustee (if the two are separate entities) to draw on the Liquidity Facility (or if there is no Liquidity Facility or the Liquidity Facility is unavailable to honor such draw, request funds from the Obligated Group Agent) by 10:00 A.M. in the Weekly Mode and 11:00 A.M. in the Daily Mode, in an amount equal to the Purchase Price of all such Series D Bonds which have not been successfully remarketed.

By 3:00 P.M. on the date on which a Series D Bond is to be purchased, and except as set forth in the Loan and Trust Agreement, the Paying Agent shall purchase tendered Series D Bonds from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and none of the Paying Agent, the Trustee nor the Remarketing Agent shall be obligated to provide funds from any other source:

(a) immediately available funds on deposit in the Remarketing Proceeds Account;

(b) immediately available funds on deposit in the Liquidity Facility Purchase Account, provided that such funds may only be used to purchase Series D Bonds as to which a Liquidity Facility is in effect; and

(c) immediately available funds
of the Obligated Group.

On each date on which a Series D Bond is to be purchased, such Series D Bond shall be delivered as follows:

(a) Series D Bonds sold by the Remarketing Agent and described in clause (a) above shall be delivered by the Remarketing Agent to the purchasers of such Series D Bonds by 3:00 P.M.;

(b) Series D Bonds purchased by the Paying Agent with moneys described in clause (b) above shall be registered immediately in the name of the Liquidity Provider or its nominee (which may be the Securities Depository) on or before 3:00 P.M.; and

(c) Series D Bonds purchased by the Obligated Group with moneys described in clause (c) above shall be registered immediately in the name of the Obligated Group or its nominee on or before 3:00 P.M. Series D Bonds so owned by the Obligated Group shall continue to be outstanding under the terms of the Loan and Trust Agreement and be subject to all of the terms and conditions of the Loan and Trust Agreement and shall be subject to remarketing by the Remarketing Agent.

Anything in the Loan and Trust Agreement to the contrary notwithstanding, if there shall have occurred and be continuing either a Credit Enhancement Failure or a Liquidity Facility Failure, the Remarketing Agent shall not remarket any Series D Bonds covered by the Credit Enhancement or Liquidity Facility, as applicable. All other provisions of the Loan and Trust Agreement, including without limitation, those relating to the setting of interest rates and Interest Periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such Event of Default.

On each date on which a Series D Bond is to be purchased, the Trustee, at the direction of the Paying Agent, by demand given by Electronic Means before 10:00 A.M. in the Weekly Mode and 11:00 A.M. in the Daily Mode, shall draw on the Liquidity Facility in accordance with the terms thereof so as to receive thereunder by 2:00 P.M. on such date an amount, in immediately available funds, sufficient, together with the proceeds of the remarketing of Series D Bonds on such date, to enable the Paying Agent to pay the Purchase Price in connection therewith.

Acceleration. In addition to the foregoing redemption provisions, with the written consent of Assured Guaranty, the Trustee may declare all of the Series D Bonds due and payable at par prior to maturity upon the occurrence of an Event of Default, as defined in the Loan and Trust Agreement. See Appendix D-1 – "SUMMARY OF THE LOAN AND TRUST AGREEMENT" under the headings "Default by the Obligated Group" and "Remedies upon Events of Default."

BONDOWNERS' RISKS

General

There are risks associated with the purchase of Series D Bonds. The principal or redemption price of and interest on the Series D Bonds are payable solely from the amounts paid by the Obligated Group to the Authority under the Loan and Trust Agreement, or if an Event of Default occurs under the Loan and Trust Agreement, from amounts paid 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 D 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 managed care 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.

Enforceability of Remedies Generally

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

Enforceability of Lien on Gross Receipts

The Loan and Trust Agreement provides that the Obligated Group shall make payments to the Trustee sufficient to pay the Series D Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments is secured by a security interest granted to the Trustee in the Gross Receipts of the Obligated Group.

To the extent that Gross Receipts are derived from payments by the federal 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 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 D 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 Trustee by a Member of the Obligated Group within twenty days of their receipt. A Member of the Obligated Group is obligated to pay over such proceeds within twenty days of receipt only in the event of a failure to make a required payment pursuant to the Loan and Trust Agreement. If any required payment is not made when due, the Members of the Obligated Group must transfer or pay over immediately to the 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 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 D Bonds by the by the Mortgages and the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Series D Bonds. See "Additional Debt" herein.

Enforceability of the Loan and Trust 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 in its Gross Receipts and the joint and several obligation of a Member to make payments due under the Loan and Trust Agreement, relating to bonds issued for the benefit of another Member, may be declared void in an action brought by third-party creditors pursuant to the Massachusetts fraudulent conveyance statutes or may be avoided by a Member or a trustee in bankruptcy in the event of the bankruptcy of the Member from whom 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 test 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 Loan and Trust Agreement to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members, may be held to be "transfer" which makes such Member "insolvent" in the sense that the total amount due under the Loan and Trust Agreement 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 Loan and Trust 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 agreements 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.

Limitation on Value of Mortgaged Property

The core hospital campuses of the Obligated Group are subject to a mortgage lien created by the Mortgages, as security for all Bonds and Alternative Indebtedness issued under the Loan and Trust Agreement and the obligations issued under the Falmouth Master Indenture. Such Mortgaged Property is not comprised of general-purpose buildings and generally would not be suitable for industrial or commercial use. Consequently, it could be difficult to find a buyer or lessee for the Mortgaged Property, and, upon any default, the Trustee may not obtain an amount equal to the amount of the outstanding Bonds and the other indebtedness secured by the Mortgaged Property, if it were necessary to proceed against the Mortgaged Property, whether pursuant to a judgment, if any, against the Obligated Group or otherwise.

In addition, in order to operate the Mortgaged Property as a health care facility, a purchaser of the Mortgaged Property at foreclosure sale would under present law have to obtain a determination of need from the Massachusetts Department of Public Health and a license for the facility. The ability to operate the Mortgaged Property as a health care facility might be affected accordingly.

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 Trustee's lien on behalf of the Bondowners 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 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, 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.

In addition, any such sale or lease of the Mortgaged Property may require notice and an investigation by the Attorney General of such sale or lease, and/or approval by a court of competent jurisdiction. See "Enforceability of Lien on Gross Receipts" above.

No real property other than the Mortgaged Property is pledged to secure the Series D Bonds.

Covenant to Maintain Tax-Exempt Status on the Series D Bonds

The excludability of interest on the Series D 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 Loan and Trust Agreement. These covenants relate generally to arbitrage limitations, rebate of certain investment earnings to the federal government, and restrictions on the amount of costs of issuance financed with the proceeds of the Series D Bonds, the tax-exempt status of the Obligated Group and other use, expenditure and investment restrictions. Failure to comply with any of these covenants may result in the inclusion of interest on the Series D Bonds in the gross income of the recipients thereof for federal income tax purposes retroactive to the date of issuance.

Revocation of Tax Exemption; Private Inurement

Revocation of the tax-exempt status of an Obligated Group Member under Section 501(c)(3) of the Code could subject the interest paid to Bondowners to federal income taxation retroactively to the date of issuance of the Series D Bonds. Section 501(c)(3) of the Code specifically conditions the continuing exemption of all organizations described in such section upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. The Internal Revenue Service (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 addresses many common arrangements between exempt hospitals or entities and non-exempt individuals or entities. While the management of the Obligated Group believes that the Obligated Group's arrangements with 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 IRS 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, to the extent provided in regulations yet to be finalized, is determined in whole or in part by the revenues of one or more activities of such organization. "Disqualified persons" include "insiders" such as board members and officers, senior management and members of the medical staff who in each case are in a position substantially to influence the affairs of the organization; their family members; and entities which are more than thirty-five percent-owned by such persons. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: (i) approved by disinterested members of the organization's board or compensation committee; (ii) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and (iii) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

Although management of the Obligated Group 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 tax 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.

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. Among the types of regulatory requirements faced by health care providers are air and water quality control requirements applicable to asbestos, polychlorinated biphenyls (PCBs), and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at a health care facility; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In their role as owners or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances located on the property, including any such substances that migrate off the property. Typical health care provider operations include, without limitation, the handling, use, storage, transportation, disposal and/or discharge of medical and/or other hazardous materials, wastes, pollutants or contaminants. As a result, such operations are particularly susceptible to the risks associated with compliance with such laws and regulations. Failure to comply 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, penalties or other government agency actions. At the present time, the Obligated Group is not aware of any pending or threatened environmental claim, investigation or enforcement action which, if determined adversely, would have material adverse consequences.

Effect of Bankruptcy

If any Obligated Group Member obtains protection under the federal Bankruptcy Code, its revenues may not be subject to the security interests created under the Loan and Trust Agreement. Property acquired by such Member after the bankruptcy will not be subject to the security interests created under the Loan and Trust Agreement or the Falmouth Master 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 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.

For additional Bondowners' Risks relating to the healthcare industry, 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 D Bonds and the Authority will not provide any such information. The Obligated Group and the Dissemination Agent (defined below) have undertaken all responsibilities for any continuing disclosure as described below, and the Authority shall have no liability to the Bondowners or any other person with respect to such disclosures.

The Series D Bonds are exempt from the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") because they are initially issued in minimum denominations of $100,000 and in the Weekly Mode are subject to tender at the option of the holders upon seven days' notice. In connection with the issuance of the Series C Bonds, the Obligated Group entered into a Continuing Disclosure Agreement with the Trustee (the "Continuing Disclosure Agreement"), pursuant to which the Obligated Group agreed to deliver to the Trustee, as Dissemination Agent, for delivery to each nationally recognized municipal securities information repository ("NRMSIR") and the state information depository in Massachusetts, if any (the "SID" and, together with the NRMSIRs, the "Repositories"), (i) a report within 180 days after the end of each fiscal year (the "Annual Report") and (ii) a report within 60 days after the end of each fiscal quarter (a "Quarterly Report").

The Annual Report will contain the following::

(a) A copy of the annual financial statements of Cape Cod Healthcare, Inc. and affiliates, with supplemental schedules for the Obligated Group, prepared in accordance with generally accepted accounting principles and audited by a certified public accountant;

(b) Information with respect to the members of the Obligated Group of the kind found in Appendix A under the headings "Hospitals' Utilization;" and

(c) A calculation of (i) the Debt Service Coverage Ratio for the preceding year, (ii) compliance with the Days Cash on Hand Covenant and Liquidity Covenant as of the end of such year and (iii) the ratio of the Long-Term Indebtedness of the Obligated Group to total capitalization as of the end of such year, in the same format as set forth in Appendix A under the heading "Actual and Pro-Forma Long-Term Debt as a Percentage of Capitalization," respectively; and

The Quarterly Report will contain a copy of the unaudited financial statements Cape Cod Healthcare, Inc. and affiliates, with supplemental schedules for the Obligated Group, prepared on a basis consistent with the annual audited financial statements.

The Obligated Group covenanted in the Continuing Disclosure Agreement to direct the Dissemination Agent to deliver, in a timely manner, to each NRMSIR and the SID, notice of any of the following events with respect to the Series C Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution or sale of property securing repayment of the securities; or (11) rating changes.

If the Trustee has not received by the respective deadline for filing any Quarterly Report or Annual Report (each, a "Filing Deadline") a certificate of the Obligated Group Agent stating that it has filed the Annual Report or the Quarterly Report, the Trustee shall send, and the Obligated Group will authorize and direct the Trustee to submit on their behalf, a notice of such failure to the Municipal Securities Rulemaking Board and the SID. If the Dissemination Agent has not provided the Annual Report or the Quarterly Report to the Repositories by the respective Filing Deadline, the Obligated Group shall send, or cause the Dissemination Agent to send, a notice of such failure to the Repositories, irrespective of whether the Trustee submits the notice described in the preceding sentence.

The Obligated Group's obligations under the Continuing Disclosure Agreement are enforceable only by beneficial owners of the Series C Bonds. A failure by the Obligated Group to comply with the Continuing Disclosure Agreement will not constitute an Event of Default under the Loan and Trust Agreement.

The Continuing Disclosure Agreement may be amended to the extent required or permitted by the Rule (including a change to reflect amendments or interpretations of the Rule), or in connection with a change in the identity, nature or status of the Obligated Group, or the type of business conducted by it; provided that any such amendment either (i) does not materially impair the interests of the holders of the Series C Bonds, in the determination of the Trustee (which may be based on an opinion of counsel); or (ii) is approved by the holders of a majority in aggregate principal amount of the Series C Bonds.

LITIGATION

On the date of issuance of the Series D Bonds, an opinion will be delivered by Counsel to the Obligated Group to the effect that to such Counsel's knowledge, no litigation or other legal action is pending or threatened wherein an unfavorable ruling or finding could adversely affect the enforceability of the documents entered into or the validity of the Series D Bonds or which contests such party's or parties' powers or authority with respect to the foregoing. See Appendix A with respect to the absence of any material litigation affecting the Obligated Group.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series D Bonds or questioning or affecting the validity of the Series D Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Authority to make a loan to the Obligated Group to finance the 2004 Project in accordance with the provisions of the Act and the Loan and Trust Agreement, or to issue the Series D Bonds.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series D Bonds by the Authority are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax-exempt status of the Series D Bonds will be delivered with the Series D Bonds. A copy of the proposed form of the opinion is attached hereto as Appendix E. Certain legal matters will be passed upon for the Obligated Group by its counsel, Nutter, McClennen & Fish, LLP, Boston, Massachusetts; for Assured Guaranty by its counsel Winston & Strawn, LLP, New York, New York, for the Initial Liquidity Provider by its counsel Edwards & Angell, LLP, Boston, Massachusetts; and for the Underwriter by its counsel Nixon Peabody LLP, Albany, New York.

TAX EXEMPTION

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel, is of the opinion that under existing law, interest on the Series D Bonds will not be included in the gross income of the holders of the Series D Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied subsequent to the date of issuance of the Series D Bonds in order to assure that interest on the Series D Bonds is and continues to be excludable from the gross income of the holders thereof. Failure to so comply could cause the interest on the Series D Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of the Series D Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds and payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Authority and the Obligated Group have provided covenants and certificates as to their respective continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, interest on the Series D Bonds will not constitute a preference item under section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under section 55 of the Code. However, interest on the Series D Bonds will be included in "adjusted current earnings" of corporate holders of the Series D Bonds and therefore will be taken into account under section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to other federal tax consequences of holding the Series D Bonds. However, prospective purchasers should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series D Bonds or, in the case of a financial institution, that portion of the holder's interest expense allocated to the Series D Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B) reduces the deduction for losses incurred by 15% of the sum of certain items, including interest on the Series D Bonds, (iii) interest on the Series D Bonds earned by certain foreign corporations doing business in the United States could be subject to a foreign branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Series D Bonds, may be subject to federal income taxation under section 1375 of the Code for an S corporation that has accumulated earnings and profits at the close of the taxable year if greater than 25%, of the gross receipts of such S Corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Series D Bonds and (vi) receipt of investment income, including interest on the Series D Bonds, may, pursuant to section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit otherwise provided by section 32(a) of the Code.

In the opinion of Bond Counsel, under existing law, interest on the Series D Bonds and any profit on the sale thereof are exempt from Massachusetts personal income taxes, and the Series D 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 D Bonds. Prospective purchasers should be aware, however, that the Series D Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Series D Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series D Bonds or the income therefrom under the laws of any state other than Massachusetts.

In rendering its opinion, Bond Counsel will rely (i) upon a certificate of the Obligated Group with respect to certain material facts solely within the Obligated Group's knowledge relating to the Series D Project and the application of the proceeds of the Series D Bonds and (ii) upon the opinion of counsel to the Obligated Group as to certain matters.

The Series D Bonds will initially be issued in the Weekly Mode as defined in the Agreement. The Series D Bonds may be converted to another Mode, as provided in the Agreement at the option of the Obligated Group. Bond Counsel has not opined as to the exclusion from federal gross income of the interest on the Series D Bonds for any period following any such conversion. The Agreement requires, as a condition of any such conversion from a Short-Term Mode to a Long-Tem Mode, an opinion of Bond Counsel to the effect that such conversion will not adversely affect the exclusion from gross income of the interest on the Series D Bonds for federal income tax purposes.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Series D Bonds.

On the date of delivery of the Series D Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix E - "Proposed Form of Bond Counsel Opinion."

RATINGS

Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P"), will assign the following ratings to the Series D Bonds: (i) a long-term rating to the Series D Bonds of "AAA," based on the issuance of the Bond Insurance Policy; and (ii) a short-term rating of "A-1+" based on the rating of the Initial Liquidity Provider. In addition, S&P has assigned an underlying rating of "BBB" to the Series D Bonds based solely on an evaluation of the security of the Series D Bonds without giving effect to the Bond Insurance Policy. Any explanation of the significance of the ratings may only be obtained from the rating agency furnishing the same. A credit rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they might not be revised downward or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward revision or withdrawal of the ratings might have an adverse effect on the market price of the Series D Bonds.

LEGALITY OF THE SERIES D BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Series D 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 D Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

COMMONWEALTH NOT LIABLE FOR THE SERIES D BONDS

The Series D 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 Loan and Trust 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 D Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay debt service on the Series D Bonds in the event of default by the Obligated Group. The Authority does not have taxing power.

UNDERWRITING

The Series D Bonds will be purchased for reoffering by Cain Brothers & Company, LLC (the "Underwriter") pursuant to a bond purchase contract to be entered into between the Authority and the Underwriter prior to the issuance of the Series D Bonds. The Underwriter will agree to purchase the Series D Bonds for a fee of $552,500. The purchase contract for the Series D Bonds provides that the Underwriter will purchase all the Series D Bonds, if any are purchased. Under the terms of the purchase contract for the Series D Bonds, the Obligated Group will indemnify the Underwriter and the Authority against losses, claims, damages and liabilities arising out of any incorrect statement or information contained in or information omitted from this Official Statement to the extent set forth in such purchase contract. The public offering prices set forth on the cover page of this Official Statement may be changed after the initial offering by the Underwriter.

MISCELLANEOUS

The description of the provisions of the Act, the Loan and Trust Agreement, the Series D Bonds and other documents contained in this Official Statement (including all Appendices hereto), and all references to other materials not purporting to be quoted in full, are only brief summaries of certain provisions thereof and do not constitute complete statements of such documents or provisions. Reference is hereby made to the complete documents for further information, copies of which are available at the principal corporate trust office of the Trustee. Any statements made in this Official Statement or the Appendices

hereto involving matters of opinion or estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized.

Information relating to DTC and the book-entry system described under the heading "THE SERIES D BONDS – Securities Depository" has been furnished by DTC and is believed to be reliable, but none of the Authority, the Obligated Group or the Underwriter makes any representations or warranties whatsoever with respect to any such information.

Appendix A contains certain information relating to the Obligated Group. While the information contained therein is believed to be reliable, the Authority and the Underwriter do not make any representations or warranties whatsoever with respect to such information.

Attached hereto as Appendix B are the consolidated financial statements, together with supplemental consolidating information, of Cape Cod Healthcare, Inc. and affiliates as of and for the years ended September 30, 2004 and 2003 and the related independent auditors' report of Deloitte & Touche LLP. The consolidated financial statements include the accounts of affiliates of Cape Cod Healthcare, Inc. who are not members of the Obligated Group.

Appendix C – "Definitions of Certain Terms" and Appendix D-1 – "Summary of the Loan and Trust Agreement," Appendix D-2 – "Summary of Certain Provisions of the Falmouth Master Indenture" and Appendix D-3 – "Summary of the Parity Indebtedness Agreement" have been prepared by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel. Appendix D-4 – "Summary of Certain Provisions of the Initial Liquidity Facility" has been prepared by Edwards & Angell, LLP. The proposed legal opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. is set forth in Appendix E.

Appendix F is the form of the Bond Insurance Policy, which has been provided by Assured Guaranty.

All Appendices are incorporated as a part of this Official Statement.

The Obligated Group has reviewed the portions of this Official Statement entitled "INTRODUCTORY STATEMENT," "ESTIMATED SOURCES AND USES OF FUNDS," "BONDOWNERS' RISKS," "CONTINUING DISCLOSURE" AND "LITIGATION" (as it relates to the Obligated Group), has furnished Appendices A and B to this Official Statement and has approved all such information for use with this Official Statement. At the closing, the Obligated Group will certify that such portions of this Official Statement do not contain an untrue statement of a material fact or omit a statement of material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

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

MASSACHUSETTS HEALTH AND EDUCATIONAL
FACILITIES AUTHORITY

By: /s/ Benson T. Caswell
Executive Director

[THIS PAGE INTENTIONALLY LEFT BLANK]

Appendix A

TABLE OF CONTENTS

Section	*Page*
Introduction	A-1
Cape Cod Healthcare, Inc.	A-1
Organizational Chart	A-2
Development of Cape Cod Healthcare, Inc.	A-2
Overview of the Obligated Group	A-3
Governance	A-4
Transactions with Board Members	A-7
Management	A-7
The Hospitals' Physical Plant	A-9
Recent Construction	A-9
The 2004 Project	A-10
Future CCHC Projects	A-10
Cape Cod Healthcare Specialty Programs	A-11
Hospital Services	A-12
Hospital Medical Staff	A-16
Employees	A-21
Service Area	A-22
Map of the Service Area and the Local Area Hospital Sites	A-25
Hospitals' Utilization	A-28
Management's Discussion of Utilization	A-30
Financial Information of the Obligated Group	A-32
Actual and Pro Forma Historical Debt Service Coverage	A-36
Actual and Pro Forma Total Debt as a Percentage of Total Capitalization	A-37
Management's Discussion of the Financial Performance of the Obligated Group	A-37
Indebtedness and Guarantees of the Obligated Group	A-39
Strategic Planning	A-40
Sources of Patient Service Revenue	A-41
Hospital Licensure, Accreditation and Memberships	A-45
Auxiliary Program	A-45
Volunteer Program	A-45
Philanthropy	A-46
Insurance	A-47
Bondowners' Risk and Matters Affecting the Health Care Industry	A-48
Litigation	A-55

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A

CAPE COD HEALTHCARE

December 10, 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 (the "Authority" or "HEFA") of its Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series D (the "Bonds" or the "Series D Bonds"), we are pleased to submit the following information regarding Cape Cod Healthcare, Inc. ("CCHC") and its affiliates, and other pertinent information for inclusion in the Official Statement of the Authority. Unless otherwise indicated, all data are from the records of CCHC or its affiliates, and all referenced years are the fiscal year ending September 30.

Introduction

CCHC is the parent organization of 16 entities providing healthcare services in a wide range of community-based settings to the population of Cape Cod, Massachusetts (the "Cape"). It coordinates the activities of the only two community hospitals located on the Cape, Cape Cod Hospital ("CCH") and Falmouth Hospital Association, Inc. ("FH" or "Falmouth Hospital", and together with CCH, the "Hospitals"); the JML Care Center, a skilled nursing and rehabilitation facility; Heritage at Falmouth, an assisted living facility; the Visiting Nurses Association of Cape Cod, Inc., a Cape-wide visiting nurse association; primary care physician groups; and a number of other provider and support organizations. Each of the members of the Obligated Group has been determined by the Internal Revenue Service to be a charitable organization described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"). Collectively, these organizations serve a population of approximately 235,000 year-round residents that increases to approximately 650,000 each summer.

The members of the Obligated Group are CCHC, CCH, FH and Cape Cod Healthcare Foundation, Inc. (the "Foundation"). CCH has been named one of the top 100 hospitals in America by *Modern Healthcare* magazine in four out of the past six years. CCH has been determined to be a "sole community provider" of hospital services under the Medicare program; the Medicare-eligible population of its service area is approximately one and one-half times the national average. For the fiscal year ended September 30, 2003, the most recent year for which data are available, CCH had a market share of 52% within Barnstable County (which includes all of the Cape) and FH had a market share of 21%, giving CCHC a combined market share of 73% in the primary service area. *See* "Service Area." The Foundation supports both Hospitals and other affiliates of CCHC by raising and managing funds for programs and investment.

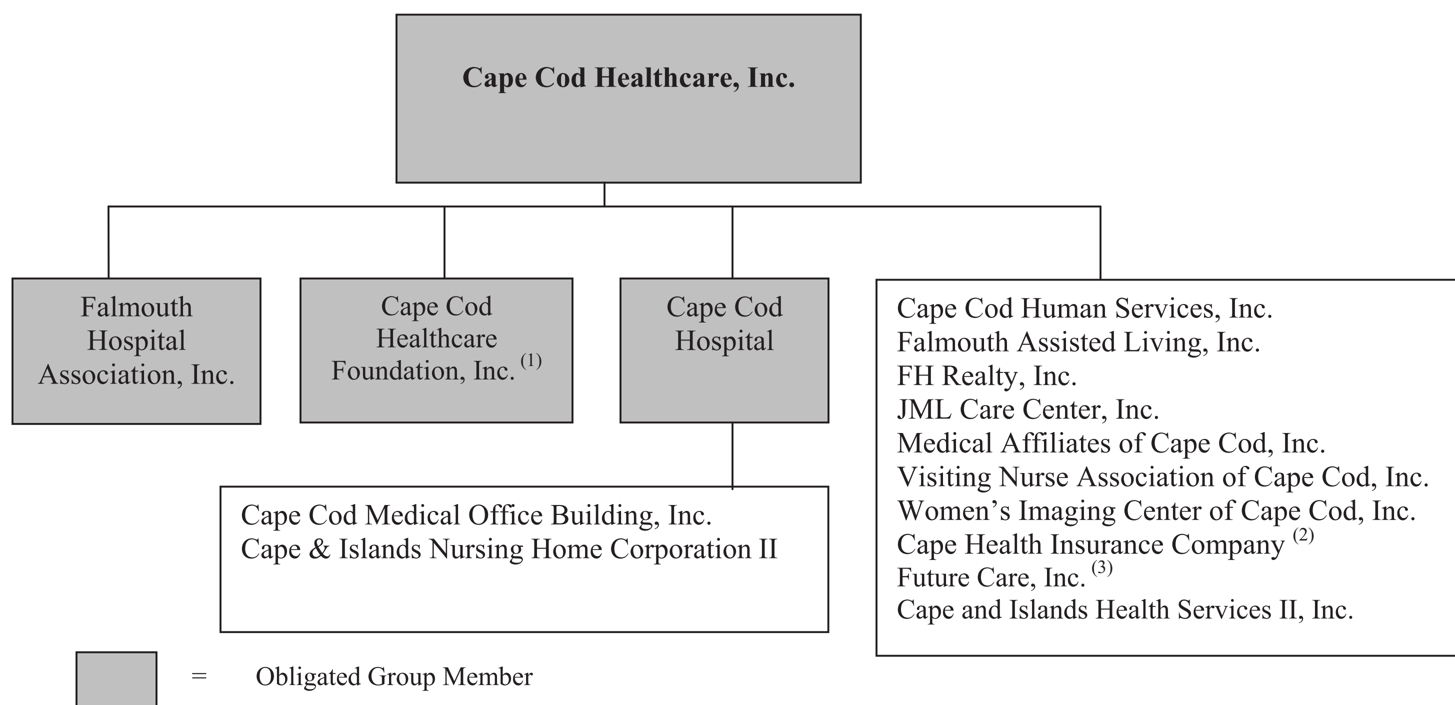
Cape Cod Healthcare, Inc.

CCHC is a Massachusetts charitable corporation. On June 1, 1996, pursuant to an Agreement to Affiliate between Cape Cod Health Systems, Inc. ("CCHS") and Falmouth Hospital Foundation, Inc. ("FHF"), which was formerly the sole member of FH, CCHS changed its name to Cape Cod Healthcare, Inc. and assumed certain "reserve powers" (that were in the nature of a parent corporation) over FHF and its former subsidiaries (the "Affiliation"). Subsequently, FHF was merged with and into CCHC, with CCHC being the surviving corporation.

CCHC oversees the activities of its subsidiaries (including CCH, FH and the Foundation). The organizational chart below provides the names of the associated entities. *Except for the members of the Obligated Group, none of these associated entities has any obligation with respect to the Bonds or has pledged any assets for payment of the Bonds.*

The following chart shows the organizational relationship between the Obligated Group and the other affiliates of CCHC.

ORGANIZATIONAL CHART



[1] The Cape Cod Healthcare Foundation, Inc. is a tax-exempt organization that provides philanthropic support and assistance to each of the Hospitals and other CCHC affiliates. *See* "Overview of the Obligated Group – The Cape Cod Healthcare Foundation, Inc." Effective September 10, 2004, the Foundation's name was changed from the Health Care Foundation of Cape Cod, Inc. to the Cape Cod Healthcare Foundation, Inc.

[2] The Cape Health Insurance Company was incorporated and licensed in the Cayman Islands effective May 28, 2004, as part of CCHC's establishment of a self-insurance program for its professional and general liability coverage.

[3] Effective December 9, 2003, a former wholly owned subsidiary of the VNA (Life Services, Inc.) became a direct and wholly owned subsidiary of CCHC, and was renamed as Future Care, Inc.

Development of Cape Cod Healthcare, Inc.

CCHC was created by the Affiliation. The Affiliation has increased CCHC's service area to include the entire Cape Cod region. CCH has undertaken a unified marketing approach with FH and gained strength in managed care contract negotiations. CCHC has been able to negotiate favorable contracts for CCH and FH (and other CCHC affiliates), helping to increase net revenue. CCHC derives financial support for its activities from CCH and FH, with each Hospital paying fully for costs incurred solely on its behalf and sharing costs incurred for the system generally in the proportion of its revenues to total Hospital revenues.

CCHC is the sole corporate member of all of its direct affiliates: CCH, FH, Cape & Islands Health Services II, Inc., Cape Cod Human Services, Inc., Falmouth Assisted Living, Inc., FH Realty, Inc., JML Care Center, Inc., Medical Affiliates of Cape Cod, Inc. and Women's Imaging Center of Cape Cod, Inc. CCH is the sole corporate member of

the Cape & Islands Nursing Home Corporation II, a not-for-profit Massachusetts corporation created in connection with previous nursing home operations at an off-campus site. CCH is also the sole shareholder of a Massachusetts for-profit corporation known as Cape Cod Medical Office Building, Inc. that owns and operates a 4,000 square foot medical office building adjacent to the CCH campus. Medical Affiliates of Cape Cod, Inc. ("Medical Affiliates") is a CCHC subsidiary and a charitable corporation which operates medical group practices exclusively for the benefit of CCH, FH and CCHC. The principal employees of Medical Affiliates are physicians practicing with the group. Medical Affiliates' purposes include treatment of all patients without regard for the ability to pay for such treatment, provision of medical services to patients in the Hospitals' service area, participation in the Hospitals' educational programs and otherwise carrying out the charitable purposes of the Hospitals and CCHC.

On January 1, 1996, CCHC added three additional affiliates: (i) Visiting Nurse Association of Cape Cod Foundation, Inc., the parent company of Visiting Nurses Association of Central and Outer Cape Cod, Inc. and Lifeservices, Inc.; (ii) The Hospice Foundation of Cape Cod, Inc., the parent company of Hospice of Cape Cod; and (iii) Cape Cod Human Services, Inc. These additional affiliates enhanced the system's commitment to meeting the health needs of central and eastern Cape Cod by offering a full continuum of care to the general population. The Visiting Nurses Association of Central and Outer Cape Cod, Inc., the Visiting Nurses Association of Upper Cape Cod, Inc. and the Visiting Nurses Association of Chatham and Orleans, Inc. merged on January 1, 1998 under the name of Visiting Nurses Association of Cape Cod, Inc. This merger consolidated substantially all not-for-profit visiting nurse services on Cape Cod under CCHC. In 1999 the Hospice Foundation of Cape Cod, Inc. became an independent corporation, no longer affiliated with CCHC.

On July 1, 1999, the following Massachusetts not-for-profit corporations merged with and into CCHC: Cape Cod Hospital Foundation, Inc.; Falmouth Hospital Foundation, Inc.; and the Visiting Nursing Association of Cape Cod Foundation, Inc. On this same date, the Cape Cod Healthcare Foundation was organized under Massachusetts law as a not-for-profit corporation and continues to be operated as such exclusively for the benefit of CCHC and CCHC affiliates as described in Sections 501(c)(3) and any of 509(a)(1), (2) or (3) of the Internal Revenue Code. As noted above, the Foundation's name was changed to the Cape Cod Healthcare Foundation, Inc. as of September 10, 2004.

Overview of the Obligated Group

The Obligated Group consists of the following members: (i) CCH, which owns and operates a hospital in Hyannis, Massachusetts; (ii) FH, which owns and operates a hospital in Falmouth, Massachusetts; (iii) the Foundation, which raises funds for CCHC and its affiliates; and (iv) CCHC, which is the parent organization of the other members of the Obligated Group and certain other affiliates. *See* "Organizational Chart."

Cape Cod Hospital

Founded in 1919, CCH is an acute care facility located in Hyannis, a village of the Town of Barnstable on the south shore of the Cape. CCH has 223 licensed and in-service beds, plus 10 bassinets. CCH serves Cape Cod and the islands of Martha's Vineyard and Nantucket. *See* "Service Area." CCH and FH are the only acute care hospitals located on Cape Cod. CCH's nearest competitors are two significantly smaller hospitals that are located off Cape Cod between 20 and 40 miles away and do not offer the same range of services as CCH. Tobey Hospital, located over the Bourne Bridge in Wareham (off Cape Cod and 30 miles northwest of CCH), has 72 beds. Jordan Hospital, located in Plymouth (off Cape Cod and 40 miles north of CCH), has 137 beds. There are also small hospitals located on the islands of Martha's Vineyard (Martha's Vineyard Hospital) and Nantucket (Nantucket Cottage Hospital).

CCH provides full medical and surgical care, intensive and coronary care, obstetrical and pediatric services. In addition, CCH has a number of specialty services, such as the Cancer Center, which offers radiation therapy and medical oncology services. The Cancer Center has an affiliation agreement with Massachusetts General Hospital in Boston ("MGH") whereby MGH provides consultative and medical advisory services to the radiation therapy and medical oncology programs. The Cancer Center also benefits from a significant affiliation agreement with the Dana Farber Partners Cancer Care in Boston, pursuant to which Cancer Center physicians are able to offer innovative oncology related programs and protocols to their patients. Some of the cardiologists practicing at the CCH Cardiac Catheterization Center Laboratory have medical staff appointments at the following Boston-area hospitals: MGH, Brigham and Women's Hospital, Beth Israel Deaconess Medical Center and St. Elizabeth's Medical Center. CCH started a cardiac surgery program in August 2002. CCH's clinical affiliation for the cardiac surgery program is with

the Brigham and Woman's Hospital. CCH offers psychiatric services on its campus at its facility more commonly known as the Cape Psychiatric Center.

Falmouth Hospital Association, Inc.

FH is an acute care facility located in Falmouth, on the southwestern end of the Cape opposite Martha's Vineyard. FH has 95 licensed and in-service beds plus eight bassinets. FH primarily serves patients from the four towns of the Upper Cape; Falmouth, Mashpee, Bourne and Sandwich. *See* "Service Area." FH is located on a hilltop campus that it shares with the JML Care Center, Inc.; CCHC's assisted living facility known as "Heritage of Falmouth"; the Visiting Nurses Association of Cape Cod, Inc.; and a physician office complex. FH recently completed a series of renovations to its Emergency Center, which features both an UrgiCare Unit and a Clinical Decision Unit ("CDU"). The CDU is designed to maximize the comfort of patients undergoing prolonged evaluation and to facilitate their observation and treatment without an overnight stay.

Cape Cod Healthcare Foundation, Inc.

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and provides financial support to CCH, FH, VNA and other CCHC affiliates. It is the major fundraiser for the healthcare system. It utilizes capital campaigns, deferred giving programs, annual appeals, and the solicitation of major donors for financial support of the charitable mission of CCHC. The Foundation has been successful in raising funds for dedicated projects such as the Lyndon Larusso Emergency Center, the O'Keeffe Surgical Pavilion, the Faxon Center, the Larusso Cardiac Care Unit, the Davenport-Mugar Cancer Center, and the Mugar Bed Tower. *See* "Philanthropy."

Licensed Bed Capacity/In-Service Beds

The current licensed bed capacity (all of which are in-service) for each Hospital is as follows:

	Cape Cod Hospital	**Falmouth Hospital**	
	Licensed and In-Service Beds	**Licensed and In-Service Beds**	**Total Combined Licensed and In-Service Beds**
Medical/Surgical	156	71	227
Intensive Care	11	10	21
Coronary Care	13	0	13
Obstetrics	14	9	23
Pediatrics	4	5	9
Psychiatry	20	0	20
CSCIU *	5	0	5
Total Hospital Beds	223	95	318
Nursery Bassinets	10	8	18
Total Hospital Beds and Bassinets	233	103	336

* Cardiac Surgical Intensive Care Unit

Governance

Cape Cod Healthcare, Inc., Cape Cod Hospital and Falmouth Hospital Association, Inc.

CCHC is governed by a Board of Trustees of up to 17 members (the "System Board"). The System Board serves as a "mirror board" for CCH, FH and almost all other CCHC affiliates. The System Board includes four *ex-officio* trustees: the President of FH's Medical Staff, the President of CCH's Medical Staff, the President/CEO of CCHC and the Chairperson (or Vice-Chairperson) of the Foundation's Board of Trustees. The remainder of the trustees are

members of the Cape Cod community. Of those remaining trustees, there must be at least one active member of the medical staffs from each of the Hospitals. Board officers are elected by the System Board at its annual meeting from nominations presented by the Nominating Sub-Committee of the Governance Committee. Trustees are elected at the annual meeting by CCHC's corporate members from nominations presented by the Nominating Sub-Committee.

Cape Cod Healthcare, Inc.
Board of Trustees and Officers

The members of the System Board are as follows:

Name	Principal Affiliation	Term Expires	Residence
Joel Crowell, *Chairman*	President, Cape Cod Cooperative Bank	2006	E. Dennis
Robert Birmingham *Vice Chairman*	Owner & Director, Steinway & Sons	2007	Osterville
Thomas Wroe, Jr. *Treasurer*	Senior V.P., Texas Instruments	2006	E. Dennis
J. Robert McNutt, M.D. *Clerk*	Retired Physician	2006	S. Orleans
Stephen L. Abbott	President/CEO, CCHC	*Ex-officio*	W. Dennis
Garry Brake, M.D.	FH Medical Staff President	2006	E. Falmouth
Andrew Cedarbaum, M.D.	CCH Medical Staff President	2005	Eastham
Alexandra M. Clark Associates	Former Principal, R.C.B. Clark Assoc.	2005	Osterville
Craig Cornwall, M.D.	Physician – CCH	2005	Centerville
Howard Crow	Retired Manufacturing Executive	2006	Cataumet
John Milligan	Retired Bank Executive	2005	Dennis
Brian O'Malley, M.D.	Physician	2007	Provincetown
Donald O'Malley, M.D.	Physician -FH	2005	N. Falmouth
Jennifer Roberts, Esq.	Attorney	2005	E. Sandwich
David P. Sampson	Former School Superintendent	2007	Bourne
Robert Sanborn	Retired Insurance Executive	2007	S. Dennis
Sheila Vanderhoef	Town Administrator, Eastham	2005	Cummaquid

Cape Cod Healthcare Foundation, Inc.

The Foundation is governed by a Board of Trustees comprised of up to 24 members (the "Foundation Board"), including the President of CCHC as an *ex-officio* voting member.

The Cape Cod Healthcare Foundation Inc.
Board of Trustees and Officers

The members of the Foundation Board are as follows:

Name	Principal Affiliation	Year Term Expires	Residence
Patrick M. Butler *Chairman*	Partner, Nutter, McClennen & Fish, LLP*	2005	Centerville
John R. Milligan *Vice-Chair*	Retired, Bank Executive	2005	Dennis
Alexandra M. Clark *Clerk*	Former Principal, R.C.B. Clark Associates	2005	Osterville
Stephen J. Guimond, *Treasurer*	Sr. V.P. and Treasurer, CCHC	*Ex-officio*	Marstons Mills
Stephen L. Abbott	President/CEO, CCHC	*Ex-officio*	W. Dennis
James Chingos, M.D.	Chief Oncology Services – CCH	2006	Truro
Patricia M. Crews	Music Director, First Congregational Church	2005	W. Falmouth
Joel Crowell	President, Cape Cod Cooperative Bank *Chairman,CCHC Board of Trustees*	*Ex-officio*	E. Dennis
John O. Drew	Vice President, A.D. Makepeace Co.	2006	Hyannisport
Margaret Gifford	Real Estate Broker	2006	E. Falmouth
Leo F. Gildea	President/CEO, Cape Cod Ambulance	2005	Osterville
Herbert Gray, M.D.	Chief Emergency Medicine, FH	2005	N. Falmouth
Joseph A. Hawley	Vice President/Financial Advisor Plymouth Savings Bank	2007	Centerville
Linda Jardine	President, Cape Cod Hospital Auxiliary	*Ex-officio*	Chatham
James F. Lyons	Former C.E.O., CCHC	2006	Cotuit
Lawrence McCarthy	Managing Director, Lehman Brothers	2005	Bedford, N.Y.
J. Bruce MacGregor	Owner, Eldridge & Bourne Moving & Storage	2005	Hyannis
Thomas J. Mundell	President, Foundation	*Ex-officio*	N. Falmouth
Sally Neese	Vice President, BankNorth	2007	W. Harwich
Thomas Olsen	President/C.E.O., Plymouth Savings Bank	2007	Osterville
E. Joel Peterson	Retired, Owner, The Nautilus Motor Inn	2007	Falmouth
Charles Robinson	President/CEO, Rogers & Gray Insurance	2006	S. Dennis
Joseph Signore	Retired, President Continental Banking Co.	2007	Chatham
Joan Swartz	Falmouth Hospital Auxiliary	*Ex-officio*	E. Falmouth
J. Nicholas Vandomoer, M.D.	Physician - CCH	2007	Centerville
Jewell G. Westerman	Retired	2007	Chatham
Lois I. Wrightson	Retired	2007	Oyster Harbors

*Nutter, McClennen & Fish, LLP is acting as counsel to the Obligated Group in connection with the issuance of the Bonds.

Transactions with Board Members

The members of the Obligated Group and affiliated organizations do business with firms with which their trustees and directors may be affiliated. Management believes such transactions are on terms no less favorable than could be obtained from other parties. All members of the Obligated Group have conflict of interest policies pursuant to which trustees and directors having a potential conflict of interest must disclose such potential interest on an annual basis and abstain from voting on the matter.

Management

The day-to-day operations of CCHC are managed by the Chief Executive Officer, assisted by the Senior Vice President of Finance & Chief Financial Officer, two Executive Vice Presidents, two Medical Directors, Vice President of Marketing/Community Relations, Vice President of Human Resources, Vice President of Legal Affairs/Compliance and Vice President/Chief Information Officer.

Biographical information for certain of these individuals follows:

Stephen Abbott, age 61, began as President and Chief Executive Officer of CCHC on December 14, 1998. Prior to coming to CCHC, Mr. Abbott was the President and Chief Executive Officer of the Battle Creek Health System in Battle Creek, Michigan. An experienced health care executive with more than 30 years of management experience, Mr. Abbott has also served as Chief Executive Officer of Community Hospital, Anderson, Indiana and Vice President of Methodist Hospital, Indianapolis, Indiana. He attended Colgate University in Hamilton, New York where he earned a Bachelor of Arts degree in Economics in 1965. He earned a Masters degree in Business Administration in Health Care Administration from George Washington University in Washington, DC in 1971. He also served as an officer in the U.S. Air Force Medical Service Corps. Mr. Abbott is on the Board of Directors of the Voluntary Hospitals of America Northeast, the Massachusetts Council of Community Hospitals and the Cape Cod Area Chamber of Commerce.

Stephen J. Guimond, age 54, has been Senior Vice President of Finance & Chief Financial Officer of CCHC since its inception in 1996. Previously, he had served as Vice President for Fiscal Affairs and Chief Financial Officer of CCH since 1983, and Treasurer of the Foundation. Mr. Guimond has over 32 years of experience in healthcare finance. Prior to joining CCH, Mr. Guimond was the Chief Financial Officer of the Hospital Corporation of America in Plymouth and Quincy, Massachusetts. He has also served as Controller of St. Anne's Hospital, located in Fall River, Massachusetts, Health Care Reimbursement Specialist at Deloitte & Touche and Cost Accountant at Newton-Wellesley Hospital, located in Newton, Massachusetts. Mr. Guimond received a Bachelor of Science degree in Accounting from Bryant College, Smithfield, Rhode Island. He currently serves on the Massachusetts Hospital Association Committee on Finance and is a past Board Member of the Massachusetts Chapter of Healthcare Financial Management Association. He serves on several community boards and committees, most recently as Chairman of The United Way of Cape Cod.

Robert A. Gundersen, age 50, joined CCHC as Executive Vice President in March 2000. Mr. Gundersen is responsible for the oversight of FH, system-wide rehabilitation services, the Wound Care Center, Heritage (an assisted living community), JML Care Center, Inc. (a skilled nursing facility), and C-Lab (a commercial laboratory operated under CCH and Cape & Islands Health Services II, Inc.). Prior to joining CCHC, Mr. Gundersen worked at Optima Healthcare, a three-hospital system, in Manchester, New Hampshire, for 11 years. During his tenure, he held several positions, most recently as Executive Vice President/Chief Operating Officer, where he was responsible for the operation of a 300-bed acute care hospital, system-wide rehabilitation services, a home care company, a retirement community, and a commercial laboratory. From 1981 until 1988, he held various administrative positions at New England Medical Center in Boston. Mr. Gundersen graduated from Brandeis University where he majored in Politics and Sociology. He subsequently earned a Masters degree in Business Administration, majoring in Healthcare Management, from Boston University. He is a diplomat of the American College of Healthcare Executives and is involved with various community and professional organizations.

Herbert O. Mathewson, M.D., age 63, has been Medical Director of CCH since July 1988. He is a pediatrician and serves as Performance Improvement Physician at CCH. Dr. Mathewson received a Bachelor of Arts degree from Cornell University in 1962 and a Medical Doctor degree from Cornell University Medical College in 1966. He served his internship in pediatrics/medicine at Strong Memorial Hospital, Rochester, New York from 1966 to 1967 and served in the United States Public Health Service at the National Institute of Health from 1967 to 1969. He did

his residency in pediatrics at Massachusetts General Hospital from 1969 to 1972. Dr. Mathewson served as Assistant in Pediatrics, Massachusetts General Hospital, Clinical Instructor at the Harvard Medical School and Chief of Pediatrics at CCH. He is a member of the Utilization Review Committee, chairs the Medical Staff Quality Committee, and staffs and attends the Medical Executive Committee. He was certified by the American Board of Medical Management in 1995 and is a member of the American College of Physician Executives.

Jeffrey S. Dykens, age 51, Corporate Controller of CCHC, Inc. joined the Cape Cod Hospital as a Corporate Accountant in 1992. Since then, he has served as Director of Financial Planning, Vice-President of Finance, and from 1998-2003 as Chief Operating Officer of Cape Cod Hospital. Prior to Joining CCH, Mr. Dykens was a Senior Auditor with Deloitte & Touche. He was self-employed in the Cape Cod commercial fishing industry prior to his graduation from Northeastern University where he received a Masters degree in Accounting in 1989 and a Masters of Business Administration in 1999. Mr. Dykens graduated from Amherst College in 1975 with a Bachelors of Arts degree in psychology. He received a graduate certificate in Public Health from the Harvard School of Public Health in 1999. He is a Certified Public Accountant. His professional affiliations include memberships in the American Institute of Public Accountants, Massachusetts Society of Certified Public Accountants and Massachusetts Chapter of Healthcare Financial Management Association. He has been a member of the Chatham, Massachusetts School Committee for eight years and chairman of that Committee for the past four years. He is the Treasurer of the Duffy Community Health Center located in Hyannis.

Richard Adams, M.D., age 66, was appointed Vice President of Medical Affairs at FH in May 2001. Dr. Adams practiced pediatric medicine for 30 years as a partner at Falmouth Pediatric Associates, L.L.P. He received a Bachelor of Arts degree from Brown University in 1960, a Master of Science degree from the University of Vermont in 1962 and a Medical Doctor degree from Albany Medical College in 1966. Dr. Adam's previous experience includes Commander of the 102ND Medical Squadron at Otis Air National Guard Base, Chairman of the Department of Pediatric Medicine at FH for six years, Chairman of the FH Utilization Review Committee for ten years and Board Member for both the Pilgrim Foundation for Medical Care and CCHC. Additionally, Dr. Adams served on several FH committees including Quality Assurance, Medical Records, Disaster, Emergency Room, and Perinatal. His current board memberships and professional affiliations include; Bramblebush Medical Offices Board of Directors/Treasurer; Massachusetts Medical Society; and the American College of Physician Executives.

Susan M. Wing, RN, BSN, MSM, age 54, became Chief Operating Officer of FH in August 1997. Mrs. Wing began her career at FH as a staff nurse in the intensive care unit 30 years ago. Over the years, she held various positions in Staff Development, Clinical Supervision, and then Administration. In 1982, Mrs. Wing became the Director of Nursing; in 1986 she became the Vice President of Nursing, and in 1992 she became the Vice President of Clinical Services. Mrs. Wing graduated from Boston College School of Nursing and earned a Master's degree in Health Management at Lesley College.

Margaret A. Hanson, age 58, joined CCHC in October 2003 as Executive Vice President & Chief Operating Officer of CCHC. She serves as the Chief Administrative Officer of CCH. Ms. Hanson was formerly the Senior VP for Network Development at Brigham & Women's Hospital, a Harvard teaching affiliate. During her 22-year career at Brigham & Women's Hospital, Ms. Hanson's responsibilities included development of an expansive ambulatory care system, the initiation of the Brigham & Women's Cape Cod Hospital Open Heart Surgery Program, and the merger of Faulkner Hospital with Brigham & Women's Hospital. Ms. Hanson also provided the leadership role in the Boston citywide perinatal network development. Ms. Hanson received a Bachelor's degree from Georgetown University School of Nursing, a Master's degree from Boston University of Nursing, and a Master of Public Health from Harvard University.

Patricia A. Nadle, RN, BSN, MBA, age 53, joined CCH in February 2003 as Chief Nursing Officer and assumed the additional duties of Chief Operating Officer of CCH in October 2003. Ms. Nadle came to CCH with over five years experience as a Senior Vice President of Patient Services and over 15 years as a Nurse Executive, including Chief Nursing Officer at Crouse Hospital in Syracuse, New York. Ms. Nadle held an Associate Clinical Professor position at State University of New York and has also been on the faculty of Western New England College, Graduate School of Business. Her area of clinical practice included Cardiac Services, Critical Care, Surgical Services and Women and Children's Services. Ms. Nadle is a native of Western Massachusetts. She was awarded a Bachelor of Science in Nursing from Elms College in Chicopee and a Master's degree in Business Administration from Cambridge College. She serves on the Massachusetts Hospital Association's Clinical Policy and Patient Advocacy Committee as well as the Board of the American Heart Association.

The Hospitals' Physical Plants

CCH's physical plant consists of a central facility connecting seven major units: Ayling, Main, South, Emergency, Radiation Therapy/Oncology, Surgery, and Lobby/Ambulatory Medical Center Buildings. In addition to the central facility, there are several adjacent buildings, including Whitcomb Pavilion (Cape Psychiatric Center), 60 Park Street (Human Resources), Gleason House (Cape Cod Healthcare Inc.), the Cape Cod Medical Center (physicians' offices), and PCI-Hyannis (primary internists' offices). These combined facilities total more than 400,000 square-feet. CCH routinely spends approximately $8 million to $10 million each year on purchasing equipment and on the construction and renovation of its facilities. In addition, CCH's outpatient rehabilitation department is a tenant in a 19,000 square foot facility leased by CCH and located two miles from CCH's campus. In the fall of 2004, the Financial Services department moved out of 60 Park Street and relocated to an office building in Independence Park, Hyannis.

FH opened on May 28, 1963, as a general community hospital. In 1969, a third patient floor was completed and a fourth floor shell was constructed. In 1977, FH completed a $3.3 million expansion of its emergency services and X-ray and laboratory services. In 1983, a new $14.5 million expansion program added a new wing that houses a 10-bed intensive/coronary care unit, four operating room suites, completion of the fourth patient floor and a new kitchen and employee cafeteria. In 1996, FH completed a $9 million expansion with the construction of the Constance B. Faxon Outpatient Surgery and Maternity Center. The Faxon Center houses a maternity center, surgery center, outpatient testing, and the Women's Health Resource Center and Community Health Education Center. The hospital facility now encompasses 200,000 square feet on a 75-acre campus. Standing as the nucleus of this healthcare campus, FH is ringed by the Visiting Nurses Association at Cape Cod, Inc., the JML Care Center nursing home and Heritage at Falmouth assisted living facility.

There is an active loss-prevention and control management program in place at CCH and FH. All buildings and equipment are presently in good condition and there is an active computer-based preventive maintenance program for buildings as well as medical and non-medical equipment.

Recent Construction

In 1997, CCH embarked on a comprehensive building and renovation project to enhance its outpatient areas and to improve the facilities dedicated to inpatient surgical care.

Construction and renovations were completed for the John F. Kennedy, Jr. inpatient pediatric unit, an endoscopy suite and a new main entrance and lobby in 1999. A new Pain Management Unit and a second MRI unit were completed in 2000. Also in 2000, renovations to a 24-bed inpatient unit took place. In 2001, a second 24-bed inpatient unit was renovated, completing the inpatient plan.

Phase I renovations to the surgical theater at CCH were completed in August 2002, to meet the initial needs of the newly licensed cardiac surgical program. A five-bed cardiac surgical intensive care unit was completed at the same time. In October 2003, Phase II renovations were completed resulting in the addition of two operating suites dedicated exclusively to cardiac surgery. In total, five operating rooms and a new center core were built/renovated. A 10,000-square-foot sterile processing department, which supports all surgical services, was completed in Phase II as well.

In 1999, FH embarked on a satellite-building program to bring medical clinics to patients in the surrounding towns in its service area. In the town of Mashpee, approximately nine miles from Falmouth, the Mashpee Health Center was completed in 2000. This 45,000 square-foot facility houses physicians' offices, X-ray, laboratory and the Falmouth Hospital Cancer Services. In the town of Sandwich, approximately 22 miles from Falmouth, the Sandwich Health Center was completed in 2001. This 10,000 square-foot facility houses physicians' offices, X-ray, laboratory and a dock for a mobile MRI unit.

A fixed cardiac catheterization laboratory was completed at FH in 2003. It replaced a mobile lab and allows continual access to these services. A fifth operating room came on line in 2003. The FH sleep lab was renovated in 2003 and capacity was increased from two beds to four beds. Twelve new inpatient beds have just been brought on line and have begun service this Fall. During 2003 improvements to access roads and increased parking capacity came on line. FH made improvements to boiler capacity and emergency generating capacity during 2003 as well. Plans for a medical office building connected to FH are in development. The project under consideration would be a

joint venture between a private developer of healthcare facilities who would fund most of the investment and a subsidiary of FH.

The 2004 Project

The components of the 2004 Project that are expected to be financed in whole or in part with the Series D Bond proceeds are part of a master plan of building and improvements system-wide and include the following:

- Bed Expansion Project

  The Bed Expansion Project at CCH will afford the opportunity both to increase inpatient medical surgical capacity and to take older nursing floors out of service. As such, it will meet the growing demand for inpatient care on the Cape. CCH has experienced high inpatient occupancy rates and delays in admissions from patients waiting in its Emergency Center. The additional capacity will allow CCH to handle more efficiently the large volume of patients admitted through the Emergency Center. Serving over 80,000 patients per year, CCH's Emergency Center is one of the busiest in Massachusetts.

  The building will consist of five stories constructed on a 22,000-square-foot footprint. Phase I of the expansion will result in the construction of 60 new beds on two floors. The shell of two additional floors will be constructed but will not be fully furnished or completed. This will allow space for future construction of 60 additional beds on the top two floors. The existing dietary space in CCH will be expanded and upgraded as part of Phase I. A conference center will be shelled as part of Phase I with final build out to be financed through philanthropy.

  The total project is 130,922-square-feet of which 121,442 square feet are allocated to new construction and 9,480 square feet to renovation.

  CCH has secured regulatory approvals from the Cape Cod Commission and the Massachusetts Department of Public Health.

- Materials Management Project – This will result in more accessible and efficient space dedicated to the distribution of supplies and materials. The project consists of an 11,000-square-foot building adjacent to the new Bed Expansion Project and the existing hospital. The new construction will replace undersized facilities currently performing this function.

- Interventional Cardiology/Cardiac Catheterization Project - CCHC has experienced a marked increase in demand for cardiac catheterization and interventional cardiology services. Effective with the approval of its cardiac surgical program, the Cape Cod Hospital was eligible to offer elective angioplasty after six months or 100 cardiac surgical cases. As a result, the elective interventional cardiology service commenced in February of 2003 and has experienced very rapid growth. To meet increased demand, CCH plans to build six new cardiac catheterization suites dedicated to catheterization, interventional cardiology, and electro-physiology services. A 19-bed pre-and post-procedure recovery area will be built adjacent to the new labs to optimize patient flow and care.

- Information Technology Project - Significant investments in hardware, software and requisite information technology infrastructure are anticipated to be made system-wide in the next five years. A picture archiving and communication system ("PACS") will be installed in the fall of 2004 and will be implemented throughout CCHC by the end of 2005. Software investments will mirror programmatic priorities in quality; business intelligence; clinical documentation; and patient care. Hardware investments will focus on storage capacity, network development and enhancements, as well as requisite equipment upgrades.

Future CCHC Projects

In addition to the 2004 Project, CCHC plans to pursue projects that it determines are consistent with its strategy of increasing its market share in Barnstable County through the provision of high-quality, cost-effective health services. *See* "Strategic Planning." In addition to further borrowing, CCHC may fund its future capital expenditures through philanthropy and the expenditure of certain unrestricted funds. In keeping with its growth strategy, a discussion of certain anticipated future capital expenditures is set forth below.

- Fontaine Medical Center (formerly known as Long Pond Medical Center) – Construction is underway on an addition which will add approximately 12,500 square-feet of space to an existing 15,000-square-foot primary, specialty, and walk-in free-standing facility located in Harwich, Massachusetts, that services the Towns of Harwich, Chatham, Brewster, Orleans and Eastham. The addition, slated to be completed in March 2005 will provide for an expanded imaging suite, an increased number of specialty suites in order to expand such services as orthopedics, cardiology, urology, endocrinology, and gastroenterology, as well as other specialty services. Primary care suites will be added to meet the current patient care need and to provide increased services for the anticipated population growth on this portion of Cape Cod more commonly known as the Lower Cape. The estimated cost of the addition to this facility is approximately $5 million, for which the primary source of financing is expected to be philanthropy.

- Ambulatory Center, Barnstable – CCHC has purchased 42 acres of land in the mid-Cape area (the "Hadaway Site") to provide for current and future expansion of healthcare services. On this site CCHC plans to develop an outpatient, facility that will offer primary care, diagnostic and emergency care services and, in later phases, special care services. The development is anticipated to be conducted in a phased manner with an outpatient-imaging center and urgicare center in the first phase. Subsequent phases may include an endoscopy/ambulatory surgical center, laboratory services, women's health services, medical offices, rehabilitation/fitness/wellness' services, cancer services, and other outpatient services.

Cape Cod Healthcare Specialty Programs

Introduction
Health care on Cape Cod has experienced tremendous change since the 1996 merger that brought together the Cape's two hospitals – Cape Cod Hospital and Falmouth Hospital – and the Visiting Nurse Association of Cape Cod. Most notably, the creation of the Cape Cod Healthcare system has meant new healthcare services and resources for Cape Cod's residents and visitors. The new system made a promise to the community at the time of the merger – that coordination and collaboration among physicians and health facilities on Cape Cod would bring new programs and new levels of service to this region. That promise is reflected in the successful system-wide service lines that have been developed, including CCHC's two primary service lines, Cancer Services and Cardiovascular Services.

- Cancer Services – CCHC's Cancer Services program is accredited by the American College of Surgeons and the American College of Radiology. Strong affiliations with Dana Farber/Partners Cancer Care network, Women & Infants Hospital in Rhode Island and Boston Medical Center gives patients access to the most current treatment protocols sponsored by the National Cancer Institute. CCHC's Cancer Services now offers a complete range of advanced cancer treatment options, highly trained specialists and first-rate technology and facilities.

  The Cape Cod Healthcare Cancer Services program has two sites with a complete range of advanced treatment options using a multi-disciplinary approach. Medical Oncology, Radiation Oncology, Surgical Oncology and Hematology are provided at Cape Cod Hospital. Falmouth Hospital's Mashpee Health Center also provides Medical and Radiation oncology services.

  CCHC's investment in new technology for Cancer Services has been significant in giving CCHC providers the ability to provide accurate and early diagnosis and staging. The technological resources available to these providers include computerized tomography ("CT"), Magnetic Resonance Imaging ("MRI"), ultrasound, nuclear medicine, fluoroscopy, and Positron Emission Tomography ("P.E.T."), the most advanced whole-body imaging technology.

  In terms of radiation oncology, CCHC recently acquired a second linear accelerator, and are exploring opportunities to add a third one on the Upper Cape. CCHC has also added Intensity Modulated Radiation Therapy ("IMRT"), allowing physicians to deliver varying amounts of radiation to specific tumor areas, while protecting nearby organs and tissues. Radioactive seed implantation and High Dose Rate Brachytherapy ("HDR") is also now available on the Cape for appropriate cases such as prostate cancer.

  Prospective treatment conferences that meet weekly include breast and general along with a bi-monthly thoracic conference. Second opinion clinics performed by Dana Farber/Partners physicians are held bi-monthly. Nurses are certified in Oncology Nursing and radiation therapists are ARRT certified and licensed by the state. CCHC

Cancer Services provided over 7,500 chemotherapy treatments and 21,000 radiation treatments in fiscal year 2004.

- Cardiovascular Services – Cape Cod Healthcare offers complete cardiac care and seamless access to state-of-the-art technology and all of the cardiac care modalities that any hospital can offer. In 2003, CCH received approval from the Massachusetts Department of Public Health to begin performing *elective* angioplasty procedures. This approval came after the hospital launched its successful cardiac surgery program in 2002 and it built on the hospital's track record of excellent outcomes during its six-years of doing *emergency* angioplasty procedures.

  The cardiac surgery program is now over two years old, and more than 350 patients have had open heart surgery at CCH, one of only three community hospitals in Massachusetts licensed to perform cardiac surgery. In partnership with Brigham and Women's Hospital, CCH has built a world-class cardiac care team, many with dual appointments at the Brigham and Women's; a highly skilled and experienced cardiovascular nursing staff; and specially trained cardiac technologists. In addition, the new cardiac catheterization lab at Falmouth Hospital and the top quality cardiac facilities at CCH are linked, providing cardiac patients throughout Cape Cod and surrounding towns seamless access to complete cardiac care.

  The cardiac surgery outcomes continue to be excellent. A recent report conducted by Harvard Medical School for the Massachusetts Department of Public Health reviewed the more than 4,000 bypass surgery cases performed in Massachusetts in 2002 in an effort to measure how well hospitals are performing cardiac surgery. The report concluded that there are no differences in mortality rates following coronary artery bypass graft surgery between major academic hospitals and smaller community hospitals in Massachusetts – including CCH – that have been licensed to perform cardiac surgery.

  CCH was also the first community hospital in Massachusetts approved to perform emergency angioplasties on heart attack patients. Since then, the hospital has built an exceptional reputation for angioplasties. Its "door-to-balloon" time – the time between the moment a heart attack patient enters the door of the emergency room until he or she receives an emergency angioplasty – is among the lowest in the nation. Clinical studies have shown that the lower the "door-to-balloon" time, the better the outcome.

- Orthopedic Services - Cape Cod Healthcare is now in the process of establishing an Orthopedic Services Line, having recently appointed an Orthopedic Service Line Director. The new Director is working closely with our orthopedic physicians at both hospitals to develop processes for patient care across the continuum, as well as marketing plans and quality indicator development and monitoring. CCHC has 12 orthopedic surgeons who perform a complete range of traditional and minimally invasive procedures.

- Family Birthplace - About 1600 babies are born each year at CCHC's two hospitals. Overall, Cape Cod Healthcare has a solid market share in obstetrical services on Cape Cod at approximately 80 %. The challenge is to provide an excellent birth experience in order to hold onto the current market share and be in position to benefit from market expansion. Accordingly, this year CCHC created a new system-wide Family Birthplace model. This concept is new to many people who may be used to a nursery setting within a hospital maternity unit. However, the "family centered care" offered in the *Family Birthplace at Cape Cod Healthcare* is now the standard of care at most hospitals. The Family Birthplace model replaces the traditional hospital nursery setting by offering Labor, Delivery, Recovery and Postpartum suites, and provides improved opportunities for bonding, newborn care and communication.

Hospital Services

In addition to the system-wide service lines, the two hospitals each offer a full range of hospital services and programs typically provided in a community acute care hospital, as well as some additional programs and services and clinical and educational affiliations in place to serve the community. Highlights include:

Cape Cod Hospital

- Davenport - Mugar Cancer Center – This comprehensive oncology center, opened in the fall of 1997, is located on CCH's campus. The center offers medical oncology and radiation therapy services in one state-of-the-art

facility. It offers patients a multi-disciplinary treatment approach with clinical specialty programs in thoracic and breast cancer. The program also offers patients access to cutting edge treatment through national protocol groups funded by the National Cancer Institute. The center has a medical oncology department licensed under Falmouth Hospital, which is located in Mashpee.

- Cardiac Catheterization Laboratory – CCH opened a mobile catheterization lab in 1994 and a permanent laboratory in 1996. In 2001, approximately 2,500 tests were performed. Cardiac catheterizations, electro-physiology studies, interventional cardiology procedures including carotid stents are performed in this lab. A multidisciplinary team was developed to evaluate patients for the appropriate procedure. This team is comprised of an interventional cardiologist, a vascular surgeon and an interventional radiologist. A second catheterization laboratory was opened in May 2000. CCH participates in several clinical research studies for carotid artery angioplasty and stenting. CCH is one of only two centers in New England that has been selected to participate in the CREST study (carotid revascularization endarterectomy versus stenting trial) being sponsored by the National Institutes of Health.

- Surgical Program – CCH opened the O'Keeffe Surgical Center in November 1997, to better serve the surgical needs of the patients and physicians of the Cape Cod community. Now, more than 11,000 inpatient and outpatient surgical procedures are performed annually in the 15 operating rooms at Cape Cod Hospital. This number includes more than 250 general/vascular cases monthly; 200 orthopedic cases; and 120 urology cases monthly. In addition, our highly skilled neurosurgeons are now treating injuries and ailments of the brain and spine – including aneurysms, cerebrovascular disorders, tumors and spinal nerves – as well as they can be treated anywhere in the country. The hospital and its surgeons have made great strides in minimally invasive surgery in recent years, resulting in faster recovery times and less need for pain medication. Physicians, using state-of-the-art equipment and the latest, up-to-the-minute information, perform procedures today that would have been impossible on Cape Cod just a few short years ago.

- Emergency Services – The population on Cape Cod balloons from 220,000 to over 700,000 in the months of June, July and August. This enormous influx of seasonal residents and visitors greatly impacts the emergency departments at both hospitals. For example, CCH had over 80,000 emergency room and urgent care visits in 2003 and the emergency center at the hospital is among the busiest in Massachusetts during June, July and August. The emergency room physicians treat injuries, illnesses and ailments ranging from automobile or boating accident traumas, Lyme disease, hepatitis, flu, heart attack and stroke victims, poison ivy and sun burn victims, to removing fish hooks, and everything in between. Ultimately, the patient bed addition project at CCH and then the urgent care facility at Hadaway Road will alleviate some of the space pressures in the Emergency Department.

- Hospitalist Program – Both CCHC hospitals have an experienced team of hospitalist physicians. For example, CCH now employs six Hospitalists as a component of a plan to improve physician recruitment and retention. The Hospitalists allow many of the Hospitals' primary care physicians to more efficiently and effectively manage their outpatient medicine practices without interruption (i.e. the need to actually come into the hospital to check on their patients). Patients also benefit from the availability of a physician who specializes in the practice of inpatient medicine around the clock.

- Fontaine Medical Center – Cape Cod Hospital operates this primary care center to better serve the needs of patients on the Lower and Outer Cape. This facility is located about 18 miles east of CCH, in Harwich. The $5.5 million expansion and renovation project at this facility is well underway and due for completion in the Spring of 2005. Upon completion, the Center will almost double in size from 15,000 square feet to more than 27,000 square feet. The expansion will bring to the Lower Cape additional primary care physicians, specialists and MRI services. It will expand diagnostic services, laboratory facilities, x-ray services, and increase walk-in capacity. It will enhance waiting areas and provide 27 new patient examination rooms, a dermatology suite and a diabetes suite.

- Hadaway Road Complex – CCHC's vision of having a 42-acre healthcare outpatient campus readily accessible off Route 6 is moving closer to reality. Detailed planning, financing and fundraising projects for the imaging and urgent care components of the Hadaway Road project are now under way. The project is planned to feature

a complete imaging center including CT Scanning, MRI, ultrasound and other modalities and, urgent care in Phase I, Ambulatory (day surgery), and medical office space are in consideration for Phase II.

- The Cape & Islands Emergency Medical Services – The Cape & Islands Emergency Medical Services System is a life-saving network of services coordinated among area fire departments, their rescue squads and Cape Cod Hospital's Emergency Department and staff. The hospital provides on-site practical training for the emergency medical technicians in the Cape and Islands Emergency Medical Services. Paramedics and emergency medical technicians work closely with physicians and nurses at CCH, often providing life-saving pre-hospital care.

- Family Care Program - The Family Care program was established in 1979 under a grant from the Massachusetts Executive Office of Elder Affairs. The family care program provides foster care for the elderly and physically disabled as an alternative to nursing home care.

- Infectious Disease Services – In response to a growing need for infectious disease services on the Cape Cod, CCH developed an infectious disease program in 1994, which is called Infectious Disease Clinical Services or IDCS. IDCS now includes a physician who is board-certified in infectious diseases, and a nurse practitioner who is an expert in the management of HIV, AIDS and Hepatitis. This program is financed in part by state funding, and in part by a federal grant in the amount of $1.6 million that will allow CCH to expand the program throughout the hospital's service area over the next few years. Additionally, as a result of this funding, IDCS now offers case management as well as nutrition and mental health counseling. The IDCS grant represents the first federal grant ever received by CCHC, and it was awarded in recognition of the need for expanded services for a growing number of people who are HIV-infected in the area.

Falmouth Hospital

- Intensivist Program – In June 2004, Falmouth Hospital's 10-bed Intensive Care Unit/Critical Care Unit, equipped with sophisticated monitoring devices, implemented an Intensivist Program. A Cardiologist or Intensivist now follows patients admitted to this highly specialized unit. This new multidisciplinary approach is aimed at improving the management of patients at risk, or those recovering from a critical illness by standardizing care and better monitoring the utilization of service. More importantly, earlier assessment and intervention has resulted in improved quality of care greatly improving the clinical outcome. This program positions FH ahead of the curve on implementing the National Leap Frog Initiatives related to improving ICU/CCU care.

- Inpatient Beds – In September 2004, Falmouth Hospital added 12 new private inpatient beds. The bed addition assists in alleviating bed congestion in the Emergency Department which ultimately reduces risk for patient diversion.

- Surgical Program – More than 4,000 inpatient and outpatient procedures are now performed each year at Falmouth Hospital. A fifth operating room, equipped with the latest technology, came on line in the summer of 2002. The addition of this room affords more flexibility in the scheduling of surgical patients, especially those requiring emergent intervention. The fifth room supports increased daily volume demands while decreasing disruption of the surgical schedule. The hospital and its surgeons have made great strides in minimally invasive surgery in recent years, resulting in faster recovery times and less need for pain medication. Physicians, using state-of-the-art equipment and the latest, up-to-the-minute information, can perform procedures today that would have been impossible at FH just a few short years ago. And patients are benefiting because they can be treated at their community hospital for ailments and injuries that previously would have required a lengthy stay at a distant (i.e. Boston) hospital.

- Hospitalist Program – Falmouth Hospital now employs nine Hospitalists as a component of a plan to improve physician recruitment and retention. The Hospitalists allow many of the Hospitals' medical staff members to more efficiently and effectively manage their outpatient medicine practices. Patients also benefit from the availability of a physician who specializes in the practice of inpatient medicine around the clock.

- Emergency Services – Growth in the Upper Cape population has contributed significantly to the utilization of Falmouth Hospital Emergency Services; the hospital had over 41,000 emergency room visits in 2003.

Consequently, several initiatives were introduced to decrease patient wait times, reduce risk of patient diversion, improve clinical outcomes and increase patient satisfaction relative to the delivery of Emergency Room care. These initiatives include the addition of three fast track bays, five Clinical Decision Units and the implementation of a five-tier triage system. Also recognizing the increased demand for non-emergent medicine (urgent care) and the strain on staff and resources in the Emergency Room, FH recently opened an Urgent Care Center in Bourne, as a complement to its existing Urgent Care Center in Sandwich.

- Emergency Preparedness – The national concern with Emergency Preparedness after September 11, 2001 prompted FH's Emergency Department staff to pursue the development of programming. As a result, several grants have been received to support the implementation of a Medical Reserve Corps and assist in the establishment of an Emergency Preparedness Program.

- Cardiac Catheterization Lab – In a major upgrade of medical services for the Upper Cape, Falmouth Hospital opened a 5,000 square foot cardiac catheterization lab in September of 2002. The permanent facility will allow the hospital to meet the continued increase in demand for cardiovascular services. The Cardiac Catheterization Lab houses an invasive radiology and imaging suite, fully equipped with the latest cardiac imaging technology. A highly skilled team of three interventional cardiologists and an interventional radiologist offer a wide range of invasive cardiovascular diagnostic procedures such as cardiac catheterization, peripheral angiography and pacemaker insertion.

- Imaging – Imaging is a key service line at FH. The Hospital now provides high field MRI services seven days per week, significantly reducing wait times. In December 2004, a second, state-of-the-art 16 slice CT Scan will become operational improving throughput. The combination of speed and clinical utility improves the ability of physicians across all medical specialties to screen for disease, diagnose conditions and plan treatments non-invasively.

- Sleep Lab – The Sleep Disorder Laboratory at FH grew from two suites to four suites in 2002 to meet the increasing demand for the diagnosis and treatment of sleep disorders. Highly experienced and qualified Registered and Certified Respiratory Therapists conduct the sleep studies. The results are evaluated and scored by Board Registered Polysomnographic Technologists and interpreted by physicians who specialize in sleep medicine.

- Ambulatory Care Centers – The Bourne Health Center, opened in 2003, completes Falmouth Hospital's strategic plan to offer ambulatory care locations that provide increased access and convenience to residents in Bourne, Sandwich and Mashpee. The Bourne Health Center provides patients with Walk-in/Urgent Care, Primary Care, Occupational Health, X-Ray, Laboratory Services and a comprehensive service line of Rehabilitative care. Rounding out Rehabilitation Services at the Bourne site is the addition of a 1,700 square foot facility, which includes a well-equipped gym and private treatment rooms.

Affiliations

In the provision of their services to the public, each of CCHC, CCH and FH affiliate with outside entities and programs from time to time. These affiliations currently include:

- Surgical Residency Program – CCH has affiliation agreements with Boston Medical Center ("BMC") for training three surgical residents (at least three residents annually since June 1, 1998).

- Tufts University School of Medicine - FH has an affiliation agreement with Tufts University School of Medicine ("Tufts"), whereby FH trains approximately four second-year medical students per year.

- Joint Program in Cardiac Surgery with the Brigham and Woman's Hospital at CCH – *See* "Cape Cod Healthcare Specialty Programs".

- Dana Farber/Partners Cancer Care Network – CCH & FH have affiliation agreements with Dana Farber, whereby Dana Farber provides research links, consultations, second opinions, and enhanced coordination of care through expedited appointment participation in tumor boards. *See* "Cape Cod Healthcare Specialty Programs".

- Transfer Agreements – FH has transfer agreements for trauma cases to both Brigham & Women's and Children's Hospitals in Boston.

- Women's & Infants Hospital of Rhode Island – CCH has affiliations with the GYN Oncology program, whereby W&I consult with GYN oncology patients and assist with GYN oncology surgeries.

- Southeastern Massachusetts Resonance Imaging Consortium, Inc. – CCH and FH are part of an alliance with three other Southeastern Massachusetts hospitals that, collectively through an independent legal consortium, own six mobile MRI trailers. Between CCH, FH, Fontaine Medical Center, and the Sandwich Health Center four of those trailers will be utilized by CCHC.

- Other Education Affiliations – In addition to the surgical residency affiliation with BMC and the medical student affiliation with Tufts, CCHC has affiliations with other institutions of higher education and one secondary school regarding the education and training of clinical professionals, healthcare workers and others, including agreements with Northeastern University, Duke University, Lesley College, Cape Cod Community College, Bryant College, the University of Connecticut, Newbury College, Becker College, UMASS/Dartmouth, Curry College, Boston University, Ohio State, Bay State, Ithaca, Mercy College, Springfield College, UMASS/Lowell, Delaware University and Cape Cod Regional Technical High School.

  Under these affiliations, CCH provides training in geriatrics, physical therapy, nursing, accounting, hospital management and health administration. CCH is also accredited to provide required continuing education to pharmacists and nurses on the Cape. In addition, CCH sponsors a wide range of community education programs, including health fairs, seminars, support groups, and clinical presentations to various community groups.

Hospital Medical Staff

Staff Composition

Currently, each CCHC hospital maintains its own independent medical staff, with associated by-laws, rules and regulations, and distinct privileging requirements. While the staff categories are somewhat different, Active Staff status for each hospital is comparable. The Active Medical staff delivers the preponderance of medical service within each hospital. At Cape Cod Hospital, physicians join the Medical Staff as Associate Staff with the intention of becoming Active members. At Falmouth Hospital new members join as Provisional Staff. These staff categories carry the same admitting privileges as Active Staff and are included in the quantitative data that follow.

The Medical Staff at Cape Cod Hospital also includes Courtesy Staff members, who have no admitting privileges; the Honorary Medical Staff, consisting of former members of the Active Staff who have reached the age of 65 and have requested a category change to Honorary Staff; the Consulting Medical Staff, consisting of members qualified to advise on patient care issues and whose services are available to the Medical Staff; the Covering Medical Staff, consisting of members who provide coverage for either Active or Associate Staff members or a Medical Staff Department; and the Inactive Medical Staff, consisting of former members of the Active Staff, who have voluntarily given up their licenses to practice medicine/dentistry.

The Medical Staff at Falmouth Hospital also includes Affiliate Staff, who have limited admissions, but who refer patients and/or order diagnostic or therapeutic services at the hospital; and Honorary Staff, consisting of individuals who no longer admit but whom the Medical Staff wishes to honor.

In recent years there has been an increase in interest by physicians to belong to both Medical Staffs. Currently, 6% of the CCH staff maintains active status at Falmouth Hospital and 9% of FH staff are active members at Cape Cod Hospital. An additional 15% maintain affiliate or courtesy status at both hospitals but are less active at one of the two CCHC hospitals.

The following two tables, respectively, profile the Active and Associate Medical Staff by clinical area for each of CCH and FH:

APPENDIX A

Profile of the Cape Cod Hospital's Active and Medical Staff
By Clinical Area as of September 30, 2004

Clinical Department	Number of Physicians	Board Certified Physicians	Percent 2004 Discharges
Anesthesiology	13	13	0.0%
Medicine			
Cardiology	16	16	15.09%
Endocrinology	2	2	0.40%
Gastroenterology	5	5	0.93%
Hospital Based Physicians	6	6	10.98%
Infectious Disease	2	1	0.01%
Internal Medicine	35	32	17.20%
Nephrology	1	1	1.46%
Neurology	1	1	0.23%
Oncology (Medical)	4	4	1.35%
Pulmonology	6	6	3.20%
Rheumatology	1	1	0.01%
Emergency Medicine	16	16	0.0%
Family Medicine	9	8	3.29%
Surgery			
Cardiac	3	2	1.06%
General	9	8	10.32%
Hand	1	0	0.0%
Neurosurgery	3	1	4.94%
Ophthalmology	6	4	0.01%
Oral/Maxiofacial	6	4	0.05%
Orthopedics	8	7	6.00%
Otolaryngology	6	6	0.60%
Plastic	4	4	0.16%
Podiatry	4	4	0.15%
Thoracic	1	1	0.46%
Urology	4	4	2.23%
Obstetrics/Gynecology	12	11	8.51%
Oncology	4	4	0.00%
Pathology	8	8	0.00%
Pediatrics	14	13	6.67%
Psychiatry	9	6	4.53%
Radiology/Interventional Rad	15	15	0.16%
Total	234	214	100.00%
Percent Board Certified		91.5%	

Note: CCH's active staff is also supported by nearly 100 physician extenders in both medical and surgical sub-specialties, along with additional courtesy and consulting medical staff members. In addition, there are approximately 25 primary care physicians who are not part of the medical staff at either CCH or FH hospital, but who serve as a referral source in the Cape Cod community.

APPENDIX A

Profile of Falmouth Hospital's Active Medical Staff
By Clinical Area as of September 30, 2004

Clinical Department	Number of Physicians	Board Certified Physicians	Percent 2004 Discharges
Anesthesiology	5	5	0.00%
Medicine			
Allergy & Immunology	2	2	0.42%
Cardiology	9	9	6.31%
Dermatology	2	2	0.00%
Endocrinology	1	1	0.00%
Gastroenterology	3	3	0.12%
Hospital-based	8	6	31.81%
Internal Medicine	24	23	15.98%
Nephrology	1	1	0.00%
Neurology	2	1	0.08%
Oncology(Medical)/Hematology	3	3	0.02%
Pulmonology	2	2	1.08%
Emergency Medicine	12	10	0.00%
Family Medicine	10	10	2.02%
Surgery			
General	5	5	6.72%
Hand Surgery	1	0	0.00%
Ophthalmology	6	6	0.00%
Oral/Maxiofacial	3	3	0.02%
Orthopedics	5	5	7.65%
Otolaryngology	1	1	0.06%
Plastic	1	1	0.22%
Podiatry	5	5	0.00%
Urology	5	4	1.53%
Vascular Surgery	1	1	1.80%
Obstetrics/Gynecology	10	9	12.86%
Oncology/Radiation Therapy	1	1	0.02%
Pathology	8	8	0.00%
Pediatrics	10	9	11.27%
Psychiatry	4	3	0.00%
Radiology	6	6	0.01%
Total	156	145	100.00%
Percent Board Certified		92.9%	

Note: In addition, FH has 72 affiliate staff members who have limited admitting privileges of 25 admissions per two-year appointment period. There are approximately 25 primary care physicians who are not part of the medical staff at either CCH or FH hospital, but who serve as a referral source in the Cape Cod community.

As a requirement of Medical Staff membership, physicians seeking appointment to the Medical Staff at either Hospital must be Board Eligible and must become Board Certified within five years of initial membership, in those specialties where Board Certification is available (with very limited "grandfathering" exceptions at both hospitals). As of September 30, 2004, 92.9% of the active medical staff at Falmouth Hospital and 91.5% of the active medical staff at Cape Cod Hospital are board certified.

The average age of the Medical Staff in all categories is 48 years at CCH and 46 years at FH. The average age of the Active Medical Staff is 47.1 years at the CCH and 46.8 years at FH.

A profile of the twenty physicians with the highest number of fiscal year 2004 discharges at each hospital is illustrated in the following tables:

Profile of the Twenty Highest Admitting Physicians at Cape Cod Hospital

Rank	Specialty	Age	2004 Discharges	Percent of Total Discharges	Cumulative Percentages
1	Cardiology	46	558	3.26%	3.26%
2	Internal Medicine	28	421	2.46%	5.72%
3	OB/GYN	41	385	2.25%	7.97%
4	Cardiology	47	368	2.15%	10.13%
5	Psychiatry	53	339	1.98%	12.11%
6	Hospital-based	38	324	1.89%	14.00%
7	Neurosurgery	60	308	1.80%	15.80%
8	Hospital-based	31	302	1.77%	17.57%
9	Orthopedics	54	298	1.74%	19.31%
10	General Surgery	47	297	1.74%	21.05%
11	General Surgery	42	287	1.68%	22.72%
12	Neurosurgery	35	287	1.68%	24.40%
13	Hospital-based	42	277	1.62%	26.02%
14	Hospital-based	31	251	1.47%	27.49%
15	Nephrology	53	250	1.46%	28.95%
16	General Surgery	35	241	1.41%	30.36%
17	Cardiology	45	240	1.40%	31.76%
18	Neurosurgery	37	236	1.38%	33.14%
19	Hospital-based	38	227	1.33%	34.47%
20	General Surgery	61	215	1.26%	35.73%
	Total	43.2	6,111	35.73%	

Profile of the Twenty Highest Admitting Physicians at Falmouth Hospital

Rank	Specialty	Age	2004 Discharges	Percent of Total Discharges	Cumulative Percentages
1	Hospital-based	32	350	5.40%	5.40%
2	Hospital-based	39	274	4.23%	9.62%
3	Hospital-based	33	250	3.86%	13.48%
4	Hospital-based	34	247	3.81%	17.29%
5	Hospital-based	34	245	3.78%	21.06%
6	Hospital-based	38	241	3.72%	24.78%
7	Orthopedics	37	218	3.36%	28.14%
8	Internal Medicine	56	207	3.19%	31.33%
9	OB/GYN	46	157	2.42%	33.75%
10	Pediatrics	34	141	2.17%	35.93%
11	Orthopedics	48	134	2.07%	38.00%
12	Hospital-based	38	132	2.04%	40.03%
13	OB/GYN	45	128	1.97%	42.00%
14	General Surgery	57	123	1.90%	43.90%
15	Vascular Surgery	46	117	1.80%	45.71%
16	Cardiology	53	110	1.70%	47.40%
17	Internal Medicine	50	109	1.68%	49.08%
18	Pediatrics	61	109	1.68%	50.76%
19	Pediatrics	56	109	1.68%	52.44%
20	Hospital-based	41	105	1.62%	54.06%
	Total	43.9	3,506	54.06%	

Additions to and departures from each hospital's Medical Staff are an indication of the stability of the institution and the perceived desirability of practicing medicine there. The following table shows the net additions to and departures from all categories of CCH's and FH's Medical Staff during the past five years:

Net Additions to and Departures from
All Categories of Each Hospital's Medical Staff

Year	CCH Net Increase	FH Net Increase
2000	+21	+15
2001	+17	+15
2002	+11	+16
2003	+ 4	+ 9
2004	+21	+10
Total	+74	+65

Hospital Physician Recruitment and Medical Staff Development Efforts

Physician recruitment continues to be guided by the CCHC Board of Trustees and increasingly, these efforts are being coordinated by CCHC's senior administrative staff at both hospitals.

Cape Cod Hospital. CCH continues to engage in active physician recruitment and Medical Staff development efforts. The Hospital and Medical Staff periodically review and have approved the current recruitment policy to continue coordinated efforts to recruit for a variety of practice settings. Ongoing activities include recruiting for primary care physicians and succession planning for retiring Medical Staff members.

The Hospital's physician recruitment and Medical Staff development program has enabled CCH to maintain its current patient base through the recruitment of the physicians to the Hospital and to replace retiring physicians. Most recently, CCH was able to attract new physicians in several key areas that had previously presented recruitment challenges including a dermatologist, an endocrinologist, a rheumatologist and a thoracic surgeon.

Future recruitment at Cape Cod Hospital is expected to focus on six key areas:

- Expansion of the Hospitalist Program,
- Recruitment of an additional interventional radiologist,
- Recruitment of a hospital-based neurologists,
- Recruitment of an intensivist physician for critical care
- Continued development of the anesthesia and radiology services.
- Recruitment of primary care physicians

In addition, the hospital plans to continue to expand the newly developed surgical assistant physician program.

Falmouth Hospital. Falmouth Hospital continues to engage in an active physician recruitment and retention program. Through the clinical priorities group (an advisory panel comprised of at least one trustee and at least 12 physicians that is charged with providing guidance to management on a range of issues, including FH's personnel needs), Falmouth Hospital continues to evaluate staffing to meet the clinical services needs at the Hospital and the general service area.

Over the past three years, FH's Medical Staff has been substantially enhanced through the development of the Hospitalist Program, which now includes eight active hospital-based physicians. This program has been well received by the referring medical community and accounts for a significant portion of Falmouth Hospital's inpatient admissions.

Falmouth Hospital was able to recruit an ENT, a dermatologist and an allergist in 2004. Additional recruitment efforts broadened the scope of the medical staff, by adding GYN oncology and expanding gastroenterology, podiatry and rehabilitation medicine.

Future recruitment efforts are expected to focus on primary care providers, essential to meeting the needs of the growing population of the Upper Cape.

Employees

Cape Cod Healthcare

CCHC with its affiliates is the largest employer on Cape Cod. As of September 2004, there were 4,767 employees with an average of 3,523 full-time equivalent ("FTE") personnel.

The first participants of the Massachusetts Workforce Training Fund Grant graduated from Cape Cod Community College in May 2004, receiving their associate degrees in nursing. This program is designed, in part, to address the nursing shortage by making it easier for employees who have considered careers in nursing to move into such careers. The program is funded via a state grant and thus far has provided support to forty CCHC employees with varied backgrounds who desired to further their careers in healthcare by changing direction into nursing.

The program provides employees a chance to fulfill their career aspirations with support from their workplace as well as release time from work to attend school. It also reinforces CCHC's core value of creating employment opportunities that promote professional development and attract high quality employees.

Cape Cod Hospital

In 2004, CCH had an average of 1,740 full-time equivalent ("FTE") personnel, or approximately 4.22 FTEs per occupied bed, adjusted for outpatient services. The cost of fringe benefits for CCH employees in 2004 was approximately 30% of total salaries and wages.

Unions represent approximately 85% of all CCH employees. Approximately 59% of all CCH employees are represented by Local 2020 of the Service Employees International Union ("SEIU"). Management characterizes its relationship with its employees and SEIU as good. An agreement was ratified in October 2004 to enter into interest-based bargaining over the course of the next year for the period ending September 30, 2005.

CCH has been able to recruit and retain sufficient numbers of qualified registered nurses and licensed practical nurses to meet its staffing requirements. The nursing turnover rate in 2004 was 7.25%. In 2001 the vacancy rate was 5.8% and in 2004 it was approximately 6.02%. CCH's professional nursing staff negotiates through a bargaining unit represented by the Massachusetts Nurses Association ("MNA"). The current contract expires on September 30, 2005. Management characterizes its relationship with its nurses and the MNA as good.

Falmouth Hospital

In 2004, FH had an average of 618 FTE personnel, or approximately 3.65 FTEs per occupied bed, adjusted for outpatient services. The cost of fringe benefits for FH employees in 2004 was approximately 30% of total salaries and wages.

Unions represent approximately 81% of all FH employees. Local 2020 of the SEIU represents about 54% of all FH employees. Management characterizes its relationship with its employees and SEIU as good. The current contract expires on September 30, 2005.

FH has been able to recruit and retain sufficient numbers of qualified registered nurses and licensed practical nurses to meet its staffing requirements. The nursing turnover rate in 2004 was 7.38%. In 2001, the vacancy rate was 5.6% and in 2004 it was approximately 8.99%. FH's professional nursing staff negotiates through a bargaining unit represented by the MNA. The current contract expires on September 30, 2005. Management characterizes its relationship with its nurses and the MNA as good.

Employee Retirement Plan

CCH has a defined contribution plan that provides for CCH core contributions of 2% of pay for eligible covered employees. Based on age, years of service, and/or average base hourly wage, employees may receive additional core contributions of up to 4% of pay. Employees may elect to contribute up to $13,000 of their pay pre-tax in 2004, and if eligible, will receive a 50% match on contributions up to 4% of pay. Employees are eligible for the employer core and match on the first day of the month following one year of service, provided they have worked at least 1,000 hours during this period. Vesting is immediate at 100% for both employee and employer contributions.

FH has a defined contribution plan that provides for FH core contributions of 2% of pay for eligible covered employees. Based on age, years of service, and/or average base hourly wage, employees may receive additional core contributions of up to 4% of pay. Employees may elect to contribute up to $13,000 of their pay pre-tax in 2004, and if eligible, will receive a 50% match on contributions up to 4% of pay. Employees are eligible for the employer core and match on the first day of the month following two years of service, provided they have worked at least 832 hours per year. Vesting is immediate at 100% for both employee and employer contributions.

Service Area

Demographic Overview

The service area for CCHC consists of Barnstable County, Massachusetts. Barnstable County, commonly referred to as "Cape Cod", is comprised of 15 towns. These towns are part of four geographic regions that share similar physical, economic and demographic characteristics. (See Map, Page A-25) These regions are:

Region	Towns
Upper Cape	Falmouth, Mashpee, Bourne and Sandwich
Mid Cape	Barnstable, Yarmouth, and Dennis
Lower Cape	Harwich, Chatham, Brewster and Orleans
Outer Cape	Eastham, Wellfleet, Truro and Provincetown

The 2000 Census reported the total year-round resident population for Barnstable County was 222,235. The latest data available estimate the 2004 population to have increased to 234,142. Seasonal estimates by the Cape Cod Chamber of Commerce suggest that the summertime population reaches over 500,000 as a result of summer residents and vacationers visiting the area. Certain towns, particularly on the Lower Cape and Outer Cape, experience even greater percentage increases, as much as tripling their population.

Barnstable County exhibits two notable demographic characteristics: continued population growth and a significant senior population over the age of 65. During the 1980-1990 decade, Barnstable County was the fastest growing county in the Commonwealth of Massachusetts, posting 26% growth. For the decade 1990-2000, Barnstable County population grew 19.1% for a net increase of 35,625 year-round residents.

Barnstable County is the only county in Massachusetts that has a higher death rate than birth rate, yet it still achieves significant growth. This growth is attributed to "in-migration", as new residents relocate to the Cape. These new residents are a mix of retirees and younger families that demand broad health care services.

Since 1990 growth has slowed somewhat but still remains relatively healthy. High housing costs and reduced land availability have diminished the rate of growth seen in the 1970s and 1980s, but Cape Cod still remains a desirable place to live. The year-round resident population continues to increase as many residents convert summer homes to full-time residences. The Barnstable County population is expected to grow an additional 11.5% through 2010, more than triple the statewide rate for Massachusetts. This equates to 2,000-2,500 new Cape Cod residents joining the service area each year. *(Forecast source: Solucient/Claritas Planning Model)*

The Upper Cape region saw explosive growth in 1990-2000 decade and continues to experience the most significant change. The Lower Cape towns of Harwich and Brewster have also seen a substantial influx with growth from 1990-2000 at approximately 20% each. Harwich is expected to grow at a 15 % rate in the decade 2000-2010. CCHC has responded to these demographic trends by expanding ambulatory facilities such as Fontaine Medical Center and by adding physician and diagnostic services to Fontaine, Bourne Health Center, Mashpee Health Center and the Sandwich Urgent Care Center. *(Demographic Source: US Census 2000)*

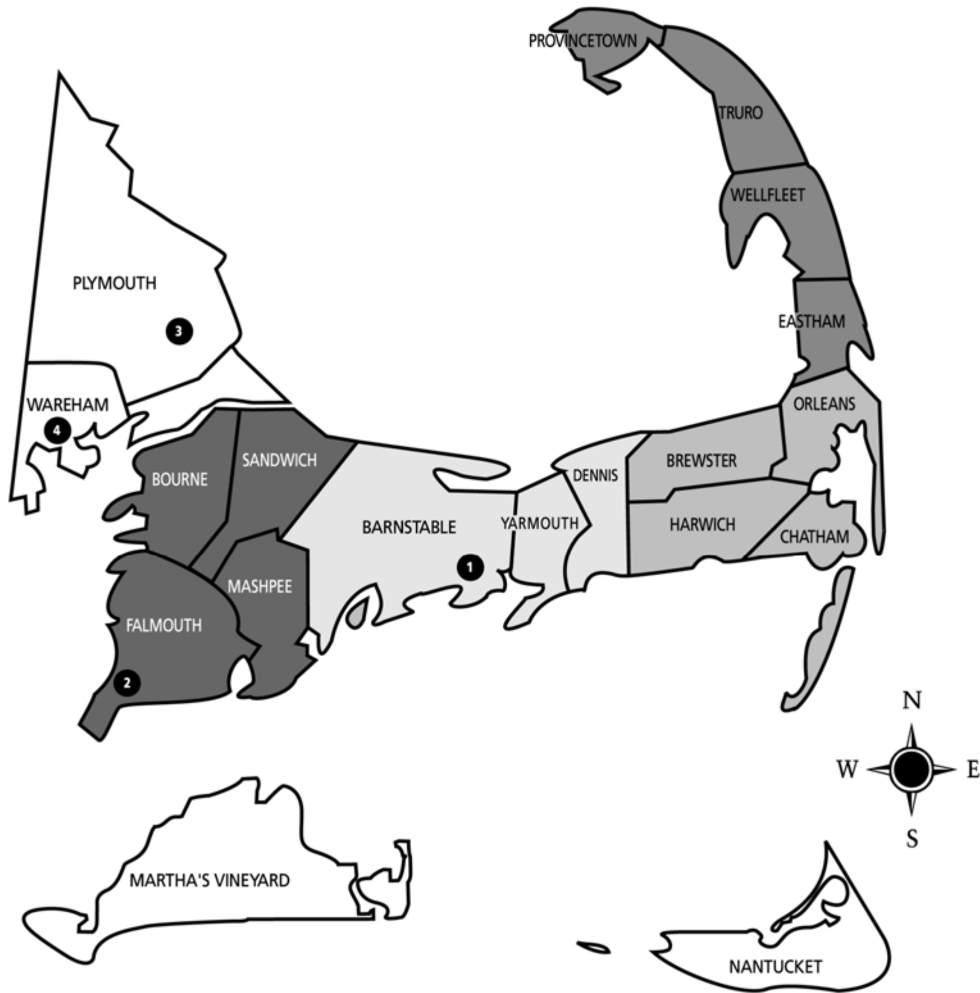
The second striking characteristic is the age of service area residents. Some 23% of Barnstable County residents are aged 65 or older, compared with the 13.5% of Massachusetts residents and 12% nationally. The mean age of county residents is 44.6 years compared to 36.5 years for Massachusetts residents. This age cohort is also the fastest growing segment of the population, expected to approach 60,000 residents by 2010. This aging factor puts additional demands on the health care delivery system. The 65-and-older age group uses hospital inpatient services at a rate seven times that of the under-65 group. *(Forecast source: Solucient/Claritas Planning Model)*

The following table provides further demographic details by town and region.

	Year-Round Resident Population		**1990-2000 Actual Growth**		**2010 Projected**		
Town/Region	**1990 Census**	**2000 Census**	**Net Change**	**% Chg**	**2010 Projected**	**Net Chg. 2000-2010**	**% Chg 2000-2010**
Falmouth	27,960	32,660	4,700	16.8%	36,202	3,542	10.8%
Sandwich	15,489	20,139	4,650	30.0	22,229	2,090	10.4%
Bourne	16,064	18,721	2,657	16.5	23,520	4,799	25.6%
Mashpee	7,884	12,948	5,064	64.2	16,834	3,886	30.0%
Upper Cape	**67,397**	**84,468**	**17,071**	**25.3**	**98,785**	**14,317**	**16.9%**
Barnstable	40,949	47,821	6,872	16.8	50,921	3,100	6.5%
Yarmouth	21,174	24,807	3,633	17.2	27,133	2,326	9.4%
Dennis	13,864	15,973	2,109	15.2	16,767	794	5.0%
Mid Cape	**75,987**	**88,601**	**12,614**	**16.6**	**94,821**	**6,220**	**7.0%**
Harwich	10,275	12,386	2,111	20.5	14,202	1,816	14.7%
Orleans	5,838	6,341	503	8.6	6,788	447	7.1%
Brewster	8,440	10,094	1,654	19.6	10,784	690	6.8%
Chatham	6,579	6,625	46	0.7	7,295	670	10.1%
Lower Cape	**31,132**	**35,446**	**4,314**	**13.9**	**39,069**	**3,623**	**10.2%**
Eastham	4,462	5,453	991	22.2	6,105	652	12.0%
Wellfleet	2,493	2,749	256	10.3	2,866	117	4.3%
Truro	1,573	2,087	514	32.7	2,397	310	14.8%
Provincetown	3,561	3,431	-130	-3.7	3,656	225	6.6%
Outer Cape	**12,089**	**13,720**	**1,631**	**13.5%**	**15,024**	**1,304**	**9.5%**
Barnstable County	**186,605**	**222,235**	**35,630**	**19.0%**	**247,699**	**25,464**	**11.5%**

Sources: U.S. Census Department and Solucient Planning System

Cape Cod Healthcare
Service Area and Local Area Hospital Sites



Local Area Hospital Sites

1. Cape Cod Hospital
2. Falmouth Hospital
3. Jordan Hospital
4. Tobey Hospital

Primary Service Area

- Upper Cape
- Mid Cape
- Lower Cape
- Outer Cape

Secondary Service Area

Household Characteristics

According to the 2000 Census, there were 94,822 households in CCHC's service area. There is a high degree of home ownership, and 78% of Cape Cod homes are owner-occupied compared to 62% statewide. Rental properties are less available in Barnstable County than in other regions of the Commonwealth. Barnstable County households with individuals over age 65 accounts for 37% of all households versus 25% statewide. Households with children under age 18 represent 26% of all Barnstable County households compared to 33% statewide. Median household income for Barnstable County residents was estimated at $40,791 for 1999, very close to the Massachusetts median.

Size and Share of the Inpatient Market

The most recent market share data available from the Massachusetts Health Data Consortium are for the fiscal year ended September 30, 2003. These data refer to market volumes and shares for inpatient, acute care hospitalizations at non-federal hospitals.

FH serves primarily the four towns of the Upper Cape. CCH serves residents in the remaining eleven towns of the Mid Cape, Lower Cape and Outer Cape.

Currently, CCH and FH draw approximately 92% of their inpatients from within Barnstable County. The acute care market (excluding newborns and neonates) has grown from 23,094 discharges in fiscal year 1996 to 27,793 discharges in fiscal year 2003. Management expects that population growth in Barnstable County and an aging population will contribute to increased demand for acute care services and ambulatory services.

CCHC's share of this market has grown from 64% in Fiscal 1990 to 73% in fiscal 2003. In fiscal year 2003, CCH captured 52.3% of Barnstable County inpatients and FH captured 20.6%. Major academic and teaching hospitals in Boston collectively captured 15.8% of the market in fiscal year 2003 and all other hospitals account for the remaining 11.3%. The development of key service lines, notably cardiovascular and oncology, has allowed CCHC to be successful in reducing business loss to Boston.

CCHC Market Share Trends for Barnstable County

	FY 1990	FY 1996	FY 2000	FY 2003
Cape Cod Hospital	43.1%	49.1%	50.9%	52.3%
Falmouth Hospital	20.4%	19.5%	20.1%	20.6%
CCHC Total	**63.8%**	**68.6%**	**71.0%**	**72.9%**

Out-migration Trends for Barnstable County (Lost Market Share)

	FY 1990	FY 1996	FY 2000	FY 2003
Boston Hospitals (major academic and teaching facilities)	19.1%	19.3%	17.7%	15.8%
Jordan Hospital	3.2%	2.3%	2.7%	2.6%
Tobey Hospital	3.1%	2.2%	2.6%	2.4%
All Other Hospitals	10.8%	7.6%	6.0%	6.3%
Total Out-migration	**36.2%**	**31.4%**	**29.0%**	**27.1%**

Acute Care Competition

There are two other acute care hospitals within a 40-mile radius of CCHC facilities, Jordan Hospital and Tobey Hospital. Both hospitals are situated outside the Barnstable County service area or "off-Cape." Jordan Hospital, located in Plymouth, is currently licensed for 137 beds. Tobey Hospital, located in the town of Wareham, is currently licensed for 72 beds. Tobey Hospital is one of three hospitals whose parent organization is Southcoast Health System, Inc. Both Jordan and Tobey Hospitals provide general medical, surgical, pediatric and obstetrical

services. In the fiscal year ended September 30, 2003, Jordan Hospital and Tobey Hospital together captured 5% of all inpatient admissions for Barnstable County residents.

Except for a competitive obstetrics market, market share losses go primarily to the eleven major academic and teaching centers in Boston, rather than other local community hospitals, as shown on the following table.

Discharges of Barnstable County Residents from Key Boston Area Hospitals Fiscal Year Ended September 30, 2003

	Discharges	Percent
Brigham and Women's Hospital	1,187	4.3%
Mass General Hospital	975	3.5%
Beth Israel Deaconess Medical Center	645	2.3%
New England Baptist Hospital	449	1.6%
Children's Hospital	376	1.4%
Boston Medical Center	266	1.0%
New England Medical Center	264	0.9%
Caritas St. Elizabeth's Medical Center	117	0.4%
Massachusetts Eye and Ear Infirmary	56	0.2%
Mount Auburn Hospital	37	0.1%
Dana-Farber Cancer Institute	29	0.1%
Total:	**4,401**	**15.8%**

Hospitals' Utilization

The following two tables illustrate CCH's and FH's utilization for the last five fiscal years.

Cape Cod Hospital Utilization
For Fiscal Year Ended

	2000	2001	2002	2003	2004
Total					
(excluding newborns)					
Licensed Beds	218	218	225	223	223
Staffed Beds	212	213	225	223	223
Discharges	15,127	15,650	15,779	16,129	16,389
Patient Days	65,902	65,217	66,319	68,128	69,156
Occupancy (staffed beds)	85.17%	83.89%	80.75%	83.70%	84.96%
Length of Stay (days)	4.36	4.17	4.20	4.22	4.22
Medical/Surgical/Intensive Care/Coronary Care					
Licensed Beds	175	175	187	185	185
Staffed Beds	174	175	187	185	185
Discharges	13,044	13,384	13,515	13,662	14,120
Patient Days	55,577	54,860	56,112	57,990	59,718
Occupancy (staffed beds)	87.51%	85.89%	82.21%	85.88%	88.44%
Length of Stay (days)	4.26	4.10	4.15	4.24	4.23
Obstetrics					
Licensed Beds	14	14	14	14	14
Staffed Beds	14	14	14	14	14
Discharges	1,055	1,095	1,039	1,024	1,001
Patient Days	2,720	2,885	2,757	2,683	2,502
Occupancy (staffed beds)	53.23%	56.46%	53.95%	52.50%	48.96%
Length of Stay (days)	2.58	2.63	2.65	2.62	2.50
Pediatrics					
Licensed Beds	9	9	4	4	4
Staffed Beds	4	4	4	4	4
Discharges	456	523	512	562	513
Patient Days	1,129	1,167	1,081	1,207	1,152
Occupancy (staffed beds)	77.33%	79.93%	74.04%	82.67%	78.90%
Length of Stay (days)	2.48	2.23	2.11	2.15	2.25
Psychiatric					
Licensed Beds	20	20	20	20	20
Staffed Beds	20	20	20	20	20
Discharges	572	648	713	881	755
Patient Days	6,476	6,305	6,369	6,248	5,784
Occupancy (staffed beds)	88.71%	86.37%	87.25%	85.59%	79.23%
Length of Stay (days)	11.32	9.73	8.93	7.09	7.66
Outpatient/Other					
Ambulatory Surgery	20,074	19,188	20,472	22,274	21,947
Nursery Discharges	960	1,023	972	976	963
Emergency Visits	70,460	76,743	79,208	80,379	79,386
Radiology (X-Ray)	90,039	84,238	73,264	75,289	77,499
Ambulatory Services	127,008	129,434	147,666	163,236	175,345
CT Scan	15,843	23,890	29,962	34,430	38,751
MRI	7,979	9,525	10,171	11,139	11,289

Notes: Ambulatory Surgery is cases in Surgical Day Care and APA
Radiology: X-ray Department only
Ambulatory Services: Outpatient Diagnostic Cardiology, Cardiac Cath, PT/OT/ST, SDC, APA, Pain Management, & Oncology

Falmouth Hospital Utilization
For Fiscal Year Ended

	2000	2001	2002	2003	2004
Total					
(excluding newborns)					
Licensed Beds	83	83	83	83	95
Staffed Beds	83	83	83	83	95
Discharges	5,621	5,677	5,697	6,063	5,887
Patient Days	22,805	23,827	24,858	25,313	23,853
Occupancy (staffed beds)	75.28%	78.65%	89.37%	83.56%	78.74%
Length of Stay (days)	4.06	4.20	4.62	4.17	4.05
Medical/Surgical/Intensive Care/Coronary Care					
Licensed Beds	69	69	69	69	69
Staffed Beds	69	69	69	69	69
Discharges	4,825	4,874	4,874	5,248	5,115
Patient Days	20,630	21,639	22,507	23,111	21,715
Occupancy (staffed beds)	81.69%	85.92%	89.37%	91.76%	86.22%
Length of Stay (days)	4.28	4.44	4.62	4.40	4.25
Obstetrics					
Licensed Beds	9	9	9	9	9
Staffed Beds	9	9	9	9	9
Discharges	68.5	686	676	690	652
Patient Days	1,872	1,884	2,000	1,927	1,852
Occupancy (staffed beds)	56.83%	57.35%	60,88%	58.66%	56.38%
Length of Stay (days)	2.73	2.75	2.96	2.79	2.84
Pediatrics					
Licensed Beds	5	5	5	5	5
Staffed Beds	5	5	5	5	5
Discharges	111	117	147	125	120
Patient Days	303	304	351	275	286
Occupancy (staffed beds)	16.60%	16.66%	19.23%	15.07%	15.67%
Length of Stay (days)	2.73	2.60	2.39	2.20	2.38
Outpatient/Other					
Ambulatory Surgery	5,746	6,640	7,105	6,571	6,868
Nursery Discharges	642	642	617	645	598
Emergency Visits	36,691	33,791	41,672	44,573	46,031
Radiology (X-Ray)	39,858	45,300	51,454	53,062	57,262
Ambulatory Services	30,121	30,830	34,648	37,254	41,592
CT Scan	9,469	11,060	12,916	13,341	17,020
MRI	3,624	5,246	5,595	5,617	6,166

Notes: Ambulatory Surgery is cases in Surgical Day Care and APA
Radiology: X-ray Department only
Ambulatory Services: Outpatient Diagnostic Cardiology, Cardiac Cath,. PT/OT/ST, SDC, APA, Pain Management, & Oncology

The table below summarizes and compares the in-patient discharges, for the top five diagnostic related groups ("DRGs") by major diagnostic category, for the year ended 9/30/04 and 9/30/03 for both Cape Cod Hospital ("CCH") and Falmouth Hospital ("FH"). The number of cases (discharges), the length of stay ("LOS"), relative case mix index ("CMI") and average charge per case ("Chg/case") are noted.

Of note at CCH, circulatory system discharges increased by 304, or 9.4%. The average charge per case increased by $6,371, or 38%. The weighted average CMI increased to 1.83, or 14%, while the LOS increased .04 days to 3.99 days. This significant growth in circulatory discharges is attributed to the open-heart surgical program combined with elective angioplasty and other interventional cardiology services. During 2004, approximately 130 discharges were from Upper Cape zip codes over and above the previous year, indicating success in keeping cardiology care on Cape Cod. This also explains the decrease in circulatory discharges at the FH of 84 or 8.8%.

CCH - DISCHARGES TOP 5 MDC	Fiscal Year 2004				Fiscal Year 2003			
DRG	Cases	LOS	CMI	Chg/case	Cases	LOS	CMI	Chg/case
5 : Circulatory System	3539	3.99	1.83	$ 23,135	3235	3.88	1.62	$ 16,764
8: Musculoskeletal System	1835	3.61	1.46	15,091	1866	3.63	1.40	12,890
6: Digestive System	1802	4.77	1.29	12,744	1825	4.65	1.27	10,625
4: Respiratory System	1560	4.81	1.34	10,513	1594	4.84	1.36	9,043
1: Nervous System	1129	4.24	1.31	12,526	1111	4.52	1.29	10,741

FH - DISCHARGES TOP 5 MDC	Fiscal Year 2004				Fiscal Year 2003			
DRG	Cases	LOS	CMI	Chg/case	Cases	LOS	CMI	Chg/case
4: Respiratory	883	4.95	1.25	$ 9,205	888	4.70	1.24	$ 7,878
5: Circulatory	866	3.90	1.31	11,935	950	4.12	1.32	11,278
6: Digestive System	717	4.83	1.48	13,514	764	5.37	1.45	13,840
8: Musculaskelatel System Conn Tissue	684	4.00	1.52	18,987	721	3.96	1.56	17,715
14: Pregnancy, Childbirth & Puerperium	625	2.81	0.05	4,633	685	2.82	0.52	4,289

Management's Discussion of Utilization

Cape Cod Hospital

Total discharges have averaged 15,815 per year with an overall increase of 8.3 % for the five-year period 2000 through 2004. Medical/surgical and critical care (adult acute care) discharges increased 1,076 or 8.2 % from fiscal 2000 to fiscal 2004.

While total discharges have been increasing, average length of stay has declined from 4.36 days in fiscal 2000 to 4.22 days in fiscal 2004. The combination of a low length of stay with a relatively high Medicare case mix, 1.492, is beneficial from both a Medicare reimbursement and an average cost of discharge perspective. The increased use of inpatient care protocols and the utilization of a growing continuum of post-acute care have both positively affected length of stay. Adult acute care length of stay averaged 4.26 days in fiscal 2000 and 4.23 days in fiscal 2004.

The average occupancy rates for the Hospital's medical/surgical and critical care units for the last five years including fiscal 2004 have approached or exceeded 85% of staffed beds. This occupancy rate has held steady at or near full capacity over the last five years because of management's desire to utilize efficiently its physical plant and staffed beds.

Inpatient volume is not as seasonal as might be expected given the Hospital's location in a vacation area. The Hospital performs many elective surgeries in the "off season" winter months. During the summer months there are more trauma-related and non-elective discharges (such as emergency cardiac care).

Obstetric cases averaged 1,043 per year in the five- year period 2000-2004. Given the make-up of the patient demographic which is skewed toward the elderly, CCH has consistently held on to its share of the obstetrics market. Since 1997, gynecology cases have been treated on medical/surgical floors and are included in those statistics. Nursery discharges have averaged 979 per year for the five-year period.

Pediatric discharges have averaged 513 per year during fiscal 2000 to fiscal 2004. In August 1999 CCH opened the new John F. Kennedy Jr. pediatrics unit which provides both inpatient and outpatient services. There are four private rooms and three observation rooms. Prior to this unit opening, an older pediatric floor had been used as an overflow unit for adult inpatients. Psychiatric discharges have averaged 714 per year from fiscal 2000 to fiscal 2004. During fiscal 2004 the inpatient unit was closed for renovation for six weeks, which drove the decrease in overall discharges in fiscal 2004 compared to 2003. Length of stay has dropped considerably (32%) from 11.32 in fiscal year 2000 to 7.66 in fiscal year 2004. Occupancy has declined from 88.71% in fiscal 2000 to 79.23% in fiscal 2004, due to the decrease in length of stay. In fact discharges increased 183 (32%) between fiscal years 2000 and 2004.

Ambulatory surgeries have increased 9.3% in the five-year period. The addition of three new outpatient surgical suites in 1997 to the O'Keefe Surgical Pavilion was in response to the steady growth in demand for this service and positions CCH favorably for anticipated future growth.

CCH's emergency center is a vital resource to the Hospital and the Cape Cod community. The Emergency Center, which was constructed in 1992 as the Lyndon P. LaRusso Emergency Center, has 31 beds and an additional six beds in the new Urgent Care area that opened in July 1999. The Emergency Center operates 24 hours a day, 365 days a year. The total volume of patients treated in the Emergency Center reached 79,386 visits in fiscal 2004 and 80,379 in fiscal 2003. The Emergency Center has had an increase in volume of 12.7% from fiscal 2000 to fiscal 2004. The volume in the Emergency Center is seasonal with average monthly visits of 5,500 to 6,000 patients per month during the off-peak season to 7,000 to 8,500 patient visits per month during the summer months, making it one of the busiest in Massachusetts. The services provided range from minor episodic injuries to major trauma and major cardiac events. Approximately one-third of the Emergency Center patients are seen in the Urgent Care area while the remainder is treated in the Main Emergency Center. Many towns in CCH's service area support sophisticated emergency medical and rescue services because of the elderly citizens. These services work in coordination with CCH's emergency room and as a result, CCH's emergency room activity is considerable year-round and is a significant feeder of inpatient volume.

Diagnostic radiology procedures have decreased 13.9% from fiscal 2000 to fiscal 2004. The decrease is largely attributed to a change in preferred diagnostic modalities by physicians from diagnostic "plain film" imaging to "high-end" CT scan and MRI digital imaging. Outpatient demand for all ancillary diagnostic procedures has increased while inpatient utilization has remained relatively constant. The increase in outpatient imaging is consistent with national trends as the delivery of healthcare continues to move from inpatient to outpatient settings. CT scanning volume increased 144% from fiscal 2000 to fiscal 2004. CCH built a suite dedicated to CT scanning that houses two scanners and a common control room in late fiscal 2001. In June 2004 CCH added a third CT scanner in the Emergency Center. MRI volume increased 42% in the five-year period ending 2004. A mobile MRI trailer is docked on campus seven days a week. An additional trailer is available six days a week. A third trailer rotates between the Sandwich, Falmouth Hospital, and Fontaine Medical Center sites during the week to provide MRI services more conveniently to patients residing in those areas.

Ambulatory visits are a measurement of outpatient visits in the oncology, cardiac cath, surgical day care, ambulatory procedure, physical/occupational therapy, diagnostic cardiology, and mental health service lines. The growth in total ambulatory visits is reflective of the growing trend to healthcare delivery in outpatient settings. For the five year period fiscal 2000 to fiscal 2004 ambulatory visits increased 38.1%.

Falmouth Hospital

Total discharges have averaged 5,789 per year with an overall increase of 4.7% for the five-year period fiscal 2000 through fiscal 2004. Medical/surgical and critical care (adult acute care) discharges increased 6.0% between fiscal 2000 and fiscal 2004.

While total discharges have been increasing, average length of stay has declined from 4.06 days in 2000 to 4.05 days in 2004. The combination of a low length of stay with a relatively high Medicare case mix is beneficial from both a

Medicare reimbursement and average cost of discharge perspective. The increased use of inpatient care protocols and the utilization of a growing continuum of post-acute care have both positively impacted length of stay. Adult acute care length of stay dropped from an average of 4.28 days in fiscal 2000 to 4.25 days in fiscal 2004.

The average occupancy rates for the Hospital's medical/surgical and critical care units for the last five years including fiscal 2004 exceeded 81% of staffed beds. This occupancy rate has held steady at or near full capacity over the last five years because of management's desire to utilize efficiently its physical plant and staffed beds.

As at CCH, inpatient volume is not as seasonal as might be expected given the Hospital's location in a vacation area. The Hospital performs many elective surgeries in the "off season" winter months. During the summer months there are more trauma-related and non-elective discharges (such as emergency cardiac care).

Gynecology cases are treated on medical/surgical floors and are included in those statistics. Nursery discharges have averaged 629 per year for the five-year period. Obstetric discharges have averaged 678 per year over the last five years.

Ambulatory surgeries have increased 19.5% in the five-year period. This growth reflects the ongoing trend to provide more healthcare services, including surgical procedures, in outpatient settings.

FH's emergency department that was remodeled in 1997 as the Langdon Burwell Emergency Department now has 11 beds and an additional six beds in the new Urgent Care area. The Sandwich Urgent Care Center was opened in August 1998. The Bourne Urgent Care Center opened in April 2003. Urgicare volume at the Sandwich and Bourne Centers accounted for 25% of the Emergency Department's volume in fiscal year 2004. The total volume of patients treated in the Emergency Department reached 46,000 visits in fiscal year 2004, an increase of 25.5% in volume from 2000 to 2004.

The volume in the Emergency Department is seasonal with average monthly visits of 1,600 to 1,800 patients per month during the off-peak season, increasing to 2,000 to 2,500 patient visits per month during the summer months. The services provided range from minor episodic injuries to major trauma. Many towns in FH's service area support sophisticated emergency medical and rescue services because of the number of elderly nature of their citizens. These services work in coordination with FH's emergency room and as a result, FH's emergency room activity is considerable year-round and is a significant feeder of inpatient volume.

Diagnostic radiology procedures have increased 43.7% from 2000 to 2004. The increase is attributed largely to outpatient demand for ancillary diagnostic procedures while inpatient utilization has been relatively constant. CT scanning and MRI volume increased 79.7% and 70.1% respectively in the five-year period. FH participates in the Southeastern Massachusetts Magnetic Resonance Imaging consortium and added two days per week of availability in 2001. FH installed a fixed CT scan in 2004.

Ambulatory visits are a measurement of all outpatient referrals. The growth in total ambulatory visits is reflective of the growing trend in healthcare delivery to outpatient settings. Ambulatory visits rose 38.1% during the five-year period.

Financial Information of the Obligated Group

The following Summary Combined Balance Sheet Information of the Obligated Group as of September 30, 2000 through 2004, and the Summary Combined Statements of Operations Information for the years then ended were derived from the supplemental consolidating information included with the audited consolidated financial statements of CCHC and affiliates.

Appendix B to this Official Statement sets forth the audited consolidated balance sheets of CCHC and affiliates as of September 30, 2003 and 2004 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, together with supplemental consolidating information. This Summary Financial Information should be read in conjunction with the consolidated financial statements and related notes of CCHC and affiliates included in Appendix B. Appendix B includes financial information for entities that are not part of the Obligated Group.

APPENDIX A

The Summary Combined Balance Sheet Information and Summary Combined Statements of Operations Information of the Obligated Group and the other financial information contained in this Appendix A should be read in conjunction with the complete consolidated financial statements of CCHC and affiliates for the fiscal years ended September 30, 2003 and 2004, together with the related notes included in Appendix B.

Cape Cod Healthcare Obligated Group
Summary Combined Balance Sheet Information
(In thousands)

ASSETS			September 30,		
CURRENT ASSETS:	2000	2001	2002	2003	2004
Cash and cash equivalents	$ 5,752	$ 8,923	$ 12,262	$ 15,355	$ 17,629
Short-term investments	13,349	14,857	14,411	25,103	29,918
Patient accounts receivable - net	52,391	54,779	64,645	60,233	66,338
Other receivables – net	5,613	6,732	6,522	9,518	9,764
Investments whose use is limited or restricted	4,078	4,543	6,126	18,787	6,687
Supplies	3,134	3,926	4,347	4,680	4,794
Prepaid expenses and other current assets	797	382	952	663	3,202
Total current assets	85,114	94,142	109,265	134,339	138,332
INVESTMENTS WHOSE USE IS LIMITED OR RESTRICTED:					
Internally designated by the Board	26,832	27,204	26,938	37,627	35,968
Funds held by trustee under bond indenture agreements	11,096	8,451	39,390	19,214	14,934
Temporarily restricted investments	19,508	11,541	9,249	11,838	16,260
Permanently restricted investments	9,566	10,526	10,833	11,373	11,784
Permanently restricted beneficial interest in irrevocable trust	5,978	5,978	5,624	6,267	6,711
Total investments whose use is limited or restricted	72,980	63,700	92,034	86,319	85,657
PROPERTY AND EQUIPMENT - net	120,256	125,265	137,524	146,848	165,169
OTHER ASSETS:					
Due from affiliates	3,905	6,663	4,667	3,941	4,203
Deferred financing costs – net	2,520	2,315	4,668	4,366	4,287
Other assets	6,317	7,242	10,805	15,923	13,131
Total other assets	12,742	16,220	20,140	24,230	21,621
Total Assets	$291,092	$299,327	$358,963	$391,736	$410,779

Cape Cod Healthcare Obligated Group
Summary Combined Balance Sheet Information
(In thousands)

LIABILITIES AND NET ASSETS

	September 30,				
CURRENT LIABILITIES:	**2000**	**2001**	**2002**	**2003**	**2004**
Current portion of long-term debt	$ 3,063	$ 3,704	$ 4,816	$ 5,342	$ 5,613
Accounts payable and accrued expenses	44,020	48,355	53,000	53,795	58,741
Estimated settlements with third-party payors	9,959	5,186	4,595	2,793	3,573
Borrowings under lines of credit	2,223	1,950	3,645	14,845	7,514
Other current liabilities	181	286	286	286	376
Total current liabilities	59,446	59,481	66,342	77,061	75,817
OTHER LIABILITIES	1,788	3,757	3,323	3,825	3,664
LONG-TERM DEBT - Net of current portion	85,879	87,865	130,591	127,237	127,094
Total liabilities	147,113	151,103	200,256	208,123	206,575
NET ASSETS:					
Unrestricted	109,095	117,317	125,455	141,703	158,057
Temporarily restricted	19,341	14,403	16,795	24,269	27,652
Permanently restricted	15,543	16,504	16,457	17,641	18,495
Total net assets	143,979	148,224	158,707	183,613	204,204
Total Liabilities and Net Assets	$291,092	$299,327	$358,963	$391,736	$410,779

Cape Cod Healthcare Obligated Group
Summary Combined Statements of Operations Information
(In thousands)

UNRESTRICTED REVENUE AND OTHER SUPPORT:	Fiscal Year Ended September 30,				
	2000	**2001**	**2002**	**2003**	**2004**
Net patient service revenue	$251,331	$274,951	$317,084	$352,514	$399,002
Other revenue	6,094	7,026	6,128	9,341	8,573
Net assets released from restrictions used for operations	0	1,053	1,646	1,900	1,180
Total unrestricted revenue and other support	257,425	283,030	324,858	363,755	408,755
EXPENSES:					
Salaries and wages	103,181	113,188	129,381	145,280	155,212
Physicians' fees	9,377	10,347	11,790	13,906	15,639
Employee benefits	25,309	28,185	34,420	39,847	46,480
Supplies and other	84,887	93,850	104,848	121,212	140,177
Depreciation and amortization	11,072	12,112	13,694	14,394	15,001
Interest	4,229	5,033	4,842	5,003	6,008
Uncompensated care pool assessment	2,910	3,553	2,518	1,337	1,102
Provision for bad debts	9,693	8,352	11,271	16,073	16,971
Loss from bond restructuring	0	0	0	0	3,642
Total expenses	250,658	274,620	312,764	357,052	400,232
OPERATING INCOME	6,767	8,410	12,094	6,703	8,523
NONOPERATING GAINS (LOSSES):					
Investment income	3,001	2,350	1,789	697	1,055
Realized gain (loss) on sale of investments – net	245	(76)	(4,095)	(182)	1,551
Gifts and bequests	2,891	2,869	3,269	3,507	3,528
Other nonoperating gains (losses)	587	(1,983)	(2,156)	(2,574)	(3,534)
Total nonoperating gains (losses) - net	6,724	3,160	(1,193)	1,448	2,600
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	13,491	11,570	10,901	8,151	11,123
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	503	(3,010)	1,854	5,245	2,436
NET ASSETS RELEASED FROM RESTRICTIONS - Used for purchase of property and equipment	24	2,965	1,779	3,623	4,359
TRANSFER TO AFFILIATES, NET	(703)	(3,311)	(6,523)	(770)	(1,564)
OTHER	0	0	127	0	0
INCREASE IN UNRESTRICTED NET ASSETS	$13,315	$8,214	$8,138	$16,249	$16,354

Actual and Pro Forma Historical Debt Service Coverage

The following chart sets forth the historical coverage of annual debt service on long-term debt of the Obligated Group. The debt service coverage ratio is based on income available for debt service during the fiscal years ended September 30, 2000 through 2004. The pro forma calculation sets forth the historical coverage of estimated maximum annual debt service on all outstanding long-term indebtedness of the Obligated Group assuming issuance of the Bonds. There can be no assurance that the Obligated Group will generate income available for debt service in future years comparable to historical performance.

	Fiscal Year Ended September 30, (in thousands)				
	2000	**2001**	**2002**	**2003**	**2004**
Excess of revenue and gains over expenses and losses	$ 13,491	$ 11,570	$ 10,901	$ 8,151	$ 11,123
Depreciation and amortization	11,072	12,112	13,694	14,394	15,001
Interest expense	4,229	5,033	4,842	5,003	6,008
Income Available for Debt Service	$ 28,792	$ 28,715	$ 29,437	$ 27,548	$ 32,132
Actual Debt Service					
Series A Bonds[2]	$ 3,854	$ 3,850	$ 3,847	$ 3,844	$ 3,844
Series B Bonds[3]	1,321	1,321	1,319	1,321	1,323
Series C Bonds[4]	-	-	1,121	2,243	3,011
Falmouth Series C Bonds[5]	1,647	1,649	1,648	1,649	1,644
HEFA Lease 1999	664	664	664	664	664
HEFA Lease 2001	-	-	202	202	202
Capital Lease	-	36	-	346	413
Other Long-term Debt	397	628	981	953	1,898
	7,883	8,148	9,782	11,222	12,999
Actual Debt Service Coverage	3.65	3.52	3.01	2.45	2.47
Pro Forma Estimated Maximum Annual Debt Service[1]	$ 15,732	$ 15,732	$ 15,732	$ 15,732	$ 15,732
Historical Coverage of Pro Forma Estimated Maximum Annual Debt Service	1.83	1.83	1.87	1.75	2.04

(1) Expected to occur in year 2009. Consists of $3.8 million of debt service on Series A Bonds (as defined below), $1.3 million of debt service on the Series B Bonds (as defined below), $3.0 million of debt service on the Series C Bonds, $1.6 million of debt service on the Falmouth Series C Bonds (as defined below), and $3.9 million on the Series D Bonds and $2.1 million of debt service on other long-term debt.

(2) Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Health Systems Obligated Group Issue, Series A, issued in 1993. Approximately $57 million originally issued at an average rate of 5.4% with a final maturity in 2023 ("Series A Bonds").

(3) Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series B, issued in 1998. Approximately $18 million originally issued at an average rate of 5.25% for bonds with a final maturity of 2013 and 5.45% for bonds with a final maturity of 2023 ("Series B Bonds").

(4) Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series C, issued in 2001. Approximately $45 million originally issued at an average rate of 5.25% for bonds with final maturities in 2017 and 2031 and 5.125% for bonds with a final maturity of 2021 ("Series C Bonds").

(5) Massachusetts Health and Educational Facilities Authority Revenue Bonds, Falmouth Hospital Association Issue, Series C Bonds issued in 1993. Approximately $21.4 million originally issued at an average rate of 5.01% with a final maturity in 2013 ("Falmouth Series C Bonds").

Actual and Pro Forma Total Debt as a Percentage of Total Capitalization

The chart below sets forth the Obligated Group's debt to capitalization ratio as of September 30, 2003 and September 30, 2004 and, on a pro forma basis, assuming the issuance of the Series D Bonds as of September 30, 2004.

	Actual Sept. 30, 2003	**Actual Sept. 30, 2004**	**Pro Forma Sept. 30, 2004**
		(In Thousands)	
Series D Bonds (estimated)	-	-	$65,000
Outstanding Indebtedness			
Series A Bonds	$ 47,250	$42,320	$42,320
Series B Bonds	16,394	15,944	15,944
Series C Bonds	44,896	44,220	44,220
Falmouth Series C Bonds	12,620	10,525	10,525
HEFA Lease 1999	1,554	953	953
HEFA Lease 2001	1,043	889	889
Capital Lease Obligations	1,125	976	976
Other Debt	7,696	16,880	16,880
Total Indebtedness	132,578	132,707	197,707
Unrestricted Net Assets	141,703	158,057	158,057
Total Capitalization	274,281	290,764	355,764
Indebtedness as a Percentage of Total Capitalization	48%	46%	56%

Management's Discussion of the Financial Performance of the Obligated Group

Overview

During the period from 2000 through 2004, the Obligated Group has focused on physician recruitment and retention efforts on Cape Cod. See "Hospital Medical Staff." The recruiting initiatives across the Cape have resulted in the net addition of 139 physicians to the Hospitals' medical staffs during the period, which has contributed to volume growth for both inpatient and outpatient services. Also during this period, the Cape Cod Hospital added a cardiac surgical program that has allowed the Hospital to perform elective angioplasty procedures. The Hospitals either added or upgraded services in diagnostic imaging, MRI, CT, medical oncology, cardiac catheterization, ambulatory procedures, pain management, wound care and urgent care. See "Hospitals' Services." In 2003, the Obligated Group purchased 40 acres of land for future ambulatory care development and expansion at a cost of $9.5 million. During 2004, the Obligated Group consolidated financial services, billing and accounts receivable management functions in one centralized off-site location. The Obligated Group produced positive operating income and excess of revenue and gains over expenses and losses for each of the last five fiscal years. Operating margins and total margins averaged approximately 2.7% and 3.5% respectively during the period from 2000 through 2004.

The Obligated Group generated operating income of $6.8 million in 2000, $8.4 million in 2001, $12.1 million in 2002, $6.7 million in 2003 and $8.5 million in 2004. The Obligated Group had an excess of revenue and gains over expenses and losses of $13.5 million in 2000, $11.6 million in 2001, $10.9 million in 2002, $8.2 million in 2003 and $11.1 million in 2004. Over the same period, the Obligated Group recorded an increase in unrestricted net assets of $13.3 million in 2000, $8.2 million in 2001, $8.1 million in 2002, $16.2 million in 2003 and $16.4 million in 2004. A discussion of the combined results of the Obligated Group is set forth below.

2001 Compared with 2000

Net Patient Service Revenue - The combined net patient service revenue of the Obligated Group increased from $251.3 million to $275.0 million from 2000 to 2001, or by $23.7 million (9.4%). Management attributes this

increase to a number of factors, including: (1) a 2.8% increase in inpatient discharges; (2) a 3.2% increase in emergency room visits; (3) a 8.5% increase in ambulatory visits; (4) a 38.1% increase in CT scans and (5) a 27% increase in MRI procedures.

Expenses - The consolidated expenses of the Obligated Group increased from $250.7 million in 2000 to $274.6 million in 2001, or by $23.9 million (9.5%). Management attributes this increase to a number of factors. Salaries, wages, employee benefits, and physician fees increased by $13.9 million. This is attributed primarily to: (1) a $10 million (9.7%) increase in salaries and wages; (2) a $2.9 million (11.5%) increase in employee benefits. Supplies and other expenses increased by approximately $9.0 million (10.6%) primarily associated with increased volume, as well as inflation, and other costs associated with advances in pharmaceutical and medical devices, consulting costs for capital project and strategic planning, and extensive physician recruitment initiatives. Depreciation, amortization and interest expense increased by approximately $1.8 million (11.8%) related largely to the increased capital costs associated with the volume growth. These increases were offset in part by a decrease in bad debt expense.

Other Changes in Net Assets - The Obligated Group periodically makes equity transfers to fund the operations of non-Obligated Group affiliates of CCHC, primarily its nursing homes and physician practices. During 2000, the Obligated Group made equity transfers of $0.7 million to related parties. During 2001, the Obligated Group determined that certain of its receivables from affiliates were not collectable. The adjustment to write off these receivables totaled $3.3 million, which was recorded as an equity transfer. The Obligated Group utilized $3.0 million of donor-restricted gifts for the purchase of property and equipment. During 2001, the Obligated Group recognized a $3.0 million decrease in unrestricted net assets related to the change in net unrealized gains and losses on investments compared to an increase of $0.5 million in 2000.

2002 Compared with 2001

Net Patient Service Revenue - From 2001 to 2002, the combined net patient service revenue of the Obligated Group increased from $275.0 million to $317.1 million, or by $42.1 million (15.3%). Management attributes this increase to a number of factors, including 0.7% increase in inpatient discharges, 9.4% increase in emergency room visits, a 6.8% increase in ambulatory visits particularly surgical a 22.7% increase in CT scans and a 6.7% increase in MRI procedures. Rate increases from commercial insurance companies and health maintenance organizations, along with Medicare wage base adjustments added to growth in net patient service revenues.

During August of 2002, Cape Cod Hospital performed its first open heart surgeries in connection with its new cardiac surgery program.

Expenses - The combined expenses of the Obligated Group increased from $274.6 million in 2001 to $312.8 million in 2002, or by $38.2 million (13.9%). Management attributes the increase in expenses in 2002 to a number of factors. First, salaries and wages increased by $16.2 million (or 14.2%), the result in part due to additional FTE's related to the opening of the cardiac surgery program and related support services. Second, supplies and expenses increased by 11.0 million, or 11.7%. This increase is attributed primarily to increased volume, as well as cost increases associated with pharmaceuticals, medical supplies, and supplies related to the new cardiac surgical program.

Other Changes in Net Assets - During 2002, the Obligated Group made equity transfers of $1.5 million to support the operations of non-Obligated Group affiliates including specialty and mental health clinics. The Obligated Group also wrote down the carrying value of its advances to a nursing home affiliate by recording an equity transfer in the amount of $5.0 million in 2002. During 2002, the Obligated Group recognized a $1.9 million increase in net unrealized gains and losses on investments compared to a $3.0 million decrease in 2001. The Obligated Group utilized $1.8 million of donor-restricted gifts for the purchase of property and equipment.

2003 compared with 2002

Net Patient Service Revenue - From 2002 to 2003, net patient service revenue increased from $317.1 million to $352.5 million, or by $35.4 million (11.2%). The increase is attributed in part to a 6.4% and 2.2% increase in discharges at FH and CCH, respectively. In February of 2003 CCH was first able to offer elective angioplasty to its patients. The outpatient business drove the increase in net patient service revenue as well. Most notably, CT, MRI and Emergency Services increased 11.4%, 6.3% and 3.4% respectively. Also during 2003, changes in prior-year estimates of third-party settlements increased net patient service revenue by approximately $6.7 million.

Expenses –The combined expenses of the Obligated Group increased from $312.8 million to $357.1 million, or $44.3 million (14.2%). The most salient increases occurred in salaries and wages, supplies, and bad debts which, together, account for $37.1 million of the overall increase. Increases in salaries are attributed to the first full year of the cardiac surgical program as well as the use of 'agency' nursing and radiology personnel.

Other Changes in Net Assets – During 2003, the Obligated Group made equity transfers of $0.8 million to support the operations of non-Obligated Group affiliates, primarily physician practices, a nursing home, and an outpatient mental health clinic. During 2003, the Obligated Group recognized a $5.2 million increase in net unrealized gains and losses on investments compared to $1.9 million in 2002. The Obligated Group utilized $3.6 million of donor-restricted gifts for the purchase of equipment.

2004 compared with 2003

Net Patient Service Revenue – From 2003 to 2004, net patient service revenue increased from $352.5 million to $399.0 million, or $46.5 million (13.2%). The increase is attributed to the growth of Cape Cod Hospital's interventional cardiology program as well as the continued growth of high-end imaging and ambulatory services. CT and MRI volume grew 16.7% and 4.2%, respectively.

Expenses –The combined expenses of the Obligated Group increased from $357.1 million to $400.2 million or $43.1 million (12.1%). Salaries and wages increased $9.9 million. The rate of growth in salary and wages, however, slowed to 6.8%. Employee benefits increased $6.7 million (16.8%) reflecting double-digit increases in health insurance premiums. Supplies and other expenses increased $19.0 million (15.7%) reflecting the increased costs of supplies required by a growing cardiology program such as drug-eluting stents, implantable defibrillators, and cardiac pacemakers. The Obligated Group recorded a $3.6 million loss on a bond restructuring as management took advantage of lower, short-term interest rates by restructuring its debt.

Other Changes in Net Assets – During 2004, the Obligated Group made equity transfers of $1.6 million to support the operations of non-Obligated Group affiliates. The Obligated Group recognized a $2.4 million increase in net unrealized gains and losses on investments. During 2004, the Obligated Group utilized $4.4 million of donor-restricted gifts for the purchase of property and equipment.

Liquidity

Unrestricted cash, cash equivalents and investments, including Board-designated funds ("Cash"), of the Obligated Group increased by $37.6 million (82%) from September 30, 2000 to September 30, 2004, and by $5.4 million from September 30, 2003 to September 30, 2004. The Obligated Group had approximately $83.5 million or 79 days of cash and unrestricted investments on hand as of September 30, 2004.

The Obligated Group had 70 days of cash and unrestricted investments on hand as of September 30, 2000. Revenue cycle management improvements have been a major focus of CCHC for the past five years. This effort has contributed to the 13% improvement in days of cash and unrestricted investments on hand. In the five year period 2000-2004, net accounts receivable has increased from $52.4 million to $66.3 million (27%) while in the same time, net patient service revenue increased from $251.3 million to $399.0 million or $147.7 million (58.8%).

Planned routine capital expenditures in 2005 are expected to total approximately $10.5 million.

Indebtedness and Guarantees of the Obligated Group

In addition to the Series A Bonds, Series B Bonds, Series C Bonds and the Falmouth Series C Bonds, members of the Group have the following outstanding indebtedness and guarantee obligations:

- CCHC has an $8,000,000 revolving line of credit with Bank of America, with a current expiration date of March 26, 2005. As of September 30, 2004, $1,900,000 was outstanding under the line of credit. The line of credit is unsecured.

- CCHC has a $2,000,000 loan with Bank of America, which matures January 1, 2006. The loan bears interest at a variable rate, and principal is payable in equal monthly installments. The loan is secured by a pledge of marketable securities that had an aggregate market value of approximately $2,600,000 on September 30, 2004. As of September 30, 2004, $533,333 was outstanding.

- CCHC has a $12,700,000 revolving loan facility with Bank of America that matures December 19, 2004. As of September 30, 2004, $5,613,682 was outstanding under the line of credit.

- CCH has an $8,000,000 promissory note with Cape Cod Aggregates Corporation for the purchase of the approximately 40 acres of land located on Hadaway Road in Hyannis, MA. The note matures on January 26, 2019.

- CCH has four mortgage loans, secured by mortgages on office buildings in Hyannis, Yarmouth and the (Fontaine Medical Center) in Harwich. The aggregate amount outstanding on these loans at September 30, 2004 was $2,866,461. The loans are guaranteed by CCHC.

- FH has two mortgage loans, secured by mortgages on properties located in Sandwich and Mashpee. The aggregate amount outstanding on these loans at September 30, 2004 was $4,167,807. The loans are guaranteed by CCHC.

- CCHC is obligated under two Master Lease Agreements with the Authority for the lease of certain major movable and fixed equipment used by the Hospitals. As of September 30, 2004, the aggregate amount outstanding under these master leases was $1,841,495.

- CCHC has previously guaranteed the payment of one year of debt service on bonds issued to finance the Falmouth Assisted Living Center, which were outstanding in the amount of $6,300,000 as of September 30, 2004. The guaranty is secured by a pledge of investments, which are required to have a collateral value, as defined in the pledge agreement, of $1,700,000.

- In connection with the sale of a nursing home, CCHC has guaranteed certain annual payments required to be made by the buyer to an unrelated party totaling $195,000 per year through 2010. In the event that the buyer fails to make such payments, CCHC would be required to make the payments.

- As of September 30, 2004, other capital lease obligations totaled $975,596.

Strategic Planning

CCHC's strategy is to increase its market strength and relative dominance in Barnstable County by expanding the availability of high-quality, cost-effective health services on Cape Cod. Successful physician recruitment and the introduction of more sophisticated health services have been key components of this strategy in the past and will continue to be in the future. CCHC market share has grown steadily during the past decade and now stands at 72.9%. The overall market for health services in Barnstable County is favorable, with growth fueled in part by the increasing popularity of Cape Cod as a retirement community

The recently concluded strategic planning process was comprehensive and included extensive input from senior leadership, management from across the system, every medical specialty at both hospitals and several meetings with trustees over the past twelve months. This process affirmed the necessity of committing to the building and expansion program to reach corporate goals.

CCHC and its primary organizations, CCH, FH and the VNA, have attained strong reputations with the public, achieved dominant and growing market shares, and been recognized for delivering high quality services. The desire of the local communities to have access to locally delivered, top quality health care now matches their confidence in CCHC'S ability to meet this expectation.

To meet these challenges, CCHC's vision is predicated on two broad goals:

- First, to continue to achieve clinical excellence and other demonstrable drivers of quality such as patient satisfaction and ease of access.
- Second, to extend and diversify services, facilities and physician base (in services) to meet the health needs of residents and visitors to Cape Cod.

CCHC expects to increase its current hospital market share from 73% to 80% by the year 2010. This market growth will allow it to complete its transition from a collection of community providers to a true integrated health network.

At Cape Cod Hospital, inpatient capacity will be expanded to 266 beds, as part of the Mugar Bed Tower addition of new beds combined with the subsequent decommissioning of older existing beds. This expansion is essential to keep pace with anticipated volume. Just as important, future development of the Hadaway site for ambulatory services will allow for the shifting of user traffic and ambulatory services from the hospital campus thereby creating growth opportunities for other hospital programs.

At Falmouth Hospital, the recent addition of 12 beds has brought capacity to 95 beds. Further bed expansion may be required as part of the longer term plan, particularly in light of continued, strong Upper Cape growth.

The VNA will continue to focus on home care and community health. This will require the VNA to seek support to grow the endowment and other philanthropic funds that enable it to fulfill its mission.

Achievement of each of the above vision-driven goals will be contingent upon successful response to a broad range of strategic issues---optimum quality, increased physician supply, strong financial performance, enhanced technology, expanded facilities, a highly trained work force and continued focus on community needs.

Much of this progress has been centered on and derived from the quality of the medical staffs at both CCH and FH. Successful physician recruitment has augmented an existing base of dedicated, talented community-based physicians. Today, physicians who are board-certified in their specialty deliver nearly all of the care at CCHC's facilities.

Health care is a complex endeavor. Delivery of high quality, regionally integrated health care is even more complex. The interdependence of many factors, ranging from physician supply, to acquisition of new technology and expansion of facilities, challenge governance and management to balance quality and financial capability against community needs and expectations. The test of the strategic plan is, therefore, how well it recognizes the complexities and interdependence of the system, the issues that face it and how it deploys our resources in response.

Sources of Patient Service Revenue

Hospitals

The following two tables, describe, respectively, the percentages of CCH's and FH's discharges by type of third-party payor:

Cape Cod Hospital Discharge Percentage by Payor

For Fiscal Year Ended

Payor	2000	2001	2002	2003	2004
Medicare FFS[1]	53.5%	51.5%	51.1%	52.9%	55.1%
Medicare Risk[2]	4.1	5.9	6.1	3.6	2.4
Total Medicare	57.6	57.4	57.2	56.5	57.5
Medicaid	9.5	9.9	10.4	10.0	8.9
Blue Cross	4.7	6.0	6.0	5.9	6.0
Managed Care	18.8	18.6	18.7	18.4	18.3
Commercial	7.0	6.0	5.4	5.9	5.8
Self Pay	2.3	2.2	2.5	3.3	3.5
	100.0%	100.0%	100.0%	100.0%	100.0%

[1]Medicare fee for service ("FFS") is the name generally used to describe contracts that do not contain any additional risk to providers over and above the risk to provide contracted services at specified rates.
[2]Medicare risk contracts, or capitated contracts differ significantly from FFS arrangements. In these arrangements, providers also accept some degree of risk for providing a defined set of services for a fixed fee.

Falmouth Hospital Discharge Percentage by Payor

Payor	For Fiscal Year Ended 2000	2001	2002	2003	2004
Medicare FFS	48.3%	46.1%	46.0%	51.5%	54.5%
Medicare Risk	6.3	7.5	7.6	2.5	0.1
Total Medicare	54.6	53.6	53.6	54.0	54.5
Medicaid	8.5	9.1	8.0	8.5	8.3
Blue Cross	5.3	7.1	7.4	6.2	5.9
Managed Care	23.3	20.9	23.0	23.1	23.3
Commercial	6.7	6.9	5.8	5.6	5.2
Self Pay	1.7	2.4	2.2	2.6	2.7
	100.0%	100.0%	100.0%	100.0%	100.0%

Medicare

Inpatient

Medicare is the commonly accepted name for the federal health insurance program for the elderly and disabled established by Title XVIII of the Social Security Act, 42 U.S.C. Section 1395, et seq. Since October 1, 1985, the Hospitals and other Massachusetts acute care hospitals have been paid for the non-physician services rendered to Medicare inpatients under the federal prospective payment system ("PPS"), pursuant to which payment amounts are standardized, depending on the patient's diagnosis related group ("DRG"). Participating hospitals also receive payment for both direct and indirect costs of medical education, capital related costs, and organ procurement costs. PPS permits additional payments, within specified limitations, to be made for atypical cases ("Outliers") and for hospitals, which qualify as disproportionate share hospitals (hospitals with a larger than average population of low-income patients). Inpatient services provided by FH are reimbursed based on this federal PPS methodology without regard to the hospital's actual inpatient operating costs.

In 1984, CCH was granted Sole Community Provider status by the Health Care Financing Administration ("HCFA"), the federal agency now known as the Center for Medicare and Medicaid Services ("CMS"). The Omnibus Budget Reconciliation Act of 1990 ("OBRA 1990") provided for new regulations for Sole Community Providers ("SCP's") in fiscal year 1991. The new regulations allowed CCH to rebase its PPS rate, at its option, to (1) 100% of the hospital specific rate based on 1982 costs, (2) 100% of the hospital specific rate based on 1987 costs or (3) choose to accept "blended PPS payment rate." Prior to fiscal year 1991 Sole Community Providers were paid on a blend of 75% hospital specific cost per discharge and 25% of a regional average rate. The SCP payment options were again expanded in Public Law 106-113, section 405, which provided additional base year options for SCP's. CCH has determined that the 1982 base year option provides the most advantageous payment rate.

Until 1991, capital related costs were excluded from the DRG rates and reimbursed on the basis of the Medicare share of actual allowable costs. Effective October 1,1991, Section 1886 (g) of the Social Security Act established a capital prospective payment system. Fiscal Year 2001 marked the end of the ten-year transition from a hospital specific capital reimbursement rate to a federal capital reimbursement rate. Beginning with discharges on October 1, 2001, inpatient ("IP") capital began to be reimbursed based solely on the federal per case capital rate for both hospitals.

For Inpatient Mental Health Services provided to Medicare Beneficiaries in its distinct Psychiatric Unit, CCH is paid on the basis of Reasonable Operating Cost, subject to a per discharge target limitation established through the provisions of The Economic and Fiscal Responsibility Act (TEFRA) of 1981. The provisions of the Balanced Budget Act of 1997 (BBA) mandated a PPS System for Psychiatric Services. CMS will implement this system with cost reporting years beginning on or after January 1, 2005; as such, the Hospital's first year under inpatient psychiatric PPS will be its fiscal year 2006.

Outpatient

Section 4523 of the BBA provided authority for HCFA (now CMS) to implement a PPS under Medicare for hospital outpatient ("OPPS") services, certain Medicare Part B services furnished to hospital inpatients who have no

Medicare Part A coverage, and partial hospitalization services furnished by community mental health centers. The provisions of this section were further modified by sections 201 and 202 of the Balanced Budget Refinement Act of 1999 ("BBRA"). CMS implemented the new system effective for services beginning on August 1, 2000.

Before the implementation of the APC system, payments for outpatient surgery were based on the lower of (1) reasonable cost, or (2) a hospital's customary charge for the service or (3) a blended rate based on a combination of hospital reasonable costs and the rates paid to freestanding ambulatory surgery centers ("ASC") or freestanding imaging or diagnostic service suppliers for the same services.

All services paid under the OPPS are classified into groups called Ambulatory Payment Classifications ("APCs"). Services in each APC are similar clinically and in terms of the resources consumed. A payment rate is established for each APC.

Section 4523 of the BBA also changed the way beneficiary coinsurance is determined for the services included under the PPS. A coinsurance amount will initially be calculated for each APC based on 20% of the national median charge for services in the APC. The coinsurance amount for an APC will not change until the amount becomes 20% of the total APC payment. In addition, Section 204 of the BBRA provides that no coinsurance amount can be greater than the hospital inpatient deductible in a given year.

Both the total APC payment and the portion paid, as coinsurance amount will be adjusted to reflect local geographic wage variations using the hospital wage index. Sixty percent of the total rate is assumed to be related to labor costs and therefore subject to the adjustment.

Certain services continue to be paid outside the APC methodology. These services include clinical laboratory services and outpatient rehabilitation care, which are both reimbursed, based on the HCFA fee schedule.

Services that are not medically necessary, as defined by applicable federal regulations, are not covered under Medicare. Since 1982, when Congress established Peer Review Organizations ("PROs") to review Medicare claims and the quality of care furnished by hospitals providing Medicare services, there has been intensified review of Medicare claims for determination regarding medical necessity, quality of care and appropriate level of care. PROs may deny claims that fail to meet their review criteria and can impost mandatory fines, or recommend termination of participation in Medicare of, facilities that were found to furnish substandard care.

During December of 2003 the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the "MMA", Pub.L.number 108-173) was enacted into law. In addition to providing Medicare beneficiaries with access to coverage for their prescription drug costs, the MMA included a number of provisions which affect provider payments and which establish the Medicare Advantage ("MA") program as a successor to Medicare + Choice. Given the higher levels of funding associated with MA and other apparent incentives offered to health insurance plans to participate in MA, it is possible that the number of Medicare beneficiaries selecting a managed care option over traditional Medicare could increase in the future.

The Uncompensated Care Pool

The Uncompensated Care Pool (the "Pool") provides access to health care for low income uninsured and underinsured residents of Massachusetts by paying for free care services provided by hospitals and community health centers. Established in 1985 and administered by the Massachusetts Division of Health Care Finance and Policy in FY 2004, the Pool, was funded through a $157,500,000 assessment on hospitals' private sector charges, $28,000,000 in supplemental funding, $90,000,000 in Uncompensated Care Trust Fund Transfers and $140,000,000 in federal financial participation revenue. In the event of a shortfall in the Pool, hospital reimbursement of uncompensated care is proportionately reduced.

Patients with family incomes under 200% of the federal poverty guidelines are eligible for full free care, and those with family incomes between 200% and 400% are eligible for partial free care. Patients at any income level may also be eligible for the Pool if medical costs deplete the family's income and resources such that the patient is unable to pay for necessary medical care.

Prior to October 1, 2003, Pool payments to the Commonwealth's acute hospitals were predicated upon free care and emergency bad debts actually written off during the then current year. Beginning with fiscal years that start on or

after October 1, 2003, hospitals' recoveries from the Pool are driven by historical uncompensated care amounts from a base year, which are then trended forward for estimated changes in charge levels and costs.

For 2004 CCH's and FH's allowable uncompensated care exceeded their gross Pool assessment.

Medicaid

Massachusetts is a participant in the Medicaid program established under Title XIX of the Social Security Act, 42 U.S.C. §§1396 and 1396(a), et seq. ("Medicaid"). Medicaid is a program of medical assistance provided to individuals whose income and resources are insufficient to meet the costs of necessary medical services. Medicaid is funded and administered jointly by the United States Department of Health and Human Services, and by the states through designated state agencies. The Massachusetts Division of Medical Assistance ("DMA") is the designated agency for Massachusetts and is responsible for reimbursing hospitals that provide covered services to Medicaid eligible persons, in accordance with rates determined by the Commission under methodologies incorporated into the State Plan for Medical Assistance.

Medicaid payments rates to acute care hospitals in Massachusetts are governed by a request for application ("RFA") process whereby the DMA sets levels of payment that hospitals may either accept or reject. Rejection of the rates would result in the hospital's exclusion from the Medicaid program.

DMA now reimburses hospitals based on the Payment Amount per Episode (PAPE) methodology. The PAPE establishes a hospitals specific episodic rate and replaces the ambulatory payment group ("APG") methodology. The hospital specific PAPE is based on an outpatient standard payment adjusted for hospital specific case mix. Certain services, including laboratory services will be carved out of the PAPE calculation and payment. .

DMA contracts with the Massachusetts Behavioral Health Partnership ("MBHP") to administer psychiatric and substance abuse benefits for Medicaid recipients. CCH has a contract with MBHP that provides reimbursement for IP psychiatric services on a fixed all-inclusive per diem and a negotiated fee schedule for OP behavioral health services. FH does not provide IP psychiatric or substance abuse services.

Blue Cross

The Hospitals have separate contracts with Blue Cross and Blue Shield of Massachusetts, Inc. ("Blue Cross") for both managed care and indemnity products. Reimbursement is calculated on a DRG basis for most inpatient services, and per diems for services which include inpatient mental health. Blue Cross reimbursement for outpatient services is based upon a percentage of charges.

Commercial Insurance

Commercial insurers do not contract directly with the Hospitals, although, generally they make payments directly to the Hospitals on the basis of established Hospital charges. Applicable deductibles or co-pays are typically due from the patient.

Managed Care

The sizeable Medicare population in the Hospitals' service area has served to minimize the impact of commercial managed care payors as compared to similar sized hospitals in other markets. The HMO market in Eastern Massachusetts and on Cape Cod is dominated by HMO Blue (a Blue Cross HMO product), Harvard Pilgrim Health Care, Inc. ("HPHC") and Tufts Associated Health Plans, Inc. ("Tufts"). In fiscal year 2001, collectively, these three plans accounted for 98.7% of the HMO membership in Barnstable County and accounted for 14.1% of total CCH IP cases. In fiscal year 2004 commercial managed care (including HMO and PPO contracts) accounted for 18.3% of IP cases and total managed care (including Medicare HMO contracts) accounted for 20.8% of IP cases.

The impact has been similar at FH. In fiscal year 2001, HPHC and Tufts combined accounted for 18.8% of total IP cases. Commercial managed care (including HMO and PPO contracts) accounted for 23.3% of IP cases and total managed care (including Medicare HMO contracts) accounted for 26% of IP cases in fiscal year 2004.

The HPHC contract provides hospital reimbursement for IP services on service specific per diems and a combination of case rates, fee schedules, and charge discounts for OP services. Tufts reimburses the Hospitals for IP

services with per diems as well, and charge discounts for OP services. HMO Blue pays for IP services on a DRG basis and a charge discount for OP services. The remaining HMO and Preferred Provider Organization payors generally reimburse the Hospitals based on a small discount from charges.

Hospital Licensure, Accreditation And Memberships

The Hospitals are both licensed by the Massachusetts Department of Public Health to provide acute, emergency and outpatient care.

In addition, the Hospitals participate in the Joint Commission on the Accreditation of Health Care Organizations ("JCAHO") survey process and have consistent earned positive Joint Commission survey results. Cape Cod Hospital completed a successful three-year accreditation survey in fiscal year 2004. Falmouth Hospital received its positive three-year accreditation in FY 2002 and will participate in the next survey in 2005.

The College of American Pathologists and the American Association of Blood Banks also accredit CCH. CCH's Cancer Program is approved by the American College of Surgeons as a comprehensive Cancer Center. The Radiation Oncology Program is approved by the American College of Radiology. The Hospital's Surgical Residency Program is approved by the American Medical Association. CCH's Continuing Medical Education ("CME") Program is approved by the Massachusetts Medical Society.

The College of American Pathologists and the American Association of Blood Banks also accredit Falmouth Hospital. Likewise, FH's Cancer Program is approved by the American College of Surgeons as a Community Cancer Center. FH's Continuing Medical Education ("CME") Program is approved by the Massachusetts Medical Society.

Cape Cod Hospital and Falmouth Hospital are both active members in the following organizations: Massachusetts Hospital Association, the American Hospital Association, the New England Hospital Association, the Southeastern Massachusetts Hospital Council and the Voluntary Hospital Association.

Auxiliary Program

The Cape Cod Hospital Auxiliary (the "Auxiliary"), founded in 1942, has over 7500 members in six branches throughout the Cape Cod area: Barnstable North, Chatham, Harwich/Dennis, Orleans, Yarmouthport, and its newest addition, the Evening Branch, designed to provide an opportunity for working residents who may be unable to participate during day hours.

Since 1975, the Auxiliary has pledged approximately $5.6 million to CCH, including funds for the purchase of equipment and capital projects such as the emergency room, cancer care and surgery centers. The Auxiliary staffs and coordinates the CCH Gift Shop and the CCH Thrift Shop, its largest source of revenue. The Auxiliary also hosts several annual fundraisers, including a fashion show, an annual tag day solicitation, its bi-annual holiday fair and several other events hosted by the individual branches.

The Falmouth Hospital Auxiliary was founded in 1957 before the Hospital opened in 1963. Approximately three hundred fifty (350) members of the Auxiliary from Falmouth, Bourne, Sandwich, and Mashpee work to promote and advance the welfare of Falmouth Hospital through service to the Hospital and through fundraising events. Since it's founding the Auxiliary has pledged over $2.5million to Falmouth Hospital.

Volunteer Program

CCH has approximately 500 volunteers who assist with myriad tasks in nearly every Hospital department and at the Foundation. The CCH volunteer year runs from April 1 through March 30. Volunteers contribute thousands of hours of work each year, with 93,000 hours donated in 2000. Volunteers help in many areas, including the transport of patients, clerical duties in numerous offices, working as Patient Representatives, Concierge, Information Desk, Receptionists, Surgical Day Care Liaisons, and errand "runners." Volunteers also provide a special community service called the "Warm Line" in which calls are made to all Medicare patients after discharge from the Hospital.

The Volunteer Service Department also coordinates the Junior Volunteer Program, the School-To-Career initiative that serves about 12 students each school year, the Diploma-Plus Program in conjunction with Cape Cod

Community College, and the Barnstable High School Community Service Program. The department also offers tours to school groups: last year over 360 students toured the Hospital.

Falmouth Hospital Volunteer Services has approximately 300 active adult volunteers and 65 junior volunteers (ages 13-17). During 2003, volunteers gave more than 37,600 hours of their time to Falmouth Hospital. The *Independent Sector* calculates the 2003-dollar value of volunteer time based on hourly wage of nonagricultural workers in Massachusetts at $20.75 per hour, which equates to $780,220.75 donated to Falmouth Hospital by its volunteers.

Adult volunteers help as cashiers in the cafeteria, take around a book and candy cart for patients and staff, do clerical work in numerous offices, help staff the medical library, run the gift shop and thrift shop, and greet and direct people at all major entrances of the Hospital. There are dietary volunteers, patient representatives, chaplaincy volunteers and Eucharistic ministers who visit patients on an almost daily basis.

Annually each spring volunteers give tours to approximately 15-20 kindergarten classes from the schools in the Hospital's service area. With the goal of introducing young children to the Hospital and healthcare in a friendly, non-clinical manner, the young people tour the maternity department, operating room, emergency department, diagnostic imaging and the pediatric unit. Volunteer Services also participates in court appointed community service activities.

Junior Volunteers are in the facility helping on clinical floors, in the emergency department, dietary services, business office, human resources, medical records and assisting at hospital fundraisers in the summer.

Companion, a personal emergency response system, is run out of the Volunteer Services Department. Started in 1985 with three units, there are currently 392 units serving the towns of Falmouth, Bourne, Mashpee, Sandwich, and parts of Barnstable. The Falmouth Hospital Auxiliary provides scholarships to pay the monthly fees for over thirty clients unable to pay the monitoring fee. Volunteers install and maintain all the units and make monthly reassurance calls to all subscribers.

Philanthropy

The Cape Cod Healthcare Foundation, Inc. ("Foundation") is the philanthropic arm for CCHC. The Foundation's programs include classically grounded fundraising, annual giving, corporate and small business giving, major and planned giving, and capital campaigns. Raising monies via philanthropy to support CCHC's charitable purposes is a major strategic initiative. This effort has received renewed focus over the past three years.

The Foundation has raised approximately $41.6 million in total over the last three fiscal years in support. The Foundation raised $13.2 million, $15.7 million, and $12.7 million in 2002, 2003, and 2004, respectively.

Leadership gifts restricted to the Capital Campaign at Cape Cod Hospital titled "For our Health, For our Future" totaled $20.5 million. Of significance is the number of large gifts donated to Cape Cod Hospital during this campaign. Single gifts of $5 million, $3 million, and $2 million as well as four $1 million gifts have been pledged during the course of this campaign. The detail for the projects to be funded via these restricted gifts is as follows:

Project	Amount
Bed Expansion Project (e.g. Mugar Bed Tower)	$ 9.6 million
Fontaine Medical Center (formerly Long Pond Medical Center)	$ 3.4 million
Lorusso Cardiac Care Center (cardiac surgical program improvements)	$ 2.0 million
Ambulatory Center (e.g. Hadaway Road Development)	$ 0.2 million
Restricted to any of the above projects	$ 5.3 million
Total pledged to the CCH Capital Campaign	$20.5 million

In summary, the Foundation raised $27.2 million in restricted and unrestricted contributions for Cape Cod Hospital from 2002-2004.

For the three-year period 2002-2004, the Foundation raised $6.3 million in support of Falmouth Hospital via Capital Campaigns. In its Capital Campaign titled "Putting Patients First" at Falmouth Hospital, Phase I, which ended in 2003, the Foundation raised $4.8 million. A single pledge of $2.5 million anchored that fundraising initiative. Phase II of the Capital Campaign titled "Fullfilling the Promise" has commenced in 2004 with a goal of $5 million. In

total, the Foundation raised $10.1 million in restricted and unrestricted support for Falmouth Hospital from 2002-2004.

In its fundraising activities for the Visiting Nurse Association, the Foundation raised $3.7 million in restricted and unrestricted contributions in the time period 2002-2004. The Foundation also hosts several special event programs, some of which are coordinated with outside community organizations such as the American Heart Association and the American Cancer Society.

The Foundation consists of 18 FTEs, several part-time employees and numerous community volunteers, including its Board of Trustees. These dedicated volunteers give generously of their time, talent, enthusiasm and financial resources.

The Foundation also works with other professionals in the community to offer assistance to donors and their advisors in achieving their overall financial and estate planning objectives. This is especially important since the Foundation received approximately $1.5m million in realized planned gifts during the three years 2002-2004.

In future years the Foundation will continue to support CCHC's charitable and strategic goals via its capital campaigns, planned giving programs, and unrestricted giving programs.

Insurance

CCHC, CCH, FH, the Foundation and certain other CCHC affiliates carry comprehensive general liability and professional liability insurance as follows: (i) general liability bodily injury and property damage combined limits of $2,000,000 per occurrence (ii) personal injury liability limits of $2,000,000 per occurrence and (iii) professional liability limits of $2,000,000 per claim, all subject to $10,000,000 aggregate. General liabilities are covered on an occurrence basis; while professional liabilities are covered on modified claims made basis, both through a self-insurance program established as of June 1, 2004. Employees (other than physicians) allied health professionals and non-professional volunteers of CCHC, CCH, FH and the Foundation are included as additional insureds under this program. Employed Physicians are provided with Professional Liability Limits of $2,000,000 each claim and $6,000,000 aggregate on modified claims made basis per physician under the same self-insurance program.

A directors and officers legal liability policy covers the directors and officers of CCHC and the affiliates with an annual aggregate limit of $20,000,000. The directors and officers liability policy includes defense for the Obligated Group. Each of CCHC, the Hospitals, the Foundation and their subsidiaries is a named insured.

A fiduciary liability policy covers the Obligated Group members' pension plans with an annual aggregate limit of $5,000,000.

An employment practices liability policy covers CCHC, the Hospitals, and the Foundation with an annual aggregate limit of $5,000,000.

A crime policy, with a $1,000,000 limit for each of the following covered events, covers CCHC, the Hospitals, and the Foundation for (i) employee theft, (ii) premises, (iii) transit, (iv) depositors forgery, (v) computer theft and (vi) funds transfer fraud.

Liability coverage for motor vehicles owned or operated by CCHC, the Hospitals, the Foundation and certain other CCHC facilities, is carried in the amount of $1,000,000 combined single limit, for bodily injury and for property damage.

CCHC, CCH, FH the Foundation and certain other CCHC affiliates have excess liability insurance for an additional limit of $25,000,000 per occurrence and $25,000,000 aggregate for general liability, professional liability and motor vehicle claims.

CCHC is a licensed self-insurer for worker's compensation, with $5,000,000 excess insurance provided by a commercial carrier over a self-insured retention of $500,000 per claim.

Bondowners' Risks and Matters Affecting the Health Care Industry

Future revenues and expenses of the Obligated Group will be affected by events and conditions related generally to, among other things, demand for the Hospitals' services, physicians' relationships with the Obligated Group and its facilities, management capabilities, capabilities of the leadership of its Medical Staff, the success of the Obligated Group's strategic plan, economic development in the Obligated Group's service area, the Obligated Group's ability to control expenses, the Obligated Group's ability to maintain relationships with third-party payors, competition, rates, costs, third-party payment legislation and governmental regulation. Third-party reimbursement and charge control statutes are likely to change, and unanticipated events and circumstances may occur that cause variation from the Obligated Group's expectations, and these changes and variations may be material. Accordingly, there is no assurance that the Obligated Group will realize sufficient income from operation in future years to meet its obligations. The following general factors, among others, could affect the Obligated Group's revenues or its financial condition or otherwise result in risk for the Bondowners in addition to the risks set forth in the forepart of this Official Statement under the heading "Bondowners' Risks."

Changes in Patient Service Volume

Reduction in patient service volume could have a material adverse effect on patient service revenue. In addition, under Massachusetts's law, an acute care hospital's medical/surgical beds are subject to annual delicensure in the event certain minimum occupancy standards are not met. Failure to meet such standards, and consequent automatic delicensure of medical/surgical beds, could have an adverse effect on the financial condition of the Hospitals.

The managed-care plan marketplace in the Hospitals' service area is concentrated primarily among Blue Cross, HPHC and Tufts, all three of which have, in the recent past, reported financial difficulties resulting in increased oversight by the Massachusetts Commissioner of Insurance (including a Commonwealth mandated receivership in the case of HPHC) as well as the Massachusetts Attorney General. There can be no assurance that one or more of these plans will not fail and be liquidated or be sold, with possible financial detriment to the Hospitals, which may be material.

Industry Integration and Consolidation

The healthcare industry is in the process of rapid and fundamental change, triggered by the deregulation of the acute care hospital reimbursement system, the growing national strength of managed care plans and the anticipated acceleration of direct contracting between providers and employers or governmental programs such as Medicare. The growth of the managed care industry and pressure to enter into direct contracts with employers and government programs is being driven in part by increasing pressures from employers and other purchasers that are seeking to reduce their healthcare premium costs. In Massachusetts, integrated delivery systems continue to develop and expand in order to provide adequate geographical coverage for major purchasers of healthcare and to provide a system through which significant cost savings can be realized from the efficiencies resulting from a closer alignment of physician and hospital financial interests. This may further increase competitive pressures on operators of acute care hospitals, including members of the Obligated Group.

In addition, proprietary and non-profit entrants to the Massachusetts health care market may, in certain instances, have significantly greater financial resources than the Obligated Group and may have significantly more experience in managing capitated risk. This and other competitive threats may lead to a restructuring of the current healthcare delivery systems in New England, and such restructuring may have a material adverse effect on the Obligated Group.

Legislative, Regulatory and Contractual Matters Affecting Revenues

The healthcare industry is heavily regulated by federal and state government, with a substantial portion of revenues coming from governmental sources. In the past there have been frequent and significant changes in the methods and standards used by governmental agencies to reimburse and to regulate the operation of hospitals. There is reason to believe that substantial additional changes will occur in the future. Legislation is periodically introduced in Congress and in the Massachusetts legislature that could result in: (i) limitations on the Hospitals' revenues, third-party payments, and costs or charges, (ii) increased competition, (iii) an increase in the level of indigent care required to maintain the Hospitals' tax-exempt status, or (iv) elimination of such tax-exempt 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 healthcare industry, including proposals to promote competition in the

healthcare industry, to contain healthcare costs, to provide national health insurance and to impose additional requirements and restrictions on healthcare insurers, providers and other healthcare entities. The effects of future reform efforts on the Obligated Group cannot be predicted.

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. There is no assurance that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all operating and fixed costs.

Restrictive policies at both the state and federal levels 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 is subject to regulatory actions by those governmental or private agencies that administer the Medicare and Medicaid programs and by the Massachusetts Department of Public Health, the Massachusetts Division of Public Charities, the Massachusetts Division of Medical Assistance, the Massachusetts Division of Health Care Finance and Policy, the National Labor Relations Board, the Joint Commission on Accreditation of Healthcare Organizations and other federal, state and local government agencies and private bodies. Actions of these organizations could adversely affect future operations or revenue of the Obligated Group. *See* "Sources of Patient Service Revenue." Renewal and continuation of the Hospitals' 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 Hospitals. These activities are conducted in the normal course of business of health facilities, both in connection with periodic renewals and in response to specific complaints, which may be made to governmental agencies, private agencies or even the media by patients, ombudsmen or employees, among others.

The Obligated Group and its affiliates have received, from time-to-time, requests for documents or information, subpoenas and other formal notifications and/or inquiries from state and federal governmental agencies or investigators. It is often impossible to determine the specific nature of any such 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 claim. Management considers these investigations a routine part of operations in the current healthcare climate, and expects them to continue in the future.

CCHC's reporting of wage index data for Medicare reimbursement was recently audited by the Office of the Inspector General ("OIG"), where it was determined that CCH did not fully comply with Medicare reporting regulations. CCH has taken corrective action as suggested by the OIG and the financial impact on the Hospital will be immaterial.

Determination of Need Restrictions

Under the Massachusetts Determination of Need ("DON") statute and regulations, operators of acute care hospitals such as the Hospitals are prohibited from making certain substantial capital expenditures, acquiring certain new technology, and making certain changes of control without prior receipt of a DON approval from the Massachusetts Department of Public Health. In addition, the Massachusetts Department of Public Health has authority to eliminate DON review of various types of services and technology, and is at present considering deregulating various services. The elimination or modification of the DON program or its restrictions on specific types of technology/services and could lead to increased competition among providers with respect to certain types of technology and services whose availability is now limited by the program. The Hospitals cannot predict the effect of such changes, if made, on their operations.

Pursuant to Massachusetts legislation enacted in 2000, new limits have been imposed on the ability of an acute care hospital to terminate "essential services" without prior notice to the Massachusetts Department of Public Health, 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. While the Department of Public Health has issued regulations setting forth a process it will apply in evaluating reductions in "essential services," it is uncertain how the regulations will be applied and whether and in what manner the Hospitals could terminate or materially reduce the scope of licensed services, or whether significant financial obligations would be imposed as a result of such

termination or reduction. Management believes, however, that the regulations will limit the flexibility of acute care hospitals to reconfigure their service lines in pursuit of cost reduction initiatives or other goals.

Increased Competition

The Obligated Group may face increased competition in the future from other healthcare providers serving its service area, from health maintenance organizations and other healthcare providers that offer comparable healthcare services to the population that the Obligated Group serves. Changes in DON regulations that facilitate expansion of competitive services may further enhance competition for patients among healthcare providers. Managed care programs are expected to continue to account for an increasing percentage of the Hospitals' admissions under contracts requiring discounts from charges or payment at negotiated rates, which may include capitated rates, that place the risk of over-utilization or cost increases on the Hospitals.

Moreover, other forms of competition may affect the Obligated Group's ability to maintain or improve its market share, including increasing competition (i) 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, (ii) from nursing homes, 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 Hospitals, and (iii) physician practice management companies and/or professional associations, which may attempt to obtain financial concessions from hospitals based upon the negotiating leverage of the physician groups they manage. The Hospitals cannot, with any certainty, estimate the impact of this competitive activity.

Management believes that sustained growth in patient volume or covered lives, together with firm cost controls, will be increasingly important as the healthcare environment becomes more competitive. There are many limitations on a hospital'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.

Reimbursement for Uncompensated Care

The Massachusetts Division of Health Care Finance and Policy is responsible for the administration of the Massachusetts Uncompensated Care Pool (the Pool) which, since 1991, has covered free care (as defined by Chapter 495 of the Acts of 1991) for all hospital services, bad debts only for certain emergency services offered to uninsured persons and certain specific, legislatively authorized charges. Since 1988 a cap has been imposed upon the amount of free care and bad debt that may be reimbursed through the Pool. Chapter 6 of the Acts of 1991 eliminated the Commonwealth's responsibility for funding uncompensated care, with the result that all Massachusetts acute care hospitals (including the two CCHC Hospitals) will share in any deficit caused by the cap. Such deficits may be caused by increased free care and bad debts and/or increased legislatively authorized charges to the Pool. *See* "Sources of Patient Service Revenue."

Anti-Dumping

In response to concerns regarding inappropriate hospital transfers of emergency patients based on a patient's inability to pay for the services provided, Congress enacted the so-called "anti-dumping" statute. This law imposes certain requirements that must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as significant civil and criminal penalties. The Hospitals' failure to meet their responsibilities under the law could adversely affect their financial condition and that of the Obligated Group.

Primary Care

Payors employing managed care principles to control costs of obtaining health care services for enrollees generally rely on internists, family practitioners and other so called primary care physicians as "gatekeepers" for referrals to specialists and hospitals for covered services. Accordingly, healthcare providers such as the Hospitals compete to assemble networks of primary care physicians, through employment, contracts and other arrangements. The ability of the Hospitals to align with primary care physicians will increasingly determine their access to service revenue. There can be no assurance that the Hospitals will be successful in recruiting physicians into their primary care physician networks, or that the primary care physician networks being developed by the Hospitals will be attractive

to managed care entities. There also can be no assurance that the primary care physician networks being developed by the Hospitals will be able to support them.

Limitations on Certain Arrangements Imposed by Federal Ethics in Patient Referrals Act

The federal Ethics In Patient Referrals Act (the "Stark Law") generally prohibits a physician who has a financial relationship with an entity such as a hospital from making referrals to that entity for "designated health services" if payment for that service may be made under the Medicare or Medicaid program. If such a financial relationship exists, referrals are prohibited unless a statutory exception is met. Violations of the Stark Law can result in denial of payment, substantial civil money penalties and exclusion from the Medicare and Medicaid programs. "Designated health services" include inpatient and outpatient hospital services, clinical laboratory services, physician and occupational therapy services, radiology and other diagnostic services, radiation therapy services, durable medical equipment, parenteral and enteral nutrients, prosthetics, home health services and outpatient prescription drugs.

Exceptions exist for certain arrangements, including some kinds of arrangements between physicians and hospitals in which the remuneration paid is related to the provision of any of the listed services. However, the failure of arrangements between the Hospitals and a physician to fall within one or more of these exceptions could have a materially adverse effect on the Hospitals. While management believes that it can implement its strategy in compliance with the Stark Law, the regulatory provisions are vague and thus interpretation is subject to change, therefore there is no assurance that all financial relationships between the Hospitals and physicians would be found to be in compliance with the Stark Law.

Limitations on Certain Arrangements Imposed by Fraud and Abuse Statutes

There is an expanding and complex body of laws, regulations and policies relating to federal and state health programs. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, such as the federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law"), all of which carry potentially significant penalties for noncompliance. Because the Anti-Kickback Law is broadly drafted (and broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General (the "OIG") of the United States Department of Health and Human Services ("HHS"), which is charged with enforcement), it may create significant financial and other liability in connection with a wide variety of business arrangements involving hospitals, physicians and other health care providers. HHS has published regulations, which describe certain "safe harbor" arrangements that will not be deemed to constitute violations of the Anti-Kickback Law, although failure to satisfy the conditions of a safe harbor does not necessarily reflect a violation of the statute. HHS is expected to promulgate additional safe harbor regulations in the future. There are no safe harbor regulations under the Massachusetts anti-kickback law, the provisions of which are substantially equivalent to those of the Anti-Kickback Law. Activities that fall outside of the safe harbor arrangements include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. Violations may result in civil and criminal penalties, either of which if imposed on the Hospitals could have a materially adverse effect on them. Civil penalties range from monetary fines that may be levied on a per violation basis to temporary or permanent exclusion from the federal healthcare programs. Criminal penalties may also be imposed. These penalties may be applied to many cases in which hospitals and physicians conduct any of the following activities: joint business activities; practice acquisitions; physician recruiting and retention programs; various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities; physician referral services; hospital-physician service or management contracts; and space or equipment rentals between hospitals and physicians. The Hospitals conduct activities of these general types or similar activities, which pose varying degrees or risk. Much of that risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG and other state and federal authorities, although the OIG issues advisory opinions on the applicability of certain aspects of the Anti-Kickback Law under recently conferred statutory authority. While management of each Hospital is not aware of any challenge or material investigation concerning either of them with respect to such matters, there can be no assurance that none will occur in the future.

In keeping with guidelines developed by the OIG for hospitals generally, CCHC has a formal compliance program designed to detect and prevent violations of the Stark Law, the Anti-Kickback Lawand other significant state and federal health care laws. CCHC's compliance program is administered and monitored under the direction of CCHC's Vice President of Legal Affairs & Compliance.

Limitations on Contractual and Other Arrangements Imposed By Internal Revenue Code

As tax-exempt organizations, members of the Obligated Group are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low-interest loans, joint venture programs, and other means of recruiting and retaining physicians. The Internal Revenue Service (the "Service") has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The Service has also commenced intensive audits of selected healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. Any suspension, limitation, or revocation of the tax-exempt status of any member of the Obligated Group 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 Bonds. The Service has also indicated that, in certain circumstances, violation of the Anti-Kickback Law and/or other Fraud and Abuse Statutes could constitute grounds for revocation of a hospital's tax-exempt status. The Hospitals, like many hospitals, and their predecessors have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the Service has indicated it will examine in connection with audits of tax-exempt hospitals. While the management of the Hospitals believes that the Hospitals' arrangements with private persons and entities are generally consistent with the Service's guidance, there can be no assurance concerning the outcome of an audit or other investigation by the Service given the lack of clear authority interpreting the range of activities undertaken by the Hospitals.

Revocation of Tax Exemption; Private Inurement

Revocation of the tax-exempt status of the members of the Obligated Group under Section 501(c)(3) of the Internal Revenue Code (the "Code") could subject the interest paid to Bondowners to federal income tax retroactively to the date of issuance of the Bonds. Section 501(c)(3) of the Code specifically conditions the continuing exemption of all organizations described in that 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 a tax-exempt organization under Section 501(c)(3). The Service 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 the management of the Hospitals believes that the Hospitals' arrangements with private persons and entities are generally consistent with the Service's guidance, there can be no assurance concerning the outcome of an audit or other investigation by the Service given the lack of clear authority interpreting the range of activities undertaken by the Hospitals.

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, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. "Disqualified persons" include "insiders" such as board members and officers, senior management and members of the medical staff, who in each case are in a position to influence substantially the affairs of the organization; their family members and thirty-five percent-owned entities. The legislative history sets forth Congress' intent that compensation of disqualified persons shall be presumed to be reasonable if it is: 1) approved by disinterested members of the organization's board or compensation committee; 2) based upon data regarding comparable compensation arrangements paid by similarly situated organizations; and 3) adequately documented by the board or committee as to the basis for its determination. A presumption of reasonableness will also arise with respect to transfers of property between the exempt organization and disqualified persons if a similar procedure with approval by an independent board is followed.

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 tax in lieu of revocation, based upon a finding

that the Obligated Group or its affiliates engaged in an excess benefit transaction, is likely to result in negative publicity and other consequences that could have a material adverse effect on the operations, property or assets of the Obligated Group.

Affiliation, Merger, Acquisition and Divestiture

As part of its on-going planning and property management functions, CCHC reviews the use, compatibility and financial viability of many of its operations, and from time to time may pursue changes in the use of, or disposition of, its facilities. Likewise, CCHC may receive offers from, or conduct discussion with, third parties about the potential acquisition of operations or properties that may become part of the Obligated Group in the future, or about the potential sale of some of the operations and properties of the Obligated Group. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect CCHC, are held on an intermittent, and usually confidential, basis with other parties and may include the execution of non-binding letters of intent. As a result, it is possible that the assets currently owned by the Obligated Group may change from time-to-time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Antitrust

Enforcement of the antitrust laws against healthcare 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, affiliation and acquisition activities, and certain pricing and salary setting activities. In some respects, the application of the federal and state antitrust laws to healthcare is still evolving, and enforcement activity by federal and state agencies appears to be increasing. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants. At various times, the Obligated Group may be subject to an investigation by a governmental agency charged with the enforcement of the antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing 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 will be involved with all of these types of activities, and it cannot be predicted whether or to what extent antitrust liability may arise. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, CCHC and/or the Hospitals 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 myriad factual matters which may change from time to time.

False Claims Act and Compliance Initiatives

The hospital industry is increasingly subject to investigations relating to errors in billing and improper billing practices under the False Claims Act, the Civil Monetary Penalties statue and other comparable federal and state laws (the "False Claims Laws"). Under the False Claims Laws, hospitals that submit incorrect or improper bills not only must refund any overpayments, but under some circumstances may be held liable for multiple damages and civil monetary penalties. Payment for health care services by government agencies is regulated by complex laws, regulations, manual provisions and program memoranda. While the members of the Obligated Group believe that they conduct their billing substantially in accordance with these requirements, many of the applicable requirements are not clearly written or understood and it is possible that in the future the members of the Obligated Group may have to make refunds to third party payors based on a dispute over the interpretations of these requirements.

Private individuals (known as "whistleblowers"), including patients, employees of health care providers, and others, also may bring suit under the *qui tam* provisions of the False Claims Laws and may be eligible to receive a share of the funds ultimately recovered by the government. Under certain circumstances, violations of the False Claims Laws also can lead to suspension or exclusion from the Medicare and Medicaid programs or, in cases of willful violations, criminal penalties. The OIG, the United States Department of Justice, the Massachusetts Medicaid Fraud Control Unit and other government agencies from time to time have commenced investigations of various billing and financial practices in the healthcare industry. While the Obligated Group is not to its knowledge the subject of any such investigation, there can be no assurance that the Obligated Group will not be investigated by one or more of these agencies in the future. An action under the False Claims Laws, if determined adversely to the Obligated Group, could have a material adverse effect on the finances of the Obligated Group.

The OIG has encouraged all hospitals to adopt and implement compliance programs to promote compliance with federal and state laws, including the False Claims Laws, the Anti-Kickback Law and the Stark Law. CCHC has developed a compliance program substantially in keeping with guidelines issued by the OIG for hospitals generally, and each CCHC entity has an appointed compliance officer. It should be noted, however, that the presence of a compliance program is not an assurance that the Hospitals will not be investigated by one or more federal and state agencies that enforce the False Claims Laws or that CCHC will not be required to make repayments to various health care insurers (including the Medicare and Medicaid programs). CCHC's Compliance Program is monitored under the direction of CCHC's Vice-President of Legal Affairs & Compliance.

While management is not aware of any other challenge or investigation concerning the Obligated Group with respect to such matters, there can be no assurance that such challenge or investigation will not occur in the future.

Health Insurance and Portability Accountability Act

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") was enacted by Congress in 1996. Pursuant to HIPAA, HHS has issued final privacy and security regulations that require all healthcare providers, including hospitals, to develop and maintain certain privacy and security practices with respect to certain healthcare information that the healthcare providers maintain, receive or create ("HIPAA Regulations"). The HIPAA Regulations give patients greater control over their protected health information ("PHI") - whether spoken, electronic or written - and establish boundaries on medical record use and release. The Hospitals are expected to implement the HIPAA Regulations through well defined polices and procedures. An unintentional disclosure of PHI in violation of the HIPAA Regulations may result in civil fines that range between $100 per violation to a total of $25,000 per year. An intentional disclosure of PHI in violation of the HIPAA Regulations for personal gain may result in criminal sanctions punishable by up to $250,000 and 10 years in prison. CCHC has an established working group that continues to implement and monitor measures to promote the Hospitals' compliance with the HIPAA Regulations.

Environmental Matters

Healthcare providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As healthcare operators and employers, members of the Obligated Group are subject to potentially material liability for costs of investigating and remedying releases of any such substances either on its properties or that have migrated from its properties or that have been improperly disposed of off site and the harm to persons or property that such releases may cause.

Other Risk Factors

The following additional factors, among others, including, without limitation, those risks identified in this Appendix A and those mentioned in the Official Statement may adversely affect the operations of health care providers, including the Obligated Group, to an extent that cannot be determined at this time:

- increased unemployment or other adverse economic conditions in the Obligated Group's service area, which might increase the proportion of patients without health insurance benefits or who otherwise are unable to pay fully for the costs of their care;

- efforts by employers to reduce the costs of health insurance by having employees bear a greater portion of their health care costs, causing employees to be more selective and cost-conscious in choosing health care services;

- efforts by insurers and governmental agencies to reduce the utilization of hospital facilities and limit payments for the services provided in such facilities;

- changes in the federal and state regulatory support for the Obligated Group's recovery of the costs of delivering health care;

- reduced demand for the services of the members of the Obligated Group which might result from decreases in the population of its service area;

- reduced need for hospitalization or other health care services arising from medical and scientific advances;
- increases in cost and limitations in the availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that providers of a size and type similar to the members of the Obligated Group generally carry;
- losses of revenues from outpatient and ancillary services resulting from physicians shifting tests and procedures to their own offices and other suppliers;
- adoption of legislation establishing state and/or national health programs;
- employee strikes and other adverse labor actions and conditions, which could result in a substantial reduction in revenues without corresponding decreases in costs;
- broadening of recent Medicare and Medicaid enforcement initiatives and investigations of hospitals throughout the United States to determine the appropriateness of coding practices, costs reported on their Medicare cost reports and similar revenue and expense items;
- broadening of existing laws and regulations which enable government authorities, health care insurers and/or private citizens to pursue the Hospitals under the False Claims Laws, the Anti-Kickback Law, the Stark Law and other similar regulatory provisions; and
- developments affecting the federal or state tax-exempt status of not-for-profit hospitals.

Litigation

There is no pending or threatened litigation that could have a material effect on the financial condition or results of operations of the Obligated Group.

CAPE COD HEALTHCARE, INC.
CAPE COD HOSPITAL
FALMOUTH HOSPITAL ASSOCIATION, INC.
CAPE COD HEALTHCARE FOUNDATION, INC.

By CAPE COD HEALTHCARE, INC.
for itself and as agent for other Obligated Group Members

By: /s/ Stephen L. Abbott
Stephen L. Abbott
President and Chief Executive Officer

[THIS PAGE INTENTIONALLY LEFT BLANK]

Cape Cod Healthcare, Inc. and Affiliates

Consolidated Financial Statements and Supplemental Consolidating Information for the Years Ended September 30, 2004 and 2003 and Independent Auditors' Report

CAPE COD HEALTHCARE, INC. AND AFFILAITES

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FIANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003:	
Balance sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6-20
SUPPLEMENTAL CONSOLIDATING INFORMATION AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2004 AND 2003:	
Supplemental Consolidating Balance Sheet Information	21-24
Supplemental Consolidating Statement of Operations Information	25-26

Deloitte & Touche LLP
200 Berkeley Street
Boston, MA 02116
USA

Tel: + 617 437 2000
Fax: + 617 437-2111
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Cape Cod Healthcare, Inc.
Hyannis, Massachusetts

We have audited the accompanying consolidated balance sheets of Cape Cod Healthcare, Inc. and affiliates (the "Corporation") as of September 30, 2004 and 2003, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cape Cod Healthcare, Inc. and affiliates as of September 30, 2004 and 2003, and the 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.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental consolidating information, listed in the Table of Contents, is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This supplemental information is the responsibility of the Corporation's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte + Touche LLP

December 6, 2004

CAPE COD HEALTHCARE, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2004 AND 2003

ASSETS	2004	2003
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,234,862	$ 23,856,790
Short-term investments	31,717,689	26,769,701
Patient accounts receivable, less allowance for doubtful accounts of $18,340,000 in 2004 and $17,178,000 in 2003	75,980,535	69,519,572
Other receivables—net	10,356,203	9,982,376
Investments whose use is limited or restricted:		
Internally designated	83,542	76,538
Funds held by trustee under bond indenture agreements	6,808,619	18,890,569
Supplies	5,604,416	5,260,622
Prepaid expenses and other current assets	2,729,584	1,301,283
Total current assets	160,515,450	155,657,451
INVESTMENTS WHOSE USE IS LIMITED OR RESTRICTED:		
Internally designated by the Board	35,968,087	37,626,574
Funds held by trustee under bond indenture agreements	15,652,637	19,943,419
Temporarily restricted investments	16,288,723	11,855,595
Permanently restricted:		
Investments	11,783,735	11,373,346
Beneficial interest in irrevocable trust	6,711,538	6,267,370
Total investments whose use is limited or restricted	86,404,720	87,066,304
PROPERTY AND EQUIPMENT—Net	181,148,156	162,899,768
OTHER ASSETS:		
Deferred financing costs—net	4,589,106	4,682,599
Other assets	13,196,057	16,286,773
Total other assets	17,785,163	20,969,372
TOTAL	$445,853,489	$426,592,895

LIABILITIES AND NET ASSETS	2004	2003
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 5,754,881	$ 5,481,699
Accounts payable and accrued expenses	65,425,593	61,797,820
Estimated settlements with third-party payors	5,307,686	3,706,936
Borrowings under lines of credit	7,513,682	14,845,400
Other current liabilities	523,052	434,217
Total current liabilities	84,524,894	86,266,072
OTHER LIABILITIES	4,462,864	4,043,181
LONG -TERM DEBT—Net of current portion	133,495,659	133,869,259
Total liabilities	222,483,417	224,178,512
NET ASSETS:		
Unrestricted	177,193,895	160,486,066
Temporarily restricted	27,680,904	24,287,601
Permanently restricted	18,495,273	17,640,716
Total net assets	223,370,072	202,414,383
TOTAL	$445,853,489	$ 426,592,895

See notes to consolidated financial statements.

CAPE COD HEALTHCARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	$ 463,927,764	$ 419,874,320
Other revenue	10,708,762	12,007,323
Net assets released from restrictions used for operations	2,500,891	2,540,422
Total unrestricted revenue and other support	477,137,417	434,422,065
EXPENSES:		
Salaries and wages	198,344,039	190,160,299
Physicians' fees	18,918,445	17,127,515
Employee benefits	57,870,728	51,158,306
Supplies and other	149,229,357	131,714,244
Depreciation and amortization	16,410,686	16,063,183
Interest	6,164,249	5,206,767
Uncompensated care pool assessment	1,101,906	1,337,106
Provision for bad debts	18,661,580	17,212,653
Loss on bond restructuring	3,641,996	
Total expenses	470,342,986	429,980,073
OPERATING INCOME	6,794,431	4,441,992
NONOPERATING GAINS (LOSSES):		
Investment income	1,431,165	972,320
Realized gains (losses) on investments—net	1,614,083	(145,092)
Gifts and bequests	3,528,156	3,507,188
Other nonoperating losses	(3,455,470)	(2,573,608)
Total nonoperating gains (losses)—net	3,117,934	1,760,808
EXCESS OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	9,912,365	6,202,800
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	2,436,329	5,234,539
NET ASSETS RELEASED FROM RESTRICTIONS—Used for purchase of property and equipment	4,359,135	3,626,210
INCREASE IN UNRESTRICTED NET ASSETS	$ 16,707,829	$ 15,063,549

See notes to consolidated financial statements.

CAPE COD HEALTHCARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
UNRESTRICTED NET ASSETS:		
Excess of revenue and gains over expenses and losses	$ 9,912,365	$ 6,202,800
Change in net unrealized gains and losses on investments	2,436,329	5,234,539
Net assets released from restrictions used for purchase of property and equipment	4,359,135	3,626,210
Increase in unrestricted net assets	16,707,829	15,063,549
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	8,241,645	11,339,451
Investment income	117,365	64,194
Net realized and unrealized losses on investments—net	1,894,318	2,230,626
Net assets released from restrictions	(6,860,025)	(6,166,632)
Increase in temporarily restricted net assets	3,393,303	7,467,639
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	410,389	540,449
Change in beneficial interest in perpetual trust	444,168	643,141
Increase in permanently restricted net assets	854,557	1,183,590
INCREASE IN NET ASSETS	20,955,689	23,714,778
NET ASSETS—Beginning of year	202,414,383	178,699,605
NET ASSETS—End of year	$ 223,370,072	$ 202,414,383

See notes to consolidated financial statements.

CAPE COD HEALTHCARE, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 20,955,689	$ 23,714,778
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,410,686	16,063,183
Restricted contributions received and investment income	(6,549,603)	(7,773,500)
Net realized and unrealized gains on investments	(5,944,730)	(7,774,468)
Provision for bad debts	18,661,580	17,212,653
Loss on bond restructuring	1,919,195	-
Increase (decrease) in cash resulting from a change in:		
Patient accounts receivable	(25,122,543)	(14,542,755)
Other receivables	(373,827)	(2,861,195)
Supplies	(343,794)	(483,527)
Prepaid expenses and other current assets	(1,428,301)	276,530
Other assets	941,309	(4,907,638)
Accounts payable and accrued expenses	3,627,773	529,189
Estimated settlements with third-party payors	1,600,750	(2,112,644)
Other liabilities	419,683	327,614
Net cash provided by operating activities	24,773,867	17,668,220
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(33,234,296)	(22,907,983)
Decrease (increase) in investments	13,733,272	(9,756,499)
Net cash used in investing activities	(19,501,024)	(32,664,482)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt	63,414,000	18,424,323
Payments for bonds tendered and redeemed	(61,024,000)	
Repayment of long-term debt and borrowings under line of credit, net	(9,822,136)	(11,570,004)
Deferred financing costs	(1,012,238)	
Proceeds from restricted contributions and investment income	6,549,603	7,773,500
Net cash (used in) provided by financing activities	(1,894,771)	14,627,819
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,378,072	(368,443)
CASH AND CASH EQUIVALENTS—Beginning of year	23,856,790	24,225,233
CASH AND CASH EQUIVALENTS—End of year	$ 27,234,862	$ 23,856,790
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES—Assets acquired through capital lease	$ 210,000	$ 950,000

See notes to consolidated financial statements.

1. ORGANIZATION

The consolidated financial statements include the accounts of Cape Cod Healthcare, Inc. ("CCHC") and its controlled affiliates (collectively, "Healthcare"). Material transactions and balances between entities have been eliminated in consolidation. The following is a summary of affiliated organizations which are controlled by Healthcare and included in the consolidated financial statements:

Organization	Nature and Purpose
Cape Cod Healthcare, Inc.	A not-for-profit corporation that serves as the parent company of various entities providing health care services to the population of Cape Cod, Massachusetts
Cape Cod Hospital ("CCH")	A not-for-profit acute care hospital located in Hyannis, Massachusetts
Cape and Islands Nursing Home Corporation II (the "C&I Nursing Homes") (Cape and Islands Nursing Home Corporation I – was dissolved during 2004)	Not-for-profit, long-term care nursing homes
Cape Cod Healthcare Foundation, Inc. ("CCHC Foundation") (formerly Health Care Foundation of Cape Cod, Inc.)	A not-for-profit corporation organized to provide development and fund-raising support to Healthcare
Cape and Islands Health Services II, Inc. ("Cape & Islands")	A not-for-profit corporation organized to provide various nonhospital health care services
Medical Affiliates of Cape Cod, Inc. ("MACC")	A not-for-profit medical group practice
Visiting Nurse Association of Cape Cod, Inc. ("VNA of Cape Cod")	A not-for-profit provider of home health services
Women's Imaging Center of Cape Cod, Inc. ("WIC")	A not-for-profit provider of radiology services

Organization	Nature and Purpose
Cape Cod Human Services, Inc. ("Human Services")	A not-for-profit provider of outpatient mental health services
Falmouth Hospital Association, Inc. ("Falmouth Hospital")	A not-for-profit acute care hospital located in Falmouth, Massachusetts
Falmouth Assisted Living, Inc., d/b/a Heritage at Falmouth ("Assisted Living")	A not-for-profit corporation that owns an assisted living facility
JML Care Center, Inc. ("JML Center")	A not-for-profit skilled nursing and rehabilitation facility
Future Care, Inc. ("Future Care")	A not-for-profit health and welfare organization
FH Realty, Inc. ("Realty")	A not-for-profit corporation that owns and operates certain real property
Cape Health Insurance Company ("CHICO")	A for-profit corporation that provides medical professional liability and general liability insurance to Healthcare
Cape Cod Medical Office Building, Inc. ("Medical Office Building")	A for-profit corporation that owns and operates certain real property

Assets of individual organizations within the consolidated group may not be available to satisfy the obligations of other members of the consolidated group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition—Healthcare has entered into payment agreements with Medicare, Medicaid and various commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations. The basis for payment to Healthcare under these agreements includes prospectively determined rates per discharge, per day, and per visit, discounts from established charges, cost (subject to limits) and fee screens. 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.

Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. During 2003, changes in prior year estimates increased net patient service revenue by approximately $6,700,000. Changes in prior year estimates were not material in 2004.

The Commonwealth of Massachusetts (the "Commonwealth") operates an uncompensated care pool (the "Pool") to allocate the cost of uncompensated care among hospitals in the Commonwealth. Hospitals have been assessed a uniform allowance based on estimates of the statewide cost of uncompensated care and have been reimbursed for a portion of the cost of uncompensated care which they provide, subject to certain limitations. Reimbursable uncompensated care includes net charity care and bad debts resulting from emergency services. Prior to October 1, 2003, Pool payments to the Commonwealth's acute hospitals were based on free care and emergency bad debts actually written off during the current year. Beginning with fiscal years commencing on or after October 1, 2003, hospitals' recoveries from the Pool are based on historical uncompensated care amounts from a base year, which are then trended forward for estimated changes in charge levels and costs. Healthcare has recorded its gross obligation to the Pool as an expense in the consolidated statements of operations. Reimbursement from the Pool for uncompensated care has been allocated to bad debts and free care based on hospital-specific experience. The reimbursement allocated for bad debts is recorded as a reduction of the uncompensated care pool assessment, while the reimbursement allocated for charity care is recorded as net patient service revenue.

Use of Estimates—The preparation of the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Excess of Revenue and Gains Over Expenses and Losses—The consolidated statements of operations include excess of revenue and gains over expenses and losses. Changes in unrestricted net assets which are excluded from excess of revenue and gains over expenses and losses, consistent with industry practice, include the changes in unrealized gains and losses on investments, transfers of assets to and from affiliates for other than goods and services, and 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).

Consolidated Statements of Operations—In the accompanying consolidated statements of operations, transactions deemed by management to be ongoing to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by Healthcare has been limited by donors to a specific time period or purpose. Such funds are generally restricted for health care services and the purchase of property and equipment. At September 30, 2004 and 2003, temporarily restricted net assets include approximately $9.6 million and $9.3 million, respectively, related to accumulated realized and unrealized net gains on investments of permanently restricted net assets which are available for Board appropriation. Temporarily restricted net assets also include approximately $12 million and $13 million at September 30, 2004 and 2003, respectively, related to unconditional promises to give with payments due in future periods (Note 12), and other funds whose use has been limited by donors. Permanently restricted net assets at September 30, 2004 and 2003 relate to investments to be held in perpetuity, the income from which is expendable to support indigent care, health care services and purchase of property and equipment, and CCH's beneficial interest in a perpetual trust. The earnings from the perpetual trust are available for health care services and are recorded when earned.

Healthcare has interpreted state law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board and expended. State law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering Healthcare's long- and short-term needs, present and anticipated financial requirements, expected total return on investments, price-level trends, and general economic conditions. Amounts appropriated during the years ended September 30, 2004 and 2003 amounted to approximately $1,100,000 and $1,200,000, respectively. These amounts are included in net assets released from restrictions in the accompanying consolidated financial statements.

Gifts—Unconditional promises to give cash and other assets to Healthcare are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions.

Cash and Cash Equivalents—Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less at the date of purchase, excluding assets whose use is limited or restricted.

Assets Whose Use Is Limited or Restricted—Assets whose use is limited include assets set aside by the Board of Trustees (the "Board") and assets held by trustees under bond indenture agreements. Assets whose use is restricted include assets contributed by donors for specific purposes and permanent endowment funds. Internally designated assets may, at the Board's discretion, subsequently be used for other purposes.

Investments and Investment Income—Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the accompanying consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenue and gains over expenses and losses, unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue and gains over expenses and losses, except that declines in fair value that are judged to be other than temporary are reported as realized losses. Investments are periodically reviewed for impairment to determine if declines in fair value below cost are other than temporary. At September 30, 2004 and 2003, Healthcare held investments that had a fair market value less than their cost of approximately $151,000 and $107,000, respectively. These declines were determined by management to be temporary.

Investment income on proceeds of borrowings that are held by a trustee, to the extent not capitalized, and investment income on assets whose use is limited for capital purchases are generally reported as other revenue. All other unrestricted investment income and unrestricted realized gains and losses on investments are reported as nonoperating gains (losses).

Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets. Fair value is based on quoted market prices.

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

Property and Equipment—Property and equipment are recorded at cost, less accumulated depreciation. Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from revenue and gains over expenses and losses, unless explicit donor stipulations specify how the assets are to be used. 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 assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Depreciation of property and equipment is computed using the straight-line method based on the estimated useful lives of the related assets. Equipment leased under capitalized leases is amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation expense.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value, less cost to sell.

During 2003, Healthcare determined that the future cash flows of certain of its businesses would not be adequate to recover the carrying value of the related long-lived assets. Accordingly, Healthcare recorded impairment losses in the amount of $200,000 to adjust the carrying value of certain long-lived assets to their estimated fair value. The estimated fair value was based upon an analysis of expected future cash flows. These losses have been reflected in the consolidated statements of operations under the caption "depreciation and amortization."

Costs of Borrowing—Interest cost incurred on borrowed funds, net of interest income earned on such funds, during the period of construction of capital assets is capitalized as a component of the costs of acquiring those assets. Net interest cost of approximately $1,156,000 and $1,900,000 was capitalized during the years ended September 30, 2004 and 2003, respectively.

Deferred Financing Costs—Deferred financing costs consist of legal, financing and other related costs incurred in connection with the issuance of outstanding bonds. Deferred financing costs are being amortized using the straight-line method, which approximates the effective interest method, over the term of the bonds. At September 30, 2004 and 2003, deferred financing costs are reported net of accumulated amortization of $2,423,627 and $2,751,163, respectively. Original issue discount, which is recorded as a reduction of the long-term debt, is being amortized using the straight-line method, which approximates the effective-interest method, over the term of the related bonds.

Professional Liability Costs—Healthcare is self-insured for certain professional liability claims (see Note 15). Estimated losses and claims are accrued as incurred. Healthcare has provided for the cost of claims paid during the current period, as well as estimates of the liability for claims not yet paid, in the accompanying consolidated financial statements. The liability for malpractice losses and loss-adjustment expenses includes an amount, based on an independent actuarial study discounted at a rate of 4%, for losses determined from loss reports, individual cases and based on past experience, adjusted for the risk of adverse deviation. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Income Taxes—CCHC and its affiliates, other than Medical Office Building and CHICO, have been recognized by the Internal Revenue Service as tax-exempt nonprofit organizations under Section 501(c)(3) of the Internal Revenue Code (the "Code"), and accordingly, are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. An income tax provision has not been provided on the operating results of the Medical Office Building due to current period operating losses and the existence of net operating loss carryforwards.

Deferred tax liabilities and assets are recognized for the expected future tax consequences of events that have been included in Healthcare's consolidated financial statements or tax returns, relating to Medical Office Building. Deferred tax liabilities and assets are determined based on the differences between the financial statement carrying amounts and tax bases of existing assets and liabilities, using enacted tax rates in effect in the years in which the differences are expected to reverse. At both September 30, 2004 and 2003, the Medical Office Building had recorded deferred tax assets related primarily to net operating loss and capital loss carryforwards. Such deferred tax assets have been fully reserved due to the uncertainty of realizing the benefits of the assets.

CHICO has received an undertaking from the Cayman Islands Government exempting it from taxes on the income until June 8, 2024.

Reclassifications—Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

3. CHARITY CARE

Healthcare provides care to patients who meet certain criteria under its charity-care policy without charge or at amounts less than its established rates. Because Healthcare does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The charity-care policy is based on the poverty income guidelines established by the Massachusetts Division of Healthcare Finance and Policy. If a patient is ineligible because his or her income exceeds the eligibility guidelines, any uncollectible accounts receivable balance is written off to bad debts. During 2004 and 2003, Healthcare provided approximately $11,948,000 and $8,608,000 in charity care, respectively. Such amounts were determined using charges forgone based on established rates. During 2004 and 2003, Healthcare received approximately $6,607,000 and $3,939,000, respectively, from the Pool for reimbursement of charity care.

4. PROPERTY AND EQUIPMENT

Property and equipment at September 30 consisted of the following:

	2004	2003
Land	$ 14,888,039	$ 4,647,798
Land improvements	6,281,004	5,513,931
Buildings and improvements	162,030,466	152,382,372
Fixed equipment	34,389,238	33,062,461
Major movable equipment	119,679,496	112,539,897
Capital leases	10,109,003	9,778,034
	347,377,246	317,924,493
Less accumulated depreciation and amortization	(177,815,849)	(164,245,442)
	169,561,397	153,679,051
Construction in progress	11,586,759	9,220,717
	$ 181,148,156	$ 162,899,768

At September 30, 2004, Healthcare had commitments totaling approximately $2,530,000 related to construction projects.

5. INVESTMENTS

Investments at September 30 consisted of the following:

	2004	2003
Cash and temporary cash investments	$ 44,332,133	$ 28,143,488
Mutual funds	34,885,048	29,623,629
U.S. government securities	13,186,511	29,951,397
Common and preferred stock	6,105,142	4,454,310
Private equity funds	18,623,832	16,408,772
Corporate and municipal bonds	403,074	17,195,560
Beneficial interest in perpetual trust	6,711,538	6,267,370
Pooled-income fund	767,292	758,586
	$125,014,570	$132,803,112

Investments are reported in the accompanying consolidated balance sheets as follows at September 30:

	2004	2003
Short-term investments	$ 31,717,689	$ 26,769,701
Investments whose use is limited or restricted:		
Current portion	6,892,161	18,967,107
Noncurrent portion	86,404,720	87,066,304
	$125,014,570	$132,803,112

Investment income, gains, and losses consisted of the following for the years ended September 30:

	2004	2003
Nonoperating gains and losses:		
Investment income	$1,431,165	$ 972,320
Net realized gains (losses) on sales of securities	1,614,083	(145,092)
	3,045,248	827,228
Other revenue—investment income	315,451	426,510
Other changes in unrestricted net assets— net unrealized gains on investments	2,436,329	5,234,539
Changes in temporarily restricted net assets:		
Investment income	117,365	64,194
Net realized and unrealized gains on investments	1,894,318	2,230,626
	2,011,683	2,294,820
Changes in permanently restricted net assets— change in beneficial interest in perpetual trust	444,167	643,141
Total	$8,252,878	$ 9,426,238

6. EMPLOYEE RETIREMENT PLANS

Healthcare sponsors several defined contribution plans which generally cover employees who have completed the minimum service requirements defined by the plans. The contributions vary by plan but generally approximate 2% of eligible wages. Certain of the plans allow for employee contributions which are matched by Healthcare up to certain limits. Pension expense under the defined contribution plans totaled approximately $5,822,000 in 2004 and $5,236,000 in 2003.

7. LINES OF CREDIT

Healthcare has a line of credit available that provides for advances of up to $8,000,000 for working capital needs. Amounts borrowed are due on demand and bear interest at the applicable LIBOR interest rate in effect at the time of the borrowing. Borrowings under the line of credit are guaranteed by the following affiliated entities: CCHC Foundation, CCH, Falmouth Hospital, JML Center, Human Services, and VNA of Cape Cod. Healthcare had borrowed $1,900,000 and $2,145,400 under the line-of-credit agreement at September 30, 2004 and 2003, respectively. The line is unsecured and expires on March 26, 2005.

JML Center has a line of credit available that provides for advances up to $1,200,000 for working capital needs. The line of credit is renewable annually on the anniversary date of February 1. Amounts borrowed are due on demand and bear interest at the bank's prime rate, plus ¼ to 1%. Borrowings under the line of credit are collateralized by certain marketable equity securities. There were no amounts outstanding under this line-of-credit agreement at September 30, 2004 or 2003.

Healthcare has a line of credit for $12,700,000 which provided a source of capital for bond redemptions for both the Falmouth Hospital Series C Bonds and Cape Cod Hospital Series A Bonds. The interest rate is the lower of the bank's prime rate or LIBOR. The line of credit is collateralized by $5,000,000 in marketable securities and expires December 19, 2004. Healthcare intends to renew the line. There was $5,613,682 and $12,700,000 outstanding under this line-of-credit agreement at September 30, 2004 and 2003, respectively.

8. LONG-TERM DEBT

Long-term debt at September 30 consisted of the following:

Issue	Interest Rate	Final Maturity	2004	2003
Massachusetts Health and Educational Facilities Authority ("HEFA") Revenue Bonds:				
Fixed Rate:				
Cape Cod Healthcare Obligated Group, Series A	3.0%-5.625%	2024	$ 42,320,000	$ 48,145,000
Cape Cod Healthcare Obligated Group, Series B	5.0-5.45	2023	15,943,745	16,393,744
Cape Cod Healthcare Obligated Group, Series C	3.0-5.25	2031	44,220,000	45,000,000
Falmouth Hospital, Series C	5.2-5.625	2013	10,525,000	12,450,000
Variable Rate—				
Falmouth Assisted Living, Inc., Series A	1.35	2026	6,300,000	6,400,000
Notes payable:				
Cape Cod Hospital	5.99	2008	4,707,956	5,540,541
Cape Cod Hospital	6.5	2019	8,000,000	
Falmouth Hospital	5.99	2008	4,167,807	4,280,414
Cape Cod Healthcare (variable rate)	3.34	2006	533,333	933,333
VNA of Cape Cod	7.7	2009	93,468	214,393
Human Services	8.5	2021	149,891	146,711
Capital lease obligations			975,596	1,106,884
Total			137,936,796	140,611,020
Less unamortized premium/original issue discount—net			1,313,744	(1,260,062)
Less current portion			(5,754,881)	(5,481,699)
Long-term debt			$ 133,495,659	$133,869,259

The interest rate on the variable rate debt is as of September 30, 2004

During 2004, Healthcare completed tender offers for outstanding bonds totaling $53.8 million (the "Bonds") at a price of 103% and at the same time redeemed bonds totaling $5.6 million by exercising a call option at 102%. An investment banking firm simultaneously purchased the tendered bonds at 103%.

Healthcare recorded the acquisition of the redeemed and tendered bonds as an extinguishment of debt in 2004 and is accounting for the tendered bonds issued to the investment banking firm as if new bonds had been issued with exactly the same terms as the old bonds. Healthcare recorded a loss of approximately $3,642,000 on the extinguishment of this debt.

Contemporaneous with the resale of the Bonds, Healthcare executed Total Return Swap agreements (the "TR Swaps") to convert the fixed interest rate on the Bonds to a floating interest rate. The purpose of these transactions was to lower Healthcare's overall cost of debt by swapping its fixed interest rate to a variable rate (1.39 % at September 30, 2004). Each of the term bonds has its own corresponding TR Swap. The termination date of the TR Swaps is 80% of the remaining average life of each respective term bond. Additionally, the Swap may be terminated by either party with sufficient written notice. Healthcare also entered into a variable to fixed interest rate swap (the "Variable to Fixed Swap") that is intended to mitigate Healthcare's exposure to variable rates created by the TR Swaps.

Healthcare and its counterparty in the interest rate swap agreements are exposed to credit risk in the event of nonperformance or early termination of the agreement.

As of September 30, 2004, the fair value of the swap agreements of approximately $1,300,000 was included in current liabilities, with the change in the fair value recorded as a charge to operations within other nonoperating losses.

Collateral—The following is a summary of collateral under the above agreements:

Issue	Collateral
Revenue bonds:	
Cape Cod Healthcare Obligated Group	Pledge of gross receipts and mortgages on the property and equipment of the core hospital campuses
Falmouth Hospital	Pledge of gross receipts and mortgages on the property and equipment of the core hospital campuses
Falmouth Assisted Living	Pledge of gross receipts and substantially all of the property and equipment of the assisted living facility ($4,429,000 net book value at September 30, 2004). CCHC has guaranteed the payment of one year of debt service on bonds. The guaranty is secured by a pledge of investments that are required to have a collateral value, as defined in the pledge agreement, of $1,700,000
Notes payable:	
Cape Cod Hospital	Mortgage on real estate
Falmouth Hospital	Mortgage on real estate
Cape Cod Healthcare	Pledge of marketable securities, which had an aggregate market value of approximately $2,777,000 on January 1, 2001 when the term loan was made
VNA of Cape Cod	Substantially all assets of the organization
Human Services	Mortgage on real estate with a net book value of approximately $122,000

Loan Covenants—Several of the loan agreements contain covenants and financial ratios which require compliance by the various organizations. Certain of the agreements also provide for restrictions on, among other things, transfers, additional indebtedness and dispositions of property.

The Obligated Group—The Series A, B and C Bonds are equally and ratably secured under the Loan and Trust Agreement. At September 30, 2004, the Cape Cod Healthcare Obligated Group consisted of CCHC, CCHC Foundation, Cape Cod Hospital and Falmouth Hospital. In 1993, the Obligated Group entered into a loan and trust agreement with HEFA to defease previously issued revenue bonds, and to finance recent and anticipated fixed asset additions. Neither the funds held in escrow nor the remaining defeased revenue bonds ($30,900,000 at September 30, 2004) are recorded in the accompanying consolidated financial statements.

Falmouth Hospital—Upon the issuance of the Cape Cod Healthcare Obligated Group Series C Bonds, CCH, CCHC and CCHC Foundation became members of the Obligated Group under the Falmouth Hospital debt agreements and became jointly and severally liable for payment of the Falmouth Hospital Series C Bonds. As such, all obligations issued under the Cape Cod Healthcare Obligated Group debt agreements or the Falmouth Hospital debt agreements will be joint and several obligations of the Cape Cod Healthcare Obligated Group, and equally and ratably secured by security interests in the gross receipts of the Cape Cod Healthcare Obligated Group and the property subject to the mortgages.

Falmouth Assisted Living, Inc.—The Falmouth Assisted Living Series A Bonds (the "Assisted Living Series A Bonds") bear interest at a variable rate set by the remarketing agent weekly (the "Weekly Mode") (1.35% at September 30, 2004). Assisted Living may from time to time convert the interest rate on all or part of the Assisted Living Series A Bonds to a Flexible Mode (interest rate set by the remarketing agents for periods of up to 270 days as determined by the remarketing agent) or a Fixed Mode (interest rate set at a fixed rate as determined by the remarketing agent at the date of conversion). The Assisted Living Series A Bonds can be converted to and from the Weekly and Flexible Modes at the option of Assisted Living. Assisted Living Series A Bonds converted to a Fixed Rate Mode cannot be subsequently converted to the Weekly or Flexible Mode. An irrevocable direct-pay letter of credit (the "Letter of Credit") provides for the payment of amounts equal to the principal of, and up to 51 days' accrued interest on, the outstanding Assisted Living Series A Bonds while such bonds are in the Weekly or Flexible Mode. The Letter of Credit will expire on March 31, 2006.

Assisted Living has entered into a Reimbursement Agreement with a bank pursuant to which Assisted Living will reimburse the bank for any amounts drawn under the Letter of Credit. In addition, pursuant to the Reimbursement Agreement, if Assisted Living is in default in the payment of amounts due related to the Assisted Living Series A Bonds, Falmouth Hospital has agreed to pay the bank 12 monthly payments of principal and interest on the Assisted Living Series A Bonds.

Future Maturities—Aggregate future maturities of long-term obligations (including capital lease obligations) subsequent to 2004 are as follows:

Year Ending September 30	
2005	$ 5,754,881
2006	5,216,453
2007	5,081,074
2008	9,486,767
2009	3,227,622
Thereafter	109,169,999
	$137,936,796

Other Information—Interest paid (excluding amounts capitalized) approximated interest expense for the years ended September 30, 2004 and 2003.

Fair Value of Long-Term Debt—The fair value of Healthcare's long-term debt is estimated based on quoted market prices for the same or similar issues. The estimated fair value of Healthcare's long-term debt was approximately $150,100,000 and $153,800,000 at September 30, 2004 and 2003, respectively.

9. FUNDS HELD BY TRUSTEE UNDER BOND INDENTURE AGREEMENTS

Under the terms of the agreements with HEFA at September 30, 2004 and 2003, investments are being held in escrow for debt service and to fund future property and equipment additions. These funds are invested primarily in certificates of deposit and U.S. government securities and are held in the following funds:

	2004	2003
Debt service fund	$ 5,579,878	$ 5,122,286
Debt service reserve fund	10,082,604	10,002,814
Project and construction funds	6,798,774	11,008,888
Escrow account for debt tender		12,700,000
	$22,461,256	$38,833,988

Healthcare has entered into agreements whereby two of its affiliates assigned their rights to the interest earned on certain of the debt service funds in exchange for a fixed cash payment. The amount received has been reported as deferred revenue ($1.2 million at September 30, 2004) and is being recognized as income over the lives of the related debt.

10. OBLIGATIONS UNDER GIFT ANNUITIES AND POOLED INCOME FUND

Healthcare is obligated to make quarterly distributions to the beneficiaries of certain gift annuities (split-interest arrangements). The estimated net present value, discounted at rates from 3.125% to 7%, of these obligations totaled $2,430,567 and $2,265,732 at September 30, 2004 and 2003, respectively, and are included in other liabilities in the accompanying consolidated balance sheets. Upon the death of each of the beneficiaries, the related obligations of Healthcare terminate.

Healthcare is the trustee of a pooled income fund. This fund is divided into units, and contributions of donors' life income gifts are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donors' entry into the pool. Upon the death of the donor, the donor's interest in the trust will revert to Healthcare and will be unrestricted. The estimated net present value of these obligations totaled $434,576 and $445,568 at September 30, 2004 and 2003, respectively and are included in other liabilities in the accompanying consolidated balance sheets.

11. SALE OF NURSING HOME

Cape and Islands Nursing Home Corporation I was a limited partner in Whitehall Pavilion Health Associates Limited Partnership, from which it leased a nursing home facility under an operating lease. Rent was based on a fixed amount adjusted for contributions required to be made by the lessor to an equipment replacement fund. Cape and Islands Nursing Home Corporation I was also responsible for all operating costs, including real estate taxes. Rent expense included in operations totaled approximately $490,000 in 2003. During 2004, the assets and liabilities of Cape and Islands Nursing Home Corporation I were sold for an amount approximating book value and the corporation was liquidated. In connection with the sale, the buyer has agreed to make annual payments to the former general partner totaling $195,000 per year through 2010. In the event that the buyer fails to make such payments, CCHC would be required to make the payments under the terms of a guarantee agreement.

12. PLEDGES RECEIVABLE

Pledges receivable include donor contributions that are not expected to be collected within one year. These amounts are reported at their present value, discounted at rates ranging from 2.76% to 4.56% at September 30, 2004 and 2003, net of an allowance for uncollectible amounts. Pledges receivable were as follows at September 30:

	2004	2003
Due in less than one year	$ 4,113,924	$ 4,243,392
Due thereafter	8,802,580	10,360,093
	12,916,504	14,603,485
Present value discount	(607,467)	(1,044,700)
Less allowance for uncollectible amounts	(374,567)	(574,922)
Total	$11,934,470	$ 12,983,863

Pledges due within one year are reported with other receivables in the accompanying consolidated balance sheets. Other pledges are reported with other assets.

Healthcare has received conditional promises to contribute to the building of a new facility. These contributions are conditional upon the receipt of contributions from others for the same purpose, and will be recorded as temporarily restricted support until such contributions are received. Healthcare had approximately $3 million of these promises at September 30, 2003; there were no conditional promises at September 30, 2004.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value amounts reported in the accompanying consolidated financial statements and related notes have been determined by Healthcare using available market information and valuation methodologies described below. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein may not be indicative of the amounts that Healthcare could realize in a current market exchange. The use of different market assumptions or valuation methodologies may have a material effect on the estimated fair value amounts.

Cash and Cash Equivalents, Accounts and Other Receivables, Other Current and Noncurrent Assets, Accounts Payable and Accrued Expenses and Estimated Settlements with Third-Party Payors—These amounts are recorded at amounts which approximate fair value.

Interest Rate Swaps—The estimated fair values of the interest rate swaps are calculated based on market rates.

Investments—See Notes 2 and 5.

Long-Term Debt—See Note 8.

14. FUNCTIONAL EXPENSES

Healthcare provides health care services to residents within its geographic area. All operating expenses are considered to relate, either directly or indirectly, to providing these services.

15. COMMITMENTS AND CONTINGENCIES

Leases—Healthcare has entered into operating leases for certain office equipment and office space. Certain leases provide for renewal options, and some contain provisions requiring the affiliates to pay their proportionate share of operating costs in addition to base rent. Rent expense under the operating leases amounted to $4,120,749 and $4,004,861 in 2004 and 2003, respectively.

At September 30, 2004, the aggregate future rental commitments under the noncancelable operating leases were:

2005	$ 3,014,292
2006	2,447,484
2007	2,237,374
2008	1,925,748
2009	1,177,027
Thereafter	206,955

Malpractice Insurance—Effective June 1, 2004, Healthcare became self-insured for professional and general liability insurance coverage, under policies issued by CHICO, a wholly-owned insurance company incorporated and based in the Cayman Islands for the purpose of providing professional and general liability insurance to CCHC and its affiliates. CHICO provides such insurance coverage on a modified claims-made basis. Liability limits are set at $2 million per claim and $6 million in the aggregate for physicians, and at $2 million per claim and $10 million in the aggregate for non-physicians. Two layers of excess insurance coverage, with limitations of $15 million per occurrence and $15 million in the aggregate, and then $10 million per occurrence and $10 million in the aggregate, were purchased from commercial insurers and sit on top of the CHICO coverage for non-physicians. Prior to June 1, 2004, Healthcare and its affiliates purchased professional and comprehensive general liability insurance policies to cover, among other things, medical malpractice claims. Such policies covered claims either on an occurrence or a "claims-made" basis. Under the claims-made policies, claims based on occurrences during their term but reported subsequently will be covered under Healthcare's self-insurance program.

Workers' Compensation—Healthcare provides certain workers' compensation coverage on a self-insured basis. The estimated liability at September 30, 2004 and 2003 totaled approximately $2.5 million and $1.7 million, respectively.

Other Contingencies—CCHC and its affiliates are parties in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management believes that CCHC and its affiliates are in compliance with current laws and regulations and does not believe that these matters will have a material adverse effect on CCHC and its affiliates' consolidated financial statements.

16. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject Healthcare to concentrations of credit risk are patient and other accounts receivable, cash and cash equivalents and investments. CCHC and its affiliates are located in the Cape Cod area of Massachusetts. The entities grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements.

Accounts receivable from patients and third-party payors at September 30 were as follows:

	2004	2003
BlueCross and BlueShield	6 %	7 %
Medicare	36	32
Medicaid	7	8
Other third-party payors	39	42
Patients	12	11
	100 %	100 %

A significant portion of the accounts receivable from other third-party payors (commercial insurance companies and HMOs) is derived from two Massachusetts managed care companies. Although management expects amounts recorded as net accounts receivable at September 30, 2004 to be collectible, this concentration of credit risk is expected to continue in the near term.

* * * * * *

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2004

ASSETS	Total	Other Entities and Eliminations	Total Obligated Group
CURRENT ASSETS:			
Cash and cash equivalents	$ 27,234,862	$ 9,605,404	$ 17,629,458
Short-term investments	31,717,689	1,799,127	29,918,562
Patient accounts receivable—net	75,980,535	9,642,749	66,337,786
Other receivables—net	10,356,203	592,420	9,763,783
Investments whose use is limited or restricted:			
Internally designated	83,542	83,542	-
Funds held by trustee under bond indenture agreements	6,808,619	121,481	6,687,138
Supplies	5,604,416	810,391	4,794,025
Prepaid expenses and other current assets	2,729,584	(472,345)	3,201,929
Total current assets	160,515,450	22,182,769	138,332,681
INVESTMENTS WHOSE USE IS LIMITED OR RESTRICTED:			
Internally designated by the Board	35,968,087		35,968,087
Funds held by trustee under bond indenture agreements	15,652,637	719,500	14,933,137
Temporarily restricted investments	16,288,723	28,705	16,260,018
Permanently restricted:			
Investments	11,783,735		11,783,735
Beneficial interest in irrevocable trust	6,711,538		6,711,538
Total investments whose use is limited or restricted	86,404,720	748,205	85,656,515
PROPERTY AND EQUIPMENT—Net	181,148,156	15,978,974	165,169,182
OTHER ASSETS:			
Due from affiliates	-	(4,202,563)	4,202,563
Deferred financing costs—net	4,589,106	302,264	4,286,842
Other assets	13,196,057	65,058	13,130,999
Total other assets	17,785,163	(3,835,241)	21,620,404
TOTAL	$ 445,853,489	$ 35,074,707	$ 410,778,782

(Continued)

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2004

LIABILITIES AND NET ASSETS	Total	Other Entities and Eliminations	Total Obligated Group
CURRENT LIABILITIES:			
Current portion of long-term debt	$ 5,754,881	$ 141,789	$ 5,613,092
Accounts payable and accrued expenses	65,425,593	6,684,653	58,740,940
Estimated settlements with third-party payors	5,307,686	1,734,653	3,573,033
Borrowings under lines of credit	7,513,682		7,513,682
Other current liabilities	523,052	147,245	375,807
Total current liabilities	84,524,894	8,708,340	75,816,554
OTHER LIABILITIES	4,462,864	799,109	3,663,755
LONG-TERM DEBT—Net of current portion	133,495,659	6,401,570	127,094,089
Total liabilities	222,483,417	15,909,019	206,574,398
NET ASSETS:			
Unrestricted	177,193,895	19,136,983	158,056,912
Temporarily restricted	27,680,904	28,705	27,652,199
Permanently restricted	18,495,273		18,495,273
Total net assets	223,370,072	19,165,688	204,204,384
TOTAL	$ 445,853,489	$ 35,074,707	$ 410,778,782

(Concluded)

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2003

ASSETS	Total	Other Entities and Eliminations	Total Obligated Group
CURRENT ASSETS:			
Cash and cash equivalents	$ 23,856,790	$ 8,501,471	$ 15,355,319
Short-term investments	26,769,701	1,666,840	25,102,861
Patient accounts receivable—net	69,519,572	9,286,922	60,232,650
Other receivables—net	9,982,376	464,889	9,517,487
Investments whose use is limited or restricted:			
Internally designated	76,538	76,538	-
Funds held by trustee under bond indenture agreements	18,890,569	103,981	18,786,588
Supplies	5,260,622	580,318	4,680,304
Prepaid expenses and other current assets	1,301,283	637,842	663,441
Total current assets	155,657,451	21,318,801	134,338,650
INVESTMENTS WHOSE USE IS LIMITED OR RESTRICTED:			
Internally designated by the Board	37,626,574		37,626,574
Funds held by trustee under bond indenture agreements	19,943,419	729,664	19,213,755
Temporarily restricted investments	11,855,595	17,480	11,838,115
Permanently restricted:			
Investments	11,373,346		11,373,346
Beneficial interest in irrevocable trust	6,267,370		6,267,370
Total investments whose use is limited or restricted	87,066,304	747,144	86,319,160
PROPERTY AND EQUIPMENT—Net	162,899,768	16,051,980	146,847,788
OTHER ASSETS:			
Due from affiliates	-	(3,941,632)	3,941,632
Deferred financing costs—net	4,682,599	316,732	4,365,867
Other assets	16,286,773	363,538	15,923,235
Total other assets	20,969,372	(3,261,362)	24,230,734
TOTAL	$ 426,592,895	$ 34,856,563	$ 391,736,332

(Continued)

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2003

LIABILITIES AND NET ASSETS	Total	Other Entities and Eliminations	Total Obligated Group
CURRENT LIABILITIES:			
Current portion of long-term debt	$ 5,481,699	$ 140,114	$ 5,341,585
Accounts payable and accrued expenses	61,797,820	8,003,165	53,794,655
Estimated settlements with third-party payors	3,706,936	913,800	2,793,136
Borrowings under lines of credit	14,845,400		14,845,400
Other current liabilities	434,217	147,692	286,525
Total current liabilities	86,266,072	9,204,771	77,061,301
OTHER LIABILITIES	4,043,181	218,007	3,825,174
LONG-TERM DEBT—Net of current portion	133,869,259	6,632,539	127,236,720
Total liabilities	224,178,512	16,055,317	208,123,195
NET ASSETS:			
Unrestricted	160,486,066	18,783,345	141,702,721
Temporarily restricted	24,287,601	17,901	24,269,700
Permanently restricted	17,640,716		17,640,716
Total net assets	202,414,383	18,801,246	183,613,137
TOTAL	$ 426,592,895	$ 34,856,563	$ 391,736,332

(Concluded)

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED SEPTEMBER 30, 2004

	Total	Other Entities and Eliminations	Total Obligated Group
UNRESTRICTED REVENUE AND OTHER SUPPORT:			
Net patient service revenue	$ 463,927,764	$ 64,926,254	$ 399,001,510
Other revenue	10,708,762	2,135,576	8,573,186
Net assets released from restrictions used for operations	2,500,891	1,320,721	1,180,170
Total unrestricted revenue and other support	477,137,417	68,382,551	408,754,866
EXPENSES:			
Salaries and wages	198,344,039	43,131,937	155,212,102
Physicians' fees	18,918,445	3,279,084	15,639,361
Employee benefits	57,870,728	11,390,945	46,479,783
Supplies and other	149,229,357	9,052,201	140,177,156
Depreciation and amortization	16,410,686	1,409,606	15,001,080
Interest	6,164,249	156,234	6,008,015
Uncompensated care pool assessment	1,101,906		1,101,906
Provision for bad debts	18,661,580	1,690,966	16,970,614
Loss on bond restructuring	3,641,996		3,641,996
Total expenses	470,342,986	70,110,973	400,232,013
OPERATING INCOME (LOSS)	6,794,431	(1,728,422)	8,522,853
NONOPERATING GAINS (LOSSES):			
Investment income	1,431,165	375,972	1,055,193
Realized gains on sale of investments—net	1,614,083	63,093	1,550,990
Gifts and bequests	3,528,156		3,528,156
Other nonoperating losses	(3,455,470)	78,335	(3,533,805)
Total nonoperating gains—net	3,117,934	517,400	2,600,534
EXCESS (DEFICIENCY) OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	9,912,365	(1,211,022)	11,123,387
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	2,436,329	443	2,435,886
NET ASSETS RELEASED FROM RESTRICTIONS—Used for purchase of property and equipment	4,359,135		4,359,135
TRANSFER TO (FROM) AFFILIATES	-	1,564,217	(1,564,217)
INCREASE IN UNRESTRICTED NET ASSETS	$ 16,707,829	$ 353,638	$ 16,354,191

CAPE COD HEALTHCARE, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED SEPTEMBER 30, 2003

	Total	Other Entities and Eliminations	Total Obligated Group
UNRESTRICTED REVENUE AND OTHER SUPPORT:			
Net patient service revenue	$ 419,874,320	$ 67,360,677	$ 352,513,643
Other revenue	12,007,323	2,665,963	9,341,360
Net assets released from restrictions used for operations	2,540,422	640,923	1,899,499
Total unrestricted revenue and other support	434,422,065	70,667,563	363,754,502
EXPENSES:			
Salaries and wages	190,160,299	44,880,823	145,279,476
Physicians' fees	17,127,515	3,221,208	13,906,307
Employee benefits	51,158,306	11,311,518	39,846,788
Supplies and other	131,714,244	10,502,065	121,212,179
Depreciation and amortization	16,063,183	1,668,964	14,394,219
Interest	5,206,767	204,412	5,002,355
Uncompensated care pool assessment	1,337,106		1,337,106
Provision for bad debts	17,212,653	1,139,388	16,073,265
Total expenses	429,980,073	72,928,378	357,051,695
OPERATING INCOME (LOSS)	4,441,992	(2,260,815)	6,702,807
NONOPERATING GAINS (LOSSES):			
Investment income	972,320	275,423	696,897
Realized (losses) gains on sale of investments—net	(145,092)	37,213	(182,305)
Gifts and bequests	3,507,188		3,507,188
Other nonoperating losses	(2,573,608)		(2,573,608)
Total nonoperating gains—net	1,760,808	312,636	1,448,172
EXCESS (DEFICIENCY) OF REVENUE AND GAINS OVER EXPENSES AND LOSSES	6,202,800	(1,948,179)	8,150,979
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS	5,234,539	(10,710)	5,245,249
NET ASSETS RELEASED FROM RESTRICTIONS—Used for purchase of property and equipment	3,626,210	3,661	3,622,549
TRANSFER TO (FROM) AFFILIATES	-	770,214	(770,214)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 15,063,549	$ (1,185,014)	$ 16,248,563

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain of the terms used in the Agreement and used in this Official Statement.

"Accounts Receivable" means any and all right to payment for services rendered or for goods sold or leased which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

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

"Additional Indebtedness" means any Indebtedness incurred by any Obligated Group Member subsequent to the issuance of the Series A Bonds and the Series B Bonds.

"Agreement" means the Loan and Trust Agreement dated as of June 1, 1993, as amended by the First Amendment to Loan and Trust Agreement dated as of October 4, 1994, and as amended and supplemented by the First Supplemental Loan and Trust Agreement dated as of August 11, 1998, the Second Supplemental Loan and Trust Agreement dated as of October 9, 2001 and the Third Supplemental dated as of December 7, 2004 among the Obligated Group, the Authority and the Trustee.

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

"Alternate Credit Enhancement" or "Alternate Liquidity Facility" shall mean a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms of the Agreement as a replacement or substitute for any Credit Enhancement or Liquidity Facility, as applicable, then in effect and approved by the Series D Bond Insurer.

"Alternate Rate" shall mean, on any Rate Determination Date, for any Mode, a rate per annum equal to (a) the BMA Municipal Swap Index of Municipal Market Data, formerly the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the "BMA Rate") most recently available as of the date of determination, or (b) if such index is no longer available, or if the BMA Rate is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions), or if neither the BMA Rate nor the Kenny Index is published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Rate just prior to when the Bond Market Association stopped publishing the BMA Rate. The Tender Agent shall make the determinations required by this determination, upon notification from the Authority, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement.

"Annual Debt Service" means the Long-Term Indebtedness Service Requirement for the Fiscal Year in question.

"Architect" means one or more qualified professional architects or engineers appointed by the Obligated Group to supervise construction of the Project.

"Authorized Officer" means (i) in the case of the Authority, the Chairman, Vice Chairman, Secretary, Executive Director, Assistant Executive Director or Deputy Director for Administration and Finance to the Authority, 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 Obligated Group Agent or any other Obligated Group Member, the Chairman or other presiding officer of the Board of Trustees, the President, Director or other chief executive or administrative officer, the Executive Vice President, 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 Obligated Group Agent or any other Obligated Group Member, also means any other person or persons authorized to perform the act or execute the document.

"Authorized Denominations" shall mean (i) with respect to Series D Bonds in a Daily Mode or Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof, (ii) with respect to Series D Bonds in a Flexible Mode, $100,000 and any integral multiple of $1,000 in excess thereof and (iii) with respect to Series D Bonds in a Long-Term Mode, $5,000 and any integral multiple thereof.

"Available Amount" shall mean the amount available under the Credit Enhancement or Liquidity Facility, as applicable, to pay the principal of and interest on the Series D Bonds or the Purchase Price of the Series D Bonds, as applicable.

"Available Moneys" shall mean (i) moneys held by the Trustee (other than in the Purchase Fund) and continuously subject to a first priority lien under the Agreement for a period of at least 123 days and not commingled with any moneys so held for less than said period and during which period no petition in bankruptcy was filed by or against, and no receivership, insolvency, assignment for the benefit of creditors or other similar proceeding has been commenced by or against, the Obligated Group, unless such petition or proceeding was dismissed and all applicable appeal periods have expired without an appeal having been filed, all as certified by the Obligated Group Agent to the Trustee, (ii) investment income derived from the investment of moneys described in clause (i) or (iii) any moneys with respect to which an opinion of nationally recognized bankruptcy counsel has been received by the Trustee to the effect that payments by the Trustee in respect of the Series D Bonds, as provided in the Agreement, derived from such moneys would not constitute transfers avoidable under 11 U.S.C. §547(b) and recoverable from the Owners under 11 U.S.C. §550(a) should the Obligated Group be the debtor in a case under Title 11 of the United States Code, as amended.

"Auction Rate" means the rate of interest to be borne by the Series D Bonds during each auction period, to be determined as set forth in the Agreement.

"Auction Rate Mode" means the Mode during with the Series D Bonds, or any portion thereof, bear interest at an Auction Rate.

"Balloon Indebtedness" means Long-Term Indebtedness (i) twenty-five percent (25%) or more of the original principal amount of which matures within a period of twelve (12) consecutive months, which portion of such principal amount is not required by the documents governing such Indebtedness to be amortized prior to the commencement of such twelve (12) month period in amounts such that, following such amortization, the principal amount maturing during such twelve (12) month period will be less than twenty-five percent (25%) of such original principal amount, or (ii) any portion of the original principal amount of which (1) may be tendered for purchase or redemption prior to maturity at the option of the holder thereof (including any such Indebtedness which is payable on demand within 365 days from the date of incurrence), or (2) is required to be tendered for purchase or redemption (other than sinking fund redemption) prior to maturity thereof.

"Beneficial Owner" shall mean, so long as the Series D Bonds are negotiated in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository. If at any time the Series D Bonds are not held in the Book-Entry-Only System, Beneficial Owner shall mean Owner for purposes of the Agreement.

"Bonds" means the Series A Bonds, the Series B Bonds, the Series C Bonds, the Series D Bonds any additional Bonds issued under the Agreement, and any Bond or Bonds duly issued in exchange or replacement therefore and, where appropriate with respect to redemptions or purchases, portions thereof in authorized denominations.

"Bondholder," "Holder" or "Owner" means the registered owner of any of the Bonds from time to time as shown in the books kept by the Trustee as bond registrar and transfer agent.

"Bond Index" means at the option of the Obligated Group Agent, either (i) the index or interest rate as may be submitted in writing to the Trustee by a firm of investment bankers or a financial advisory firm selected by the Obligated Group Agent as the index or interest rate reasonably reflecting the terms and provisions of the Indebtedness in question, or (ii) with respect to federally tax-exempt borrowings, the Bond Buyer "Revenue Bond Index", as then published most recently by The Bond Buyer, New York, New York submitted in writing to the Trustee by the Obligated Group Agent as the index or interest rate derived from such index reasonably reflecting the terms and provisions of the Indebtedness in question.

"Book-Entry-Only System" shall mean the system maintained by the Securities Depository described in the Agreement.

"Business Day" means a day other than a Saturday or Sunday and on which banks in each of the cities in which the applicable corporate trust offices of the Trustee and the Paying Agent, and the principal office of the Remarketing Agent, if any, and the office of the Liquidity Provider at which draws on a Liquidity Facility, if any, are made are located are not required or authorized to remain closed and on which the New York Stock Exchange or the payment system of the Federal Reserve System is not closed.

"Capitalized Interest" means that portion of the proceeds of any Indebtedness or any other funds (other than the Debt Service Fund, with exception of the Capitalized Interest Account therein, the Debt Service Reserve Fund or any other bond fund or debt service reserve fund securing Indebtedness) that are held in trust and are restricted to be used to pay interest due or to become due on Indebtedness, including funds held in connection with an advance refunding or a cross-over refunding.

"Code" means the Internal Revenue Code of 1986, as amended.

"Completion Indebtedness" means any Indebtedness incurred by any Obligated Group Member for the purpose of financing the completion of the constructing or equipping of facilities for which Indebtedness has theretofore been incurred in accordance with the provisions of the Agreement, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time of the initial funding of the facilities.

"Construction Fund" means the fund by that name established pursuant to the Agreement.

"Consultant" means a person or firm approved by the Authority and the Bond Insurer which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Obligated Group Member, and which is a nationally recognized professional consultant of favorable reputation or an Accountant, and having the skill and experience necessary to render the particular report.

"Credit Enhancement" shall mean a direct-pay letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on the Series D Bonds, but shall not include the Series D Policy.

"Credit Enhancement Failure" or "Liquidity Facility Failure" shall mean a failure of the Credit Provider or Liquidity Provider, as applicable, to pay a properly presented and conforming draw or request for advance under the Credit Enhancement or Liquidity Facility, as applicable, or the filing or commencement of any bankruptcy or insolvency proceedings by or against the Credit Provider or Liquidity Provider, as applicable, or the Credit Provider or Liquidity Provider, as applicable, shall declare a moratorium on the payment of its unsecured debt obligations or shall repudiate the Credit Enhancement or Liquidity Facility, as applicable.

"Credit Provider" shall mean any bank, insurance company, pension fund or other financial institution which provides Credit Enhancement or Alternate Credit Enhancement for the Series D Bonds.

"Daily Mode" shall mean the Mode during which the Series D Bonds bear interest at the Daily Rate.

"Daily Rate" shall mean the per annum interest rate on any Series D Bond in the Daily Mode determined pursuant to the Agreement.

"Daily Rate Period" shall mean the period during which a Series D Bond in the Daily Mode shall bear interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

"Debt Service Fund" means the Fund by that name established pursuant to the Agreement.

"Debt Service Reserve Fund" means the fund by that name established pursuant to the Agreement.

"Debt Service Reserve Fund Requirement" means an amount which is equal to the lesser of (1) the combined maximum annual debt service requirements on Outstanding Bonds, other than Reserveless Bonds, in any future calendar year, or (2) the aggregate of ten percent (10%) of the proceeds received from the sale of each series of Outstanding Bonds, other than Reserveless Bonds.

"Effective Date" shall mean the date on which a new interest rate takes effect.

"Electronic Means" shall mean telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

"Event of Bankruptcy" means (i) any Obligated Group Member shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its Property; (ii) a trustee, receiver, custodian or similar official or agent shall be appointed for any Obligated Group Member or for any substantial part of its Property and such trustee or receiver shall not be discharged within sixty (60) days; or (iii) any Obligated Group Member 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.

"Expense Fund" means the fund by that name established pursuant to the Agreement.

"Expiration Date" shall mean the stated expiration date of the Credit Enhancement or the Liquidity Facility, as it may be extended from time to time as provided in the Credit Enhancement or the Liquidity Facility, or any earlier date on which the Credit Enhancement or the Liquidity Facility shall terminate, expire or be cancelled.

"Favorable Opinion of Bond Counsel" shall mean, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act and the Agreement and will not impair the exclusion of interest on the Series D Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the Series D Bonds from personal income taxation under the laws of the Commonwealth (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Series D Bonds).

"Fiscal Year" means the fiscal year ending September 30 or any other fiscal year designated from time to time in writing by the Obligated Group Agent to the Trustee; for purposes of making historical calculations or determinations set forth in the Agreement on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to any Obligated Group Member whose actual fiscal year is different from that designated above, accounting information for the year ending September 30 or any other year designated by the Obligated Group Agent as the Fiscal Year for the Obligated Group shall be used. Whenever the Agreement refers to a Fiscal Year of an individual Obligated Group Member, such reference shall be to the actual Fiscal Year adopted by such Obligated Group Member.

"Fixed Rate Conversion Date" shall mean, with respect to all or a portion of the Series D Bonds to be converted to the Fixed Rate Mode, the date on which the Fixed Rate shall take effect with respect to such Series D Bonds.

"Fixed Rate Mode" shall mean the Mode during which the Series D Bonds bear interest at the Fixed Rate.

"Flexible Mode" shall mean the Mode during which the Series D Bonds bear interest at the Flexible Rate.

"Flexible Rate" shall mean the per annum interest rate on a Bond in the Flexible Mode determined for such Bond pursuant to the Agreement. The Series D Bonds in the Flexible Mode may bear interest at different Flexible Rates.

"Flexible Rate Bond" shall mean a Bond in the Flexible Mode.

"Flexible Rate Period" shall mean the period of from one to 360 calendar days (which period must end on a Business Day) during which a Flexible Rate Bond shall bear interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Agreement. The Series D Bonds in the Flexible Mode may be in different Flexible Rate Periods.

"Governing Body" means, with respect to any Obligated Group Member, its board of directors, board of trustees, or other board or group of individuals in which the power to direct the management and policies of the Obligated Group Member are vested.

"Government Obligations" means direct general obligations of, or obligations the timely payment of principal and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Government Restriction" means the occurrence of the following: (i) changes in applicable laws, governmental regulations, third-party reimbursement methods or private or governmental insurance programs shall have occurred which prevent, have prevented or will prevent the Obligated Group from generating sufficient Aggregate Income Available for Debt Service to comply with the particular requirement of the financing document in question, (ii) the effect upon the Obligated Group of the circumstances set forth in clause (i) above shall have been confirmed by a signed Consultant's opinion or report delivered to the Authority (except in instances as to which such opinion or report is not required under the Agreement or has been waived by the Authority and the Bond Insurer), (iii) an Officer's Certificate shall have been delivered to the Authority stating that the Obligated Group has generated the highest level of Aggregate Income Available for Debt Service which, in the opinion of such officer, could reasonably be generated given the circumstances set forth in clause (i) above, and (iv), but only at the request of the Authority or the Bond Insurer, there shall have been delivered to the Authority an Opinion of Counsel as to any conclusions of law supporting the opinion or report of the Consultant.

"Gross Receipts" means all receipts, revenues, income and other moneys received by or on behalf of the Obligated Group, including contributions, gifts, grants, bequests, pledges whether in the form of cash or other property, revenues derived from the operation of the Obligated Group's facilities, and all rights to receive the same, whether in the form of contract rights, accounts receivable, chattel paper or instruments, and the proceeds thereof and any insurance thereon, whether now owned or hereafter acquired by the Obligated Group; provided that gifts, grants, bequests, donations, contributions or pledges designated at the time of the making thereof by the donor thereof as being made for specific purposes, and the income therefrom to the extent required by such designation shall be excluded from Gross Receipts.

"Guaranty" means any obligation of any Obligated Group Member guaranteeing in any manner, whether directly or indirectly, any obligation of any other person which would, if such other person were an Obligated Group Member, constitute Indebtedness. Nothing in this definition or otherwise shall be construed to count a Guaranty more than once and for purposes of all covenants and computations provided for in the Agreement, the aggregate annual principal and interest payments on, and the principal amount of, any indebtedness incurred by any person which is not an Obligated Group Member and which is the subject of a Guaranty under the Agreement shall be calculated in the manner provided therein based on the actual Annual Debt Service on, and the principal amount of, the underlying obligation on account of which a Guaranty has been issued.

"Hedging Contract" means an interest rate swap, exchange, cap or other agreement between an Obligated Group Member and any other party for the purpose of hedging payment, interest rate, spread or similar exposure.

"Historic Test Period" means (i) the most recent Fiscal Year of the Obligated Group, if audited financial statements with respect to such Fiscal Year are available for the Obligated Group or for each Obligated Group Member or (ii) if such audited financial statements are not available, the most recent period for which such audited financial statements are available.

"Income Available for Debt Service" means, for so long as the Series D Bonds are Outstanding, with respect to each Obligated Group Member, as to any period of time, net income, or excess of revenue over expenses (including investment income, gifts and bequests, but excluding donor restricted funds and the income thereon to the extent restricted by the donor thereof to other than operating expenses and excluding unrealized gains or losses on investments) before depreciation, amortization and interest, as determined in accordance with generally accepted accounting principles consistently applied; provided, that no determination thereof shall take into account (i) any revenue or expense of any person which is not an Obligated Group Member, (ii) any gain or loss resulting from either

the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iii) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (iv) any extraordinary gain or loss as defined and allowed under generally accepted accounting principles; (v) infrequently occurring items or unusual items as defined under generally accepted accounting principles; (vi) the cumulative effect of changes in accounting principles or (vii) operating and non-operating revenues and expenses attributable to the ownership and operation of Property securing Non-Recourse Indebtedness.

"Indebtedness" means all obligations for payments of principal and interest with respect to money borrowed, incurred or assumed by one or more Obligated Group Members, purchase money mortgages, financing or capital leases, installment purchase contracts or other similar instruments in the nature of a borrowing by which the Obligated Group Member will be unconditionally obligated to pay, except obligations of one Obligated Group Member to another Obligated Group Member.

"Interest Payment Date" shall mean each date on which interest is to be paid and is: (i) with respect to the Series D Bonds in the Flexible Mode, each Mandatory Purchase Date applicable thereto; (ii) with respect to the Series D Bonds in the Daily Mode or Weekly Mode, the first Business Day of each month; (iii) with respect to the Series D Bonds in a Long-Term Mode, each May 15 and November 15, commencing with such date immediately following conversion to a Long-Term Mode and, with respect to a Term Rate Period, the final day of the current Interest Period if other than a regular six-month interval; (iv) (without duplication as to any Interest Payment Date listed above) any Mode Change Date, other than a change between a Daily Mode and a Weekly Mode, and the Maturity Date; and (v) with respect to any Liquidity Provider Series D Bonds, the day set forth in the Liquidity Facility.

"Interest Period" shall mean, for the Series D Bonds in a particular Mode, the period of time that the Series D Bonds bear interest at the rate (per annum) which becomes effective at the beginning of such period, and shall include a Flexible Rate Period, a Daily Rate Period, a Weekly Rate Period, a Term Rate Period and a Fixed Rate Period.

"Lien" means any mortgage, pledge, security interest, lien, judgment lien, easement, or other encumbrance on title, including, but not limited to, any mortgage or pledge of, security interest in or lien or encumbrance on any Restricted Property of any Obligated Group Member which secures any Indebtedness or any other obligation of any Obligated Group Member, or which secures any obligation of any person other than an obligation to any Obligated Group Member, excluding liens applicable to Restricted Property in which any Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of any Obligated Group Member or an obligation of any person other than an obligation to any Obligated Group Member.

"Liquidity Facility" shall mean initially, the Standby Bond Purchase Agreement dated as of December __, 2004 among Fleet National Bank, a Bank of America Company, U.S. Bank National Association, as Trustee, and the Obligated Group (the "Initial Liquidity Facility"), and any other letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the purchase of Series D Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor.

"Liquidity Provider" shall mean initially, Fleet National Bank, a Bank of America Company (the "Initial Liquidity Provider"), and any other bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Series D Bonds.

"Liquidity Provider Bonds" shall mean any Series D Bonds purchased by the Liquidity Provider with funds drawn on or advanced under the Liquidity Facility.

"Liquidity Ratio" means as of any date, the ratio of cash, marketable securities, and unrestricted board-designated funds of the Obligated Group as of such date divided by Maximum Annual Debt Service with respect to all Long-Term Indebtedness outstanding as of such date.

"Long-Term Indebtedness" means all Indebtedness, other than Short-Term Indebtedness, included in the following: (i) Indebtedness with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year; (ii) Indebtedness with respect to leases which are capitalized in accordance with generally accepted accounting principles having an original term, or

renewable at the option of the lessee for a period from the date originally incurred, longer than one year; and (iii) Indebtedness with respect to installment purchase contracts having an original term in excess of one year.

"Long-Term Indebtedness Service Coverage Ratio" means, for any period of time, the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service.

"Long-Term Indebtedness Service Requirements" means, for any period of time, the aggregate of the scheduled payments to be made (other than from amounts irrevocably deposited with the Trustee or otherwise held for the benefit of a lender for purposes of such payments, including funds described in the section entitled "Credit for Accrued Interest and Capitalized Interest" and funds held in connection with an advance refunding or a cross-over refunding) in respect of principal and interest on Long-Term Indebtedness of each Obligated Group Member during such period, also taking into account (i) with respect to Balloon Indebtedness, the provisions pertaining to debt service on Balloon Indebtedness, (ii) with respect to Variable Rate Indebtedness, the provisions pertaining to debt service on Variable Rate Indebtedness, (iii) with respect to Capitalized Interest, the provisions pertaining to credit for Capitalized Interest, (iv) with respect to Indebtedness represented by a Guaranty of obligations of a person, the provisions pertaining to restrictions on Guaranties.

"Long-Term Mode" shall mean a Term Rate Mode or a Fixed Rate Mode.

"Mandatory Purchase Date" shall mean: (i) with respect to a Flexible Rate Bond the first Business Day following the last day of each Flexible Rate Period with respect to such Bond, (ii) for Series D Bonds in the Term Rate Mode, on the first Business Day following the last day of each Term Rate Period, (iii) any Mode Change Date (except a change in Mode between the Daily Mode and the Weekly Mode), (iv) any Substitution Date (other than a substitution of an Alternate Credit Enhancement for Credit Enhancement while the applicable Series D Bonds are in the Fixed Rate Mode), (v) the fifth Business Day prior to the Expiration Date (other than as a result of an Automatic Termination Event), and (vi) fourteen (14) Business Days following receipt by the Trustee of written notice from the Liquidity Provider or the Credit Provider following the occurrence of an event of default (other than an Automatic Termination Event) under the Reimbursement Agreement, and in any event at least two Business Days prior to the termination of the Liquidity Facility, if applicable.

"Maturity Date" means November 15, 2035, and, if established pursuant to the Agreement upon a change to the Fixed Rate Mode, any Serial Maturity Date.

"Maximum Annual Debt Service" means the highest Long-Term Indebtedness Service Requirement for the then current or any future Fiscal Year.

"Maximum Rate" means the lesser of twelve percent (12%) per annum and the maximum rate of interest permitted by applicable law. The maximum interest rate for Liquidity Provider Bonds shall be as set forth in the Liquidity Facility then in effect.

"Mode" shall mean, as the context may require, the Auction Rate Mode, the Flexible Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode or the Fixed Rate Mode.

"Mode Change Date" shall mean with respect to the Series D Bonds in a particular Mode, the day on which another Mode for the Series D Bonds begins.

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

"Mortgages" means, collectively, those certain Mortgage and Security Agreement dated as of November 28, 2001, as amended and restated as of December 23, 2004 from each of Cape Cod Hospital and Falmouth Hospital Association, Inc. to the Trustee and those certain Mortgage and Security Agreements dated as of November 28, 2001 from each of Cape Cod Hospital and Falmouth Hospital Association, Inc. to the Falmouth Master Trustee.

"Mortgaged Property" shall mean, collectively, the Mortgage Properties as defined in the Mortgages.

"Net Proceeds" means Net Proceeds as defined under the heading "Damage to or Destruction or Taking of the Project" in Appendix D, and shall not include insurance or eminent domain proceeds with respect to damage or destruction or taking of Restricted Property with a value equal to or less than one percent (1%) of the full insurable value of the Restricted Property.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien on Property other than Restricted Property, which Indebtedness is not a general obligation of the Obligated Group or any Obligated Group Member, and the liability for which Indebtedness is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any Restricted Property.

"Obligated Group" means, collectively, Cape Cod Healthcare, Inc. (formerly Cape Cod Health Systems, Inc.), Cape Cod Hospital, Falmouth Hospital Association, Inc. and Cape Cod Healthcare Foundation, Inc. (formerly The Healthcare Foundation of Cape Cod, Inc.) as such entities may change from time to time in accordance with the Agreement.

"Obligated Group Agent" means Cape Cod Healthcare, Inc., or such other Obligated Group Member as the then incumbent Obligated Group Agent shall designate as a successor by an Officer's Certificate delivered to the Trustee.

"Obligated Group Bonds" shall have the meaning set forth in the Agreement.

"Obligated Group Member" means any non-profit corporation that is a constituent of the Obligated Group.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Obligated Group Agent.

"Opinion of Bond Counsel" means an opinion of nationally recognized bond counsel satisfactory to the Authority.

"Opinion of Counsel" means a written opinion of an attorney or firm of attorneys selected by the Obligated Group Agent and (except as otherwise provided in the Agreement) may either be counsel for an Obligated Group Member or for the Trustee.

"Opinion of Counsel" shall mean a written legal opinion from a firm of attorneys experienced in the matters to be covered in the opinion.

"Outstanding," when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a 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 to the Trustee; and (iv) Bonds for which there have been irrevocably set aside with the Trustee sufficient funds, or Government Obligations or Advance-Refunded Municipal Bonds bearing interest at such rates and with such maturities as will provide, in the determination of the Trustee, sufficient funds, to pay the principal of, premium, if any, and interest on such Bonds; 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, and when used to modify other Indebtedness, refers to Indebtedness which as of such date remains unpaid except Indebtedness for the payment or redemption of which sufficient moneys have been deposited to such date in trust for the holders of such Indebtedness (whether upon or prior to the maturity of redemption date of any such Indebtedness), or which is deemed to have been paid pursuant to the provisions of the documents securing such Indebtedness; provided that if such Indebtedness is to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or irrevocable arrangements shall have been made therefor.

"Owner" shall mean the registered owner of a Bond, including the Securities Depository, if any, or its nominee.

"Paying Agent" means U.S. Bank National Association, as successor Paying Agent, State Street Bank and Trust Company, and any successor Paying Agent designated from time to time pursuant to the Agreement.

"Project" means the facilities financed or refinanced by the loan of the Authority to the Obligated Group of the proceeds of the Series D Bonds and 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:

(A) Projects located at Cape Cod Hospital (27 Park Street, Hyannis, MA)

(a) the construction of a five story bed tower adjacent and connected to Cape Cod Hospital on existing hospital land and the construction of a materials management structure on existing hospital land to relocate the supply and distribution function at Cape Cod Hospital; and the necessary equipment to fully equip the material management center and the necessary equipment to fully outfit two medical/surgical nursing floors of 30 beds per floor;

(b) the construction and equipping of six cardiac catheterization laboratories and a nineteen-bed preparation/recovery/non-invasive procedure area;

(c) the purchase and installation of certain information system upgrades and infrastructure improvements, the purchase of certain software programs and hardware;

(d) other construction, systems upgrade, capital improvements, renovation and repair projects and equipment acquisitions; and

(e) design, engineering, site work and permitting related to each of the foregoing.

(B) Projects located at Falmouth Hospital

(a) the purchase and installation of certain information system upgrades and infrastructure improvements, the purchase of certain software programs and hardware;

(b) other construction, systems upgrade, capital improvements, renovation and repair projects and equipment acquisitions; and design, engineering, site work and permitting related to each of the foregoing.

"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 and including interest prior to, during and for up to one year after construction, but excluding general administrative expenses, overhead of an Obligated Group Member and interest on internal advances.

"Property" means any and all land, leasehold interests, buildings, machinery, equipment, hardware, and inventory of each Obligated Group Member wherever located and whether now or hereafter acquired, any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated and whether now or hereafter acquired and shall include all revenues, receipts or other moneys, or right to receive any of the same, including without limitation, total assets of each Obligated Group Member, accounts, Accounts Receivable, contract rights and general intangibles, and all proceeds of all of the foregoing.

"Property, Plant and Equipment" means all Property of each Obligated Group Member which is property, plant and equipment under generally accepted accounting principles.

"Purchase Date" shall mean (i) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Bond pursuant to the provisions of the Agreement, and (ii) any Mandatory Purchase Date.

"Purchase Price" shall mean an amount equal to the principal amount of any Series D Bonds purchased on any Purchase Date, plus, in the case of any purchase of Series D Bonds in the Daily Mode or the Weekly Mode and

Series D Bonds purchased on a Mandatory Purchase Date that is not an Interest Payment Date, accrued interest, if any.

"Redemption Fund" means the fund by that name established pursuant to the Agreement.

"Reimbursement Agreement" shall mean any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, by and between the Credit Provider or Liquidity Provider, as applicable, and the Obligated Group.

"Remarketing Proceeds Account" shall mean the account by that name created in the Agreement.

"Reserveless Bonds" means additional Bonds issued under the Agreement that are not secured by the Debt Service Reserve Fund.

"Restricted Property" means Property identified as Restricted Property in Schedule A of the Agreement, as amended from time to time in accordance with its terms.

"Revenues" means all rates, rents, fees, charges, and other income and receipts, including proceeds derived from any security provided under the Agreement, payable to the Authority or the Trustee under the Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

"S&P" means Standard & Poor's Corporation, a corporation organized and existing under the laws of the State of New York, its successors and assigns.

"Series A Bonds" means the $56,925,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Health Systems, Inc. Issue, Series A, dated July 1, 1993.

"Series B Bonds" means the $18,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series B, dated August 15, 1998.

"Series C Bonds" means the $45,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series C, dated November 15, 2001.

"Series D Bonds" means the $65,000,000 Massachusetts Health and Educational Facilities Authority Variable Rate Demand Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series D (2004), dated the date of delivery thereof.

"Series D Insurer" shall mean Assured Guaranty Corp., a corporation organized under the laws of Maryland, or any successor thereto.

"Series D Insurer Event of Insolvency" means the occurrence and continuance of one or more of the following events: (a) the issuance, under the laws of the State of Maryland (or other jurisdiction of domicile of the Series D Insurer), of an order of rehabilitation, liquidation, supervision or dissolution of the Series D Insurer; (b) the commencement by the Series D Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its Debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property; (c) the consent of the Series D Insurer to any relief referred to in the preceding clause (b) in an involuntary case or other proceeding commenced against it or the commencement against the Series D Insurer of an involuntary case or other proceeding seeking liquidation, reorganization or other relief with respect to it or its Debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property, if such case or proceeding shall continue undismissed or unstayed and in effect for a period of 60 days or an order for relief shall be entered or a receiver, supervisor or similar official shall be appointed in any involuntary case against the Series D Insurer under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect; (d) the making by the Series D Insurer of an assignment for the benefit of creditors; or (e) the taking of any corporate action on the

part of the Series D Insurer to authorize any of the matters described in foregoing clauses (a)-(d); or (f) the failure of the Series D Insurer to generally pay its Debts as they become due.

"Series D Policy" shall mean the financial guaranty insurance policy issued by the Series D Insurer insuring the payment when due of the principal of and interest on the Series D Bonds as provided therein.

"Short-Term Indebtedness" means all Indebtedness included in the following: (i) Indebtedness with respect to money borrowed payable on demand or for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less; (ii) Indebtedness with respect to leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and (iii) Indebtedness with respect to installment purchase contracts having an original term of one year or less (other than contracts entered into in the ordinary course of business).

"Short-Term Mode" shall mean the Daily Mode, the Weekly Mode or the Flexible Mode.

"Subordinated Indebtedness" means any Indebtedness incurred or assumed by one or more Obligated Group Members, the payment of which is by its terms specifically subordinated to payments on the Bonds and any issue of Alternative Indebtedness, or the principal of and interest on which would not be paid (whether by the terms of such Indebtedness or by agreement of the obligee) when the Bonds or Alternative Indebtedness are in default or while bankruptcy, insolvency, receivership or other similar proceedings are instituted and implemented.

"Substitution Date" shall mean the date upon which an Alternate Credit Enhancement or Alternate Liquidity Facility is substituted for the Credit Enhancement or Liquidity Facility then in effect.

"Supplemental Agreement" means any resolution, indenture, loan agreement, financing document or other agreement amending or supplementing the terms of the Agreement.

"Tender Agent" shall mean the commercial bank, trust company or other entity which may from time to time be appointed to serve as Tender Agent hereunder. Until such time as an alternate Tender Agent is appointed, the Tender Agent shall be the Trustee.

"Term Rate" shall mean the per annum interest rate for the Series D Bonds in the Term Rate Mode determined pursuant to the Agreement.

"Term Rate Mode" shall mean the Mode during which the Series D Bonds bear interest at the Term Rate.

"Term Rate Period" shall mean the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Series D Bonds shall be in the Term Rate Mode as established by the Obligated Group Agent for the Series D Bonds pursuant to the Agreement and, thereafter, the period from (and including) the beginning date of each successive Interest Rate Period selected for the Series D Bonds by the Obligated Group Agent pursuant to the Agreement while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Agreement, an Interest Period for the Series D Bonds in the Term Rate Mode must be at least 180 days in length.

"Total Operating Revenues" means the gross operating revenues of the Obligated Group less applicable deductions from operating revenues as determined in accordance with generally accepted accounting principles consistently applied.

"Value" means when used in connection with Property, Plant and Equipment or other Property of any Obligated Group Member shall mean the cost basis of such property, net of accumulated depreciation, as it is carried on the books of such member and in conformity with generally accepted accounting principles consistently applied, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the cost bases so determined with respect to such Property of the Obligated Group Members determined in such a manner that no portion of such cost basis of Property of any Obligated Group Member is included more than once.

"Variable Rate Indebtedness" means Indebtedness that bears interest at a variable, adjustable or floating rate.

"Variable Rate Mode" means the Daily Mode, Weekly Mode, Flexible Mode or Term Rate Mode.

"Weekly Mode" shall mean the Mode during which the Series D Bonds bear interest at the Weekly Rate.

"Weekly Rate" shall mean the per annum interest rate on the Series D Bonds in the Weekly Mode determined pursuant to the Agreement.

"Weekly Rate Period" shall mean the period during which a Bond in the Weekly Mode shall bear a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date or date of initial issuance of the Series D Bonds, as applicable, to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date.

Words importing persons include firms, associations and corporations, and the singular and plural form of words shall be deemed interchangeable wherever appropriate.

SUMMARY OF THE AGREEMENT

The following is a summary, prepared by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Authority in connection with this financing, of certain provisions of the Loan and Trust Agreement ("Loan and Trust Agreement" or "LTA") dated as of June 1, 1993, as amended by the First Amendment to Loan and Trust Agreement (the "First Amendment") dated as of October 4, 1994, as further amended and supplemented by the First Supplemental Loan and Trust Agreement (the "First Supplemental Agreement") dated as of August 11, 1998, as further amended by the Second Supplemental Loan and Trust Agreement (the "Second Supplemental Agreement") dated as of October 9, 2001, and as further amended by the Third Supplemental Loan and Trust Agreement (the "Third Supplemental Agreement" or "TSA") (collectively, the "Agreement"), as they pertain to the Series D Bonds and the Series D Project. Certain of the provisions summarized herein apply only to the Series D Bonds and not the Series A Bonds, the Series B Bonds or the Series C Bonds. Such summary does not purport to be complete and reference is made to the Agreement for full and complete statements of such and all provisions.

The Loan and Trust Agreement provided for the issuance of the Series A Bonds in the aggregate principal amount of $56,925,000, consisting of the Series A-1 Bonds, the Series A-2 Bonds and the Series A-3 Bonds. The First Amendment amended the Loan and Trust Agreement to permit the early conversion of the Series A-2 Bonds to a fixed rate. The First Supplemental Agreement provided for the issuance of the Series B Bonds in the aggregate principal amount of $18,000,000 on a parity basis with the Series A Bonds as to the lien on the Gross Receipts. The Second Supplemental Agreement provided for the issuance of the Series C Bonds in the aggregate principal amount of $45,000,000 on a parity basis with the Series A Bonds and the Series B Bonds as to the lien on Gross Receipts and on the Mortgaged Property. The Third Supplemental Agreement provides for the issuance of the Series D Bonds in the aggregate principal amount of $65,000,000 on a parity basis with the Series A Bonds, the Series B Bonds and the Series C Bonds as to the lien on Gross Receipts and on the Mortgaged Property.

The Loan and Trust Agreement permits the Series D Bonds to be secured equally and ratably with the Series A Bonds, the Series B Bonds and the Series C Bonds as to the lien on the Gross Receipts of the Obligated Group as "additional Bonds" upon compliance with applicable conditions and the execution of a supplemental agreement among the Obligated Group, the Authority and the Trustee providing for the details of the Series D Bonds. The Third Supplemental Agreement constitutes the supplemental agreement securing the Series D Bonds as additional Bonds.

Assignment and Pledge of Security

Assignment and Pledge of the Authority

Under the Agreement, the Authority assigns and pledges to the Trustee in trust upon the terms thereof and grants to the Trustee a continuing security interest in (a) the rights, title and interest of the Authority under the Agreement and (b) all Revenues to be received from the Obligated Group, or derived from any security provided under the Agreement, and all funds and investments held from time to time in the funds established under the Agreement, other than the Rebate Fund, but not including (i) the rights of the Authority pursuant to the 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 Obligated Group joins in the pledge of, and grant of a security interest in, such funds and investments to the extent of its interest therein. (LTA Section 201(a))

Pledge of Gross Receipts

As additional security for its obligations to make payments to the Debt Service Fund and Rebate Fund, each Obligated Group Member grants to the Authority a security interest in its Gross Receipts and upon any rights to receive such Gross Receipts. If any required payment is not made when due, any Gross Receipts with respect to which this security interest remains perfected pursuant to law (including the Act) shall be transferred or paid over immediately to the Trustee, without being commingled with other funds (unless already so commingled) and any Gross Receipts thereafter received shall upon receipt be transferred to the Trustee, in the form received (with necessary endorsement) to the extent necessary to cure the deficiency. Each Obligated Group Member represents and warrants that the lien granted by the Agreement with respect to its Gross Receipts is and at all times will be a first lien, subject only to

Permitted Encumbrances. The Obligated Group, the Authority and the Trustee will from time to time execute, deliver and record and file such instruments as the Trustee or the Series A Bond Insurer may reasonably require to confirm, perfect or maintain the security created by the Agreement and the transfer, assignment and grant of the rights thereunder. (LTA Sections 201(b) and 202)

Defeasance

When the Bonds have been paid or redeemed in full as provided in the Agreement, or after there have been deposited with the Trustee sufficient funds, or funds invested in Government Obligations or Advance-Refunded Municipal Bonds (which funds, unless waived by the Series A Bond Insurer, shall constitute Available Moneys) in such principal amounts, bearing interest at such rates and with such maturities as will provide, in the determination of the Trustee in reliance on a verification from independent certified public accountants satisfactory to the Trustee and the Series A Bond Insurer, sufficient funds to pay the principal of, premium, if any, whether at maturity or upon earlier redemption, and interest on the Bonds as the same shall become due and payable and upon receipt by the Trustee, the Authority and the Series A Bond Insurer of an Opinion of Bond Counsel in form and substance satisfactory to the Series A Bond Insurer to the effect that such transition is in compliance with the Agreement and applicable law and will not adversely affect the exclusion from gross income under the Code of interest on the Bonds and that all obligations of the Authority and the Obligated Group with respect to the Bonds to be defeased have been discharged and satisfied; and when all the rights under the Agreement of the Authority and Trustee have been provided for, and all other obligations secured thereby have been paid in full, upon written notice from the Obligated Group Agent to the Authority and the Trustee, the Bondholders 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 thereof, 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 given in accordance with the Agreement or irrevocable instructions so to give 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 the purpose and moneys held for defeasance shall be invested only as provided under this heading.

In addition, the following provisions shall apply to the Series D Bonds:

If the Series D Bonds are subject to defeasance, as set forth above, the following shall be conditions to such defeasance:

(i) funds held by the Trustee for purposes of defeasing the Series D Bonds may only be invested in non-redeemable obligations of the United States or those for which the full faith and credit of the United States are pledged for the timely payment of principal and interest, as certified to the Trustee by the Obligated Group;

(ii) the verification report shall be by a verifier acceptable to the Series D Insurer, and shall also be in form and substance satisfactory to the Series D Insurer;

(iii) the Opinion of Bond Counsel required by the foregoing paragraph shall also be rendered to the Series D Insurer;

(iv) Series D Bonds may be defeased only with securities as set forth in (i) above which constitute Available Monies. Available Monies with respect to the Series D Bonds shall mean any monies on deposit with the Trustee for the benefit of bondholders which are (i) Bond proceeds or refunding Bond proceeds, (ii) amounts on deposit for a period of 124 consecutive days during which no petition in bankruptcy under the U.S. Bankruptcy Code has been filed by or against the Authority or the Obligated Group, and no similar proceedings have been instituted under state insolvency or other laws affecting creditors' rights generally, or (iii) any monies with respect to which an unqualified opinion from nationally recognized counsel has been received stating that such payments to bondholders would not constitute voidable preferences under Section 547 of the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference

provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference provisions by or against the entity from whom the money is received; and

(v) no forward delivery agreements, investment agreements, hedge, purchase and resale agreements or par-put agreements may be used with respect to the investment of any funds or securities defeasing the Series D Bonds without the prior written consent of the Series D Insurer.

In addition, for so long as the Series D Bonds are in the Variable Rate Mode, either (i) the Obligated Group shall obtain written confirmation from S&P, if the Series D Bonds are then rated by S&P, that the defeasance will not result in the withdrawal or reduction of its rating on the Series D Bonds or (ii) sufficient funds must be deposited by the Obligated Group with the Trustee to pay interest on the Series D Bonds to be defeased at the Maximum Rate and redemption of such Series D Bonds must occur no later than the earliest possible redemption date. (LTA Section 203, TSA Section 12 and Section 14.03)

Debt Service Fund

A Debt Service Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The Trustee may, and shall if not so instructed to the contrary by the Obligated Group Agent, maintain separate accounts in the Debt Service Fund for moneys derived from or related to each series of Bonds. The Trustee shall establish a separate account in the Debt Service Fund for moneys derived from or related to the Series D Bonds. The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments), redemption premium, if any, and interest on the Bonds. Promptly after each May 15 and November 15, if the amount deposited by the Obligated Group in the Debt Service Fund during the preceding year as required by the Agreement was in excess of the amount required to be so deposited, the Trustee shall transfer such excess to the Obligated Group unless there is then an Event of Default known to the Trustee with respect to payments to the Debt Service Fund, Debt Service Reserve Fund or Rebate Fund or to the Trustee, the Paying Agent or the Authority, in which case the excess shall be applied to such payments. (LTA Section 303, TSA Section 8)

Debt Service Reserve Fund

A Debt Service Reserve Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The Trustee may, and shall, if so instructed by the Obligated Group Agent, maintain separate accounts in the Debt Service Reserve Fund for moneys derived from or related to each series of Bonds. The Trustee shall establish a separate account in the Debt Service Reserve Fund for moneys derived from or related to the Series D Bonds. On the date of issuance of any series of Bonds, other than Reserveless Bonds, the Obligated Group shall deposit into the Debt Service Reserve Fund an amount which, together with other amounts on deposit therein, equals the Debt Service Reserve Fund Requirement. 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 solely to the payment of the principal (including sinking fund installments) of and interest on the Bonds, other than Reserveless Bonds.

On any date on which a payment is due to the Rebate Fund pursuant to the Agreement, the Trustee shall transfer from the Debt Service Reserve Fund to the Rebate Fund an amount (to the extent available) equal to such payment after taking account of any transfer from the Construction Fund to the Debt Service Reserve Fund in accordance with the Agreement, provided such payments shall be made only from moneys in excess of the Debt Service Reserve Fund Requirement. If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Paying Agent to pay the principal (including sinking fund installments) and interest then due on the Bonds, other than Reserveless Bonds, the Trustee shall apply the amount in the Debt Service Reserve Fund after any required transfer to the Rebate Fund to the extent necessary to meet the deficiency. The Obligated Group shall remain liable for any required sums which it has not paid to the Debt Service Fund or the Rebate Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If the amount in the Debt Service Reserve Fund on May 15 or November 15 of any years (less any payment made therefrom on that day pursuant to the Agreement) exceeds the Debt Service Reserve Fund Requirement, the

Trustee shall transfer the excess to the Obligated Group Agent in accordance with its written instructions, provided, however, that any excess consisting of proceeds of Bonds or allocable earnings thereon shall be transferred to the Debt Service Fund to be applied to the payment of interest or principal on the Bonds on the next Interest Payment Date.

If and to the extent that the amount in the Debt Service Reserve Fund on May 15 or November 15 of any year is less than the Debt Service Reserve Fund Requirement, the Trustee shall notify the Authority, the Obligated Group Agent and the Series A Bond Insurer, and the Obligated Group shall on or before the first day of the following month and of each of the eleven subsequent months, pay to the Trustee for deposit into the Debt Service Reserve Fund one-twelfth (1/12) of the amount of the deficiency.

Funds derived from or related to the Series D Bonds held in the Debt Service Reserve Fund shall be invested only in the Permitted Investments set forth in clauses (i)(ii) and (v) under the heading "Investments" herein, with maturities of not longer than five years, and no credit facilities, surety bond, insurance policies, forward delivery agreements, investment agreements, hedge or par-put agreements may be used for the investment of such funds without the prior written consent of the Series D Insurer. (LTA Section 304, TSA Section 14.03)

Redemption Fund

A Redemption Fund is established with the Trustee and moneys shall be deposited therein as provided in the Agreement. The Trustee may, and shall if instructed by the Obligated Group Agent, maintain separate accounts in the Redemption Fund for moneys derived from or related to each series of Bonds. The Trustee shall establish a separate account in the Redemption Fund for moneys derived from or related to the Series D Bonds. The moneys in the Redemption Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Bonds. (LTA Section 305, TSA Section 8)

Rebate Fund

A Rebate Fund is established with the Trustee for the purpose of compliance with Section 148(f) of the Code (the "Rebate Provision"). Such Fund shall be for the sole benefit of the United States of America and shall not be subject to the lien of the Agreement or to the claim of any other person, including without limitation, the Bondholders and the Authority. The requirements of the Agreement relating to the Rebate Fund are subject to, and shall be interpreted in accordance with, the Rebate Provision and the Treasury regulations applicable thereto. The Obligated Group shall be solely responsible for the payment of amounts due the United States of America pursuant to the Rebate Provision. (LTA Section 306)

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 charges and disbursements of the Trustee in accordance with the Agreement, be applied (in the order such Funds are named under this heading) 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 paragraph, 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. (LTA Section 308)

Payments by the Obligated Group

The Obligated Group shall pay to the Trustee for deposit in the Debt Service Fund on or before the first (1st) day of each month, one-sixth (1/6) of the interest coming due on the Bonds on the next Interest Payment Date, and one-twelfth (1/12) of the principal (including any sinking fund installment) coming due on the Bonds on the next November 15, provided that with respect to the Series D Bonds in the Daily or Weekly Mode, the Obligated Group shall pay to the Trustee for deposit in the Debt Service Fund three Business Days prior to each Interest Payment Date, commencing December 29, 2004, the interest coming due on the Series D Bonds on the next Interest Payment Date, and one-twelfth (1/12) of the principal (including any sinking fund installment) coming due on the Series D Bonds on the next November 15.

The Obligated Group shall also pay to the Paying Agent in immediately available funds on a timely basis as set forth in the Third Supplemental Agreement on the Purchase Date for Series D Bonds tendered in accordance with the optional tender and mandatory tender provisions of the Series D Bonds , an amount equal to the Purchase Price of such Series D Bonds less the amount, if any, available to pay the Purchase Price, from the proceeds of the remarketing of such Series D Bonds or from a draw on the Liquidity Facility.

The payments to be made under the preceding paragraph shall be appropriately adjusted to reflect the date of issue of Bonds, any accrued or capitalized interest deposited in the Debt Service Fund, 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), any purchase or redemption of Bonds and any interest coming due on Bonds as to which interest is payable more frequently than semi-annually, or any change in Mode of the Series D 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 and so that accrued or capitalized interest will be applied to the installments of interest to which they are applicable.

At any time when any principal (including sinking fund installments) of the Bonds is overdue, the Obligated Group 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.

If any required payment is not made when due, any Gross Receipts with respect to which the security interest granted by the Obligated Group pursuant to the Agreement remains perfected pursuant to law (including the Act) shall be transferred or paid over immediately to the Trustee without being commingled with other funds (unless already so commingled) and any Gross Receipts thereafter received shall upon receipt be transferred to the Trustee in the form received (with necessary endorsements) to the extent necessary to cure the deficiency.

Payments by the Obligated Group to the Trustee for deposit in the Debt Service Fund under the Agreement shall discharge the obligation of the Obligated Group 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 Obligated Group shall supply the deficiency. (LTA Section 309, TSA Section 6)

Joint and Several Obligation

To the extent permitted by law, the obligation of the Obligated Group to make payments to the Authority and the Trustee and Paying Agent under the Agreement shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever as provided in the Act, shall not be subject to setoff, recoupment or counterclaim and shall be a joint and several general obligation of each Obligated Group Member to which the full faith and credit of each Obligated Group Member are pledged. Each Obligated Group Member agrees that the primary obligation to make such payments shall, as among the Members of the Obligated Group, be apportioned in accordance with the extent to which each Obligated Group Member directly benefits from the Bonds issued under the Agreement or in accordance with such other reasonable basis of allocation as may be agreed to in writing from time to time among Members of the Obligated Group. (LTA Section 310)

Investments

Pending their use under the Agreement, moneys in the Debt Service Fund, Redemption Fund and Rebate Fund may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Obligated Group Agent if there is not then an Event of Default known to the Trustee. Moneys in the Construction Fund may be invested by the Authority in Permitted Investments maturing or redeemable at the option of the holder within two (2) years if the construction period exceeds two (2) years and not later than the times when such moneys are expected to be needed. Any investments shall be held by the Trustee or the Authority, as the case may be, 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 9-504(3) of the Massachusetts Uniform Commercial Code 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 the Debt Service Reserve Fund during the construction period, on the Capitalized Interest Account, on accrued interest deposited in the Debt Service Fund and on the Expense Fund shall be transferred to the Construction Fund not less often than quarterly, provided, however, that earnings allocable to any portion of the Debt Service Reserve Fund funded from sources other than proceeds of Bonds shall be transferred to the Obligated Group upon the written instructions of the Obligated Group Agent. Earnings on 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, and provided further that earnings allocable to any portion of the Debt Service Reserve Fund funded from sources other than proceeds of Bonds shall be transferred to the Obligated Group upon the written instructions of the Obligated Group Agent.

The term "Permitted Investments" means, with respect to moneys derived from or related to the Series D Bonds held in the Debt Service Fund, Debt Service Reserve Fund, Construction Fund, Redemption Fund, Rebate Fund and Expense Fund:

(i) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (b) debentures of the Federal Housing Administration, (c) guaranteed mortgage backed bonds of the Government National Mortgage Association, (d) certificates of beneficial interest of the Farmers Home Administration, (e) obligations of the Federal Financing Bank or (f) project notes and local authority bonds of the Department of Housing and Urban Development.

(iii) Investments in (a) senior obligations of the Federal Home Loan Bank System, (b) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation, (c) mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities that are valued greater than par on the portion of unpaid principal) of the Federal National Mortgage Association or (d) senior debt obligations of the Student Loan Marketing Association.

(iv) Repurchase agreements with primary dealers and/or banks rated, at all times, AA and AA2 or better by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively, collateralized with the obligations described in (i) or (ii) above, held by a third party custodian, at the levels set forth below, which repurchase agreements have been approved by the Series D Insurer.

Collateral Levels for United States Government Securities:

	Remaining Maturity				
	1 Year or less	5 Years or less	10 Years or less	15 Years or less	30 Years or less
Frequency of Valuation					
Daily	102	105	106	107	113
Weekly	103	110	111	113	118
Monthly	106	116	119	123	130
Quarterly	106	118	128	130	135

Further Requirements: (1) On each valuation date the market value of the collateral will be an amount equal to the requisite collateral percentage of the obligation (including unpaid accrued interest) that is being secured. (2) In the event the collateral level is below its collateral percentage on a valuation date, such percentage shall be restored within the following restoration periods: One business day for daily valuations, two business days for weekly valuations, and one month for monthly and quarterly valuations. The use of different restoration periods affect the requisite collateral percentage. (3) The Trustee shall terminate the repurchase agreement upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repo securities, liquidate the collateral.

(v) S.E.C. registered money market mutual funds conforming to Rule 2a-7 of the Investment Company Act of 1940 that invest primarily in direct obligations issued by the U.S. Treasury and repurchase agreements backed by those obligations, including funds for which the Trustee or an affiliate of the Trustee acts as an advisor, and rated in the highest category by Standard & Poor's Corporation and Moody's Investors Service, Inc.

(vi) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association whose short term obligations are rated, at all times, A-1 or better by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc. provided that such certificates of deposit are fully secured by the obligations described in (i) or (ii) above, at the levels set forth below, the Trustee has a perfected first security interest in the obligations securing the certificates and the Trustee holds (or shall have the option to appoint a bank, trust company or savings and loan association as its agent to hold) the obligations securing the certificates.

(vii) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association which certificates are fully insured by the Federal Deposit Insurance Corporation.

(viii) Commercial paper rated, at all times, P-1 or better by Moody's Investors Service, Inc. and A-1+ by Standard & Poor's Corporation.

(ix) Obligations of, or obligations fully guaranteed by, any state of the United States of America or any political subdivision thereof which obligations, at all times, are rated by Standard & Poor's Corporation and Moody's Investors Service, Inc. in the highest rating categories (without regard to any refinement or graduation of rating category by numerical modifier or otherwise) and without regard to credit enhancement assigned by such rating agencies to obligations of that nature.

(x) Investments in Massachusetts Health and Educational Facilities Short Term Asset Reserve (STAR) Fund or, with written consent of the Series D Insurer, in any similar fund established by or on behalf of the Authority, so long as the STAR Fund or any such similar fund is rated "AAA-m," "AA-m" or "AAAm-G" by Standard & Poor's Corporation;

No forward delivery agreements, guaranteed investment contracts, hedge, purchase and resale agreements or par-put agreements may be used with respect to the investment of any moneys derived from or related to the Series D Bonds held in the Debt Service Fund, Debt Service Reserve Fund, Construction Fund, Redemption Fund, Rebate Fund and Expense Fund without the prior written consent of the Series D Insurer.

Funds derived from or related to the Series D Bonds held in the Debt Service Reserve Fund shall be invested in the Permitted Investments set forth in clauses (i)(ii) and (v) above only, with maturities of not longer than five years, and no credit facilities, surety bonds, insurance policies, forward delivery agreements, investment agreements, hedge or par-put agreements may be used for the investment of such funds without the prior written consent of the Series D Insurer.

Any of the requirements of such investment guidelines shall not apply to moneys allocable to any series of Bonds as to which the Trustee and the Authority shall have received an Opinion of Bond Counsel to the effect that such requirements are not necessary to preserve the exclusion of interest on the series of Bonds from the gross income of the owner thereof for federal income tax purposes. Permitted Investments shall not include any investment that would cause any of the Bonds to be federally guaranteed within the meaning of Section 149(b) of the Code.

The Trustee may hold undivided interests in Permitted Investments for more than one Fund (for which they are eligible) and may make interfund transfers in kind.

Permitted investments shall be valued by the Trustee as frequently as deemed necessary by the Series A Bond Insurer, but not less often than quarterly, at the market value thereof. Deficiencies in the amount on deposit in any fund or account resulting from a decline in market value shall be restored by the Obligated Group within three months. In the event of such deficiency, the Trustee shall notify the Series A Bond Insurer and the Obligated Group Agent. (LTA Section 313, TSA Section 14.03)

The Project

Construction Fund

A Construction Fund is established to be held by the Authority. The Authority may, and shall if instructed by the Obligated Group Agent, maintain separate accounts in the Construction Fund for moneys derived from or related to each series of Bonds. The Trustee shall establish a separate account in the Construction Fund for moneys derived from or related to the Series D Bonds. The balance of the proceeds of the sale of the Bonds after distribution as set forth in the Agreement shall be promptly deposited in the Construction Fund. The moneys in the Construction Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority solely to the payment or reimbursement of Project Costs. If there is an Event of Default known to the Authority with respect to payments to the Rebate Fund, Debt Service Fund or Debt Service Reserve Fund or to the Authority, the Paying Agent or the Trustee, the Authority may use the Construction Fund without requisition to make up the deficiency, and the Obligated Group shall restore the funds so used.

Disbursements from the Construction Fund shall be made by the Authority to pay directly or to reimburse the Obligated Group for Project Costs or to make deposits to the Rebate Fund as directed by requisitions completed in accordance with the requirements of the Agreement. (LTA Sections 401(a) and (b), TSA Section 8)

Completion of the Project

Completion of the Project shall be evidenced by the filing, within sixty (60) days of completion, with the Trustee and, the Authority of a certificate signed by the Project Officer and the Architect stating that the Project has been substantially completed so as to permit efficient use in the operations of the Obligated Group and setting forth any Project Costs remaining to be paid from the Construction Fund. Any balance in such Fund not then needed to pay

Project Costs shall be transferred to the Debt Service Reserve Fund to the extent necessary to cause the amount therein to equal the Debt Service Reserve Fund Requirement, provided that the Trustee and Authority have received an Opinion of Bond Counsel that such transfer shall not adversely affect the exclusion of interest on the applicable series of Bonds from the gross income of the owner thereof for federal income tax purposes. The remainder may be used to reimburse sums deposited in the Construction Fund by the Obligated Group pursuant to the Agreement other than any amounts derived from gifts, grants or bequests received or expected to be received for the purposes of the Project, and other than amounts representing an equity contribution required by a Determination of Need, and the remainder thereafter shall be transferred to the Redemption Fund. (LTA Section 401(c))

Representations and Warranties of the Obligated Group

If and to the extent that the Construction Fund is insufficient to complete the Project, the Obligated Group shall complete the Project at its own expense.

In the acquisition, construction, maintenance, improvement and operation of the Project, the Obligated Group covenants that it has complied and will comply with all applicable building, zoning, land use, environmental protection, sanitary, safety and health care laws, rules and regulations, and all applicable grant, reimbursement and insurance requirements, and will not permit a nuisance thereon; but it shall not be a breach of the Agreement if the Obligated Group fails to comply with such laws, rules, regulations and requirements (other than Chapter 21E of the Massachusetts General Laws, as amended) during any period in which the Obligated Group is diligently and in good faith contesting the validity thereof, provided that the security created or intended to be created by the Agreement is not, in the opinion of the Authority, unreasonably jeopardized thereby. The Institution shall not suffer or permit a lien arising pursuant to Chapter 21E of the Massachusetts General Laws, as amended, to be created of record with respect to the Project or the Restricted Property or created with respect to the Gross Receipts of the Institution or the rights to the proceeds thereof. (LTA Sections 402 and 403)

Insurance

Each Member of the Obligated Group will (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, 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) as appropriate, maintain insurance against liability of the Member for medical malpractice. Such insurance may be maintained through one or more self-insurance or captive insurance company programs. Any such insurance maintained through commercial insurers shall be provided by carriers rated at least “A” by A.M. Best Company, Inc.; provided, however, that the Obligated Group’s insurance providers as of the date of delivery of the Series A Bonds are acceptable if not so rated so long as the insurance Consultant in its biennial reports can make the same statements about such providers as it makes in its Consultant’s certificate delivered in connection with delivery of the Series A Bonds. The insurance required to be maintained pursuant to the Agreement shall be subject to the review of an insurance Consultant within 120 days after the completion of every Fiscal Year, and the Obligated Group agrees that the Obligated Group Members will follow any recommendations of the insurance Consultant that are consistent with coverage for similar property and operations. The Obligated Group covenants that any self-insurance trust funds established by any Obligated Group Member with respect to professional liability or medical malpractice insurance or comprehensive general liability insurance shall be subject to review by an actuarial Consultant on an annual basis, and that the Consultant's report thereon shall be delivered to the Trustee and the Authority as soon as is practicable.

For so long as the Series D Bonds are Outstanding, the insurance required to be maintained pursuant to the Agreement shall be subject to the review of an insurance Consultant within 120 days after the completion of every Fiscal Year, and the Obligated Group agrees that the Obligated Group Members will follow any recommendations of the insurance Consultant that are consistent with coverage for similar property and operations provided that property and casualty coverage shall at all times be maintained in an amount at least equal to the outstanding principal amount of

the Series D Bonds. The Obligated Group covenants that it shall not self-insure without the consent of the Series D Insurer, for so long as the Series D Bonds shall be Outstanding.

The policies of insurance required under the Agreement shall be open to inspection by the Trustee and the Authority at all reasonable times and shall conform to the requirements of the Agreement. (LTA Section 404, TSA Section 14.03)

Damage to or Destruction or Taking of the Project

In the event of damage to or destruction of all or any part of the Project with a value in excess of ten percent (10%) of the full insurable value of the Project, the Obligated Group shall exercise its best efforts to recover any applicable insurance. Such proceeds shall be paid to the Obligated Group. From such proceeds the Obligated Group shall provide for the payment or reimbursement of reasonable expenses of obtaining the recovery. The Obligated Group Agent shall then give notice to the Trustee of such expenses and of the amount of the remaining proceeds (herein called the "Net Proceeds").

In addition to the foregoing, for so long as the Series D Bonds are Outstanding, and with respect to Net Proceeds related to the Series D Project, such Net Proceeds shall be applied in the following manner:

(1) In the event of damage or destruction to the property in an amount equal to or less than, 5% of the fully insurable value of the Series D Project, and not affecting more than 5% of operating revenues, the Obligated Group may apply the Net Proceeds for any lawful corporate purpose.

(2) In the event of damage or destruction to the Series D Project in excess of 5% of fully insurable value and/or reducing net patient service revenues by more than 5%, and provided certain tests are met as set forth below, the Obligated Group may apply insurance proceeds to (i) rebuild the facility or construct a replacement facility, or (ii) redeem the Series D Bonds on a pro rata basis, or as otherwise approved by the Series D Insurer.

(3) Rebuilding or Replacing: If the Obligated Group elects to rebuild or replace, it shall:

(A) provide evidence certified by a feasibility consultant that rate covenants will be met during the construction period and for each of the two years subsequent to the completion of repair or replacement;

(B) certify that Net Proceeds plus funds available for rebuilding or replacing shall be sufficient to complete the Series D Project; and

(C) determine how Net Proceeds will be applied within twelve months after damage or destruction to the Series D Project. (Any Net Proceeds received within such twelve month period and prior to the making of such decision by the Obligated Group shall be held in trust until such time as a decision is rendered regarding use of Net Proceeds.)

(4) Use of Proceeds for any Corporate Purpose. If the Obligated Group does not want to utilize insurance proceeds to redeem Series D Bonds or rebuild or replace the damaged Series D Project, it may use such proceeds for any lawful corporate purpose, provided that a feasibility consultant certifies that the rate covenant will be met for each of the succeeding two fiscal years and such coverage will not be reduced by more than 15% from what such coverage was during the fiscal year prior to such damage occurring.

(5) Condemnation Proceeds. The tests applicable under (1) above apply in the use of condemnation awards. In addition, a feasibility consultant must certify that the Obligated Group will meet its rate covenant during any construction, replacement or relocation of its facilities. In the event that the rate covenant will not be met, the Obligated Group must utilize condemnation proceeds to redeem or purchase outstanding Series D Bonds, unless otherwise approved by the Series D Insurer. (LTA Section 405, TSA Section 14.03)

Additional Bonds

The Authority may issue additional Bonds to complete the Project, to provide additional moneys for the Debt Service Reserve Fund, to refund Bonds previously issued under the Agreement or to finance or refinance any other project or projects of the Obligated Group permitted under the Act, provided that, except for any portion of the project that consists of working capital, the additional project is located or to be located on the Restricted Property.

Additional Bonds shall be delivered by the Trustee only if:

(i) there shall have been filed with the Authority and the Trustee a certificate of an architect acceptable to the Authority setting forth with respect to any portion of the project other than working capital, (A) the estimated cost of the project being financed or refinanced with the proceeds of the additional Bonds, (B) the estimated amounts which will be required from month to month for paying such cost, and (C) the estimated date of completion of such project (where the project or a portion of the project is one for which plans and specifications have not been prepared by an architect, or, with the consent of the Authority, a certificate of an Authorized Officer of the Obligated Group Agent setting forth all or any portion of the information required by this clause (i) may be substituted for the corresponding information required from an architect); and

(ii) the Indebtedness incurred by the Obligated Group in connection with such additional Bonds does not violate the covenants with respect to Long-Term Indebtedness described under the heading "Limitations on the Incurrence of Additional Indebtedness." (LTA Section 501)

Alternative Indebtedness

The Obligated Group may incur Alternative Indebtedness to finance or refinance any capital project or projects of one or more Members of the Obligated Group or working capital for one or more Members of the Obligated Group on a parity with the Bonds and other Alternative Indebtedness.

Alternative Indebtedness may be incurred by the Obligated Group upon the fulfillment of the following conditions :

(i) The Obligated Group and the Alternative Indebtedness lender or lenders or trustee for the Alternative Indebtedness (the "Alternative Lender") shall have entered into a written agreement with respect to such Alternative Indebtedness, and an executed counterpart of such agreement shall have been delivered to the Authority and the Trustee. Unless waived by the Series A Bond Insurer, such agreement shall provide for the establishment of a debt service reserve fund for such Alternative Indebtedness;

(ii) There shall have been filed with the Authority and the Trustee:

(A) An Opinion of Bond Counsel satisfactory to the Authority and the Series A Bond Insurer that the agreement between the Obligated Group and the Alternative Lender and any supplement to the Agreement in connection therewith are permitted by the Agreement and that the creation of security interests in the Gross Receipts of the Obligated Group for the benefit of the holders of Alternative Indebtedness is permitted by the Agreement and will not materially adversely affect (other than as implicit in the authorization of parity debt) the rights of the Bondholders to realize upon their share of the security interests in the Gross Receipts of the Obligated Group; and

(B) A certificate of an architect acceptable to the Authority containing with respect to any portion of the project other than working capital (1) the estimated costs of the project to be financed or refinanced with the proceeds of the Alternative Indebtedness, (2) the estimated amounts which will be required from month to month for paying such cost, (3) the estimated date of completion of the project, and (4) a statement that, in his or her opinion, the proceeds of the Alternative Indebtedness together with other available moneys, as represented by the Obligated Group, are not less than the total cost of the project. Where the project or a portion of the project is one for which plans and specifications have not been prepared by an architect, or with the consent of the Authority,

a certificate of an Authorized Officer of the Obligated Group Agent setting forth all or any portion of the information required by this clause (B) may be substituted for the corresponding information required from an architect; and

(iii) The Alternative Indebtedness is permitted under the covenants with respect to Long-Term Indebtedness described under the heading "Limitations on the Incurrence of Additional Indebtedness."

In connection with the issuance of Alternative Indebtedness, the agreement between the Obligated Group and the Alternative Lender shall set forth the specific terms of allocation between the Bonds and Alternative Indebtedness (based on the levels of outstanding Indebtedness of Bonds and Alternative Indebtedness from time to time, which may include interest to the extent permitted by such agreement) of any net proceeds derived from the exercise of the rights and remedies of the Authority and the Trustee under the Agreement and/or of any net proceeds derived from the exercise of the rights and remedies of the Alternative Lender and the trustee for the Alternative Lender (the "Alternative Lender Trustee"), if any, under the agreement between the Obligated Group and the Alternative Lender. (LTA Section 502)

General Covenants and Warranties of the Obligated Group

Annual Reports and Other Current Information

Within one hundred twenty (120) days after the close of each Fiscal Year, the Obligated Group Agent shall furnish to the Trustee and the Authority, the Series A Bond Insurer (while the bond insurance policy for the Series A Bonds is in effect) and to any registered owner of, or to any party certifying to the Trustee that it is a beneficial owner of at least $1,000,000 principal amount of the Bonds, requesting the same, copies of its audited financial statements presented on a consolidated and consolidating basis, or of audited financial statements of the Obligated Group and affiliates thereof containing supplemental schedules from which the balance sheet and statements of revenues and expenditures and the general fund (the "Financial Statements") of the Obligated Group may be derived. Any references in the Agreement to the audited financial statements of the Obligated Group shall be deemed to include such Financial Statements or any audited financial statements from which the financial statements of the Obligated Group may be derived. Within forty-five (45) days after the close of each quarter of each Fiscal Year, the Obligated Group Agent shall furnish to the Trustee, the Authority, any registered owner of, or to any party certifying to the Trustee that it is a beneficial owner of the Bonds, requesting the same, copies of (i) its Financial Statements for such quarter, presented on a consolidated basis and (ii) patient utilization statistical reports. Copies of the reports and statements required to be filed with the Trustee pursuant to this paragraph shall be filed with the Trustee in sufficient quantity to permit the Trustee to retain at least one copy for inspection by Bondholders and to permit the Trustee to mail a copy to each registered owner of, or to any party certifying to the Trustee that it is a beneficial owner of, the Bonds who requests it. The Trustee shall maintain a list of Bondholders who have so requested. The Obligated Group shall furnish to the agencies rating the Bonds, if any, such information as they may reasonably require for current reports to their subscribers. The Obligated Group Agent shall furnish to the Authority, the Trustee and the Series A Bond Insurer (while the bond insurance policy for the Series A Bonds is in effect) within sixty (60) days after the close of each Fiscal Year, a certificate signed by an Authorized Officer of each Obligated Group Member stating that the Obligated Group has caused its operations for the year to be reviewed and that in the course of that review, no default under the Agreement has come to its attention or, if such a default has appeared, a description of the default. (LTA Section 603)

Maintenance of Corporate Existence

Subject to provisions in the Agreement relating to consolidation, merger, sale or conveyance and to withdrawal from the Obligated Group, each Obligated Group Member shall maintain its existence as a non-profit corporation qualified to do business in Massachusetts. Any Obligated Group Member may establish separate divisions and may cause such divisions to be separately incorporated or otherwise organized or reorganized, but all such divisions, whether separately incorporated or not, shall, subject to provisions in the Agreement relating to withdrawal from the Obligated Group, remain bound by the Agreement and shall be jointly and severally liable with respect thereto; provided, however, that prior to effecting any such reorganization, the Obligated Group Member shall deliver to the Authority and the Trustee an Opinion of Counsel to the effect that after such reorganization all separately incorporated divisions will be jointly and severally liable under the Agreement and an Opinion of Bond Counsel that such reorganization will not affect the validity of or exclusion from gross income under the Code of interest on the

Bonds. Each Obligated Group Member shall preserve all its rights and licenses to the extent necessary or desirable in the operation of its business affairs, provided that no Obligated Group Member shall be obligated by the Agreement to retain or preserve any rights or licenses no longer used or, in the judgment of its Governing Board, useful in the conduct of its business. (LTA Section 604)

Indemnification as to the Project

The Obligated Group, regardless of any agreement to maintain insurance, will indemnify and hold harmless the Authority, each Bondholder and the Trustee and their respective directors, officers, employees and agents against (a) the claims of any person arising out of any condition of the Project or the construction, use, occupancy or management thereof; any accident, injury or damage to any person occurring in or about the Project, any breach by the Obligated Group of its obligations under the Agreement; any act or omission of either the Obligated Group or of its agents, contractors, servants, employees or licensees arising out of or connected with the transaction contemplated in the Agreement; any act or omission of the Obligated Group, or its agents, contractors, servants, employees or licensees arising out of or connected with the issuance or sale of the Bonds and resulting from the representation made by or materials or information furnished by the Obligated Group to anyone in connection therewith or the accuracy or completeness thereof, and (b) all costs, counsel fees, expenses or liabilities reasonably incurred in connection with any such claim or any action or proceeding brought thereon. In case any action or proceeding is brought against any of the foregoing persons by reason of any such claim, the Obligated Group will defend the same at its expense upon notice from the affected person, and such person will cooperate with the Obligated Group, at the expense of the Obligated Group, in connection therewith. (LTA Section 606)

Payment of Obligations and Indebtedness

Each Obligated Group Member shall promptly pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Bonds) whose validity, amount or collectability is being contested in good faith by appropriate proceedings; provided that, if by non-payment of any such sums, the pledge and security interest of the Agreement will be impaired, such sums shall be paid immediately or the Obligated Group Members may pay such amounts into a fund held in escrow by the Trustee (which amounts shall be returned to the Obligated Group Members upon a favorable determination in the aforesaid proceedings) provided that such action does not impair the pledge and security interest of the Agreement. (LTA Section 612)

Licenses and Permits

Each Obligated Group Member shall procure and maintain all licenses, permits, approvals, certifications and accreditations issued by any regulatory bodies which are necessary for the maintenance of its Property, conduct of its operations and performance of its obligations under the Agreement; provided, however, that it need not comply with this paragraph if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in the best interest of such Obligated Group Member and that lack of such compliance would not materially impair the ability of such Obligated Group Member to pay its Indebtedness when due. (LTA Section 608)

Rate Covenant

The Obligated Group shall maintain for each Fiscal Year a ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service of at least 1.10. If such ratio, as calculated at the end of any Fiscal Year, is below 1.10, the Obligated Group covenants to retain a Consultant, within sixty (60) days after the receipt of all audits for such Fiscal Year, to make recommendations to increase such ratio for subsequent Fiscal Years of the Obligated Group at least to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. The Obligated Group agrees that the Obligated Group will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, this Section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year of the Obligated Group is below 1.10, provided, however, that in no event shall the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service be less than 1.00. Notwithstanding the foregoing, for so long as any of the Series D Bonds are Outstanding,

it shall be an Event of Default under the Agreement if the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service is less than 1.10 for two consecutive Fiscal Years, or such ratio declines below 1.05. (LTA Section 617, TSA Section 14.03)

No Adverse Tax Actions

The Obligated Group has not taken and will not take any action, and knows of no action taken or intended, which would cause interest on the Bonds to be includable in the gross income of any Bondholders for federal income tax purposes. (LTA Section 628(a))

Limitations on Incurrence of Additional Indebtedness

The Obligated Group agrees that no Obligated Group Member will incur any Additional Indebtedness other than Additional Indebtedness consisting of one or more of the following; provided that for so long as the Series D Bonds are Outstanding, no Additional Indebtedness shall be incurred so long as an Event of Default shall have occurred and be continuing, without the written consent of the Series D Insurer:

(a) Long-Term Indebtedness, including Alternative Indebtedness and Guaranties, if:

(i) prior to incurrence of the Long-Term Indebtedness, there is delivered to the Trustee an Officer's Certificate certifying the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, taking into account the current aggregate Outstanding principal amount of all Long-Term Indebtedness, and the proposed additional Long-Term Indebtedness, as if it had been incurred at the beginning of such period, is not less than 1.25 provided that such certificate shall in all instances be based upon the most recent audited financial statements of the Obligated Group; or

(ii) prior to incurrence of the Long-Term Indebtedness, there is delivered to the Trustee (1) an Officer's Certificate certifying that the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, not taking the proposed additional Long-Term Indebtedness into account, is not less than 1.20, and (2) a Consultant's report (A) certifying that the projected Long-Term Indebtedness Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long-Term Indebtedness or, in the case of the incurrence of such Long-Term Indebtedness for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long-Term Indebtedness into account, is not less than 1.25, and (B) indicating that sufficient revenues and cash flow would be generated to meet the projected operating expenses (including debt service on the proposed Indebtedness) of the Obligated Group during such two full Fiscal Years. The requirements of this clause (ii) shall be deemed satisfied if Government Restrictions exist, and if there is delivered to the Trustee a signed Consultant's opinion to the effect that the projected Long-Term Indebtedness Service Coverage Ratio for each of the next two full Fiscal Years following the borrowing in question will not be less than 1.00. Notwithstanding the foregoing, if the Officer's Certificate certifies that the projected Long-Term Indebtedness Service Coverage Ratio exceeds 1.50, an Officer's Certificate may be substituted for the Consultant's report described in (2) above; or

(iii) (A) the total principal amount of Long-Term Indebtedness to be incurred at such time, when added to the aggregate principal amount of all other Long-Term Indebtedness theretofore issued pursuant to the terms of the Agreement described in this clause (iii) and then Outstanding, will not exceed ten percent (10%) of the Total Operating Revenues of the Obligated Group for the Historic Test Period and (B) the Obligated Group is in compliance with the provisions described under the heading "Rate Covenant" herein in the front part of the Official Statement. Any Long-Term Indebtedness or portion thereof incurred under the terms of the Agreement described in this clause (iii) which is Outstanding at any time shall be deemed to have been incurred under another provision under this heading if at any time subsequent to the incurrence thereof there shall be filed with the Trustee an Officer's Certificate to the effect that such Outstanding Indebtedness or portion thereof would satisfy such other provision, specifying such other provision, and thereupon the amount deemed to have been incurred and to be Outstanding under the Agreement shall be deemed to have been reduced by such amount and to have been incurred under such other provision. If the terms of such other provision require a Consultant's report or opinion, such report or opinion shall also be obtained and filed with the Trustee.

(iv) For so long as the Series D Bonds are Outstanding, in addition to the certifications to be made pursuant to (i), (ii) or (iii) above, prior to incurrence of the Long-Term Indebtedness, there shall be delivered to the Trustee and the Series D Insurer an Officer's Certificate certifying that the Long-Term Indebtedness Service Coverage Ratio for the previous two Fiscal Years, taking into account the current aggregate Outstanding principal amount of all Long-Term Indebtedness, and the proposed additional Long-Term Indebtedness, as if it had been incurred at the beginning of such period, is not less than 1.20 provided that such certificate shall in all instances be based upon the most recent audited financial statements of the Obligated Group; OR prior to incurrence of the Long-Term Indebtedness, there is delivered to the Trustee and the Series D Insurer (1) an Officer's Certificate certifying that the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period, taking into account the proposed additional Long-Term Indebtedness, as if it had been incurred at the beginning of such period, is not less than 1.20, and (2) a Consultant's report (A) certifying that the projected Long-Term Indebtedness Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long-Term Indebtedness or, in the case of the incurrence of such Long-Term Indebtedness for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long-Term Indebtedness into account, is not less than 1.30. Notwithstanding the foregoing, if an Officer's Certificate certifies that the projected Long-Term Indebtedness Service Coverage Ratio exceeds 1.50, an Officer's Certificate may be substituted for the Consultant's report described in (2) above.

(v) For so long as the Series D Bonds are Outstanding, in addition to the certifications to be made pursuant to subparagraphs 618(a) (i), (ii), (iii) or (iv) above, prior to the incurrence of the Long-Term Indebtedness, there shall be delivered to the Trustee and the Series D Insurer an Officer's Certificate certifying that the ratio calculated by dividing the aggregate amount of Long-Term Indebtedness outstanding, including the proposed Long-Term Indebtedness by the sum of such aggregated amount of Long-Term Indebtedness and the Obligated Group's Unrestricted Net Assets does not exceed 65%, based on the Obligated Group's most recent audited financial statements.

(b) Completion Indebtedness, in an amount that does not exceed 10% of the original principal amount of the Long-Term Indebtedness originally issued for the project provided that (i) there is delivered to the Trustee an Officer's Certificate (A) specifying the estimated cost of completing the construction or equipping of the facilities to be completed and (B) demonstrating that the proceeds of such Completion Indebtedness and other available moneys will be sufficient to finance the cost of completion.

(c) Long-Term Indebtedness incurred for the purpose of refunding or refinancing, including advance refunding or cross-over refunding, any Outstanding Long-Term Indebtedness; provided that the Maximum Annual Debt Service for each of the years that the refunded Indebtedness would have been Outstanding will not be increased, as evidenced by an Officer's Certificate filed with the Trustee, without the prior written consent of the Series D Insurer.

(d) Short-Term Indebtedness, provided that immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all such Short-Term Indebtedness does not exceed fifteen percent (15%) of the aggregate of Total Operating Revenues for the Historic Test Period; provided that for a period of at least twenty (20) consecutive days in each Fiscal Year the Outstanding principal amount of all such Indebtedness shall not exceed five percent (5%) of the aggregate of Total Operating Revenues of the Obligated Group for the previous year, unless there is filed with the Trustee an Officer's Certificate to the effect that such Short-Term Indebtedness, because of Government Restrictions, must or reasonably should remain Outstanding in excess of such five percent (5%) limitation. Short-Term Indebtedness may also be incurred if such Short-Term Indebtedness could be incurred under (a) above assuming it were Long-Term Indebtedness.

(e) Non-Recourse Indebtedness in an amount up to ten percent (10%) of Total Operating Revenues of the Obligated Group, or more with the written consent of the Series D Insurer, or Subordinated Indebtedness, without limitation; provided that there is filed with the Trustee an Officer's Certificate projecting that the provisions of the Agreement described under the heading "Rate Covenant" herein shall be complied with for the then current and the next following Fiscal Year, taking into consideration projected revenues and the proposed Indebtedness.

(f) Indebtedness in the form of installment purchase contracts, capitalized leases, purchase money mortgages, loans, sale agreements or other typical borrowing instruments; provided that the aggregate Annual Debt Service on all Indebtedness permitted under this clause shall not in any Fiscal Year exceed two percent (2%) of Total Operating Revenues for the most recent completed Fiscal Year, provided further that such Indebtedness may exceed two percent (2%) of Total Operating Revenues for the most recent completed fiscal year if it could have been incurred under the Agreement assuming such Indebtedness were Long-Term Indebtedness.

(g) Any Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by an Obligated Group Member and an institution providing a Credit Facility with respect to any other Indebtedness incurred in accordance with any other provision under this heading.

(h) Indebtedness incurred or deemed incurred by virtue of any recourse obligation associated with any sale or assignment of Accounts Receivable, but in no event in an amount in excess of the monetary consideration received from any such sale or assignment, and provided further that the aggregate principal amount of such Indebtedness Outstanding, immediately following such incurrence does not exceed 20% of the Total Operating Revenues of the Obligated Group for a Historic Test Period.

(i) For so long as the Series D Bonds are Outstanding, Subordinated Indebtedness shall have the same payment dates as the Series D Bonds and provide that such debt may not be accelerated without the consent of the Series D Insurer. The Subordinated Indebtedness and any renewals or extensions thereof, shall at all times be wholly subordinate and junior in right of payment to any and all indebtedness of the Obligated Group under the Agreement or the Bonds (herein called "Superior Indebtedness"), in the manner and with the force and effect hereafter set forth:

(1) In the event of any liquidation, dissolution or winding up of the Obligated Group, or of any execution, sale, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization, or other similar proceeding relative to the Obligated Group or its property, all principal and interest owing on all Superior Indebtedness shall first be paid in full before any payment is made upon the Subordinated Indebtedness, provided, however, that, except for Gross Receipts, this sentence shall not apply to payments made on such Subordinated Indebtedness from the proceeds of collateral specifically securing such Subordinated Indebtedness; and in any such event any payment or distribution of any kind or character from sources other than the proceeds of collateral specifically securing the Subordinated Indebtedness, except for Gross Receipts, whether in cash, property or securities (other than in securities, including equity securities, or other evidences of indebtedness, the payment of which is subordinated to the payment of all Superior Indebtedness which may at the time be outstanding) which shall be made upon or in respect of the Subordinated Indebtedness shall be paid over to the holders of such Superior Indebtedness, pro rata, for application in payment thereof unless and until such Superior Indebtedness shall have been paid or satisfied in full; and

(2) In the event that the Subordinated Indebtedness is declared or become due and payable because of the occurrence of any Event of Default under the Agreement or otherwise than at the option of the Obligated Group, under circumstances when the foregoing clause (1) shall not be applicable, the holders of the Subordinated Indebtedness shall be entitled to payments only after there shall first have been paid in full all Superior Indebtedness outstanding at the time the Subordinated Indebtedness so become due and payable because of any such event, or payment shall have been provided for in a manner satisfactory to the holders of such Superior Indebtedness, provided, however, that, except for Gross Receipts, this sentence shall not apply to payments made on such Subordinated Indebtedness from the proceeds of collateral specifically securing such Subordinated Indebtedness.

(3) The Obligated Group agrees, for the benefit of the holders of Superior Indebtedness, that in the event that any Subordinated Indebtedness is declared due and payable before its expressed maturity because of the occurrence of a default under the Agreement, (i) the Obligated Group will give prompt notice in writing of such happening to the holders of Superior Indebtedness and (ii)) all Superior Indebtedness shall forthwith become immediately due and payable upon demand, regardless of the expressed maturity thereof.

(4) Any default in the covenants contained in this section shall be an immediate "Event of Default" without regard to any "grace period" otherwise contained therein.

(5) If the holder of the Subordinated Indebtedness is a commercial bank, savings bank, savings and loan association or other financial institution which is authorized by law to accept and hold deposits of money or issue certificates of deposit, such holder must agree to waive any common law or statutory right of setoff with respect to any deposits of the Obligated Group maintained with or held by such holder. (LTA Section 618, TSA Section 14.03)

Sale, Lease or other Disposition of Property

For so long as the Series D Bonds are Outstanding, the Obligated Group agrees that the Obligated Group Members will not, in the aggregate, in any Fiscal Year sell, lease or otherwise dispose of Property (other than cash, cash equivalents, or marketable securities) the Value of which exceeds 10% of the Value of all Property, Plant and Equipment of the Obligated Group in any two consecutive Fiscal Years, as shown on the audited financial statements of the Obligated Group for such period, except for the following transfers, sales or leases of Property (other than cash, cash equivalents, or marketable securities), provided that transfers, sales or leases pursuant to this paragraph shall not be permitted without the prior written consent of the Series D Insurer in any period during which a Default has occurred and is continuing:

(a) to any person if, in the judgment of the Obligated Group Agent, such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; or

(b) to another Obligated Group Member; or

(c) in the ordinary course of business; or

(d) if the Obligated Group receives fair market value therefor and the proceeds of such disposition are applied to the purchase of additional capital assets or applied to the defeasance, discharge, redemption or retirement of Indebtedness; or

(e) to a person which is not an Obligated Group Member provided that prior to such disposition, there shall be delivered to the Trustee and the Series D Insurer, (i) either (A) an Officer's Certificate shall demonstrate that the Long-Term Indebtedness Service Coverage Ratio for the Historic Test Period prior to the sale, lease or other disposition was equal to at least 1.25, and a Consultant's report shall demonstrate that the projected Long-Term Indebtedness Service Coverage Ratio for the two full Fiscal Years immediately following such sale, lease or disposition, taking into consideration the proposed sale, lease or disposition, will be equal to at least 1.25 or (B) an Officer's Certificate shall demonstrate that the Long Term Indebtedness Service Coverage Ratio for the two Fiscal Years immediately prior to the sale, lease or other disposition, taking into consideration the proposed sale, lease or disposition, was at least 1.25; (ii) an Officer's Certificate shall demonstrate that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, after giving effect to the transaction, (A) will not be less than 1.30, and shall be at least 80% of what it was prior to the transaction, or (B) with the written consent of the Series D Insurer, will be higher than it was prior to the transaction; (iii) an Officer's Certificate stating that the Obligated Group or successor, as applicable, immediately following the transfer or disposition, will be in compliance with the Days Cash on Hand covenant and the Liquidity Covenant as set forth in Section 629 of the Agreement, and (iv) an Officer's Certificate stating that the Obligated Group or successor, as applicable, immediately following the transfer or disposition, will be able to issue at least one dollar of additional Long-Term Indebtedness pursuant to Section 618 of the Agreement; or

(f) to any person if the transferred Property consists of Accounts Receivable and the Obligated Group receives fair market value therefor, and provided further that the aggregate principal amount of Accounts Receivable transferred in any Fiscal Year shall not exceed 5% of the Total Operating Revenues of the Obligated Group for the Historic Test Period.

The Obligated Group will not sell, lease, donate, exchange or dispose of any non-operating assets (including cash and cash equivalents) with or without consideration in other than the ordinary course of business without, at least ten (10) Business Days prior to such action, delivering to the Trustee and the Series D Insurer (a) an Officer's Certificate stating that the Obligated Group or successor, as applicable, immediately following the transfer or disposition, will be in compliance with the covenants described under the headings "Days Cash on Hand" and "Liquidity Covenant" herein, and (b) an Officer's Certificate stating that the Obligated Group or successor, as applicable, immediately following the transfer or disposition, will be able to issue at least one dollar of additional Long-Term Indebtedness pursuant to the Agreement; and (c) an Officer's Certificate stating that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, after giving effect to the transaction, (1) will not be less than 1.30, and shall be at least 80% of what it was prior to the transaction, or (2) with the written consent of the Series D Insurer, will be higher than it was prior to the transaction. (TSA Section 14.03)

Consolidation, Merger, Sale or Conveyance

Each Obligated Group Member may merge or consolidate with any other Obligated Group Member and may sell or convey all or substantially all of its assets to any Obligated Group Member. The Obligated Group covenants that no Obligated Group Member will merge or consolidate with any other corporation which is not an Obligated Group Member or sell or convey all or substantially all of its assets to any person not an Obligated Group Member unless:

(i) either it will be the continuing corporation, or the successor corporation (if other than an Obligated Group Member) shall be a corporation organized and existing under the laws of the United States of America or a state thereof and such corporation shall become an Obligated Group Member or shall otherwise expressly assume in writing the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Bonds issued under the Agreement according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Agreement, which document shall be executed and delivered to the Trustee by such corporation; and

(ii) there shall have been delivered to the Trustee and the Authority an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of the Bonds or the tax-exempt status of interest payable on the Bonds; and

(iii) there is delivered to the Trustee an Officer's Certificate of the corporation or successor corporation demonstrating that immediately after such consolidation, merger, sale or conveyance, such corporation could incur one dollar or more of Long Term Indebtedness under clauses (a) (i) and (ii) under the heading "Limitations on Incurrence of Additional Indebtedness," taking into account such consolidation, merger, sale or conveyance.

(iv) in addition to the foregoing, as long as the Series D Bonds are Outstanding, (A) immediately following the consolidation, merger, sale or conveyance, the Obligated Group Member or the successor will not be in default in the performance of any duties, obligations or covenants under the Agreement, and (B) there shall be delivered to the Trustee and the Series D Insurer an Officer's Certificate stating (i) that the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, after giving effect to the transaction, (a) will not be less than 1.30, and shall be at least 80% of what it was prior to the transaction, or (b) with the written consent of the Series D Insurer, will be higher than it was prior to the transaction, and (ii) following the consolidation, merger, sale or conveyance, the Obligated Group shall be in compliance with the covenants described under the headings "Days Cash on Hand" and "Liquidity Covenant" herein. (LTA Section 620, TSA Section 14.03)

Restrictions on Guaranties

The Obligated Group agrees that no Obligated Group Member will enter into, or become liable after the date of the Agreement in respect of, any Guaranty unless (i) such Guaranty is of Indebtedness of another Obligated Group Member, or (ii) such Guaranty is of obligations of a person which is not an Obligated Group Member, and such Guaranty could then be incurred as Indebtedness under the Agreement.

For so long as the Series D Bonds are Outstanding, for purposes of any covenants or computations provided for in the Agreement, the aggregate annual principal and interest payments on, and the principal amount of, any indebtedness of a person which is not an Obligated Group Member which is the subject of a Guaranty under the

Agreement and which would, if such obligation were incurred by an Obligated Group Member, constitute Long-Term Indebtedness, shall be deemed equivalent to (assuming the definitions of the Agreement apply to such indebtedness) (i) twenty percent (20%) of the actual Annual Debt Service on, and principal amount of, such indebtedness, if the guaranteed entity has a Debt Service Coverage Ratio at least equal to 1.50 in its most recent fiscal year; (ii) fifty percent (50%) of the of the actual Annual Debt Service on, and principal amount of, such indebtedness, if the guaranteed entity has a Debt Service Coverage Ratio between 1.25 and 1.50 in its most recent fiscal year; and (iii) 100% of the actual Annual Debt Service on, and principal amount of, such indebtedness, if the guaranteed entity has a Debt Service Coverage Ratio below 1.25 in its most recent fiscal year or if any Obligated Group Member has made a payment on the guaranteed entity's debt during any of the last three Fiscal Years. (LTA Section 621, TSA Section 14.03)

Limitations on Creation of Liens

As long as the Series D Bonds are Outstanding, the Obligated Group agrees that no Obligated Group Member will create or suffer to be created or exist any Lien upon Property now owned or hereafter acquired by the Obligated Group or any Obligated Group Member other than Permitted Encumbrances.

Permitted Encumbrances shall consist of the following:

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

(ii) Any lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workmen's compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Obligated Group Member so long as such judgment is being contested and execution thereon is stayed or, in the absence of such contest and stay, such judgment lien will not materially impair the Property or subject the Property to material loss or forfeiture;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially alter the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or the amount or validity of which are being contested and execution thereon is stayed or the existence of which will not subject the Property to material loss or forfeiture; (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof; and (E) to the extent that it affects title to any Property, the Agreement or the Mortgages;

(v) Any Lien on Property described in Schedule B to the Agreement which is existing on the date of authentication and delivery of the Series D Bonds, including renewals thereof, provided that no such Lien may be

extended or modified to apply to any Property of any Obligated Group Member not subject to such Lien on such date, unless such Lien as so extended or modified otherwise qualifies as a Permitted Encumbrance hereunder;

(vi) Any operating leases or ground leases of five years or less whereunder any Member of the Obligated Group is the lessor; or any license or other use agreement made with respect to Property where revenues generated inure to the benefit of the Obligated Group, provided that the Trustee shall have received an Opinion of Bond Counsel to the effect that such lease would not adversely affect the exclusion from gross income under the Code of interest on the Bonds;

(vii) Any Lien on Property of a person that becomes an Obligated Group Member pursuant to a consolidation, merger, sale or conveyance in accordance with the Agreement or pursuant to an addition to the Obligated Group in accordance with the Agreement and that is not incurred in contemplation of such consolidation, merger, sale or conveyance or such addition to the Obligated Group; provided that no such Lien may be extended or modified to apply to any Property of any Obligated Group Member not subject to such Lien on such date, unless such Lien if so extended or modified otherwise qualifies as a Permitted Encumbrance thereunder

(viii) Any Lien on Property which Lien secures Long Term Indebtedness incurred in compliance with the Agreement, if, after giving effect to the Lien, the Value of the Property which is encumbered in accordance with this clause (viii) will not exceed fifteen percent (15%) of the Value of the Property, Plant and Equipment as of the end of the Historic Test Period;

(ix) Any parity Lien on all or a portion of Gross Receipts to secure Alternative Indebtedness.

(x) Any Lien on all or a portion of Gross Receipts subordinated to the Bonds and any Alternative Indebtedness to secure any Long-Term Indebtedness incurred pursuant to the Agreement.

(xi) Any parity lien on up to 10% of Accounts Receivable securing or deemed to secure any Long-Term Indebtedness or Short-Term Indebtedness incurred pursuant to the Agreement, provided that no such lien may be granted with respect to any Accounts Receivable which could not be disposed of under the Agreement.

(xii) Any lien on Net Proceeds allocable to Property with respect to which a lien has been granted pursuant to the Agreement, provided that the Trustee shall, upon request of the party secured by such lien on Property, execute such instruments as are necessary to (a) subordinate the lien on allocable Net Proceeds under the Agreement to such lien on Net Proceeds or (B) grant a parity lien on allocable Net Proceeds under the Agreement to the party secured by such lien on Property.

(xiii) Any lien on Property securing Indebtedness incurred pursuant to the Agreement.

(xiv) Rights of set-off or banker's lien with respect to funds on deposit with a financial institution in the ordinary course of business.

(xv) Amounts contributed to the Obligated Group's self-insurance trust for any self-insurance purposes.

(e) Notwithstanding the provisions herein, each Obligated Group Member may create or suffer to be created or exist a Lien upon Property, in favor of the holder of any Indebtedness, with prior notice to the Trustee and the Authority but without the consent of the Trustee, the Authority, the Series D Insurer or the Bondholders, so long as such Lien, or a Lien at least on a parity therewith, is effectively granted in favor of the Holders of all Bonds then Outstanding. (TSA Sections 12 and 14.03)

Debt Service on Balloon Indebtedness

For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service, whether historic or projected, it shall be assumed, at the discretion of the Obligated Group Agent, that any of the following is satisfied:

(i) the principal of such Balloon Indebtedness is amortized from the date of calculation thereof over a term equal to the lesser of twenty (20) years or the actual term of such Indebtedness at an assumed interest rate equal to the Bond Index; or

(ii) the principal of such Balloon Indebtedness is amortized during the term to the maturity thereof by deposits made to a sinking fund with a sinking fund schedule established by resolution of the Governing Body of the applicable Obligated Group Member adopted at or subsequent to the time of incurrence of such Balloon Indebtedness, as certified in a certificate of the chief financial officer of the applicable Obligated Group Member, provided, that at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) the principal of such Balloon Indebtedness is due and payable on the specified due date or due dates thereof; or

(iv) with respect to Balloon Indebtedness for which there exists a Credit Facility, the principal of such Balloon Indebtedness is due and payable in the amounts and at the times specified in the Credit Facility; provided, however, that if the Balloon Indebtedness is of the type described in subparagraph (ii) of the definition of Balloon Indebtedness, it shall be assumed that such Balloon Indebtedness matures on the first date on which it may first be tendered for purchase or redemption at the option of the Owner thereof unless the Trustee has received a certified copy of a Credit Facility under which funds are available for the payment of such Balloon Indebtedness, in which case the Obligated Group may elect anyone of the options set forth in (i), (ii), (iii), or (iv) above (without regard to the date on which such Balloon Indebtedness may first be tendered for purchase or redemption at the option of the Owner thereof) unless any amount has been drawn down under any such Credit Facility, in which case any required computation shall be made (with respect to the amounts so drawn, until so repaid) in the manner described in subparagraph (iv) above.

As long as the Series D Bonds are Outstanding, Balloon Indebtedness described in subparagraphs (ii) and (iii) above, shall be assumed to be amortized on a level debt service basis over a period of twenty years or the actual remaining term to maturity, whichever is less. (LTA Section 623, TSA Section 14.03)

Debt Service on Variable Rate Indebtedness

For purposes of the computation of the projected (but not historic) Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service, Variable Rate Indebtedness shall, at the election of the Obligated Group Agent, be deemed Indebtedness which bears interest at a rate equal to 120% of that derived from the Bond Index, as determined by an Officer's Certificate. For purposes of the computation of the Long-Term Indebtedness Service Requirement, Annual Debt Service or Maximum Annual Debt Service, Variable Rate Indebtedness with respect to which the Obligated Group has entered into a Hedging Contract shall, at the election of the Obligated Group Agent, be deemed Indebtedness which bears interest at 120% of the net amount payable by the Obligated Group with respect to such Hedging Contract and such Variable Rate Indebtedness.

As long as the Series D Bonds are Outstanding, Variable Rate Indebtedness shall be deemed to be Indebtedness that bears interest at a rate equal to 120% of the average interest rate outstanding on such debt for the most recent 24 month period, *provided, however*, that if the debt has not been outstanding for 24 months, then the interest rate shall be the average rate for the most recent 12 months or the interest rate in effect on the date of calculation, whichever is higher. If the debt has not been outstanding for a 12 month period, the assumed rate shall be 120% of (a) the Bond Buyer 25 Revenue Bond Index for tax-exempt debt, and (b) for taxable debt, the average prime rate of the Trustee for the most recent 24 month period. (LTA Section 624, TSA Section 14.03)

Credit for Capitalized Interest

For purposes of the computation of the Long-Term Indebtedness Service Coverage Ratio for purposes of the Rate Covenant, as described herein under the heading “Rate Covenant”, the Obligated Group may, at the election of the Obligated Group Agent, add to Aggregate Income Available for Debt Service the amount of Capitalized Interest which is available to pay interest on Long-Term Indebtedness in the year such computation is made. (LTA Section 625 as amended by the Second Supplemental Agreement)

Additional Obligated Group Members

If at any time the Obligated Group Agent and any entity shall determine that such entity should become an Obligated Group Member, the Obligated Group Agent and the entity may execute and deliver to the Trustee an appropriate instrument containing the agreement of such entity (A) to become an Obligated Group Member under the Agreement and thereby become subject to compliance with all provisions of the Agreement pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member under the Agreement, (B) confirming to the Trustee and each other Obligated Group Member that all Bonds issued and then Outstanding under the Agreement will be paid in accordance with the terms thereof and the Agreement, when due and (C) to provide to the Obligated Group Agent on a timely basis all information required for the Obligated Group Agent to comply with its undertakings under the Continuing Disclosure Agreement.

Each instrument executed and delivered to the Trustee in accordance with the first paragraph under this heading shall be accompanied by an Opinion of Counsel, addressed to the Trustee, to the effect that such instrument has been duly authorized, executed and delivered by the Obligated Group Agent and such person and constitutes a valid and binding obligation enforceable in accordance with its terms, except that such Opinion of Counsel may state that enforceability may be limited by bankruptcy laws, insolvency laws and other laws affecting creditor's rights generally, and may contain such other qualifications as shall be satisfactory to the Trustee.

It shall be a condition precedent to the consummation of any transaction involving an instrument to be executed and delivered to the Trustee in accordance with the first paragraph under this heading that the Trustee shall also have received (i) an Officer's Certificate which demonstrates that, as a result of any person becoming an Obligated Group Member as part of such transaction, the Obligated Group would not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Agreement the Obligated Group would meet the conditions described either (A) in clauses (a)(i) and (ii) under the heading "Limitations on Incurrence of Additional Indebtedness" for the incurrence of one dollar of additional Long-Term Indebtedness or (B) in clause (iii) under the heading "Withdrawal from the Obligated Group" for the withdrawal of a Member of the Obligated Group, and setting forth the Obligated Group's combined or consolidated unrestricted fund balances for the Fiscal Year immediately preceding the transactions; (ii) an Opinion of Bond Counsel to the effect that under then existing law the consummation of such transaction would not adversely affect the validity of or the exclusion from gross income under the Code of interest on the Bonds; and (iii) an Opinion of Counsel that such new Obligated Group Member has granted to the Authority a perfected security interest in its Gross Receipts.

In addition to the foregoing, as long as the Series D Bonds are Outstanding, there shall be delivered to the Trustee and the Series D Insurer an Officer's Certificate stating that (A) the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, after giving effect to the transaction, (1) will not be less than 1.30, and shall be at least 80% of what it was prior to the transaction, or (2) with the written consent of the Series D Insurer, will be higher than it was prior to the transaction and (B) following the addition of the Obligated Group Member, the Obligated Group shall be in compliance with the covenants described under the heading "Days Cash on Hand" and "Liquidity Covenant" therein.

Upon any person becoming an Obligated Group Member, all of the provisions, terms, covenants and representations set forth in the Agreement shall apply to such person from the time that such person becomes an Obligated Group Member. (LTA Section 626, TSA Section 14.03)

Withdrawal From the Obligated Group

No Obligated Group Member may withdraw from the Obligated Group unless:

(i) The Obligated Group Agent consents to such withdrawal;

(ii) the Trustee shall have received an Opinion of Bond Counsel to the effect that under then existing law such Obligated Group Member's withdrawal from the Obligated Group would not adversely affect the validity of the Bonds or the exclusion from gross income under the Code of interest payable on the Bonds;

(iii) the Trustee shall have received an Officer's Certificate demonstrating that as a result of any person withdrawing as an Obligated Group member as part of such transaction, the Obligated Group would not be in default in the performance or observance of any covenant or condition to be performed by it under the Agreement, and the Obligated Group would meet the conditions described in clauses (a)(i) or (ii) under the heading “Limitations on Incurrence of Additional Indebtedness” for the incurrence of one dollar of additional Long-Term Indebtedness, and the fund balance of the Obligated Group would not decrease by more than 10%;

(iv) the Trustee shall have received an Officer's Certificate to the effect that, as a result of the withdrawal of such Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Agreement; and

(v) if the Obligated Group Member withdrawing from the Obligated Group is Cape Cod Hospital, the Series A Bond Insurer shall have consented in writing to such withdrawal.

(vi) in addition to the foregoing, as long as the Series D Bonds are Outstanding, there shall be delivered to the Trustee an Officer’s Certificate stating that (A) the ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service, after giving effect to the transaction, (1) will not be less than 1.30, and shall be at least 80% of what it was prior to the transaction, or (2) with the written consent of the Series D Insurer, will be higher than it was prior to the transaction and (B) following the withdrawal of the Obligated Group Member, the Obligated Group shall be in compliance with the covenants described under the headings “Days Cash on Hand” and “Liquidity Covenant” herein. No Obligated Group Member proposing to withdraw shall be a related party with respect to any Bonds outstanding under the Agreement. Neither Cape Cod Hospital nor Falmouth Hospital shall withdraw from the Obligated Group.

Upon compliance with the conditions contained in subparagraphs (i)-(vi) under this heading, the Trustee shall execute any documents reasonably requested by the withdrawing Obligated Group Member to evidence the termination of such member's obligations under the Agreement. (LTA Section 627, TSA Section 14.03)

Liquidity Covenant

The Obligated Group shall maintain sufficient cash, marketable securities and unrestricted board-designated funds to produce a Liquidity Ratio as of the last day of each Fiscal Year equal to or greater than 1.25. For so long as the Series D Bonds are Outstanding, if the Obligated Group fails to meet the Liquidity Ratio, as calculated at the end of any Fiscal Year, the Obligated Group covenants to retain a Consultant, within sixty (60) days after the receipt of all audits for such Fiscal Year, to make recommendations to meet the Liquidity Ratio for subsequent Fiscal Years of the Obligated Group at least to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. The Obligated Group agrees that the Obligated Group will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, no Event of Default shall be deemed to have occurred unless the Liquidity Ratio is not met for any additional test period or the Liquidity Ratio declines below 1.00. (LTA Section 629, TSA Section 14.03)

Days Cash on Hand Covenant

Upon the issuance of the Series D Bonds, the Obligated Group shall have at least 60 Days Cash on Hand. Days Cash on Hand is defined as the quotient produced by dividing the sum of unrestricted cash, cash equivalents, and investments (excluding amounts on deposit in the accounts created with respect to payment of interest on and principal of outstanding bonds and borrowed construction funds) by operating expenses (excluding extraordinary items, infrequently occurring items or unusual items and the cumulative effect of changes in accounting principles, to the extent that such extraordinary items, infrequently occurring items or unusual items are included in operating expenses, and depreciation, amortization or other non-cash charges), and then multiplying the quotient by 365. If the Days Cash on Hand covenant, as calculated at the end of any Fiscal Year, is below the required number of days, the Obligated Group covenants to retain a Consultant, within sixty (60) days after the receipt of all audits for such Fiscal Year, to make recommendations to increase such number of days for subsequent Fiscal Years of the Obligated Group at least to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the

highest practicable level. The Obligated Group agrees that the Obligated Group will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, no Event of Default shall be deemed to have occurred unless the Days Cash on Hand covenant is not met for any additional two consecutive test periods or Days Cash on Hand declines below 50 days. (TSA Section 14.03)

Variable Rate Indebtedness limitation

For so long as the Series D Bonds are outstanding, the aggregate amount of Variable Rate Indebtedness not subject to a Hedging Contract shall not exceed 30% of the aggregate amount of the Obligated Group's Long-Term Indebtedness Outstanding in any Fiscal Year. (TSA Section 14.03)

Default by the Obligated Group

"Event of Default" in the Agreement means any one of the events set forth below and "Default" means any Event of Default without regard to any lapse of time or notice;

(i) Any principal (including sinking fund installments) of, premium, if any, or interest on any Bond shall not be paid (other than by the Series A Bond Insurer) when due, whether at maturity, by acceleration, upon redemption or otherwise.

(ii) The Obligated Group shall fail to make any payment required of it under the Agreement with respect to loan payments or the redemption of the Bonds within seven (7) days after the same becomes due and payable.

(iii) The Obligated Group shall fail to make any other required payment to the Trustee under the Agreement, and such failure is not remedied within seven (7) days after written notice thereof is given by the Authority or the Trustee to the Obligated Group; or the Obligated Group shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Obligated Group Agent, unless the breach is not curable within sixty (60) days and the Obligated Group Agent (A) certifies to the Authority and the Trustee that such breach can be cured within one hundred and fifty (150) days after such written notice is given and (B) notifies the Authority and the Trustee within such sixty (60) days that it is proceeding diligently in its efforts to cure said breach, in which event it shall be an Event of Default if said breach is not cured within ninety (90) days after such notice is given by the Obligated Group Agent to the Authority and the Trustee.

For so long as the Series D Bonds are Outstanding, it shall be an Event of Default hereunder if the Obligated Group shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within thirty (30) days after written notice thereof is given by the Authority or the Trustee to the Obligated Group Agent, unless the breach is not curable within thirty (30) days and the Obligated Group Agent (A) certifies to the Authority, the Series D Insurer and the Trustee that such breach can be cured and (B) notifies the Authority, the Series D Insurer and the Trustee within such thirty (30) days that it is proceeding diligently in its efforts to cure said breach, in which event it shall be an Event of Default if said breach is not cured within sixty (60) days after such notice is given by the Obligated Group Agent to the Authority, the Series D Insurer and the Trustee.

(iv) There shall be a material breach of warranty made in the Agreement by the Obligated Group as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Authority or the Trustee to the Obligated Group Agent, unless the breach is not curable within sixty (60) days and the Obligated Group Agent (A) certifies to the Authority and the Trustee that such breach can be cured and (B) notifies the Authority and the Trustee within such sixty (60) days that it is proceeding diligently in its efforts to cure said breach, in which event it shall be an Event of Default if said

breach is not cured within ninety (90) days after such notice is given by the Obligated Group Agent to the Authority and the Trustee.

(v) An Event of Bankruptcy shall occur, provided that, in the event of a filing of an involuntary case in bankruptcy under the United States Bankruptcy Code or the commencement of a proceeding under any other applicable law concerning bankruptcy, insolvency or reorganization against any Obligated Group Member, such petition or proceeding shall remain undismissed for a period of sixty (60) days.

(vi) Any Event of Default shall occur under any financing document securing Alternative Indebtedness, or a breach shall occur (and continue beyond any applicable grace period) with respect to the performance of any agreement securing any other Indebtedness of the Obligated Group for borrowed money in an amount at least equal to $500,000 or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement, so that a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates or is empowered to accelerate any such Indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (vi) if (A) the Obligated Group 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 Obligated Group shall notify the Authority, the Trustee and the Series A Bond Insurer of any such breach or event immediately upon the Obligated Group's becoming aware of its occurrence and shall from time to time furnish such information as the Authority, the Trustee or the Series A Bond Insurer may reasonably request for the purpose of determining whether a breach or event described in this clause (vi) has occurred and whether such power of acceleration has been exercised or continues to be in effect.

(vii) The occurrence of an event of default under any of the Mortgages.

If the Trustee determines that a Default, other than a Default in the payment of principal (including sinking fund installments) of, premium, if any, or interest on the Bonds, has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the Default and its consequences, including any acceleration, with the written consent of the Authority and the Series A Bond Insurer, by written notice to the Obligated Group Agent and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least fifty-one percent (51%) in principal amount of the Outstanding Bonds. For so long as the Series D Bonds are Outstanding, the Trustee shall not waive the Default and its consequences without the prior written consent of the Series D Insurer. (LTA Section 701, TSA Section 14.03)

Remedies Upon Events of Default

Acceleration

The Trustee may by written notice to the Obligated Group Agent and the Authority declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Obligated Group therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice. Such acceleration shall be automatic upon the occurrence of the Event of Default described in clause (v) under the heading "Default by the Obligated Group" and the Trustee shall provide notice thereof as set forth in this paragraph. (LTA Section 702(a))

Other Remedies

The Authority may exercise all of the rights and remedies of a secured party, under the Uniform Commercial Code or otherwise, with respect to the lien on Gross Receipts created by the Agreement. Without limiting the generality of the foregoing, to the extent permitted by law, the Authority may realize upon such lien by any one or more of the following actions: (i) enter the Restricted Property and take possession of the financial books and records of the Obligated Group relating to the Gross Receipts and all checks or other orders for payment of money and cash in the possession of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify account debtors obligated on any Gross Receipts to make payment directly to the order of the Authority; (iii) collect, compromise, settle, compound or extend Gross Receipts which are in the form of Accounts Receivable or contract rights from the

Obligated Group's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Obligated Group, whether or not the full amount of any such account receivable or contract right owing shall be paid to the Authority; (iv) require the Obligated Group to deposit all cash, money and checks or other orders for the payment of money which represents 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 Authority, provided, however, that the requirement to make such deposits shall cease, and the balance of such fund or account shall be paid to the Obligated Group, when all Events of Default have been cured; (v) forbid the Obligated Group 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 Obligated Group any checks or other orders for the payment of money representing Gross Receipts or the proceeds thereof. All such rights as to Gross Receipts shall be exercised for the equal and ratable benefit of the Bondholders and the holders of Alternative Indebtedness. (LTA Section 702(b))

The Authority may enforce the provisions of the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Obligated Group of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Obligated Group under the Agreement. The Trustee may enforce the obligations of the Authority under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations of the Authority under the Agreement (LTA Section 702(c))

The Trustee may exercise all rights and remedies provided for in any of the Mortgages to which it is a party. (SSA Section 12)

Proceeds from the exercise of the rights and remedies of a secured party under the Massachusetts Uniform Commercial Code or otherwise with respect to the lien on Gross Receipts, after payment or reimbursement of the reasonable expenses in connection with such exercise of rights and remedies, shall be allocated pro rata among the Bonds and Alternative Indebtedness as provided in any other agreement governing the allocation thereof among the Bonds and Alternative Indebtedness. The portion allocable to the Bonds shall be applied, first to the remaining obligations of the Obligated Group under the Agreement (other than obligations to make payments to the Authority for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Authority for its own use. Any surplus thereof shall be paid to the Obligated Group as directed by an Officer's Certificate. (LTA Section 703)

The rights and remedies under the Agreement shall be cumulative and shall not exclude any other rights and remedies allowed by law, provided there is no duplication of recovery. The failure to insist upon a strict performance of any of the obligations of the Obligated Group or of the Authority or to exercise any remedy for any violation thereof shall not be taken as a waiver for the future of the right to insist upon strict performance or of the right to exercise any remedy for the violation. (LTA Section 704)

If the Obligated Group shall fail to pay or perform any obligation under the Agreement, the Authority may perform such obligation in its own name or in the Obligated Group's name and is irrevocably appointed by the Agreement the Obligated Group's attorney-in-fact for such purpose. Unless an Event of Default exists, the Authority shall give at least five (5) Business Days' notice to the Obligated Group before taking action under the provisions under this heading, except that in the case of emergency as reasonably determined by the Authority or the Owners of at least a majority in principal amount of the Outstanding Bonds, it may act on lesser notice or give the notice promptly after rather than before taking the action. The reasonable cost of any such action by the Authority shall be paid or reimbursed by the Obligated Group as provided in the Agreement. (LTA Section 705)

Except during any period in which the Series A Bond Insurer has failed to make any payments due under the bond insurance policy for the Series A Bonds, the Series A Bond Insurer shall be entitled to exercise any rights of the

Series A Bondholders with respect to any series of Bonds insured by the Series A Bond Insurer (provided that amendments of the Agreement shall be governed by the provisions described under the heading "Amendment"), and no action undertaken by such Bondholders shall be effective without the written consent of the Series A Bond Insurer. Furthermore, for so long as the Series A Bond Insurer has made all payments due under the bond insurance policy for the Series A Bonds, all of the remedies of the Trustee and the Authority under this Article that are undertaken without direction from the Bondholders shall be exercised upon the written consent or direction of the Series A Bond Insurer. During any period in which the Series A Bond Insurer has failed to make any payments due under the bond insurance policy for the Series A Bonds or the bond insurance policy for the Series A Bonds is no longer in effect the provisions of the Agreement requiring the consent or approval of, or notice to, the Series A Bond Insurer shall cease to be applicable. (LTA Section 706)

Except during any period in which the Series C Insurer has failed to make any payments due under the Series C Policy, the Series C Insurer shall be entitled to exercise any rights of the Series C Bondholders (provided that amendments of the Agreement shall be governed by the Agreement under the heading "Amendment"), and no action undertaken by such Bondholders shall be effective without the written consent of the Series C Insurer. Furthermore, for so long as the Series C Insurer has made all payments due under the Series C Policy, all of the remedies of the Trustee and the Authority under this Article that are undertaken without direction from the Series C Bondholders shall only be exercised upon the written consent or direction of the Series C Insurer. During any period in which the Series C Insurer has failed to make any payments due under the Series C Policy or the Series C Policy is no longer in effect, the provisions of the Agreement requiring the consent or approval of, or notice to, the Series C Insurer shall cease to be applicable. (LTA Section 707, SSA Section 14.03)

Except during any period in which the Series D Insurer has failed to make any payments due under the Series D Policy, the Series D Insurer shall be entitled to exercise any rights of the Series D Bondholders (provided that amendments of the Agreement shall be governed by the Agreement under the heading "Amendment"), and no action undertaken by such Bondholders shall be effective without the written consent of the Series D Insurer. Furthermore, for so long as the Series D Insurer has made all payments due under the Series D Policy, all of the remedies of the Trustee and the Authority under this Article that are undertaken without direction from the Series D Bondholders shall only be exercised upon the written consent or direction of the Series D Insurer. During any period in which the Series D Insurer has failed to make any payments due under the Series D Policy or the Series D Policy is no longer in effect, the provisions of the Agreement requiring the consent or approval of, or notice to, the Series D Insurer shall cease to be applicable. (LTA Section 707, TSA Section 14.03)

Paying Agent

The Trustee, and any other banks or trust companies designated as paying agent by the Authority, shall be the Paying Agent for the Bonds. The Authority may discharge the Paying Agent from time to time and appoint a successor. The Authority shall also designate a successor if the Paying Agent resigns or becomes ineligible. The Paying Agent shall be a bank or trust company having a capital and surplus of not less than $50,000,000 and shall be registered as a transfer agent with the Securities and Exchange Commission. The Authority shall give notice of the appointment of a successor Paying Agent in writing to each Bondholder. The Authority will promptly certify to the Trustee that it has mailed such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required by the Agreement. The Paying Agent may but need not be the same person as the Trustee. The Paying Agent shall act as such and as Bond registrar and transfer agent.

The Paying Agent shall enjoy the same protective provisions in the performance of its duties under the Agreement as are specified in the Agreement with respect to the Trustee, insofar as such provisions may be applicable. (LTA Section 312)

The Trustee

Rights and Duties of the Trustee

All moneys received by the Trustee under the Agreement shall be held by the Trustee in trust and applied subject to the provisions of the Agreement.

The Trustee shall keep proper accounts of its transactions under the Agreement (separate from its other accounts), which shall be open to inspection by the Authority, the Series A Bond Insurer and the Obligated Group and their representatives duly authorized in writing and shall provide quarterly reports of such transactions to the Obligated Group Agent.

If the Authority shall fail to observe or perform any covenant or obligation contained in the Agreement, the Trustee may to whatever extent it deems appropriate for the protection of the Bondholders or itself, perform any such obligation in the name of the Authority and on its behalf.

The Trustee shall not be required to monitor the financial condition of the Obligated Group and, unless otherwise expressly provided, shall not have any responsibility with respect to reports, notices, certificates or other documents filed with it under the Agreement, except to make them available for inspection by Bondholders. Upon a failure by the Obligated Group to make a payment required of it under the Agreement as the same becomes due and payable, the Trustee shall give written notice to the Authority, the Series A Bond Insurer and the Obligated Group Agent. The Trustee shall not be required to take notice of any other breach or default by the Obligated Group or the Authority except when given written notice thereof by the Holders of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Trustee shall give default notices under the Agreement and proceed under the Agreement when instructed to do so by the written direction of the Holders of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. The Trustee shall proceed under the Agreement for the benefit of the Bondholders in accordance with the written directions of the Holders of a majority in principal amount of the Outstanding Bonds. The Trustee shall not be required, however, to take any remedial action, other than the giving of notice, unless reasonable indemnity is furnished for any expense or liability to be incurred therein.

Upon receipt of written notice, direction or instruction and indemnity, as provided above, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Trustee shall notify the Series A Bond Insurer within fifteen (15) days of the date the Trustee obtains knowledge of such event and promptly pursue the remedy provided by the Agreement or any of such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Bondholders, and in its actions under this sentence, the Trustee shall act for the protection of the Bondholders with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs.

The Trustee shall be entitled to the advice of counsel (who may be counsel for any party) and shall not be liable for any action taken in good faith in reliance on such advice. The Trustee may rely conclusively on any notice, certificate or other document furnished to it under the Agreement and reasonably believed by it to be genuine. The Trustee shall not be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or omitted to be taken by it in good faith and reasonably believed by it not to be within the power or discretion conferred upon it, or taken by it pursuant to any direction or instruction by which it is governed under the Agreement or omitted to be taken by it by reason of the lack of direction or instruction required for such action, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment or consent or other action by the Trustee is called for by the Agreement, the Trustee may defer such action pending receipt of such evidence, if any, as it may reasonably require in support thereof. A permissive right or power to act shall not be construed as a requirement to act. The Trustee shall in no event be liable for the application or misapplication of funds, or for other acts or defaults, by any person, firm or corporation except by its own directors, officers and employees. No recourse shall be had by the Obligated Group, the Authority or any Bondholder for any claim based on the Agreement, the Bonds, or any agreement securing the same against any director, officer, or employee of the Trustee unless such claim is based upon the bad faith, fraud or deceit of such person. The Trustee shall not be liable for any act or omission of any agent appointed with due care. For the purposes of the Agreement, matters shall not be considered to be known to the Trustee unless they are known to an officer in its corporate trust department.

The Trustee may be or become the owner of or trade in Bonds with the same rights as if it were not the Trustee. The Trustee shall not be required to furnish any bond or surety. (LTA Section 801)

Resignation or Removal of the Trustee

The Trustee may resign on not fewer than thirty (30) days' notice given in writing to the Authority, the Bondholders, the Obligated Group and the Series A Bond Insurer, but such resignation shall not take effect until a successor has been appointed. The Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required by the Agreement. The Trustee may be removed by written notice from the Holders of a majority in principal amount of the Outstanding Bonds to the Trustee, the Authority and the Obligated Group, or with the consent of the Authority and the Series A Bond Insurer, by written notice from the Obligated Group Agent to the Trustee.

In addition to the foregoing, for so long as the Series D Policy is in effect, the Series D Insurer shall also receive notice from the Trustee of its resignation pursuant to this section, and the Series D Insurer's consent shall also be required for removal of the Trustee by the Obligated Group Agent. Furthermore, for so long as the Series D Bonds are Outstanding, the Series D Insurer may remove the Trustee for cause, prior to an Event of Default under the Agreement, and without cause following an Event of Default under the Agreement, but in both cases only with the prior written consent of the Series A Bond Insurer and the Series C Bond Insurer (LTA Section 803, TSA Section 14.03)

Successor Trustee

Any corporation or association which succeeds to the corporate trust business of the Trustee as a whole or substantially as a whole, whether by sale, merger, consolidation or otherwise, shall thereby become vested with all the property, rights and powers of the Trustee under the Agreement, without any further act or conveyance.

In case the Trustee resigns or is removed or becomes incapable of acting, or becomes bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee or of its property is appointed, or if a public officer takes charge or control of the Trustee, or of its property or affairs, a successor shall be appointed by the Authority. The Authority or the Obligated Group with the consent of the Authority and the Series A Bond Insurer shall notify the Bondholders of the appointment in writing within twenty (20) days from the appointment. The Authority will promptly certify to the successor Trustee that it has mailed or caused to be mailed such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required by the Agreement. If no appointment of a successor is made within thirty (30) days after the giving of written notice in accordance with the Agreement or after the occurrence of any other event requiring or authorizing such appointment, the outgoing Trustee or any Bondholder may apply to any court of competent jurisdiction for the appointment of such a successor, and such court may thereupon, after such notice, if any, as such court may deem proper, appoint such successor. Any successor Trustee appointed under this heading shall be a trust company or a bank having the powers of a trust company having a capital and surplus of not less than $50,000,000 eligible to serve as Trustee under the Act. Any such successor Trustee shall notify the Authority and the Obligated Group of its acceptance of the appointment and, upon giving such notice, shall become Trustee, vested with all the property, rights and powers of the Trustee under the Agreement, without any further act or conveyance. Such successor Trustee shall execute, deliver, record and file such instruments as are required to confirm or perfect its succession under the Agreement and any predecessor Trustee shall from time to time execute, deliver, record and file such instruments as the incumbent Trustee may reasonably require to confirm or perfect any succession under the Agreement. (LTA Section 804)

The Authority

Rights and Duties of the Authority

The Authority shall keep proper accounts (separate from its other accounts) of the transactions in the Construction Fund and Expense Fund, which shall be subject to inspection by the Trustee and the Obligated Group, or their representatives duly authorized in writing. The Authority shall cause these accounts and the accounts of the Trustee under the Agreement to be audited annually within ninety (90) days after the end of the fiscal year by a nationally recognized independent public accountant selected by the Authority. Annually within thirty (30) days after the receipt of the Authority of the report of such audit, signed copies of such report shall be furnished to the Obligated Group and the Trustee and, upon written request, to any Bondowner. (LTA Section 901(a))

Actions for Protection of Bondholders

The Authority shall not be required to monitor the financial condition of the Obligated Group and, unless otherwise expressly provided, shall not have any responsibility with respect to notices, certificates or other documents filed with it under the Agreement. The Authority shall not be required to take notice of any breach or default except when given notice thereof by the Trustee or the Holders of at least ten percent (10%) in principal amount of the Outstanding Bonds. The Authority shall give default notice under the Agreement 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 Authority shall proceed under the Agreement for the benefit of the Bondholders in accordance with the written directions of the owners of a majority in principal amount of the Outstanding Bonds. The Authority shall not be required to take any action unless indemnity reasonably satisfactory to it is furnished for expenses or liability to be incurred therein (other than the giving of notice). Upon receipt of written notice, direction or instruction and indemnity, as provided above, and after making such investigation, if any, as it deems appropriate to verify the occurrence of any event of which it is notified as aforesaid, the Authority shall within fifteen (15) days of the date the Authority obtains knowledge thereof, provide notice to the Series A Bond Insurer of such default and promptly pursue the remedies provided by the Agreement or any of such remedies (not contrary to any such direction) as it deems appropriate for the protection of the Bondholders, and in its actions under this sentence, the Authority shall act for the protection of the Bondholders with the same promptness and prudence as would be expected of a prudent person in the conduct of such person's own affairs. (LTA Section 901(b))

The Authority shall be entitled to the advice of counsel (who may be counsel for any party or for any Bondholder) and shall be wholly protected as to any actions taken or omitted to be taken in good faith in reliance on such advice. The Authority may rely conclusively on any notice, certificate or other document furnished to it under the Agreement and reasonably believed by it to be genuine. The Authority shall not be liable for any action taken by it in good faith and reasonably believed by it to be within the discretion or power conferred upon it, or in good faith omitted to be taken by it pursuant to any direction or instruction by which it is governed under the Agreement or omitted to be taken by it by reason of the lack of direction or instruction required for such action under the Agreement, or be responsible for the consequences of any error of judgment reasonably made by it. When any payment, consent or other action by the Authority is called for by the Agreement, the Authority may defer such action pending such investigation or inquiry or receipt of such evidence, if any, as it may require in support thereof. A permissive right of power to act shall not be construed as a requirement to act, and no delay in the exercise of a right of power shall affect the subsequent exercise thereof. The Authority shall in no event be liable for the application or misapplication of funds, or for other acts or defaults by any person or entity except by its own directors, officers and employees. No recourse shall be had by the Obligated Group, the Trustee, any Bondholder or any holder of Alternative Indebtedness for any claim based on the Agreement, the Bonds, any Alternative Indebtedness or any agreement securing the same against any director, officer, employee or agent of the Authority unless such claim is based upon the willful dishonesty or intentional violation of law of such person. No covenant, obligation or agreement of the Authority contained in the Agreement shall be deemed to be a covenant, obligation or agreement of any present or future director, officer, employee or agent of the Authority in his individual capacity, and no person executing a Bond shall be liable personally thereon or be subject to any personal liability or accountability by reason of the issuance thereof. (LTA Section 901(c))

Nothing contained in the Agreement shall in any way obligate the Authority to pay any debt or meet any financial obligations to any person at any time except from moneys received under the provisions of the Agreement or from the exercise of the Authority's rights thereunder; provided, however, that nothing contained in the Agreement shall in any way obligate the Authority to pay such debts or meet such financial obligations from moneys received for the Authority's own purposes. (LTA Section 901(d))

Proceedings By Bondholders

No Bondholder shall have any right to institute any legal proceedings for the enforcement of the obligations of the Obligated Group under the Agreement or any applicable remedy thereunder, unless the Bondholders have directed the Authority to act and furnished the Authority indemnity as provided in the Agreement and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

No Bondholder shall have any right to institute any legal proceedings for the enforcement of the obligations of the Authority under the Agreement or any applicable remedy thereunder, unless the Bondholders shall have directed

the Trustee to act and furnished the Trustee indemnity as provided in the Agreement and shall have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter have failed or refused to take such action.

Subject to the foregoing, any Bondholder may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of The Commonwealth of Massachusetts. (LTA Section 1002)

Rights of Beneficial Owners

Any beneficial owner of a Bond or Bonds which is registered in the name of the nominee pursuant to book entry only registration, which beneficial owner owns $1,000,000 or more in aggregate principal amount of Bonds, shall upon proof satisfactory to the Trustee that such person is such a beneficial owner, be entitled, upon written request therefor to the Trustee or the Obligated Group Agent, as applicable, to receive the same information required to be given, or made available to Bondholders under the Agreement. (LTA Section 1003)

Amendment

The Agreement may be amended by the parties with the consent of the Series A Bond Insurer the Series C Insurer and the Series D Insurer (provided no such consent shall be required for amendments under clauses (c) or (e)) but without Bondholder consent for any of the following purposes: (a) to add to the covenants and agreements of the Obligated Group or to surrender or limit any right or power of the Obligated Group; (b) to cure any ambiguity or defect, or to add provisions which are not inconsistent therewith and which do not impair the security for the Bonds; (c) to provide for the issuance of additional Bonds pursuant to the provisions in the Agreement regarding the issuance of additional Bonds or the incurring of Alternative Indebtedness pursuant to the provisions in the Agreement regarding Alternative Indebtedness; or (d) to correct the description of the Restricted Property, to include additional property in the Restricted Property, or to subject additional property to the lien of the Agreement; or (e) to amend the provisions of the Agreement regarding the rebate requirements as permitted therein.

Except as provided in the foregoing paragraph, the Agreement may be amended only with the written consent of the Holders of at least fifty-one percent (51%) in principal amount of the Outstanding Bonds; provided, however, that, no amendment of the Agreement may be made without the unanimous written consent of the affected Bondholders for any of the following purposes: (1) to extend the maturity of any Bond; (2) to reduce the principal amount or interest rate of any Bond; (3) to make any Bond redeemable other than in accordance with its terms; (4) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds; or (5) to reduce the percentage of the Bonds required to be represented by the Bondholders giving their consent to any amendment.

Furthermore, notwithstanding the foregoing, the Series D Insurer may agree to any modification, waiver or amendment of any of the provisions set forth in section 14 of Third Supplemental Agreement without the consent of the Series D Bondholders or any other Holders, and provided further that for so long as the Series D Bonds are Outstanding, either the Series D Insurer or fifty-one percent (51%) of the Series D Bondholders may consent to any amendment to the Agreement that would otherwise require the written consent of the Series D Bondholders, except for those amendments which require the unanimous written consent of the affected Series D Bondholders as set forth above, in which case, the consent of the Series D Insurer shall also be required. If the Series D Bondholders written consent is not required by the provisions of the paragraph above requiring the written consent of at least 51% of the Holders of the Outstanding Bonds, then the Series D Insurer’s written consent shall be required.

When the Trustee determines that the requisite number of consents have been obtained for an amendment which requires Bondholder consent, it shall, within ninety (90) days, file a certificate to that effect in its records and mail or cause to be mailed notice to the Bondholders. No action or proceeding to invalidate the amendment shall be instituted or maintained unless it is commenced within sixty (60) days after such mailing. The Trustee will promptly certify to the Authority that it has mailed or caused to be mailed such notice to all Bondholders and such certificate will be conclusive evidence that such notice was given in the manner required by the Agreement. A consent to an amendment may be revoked by a notice given by the Bondholder and received by the Trustee prior to the Trustee's certification that the requisite `consents have been obtained. No consent to an amendment by the Holder of a Bond insured by the Series A Bond Insurer shall be effective unless the Series A Bond Insurer has approved such amendment in writing. (LTA Section 1101, TSA Section 14.03)

Series D Insurer Provisions

As long as the Series D Policy shall be in full force and effect all rights and remedies granted to the Series D Insurer under the Agreement shall be null and void upon the occurrence and continuance of any of the following: (i) a Series D Insurer Event of Insolvency, except to the extent of payments made by the Series D Insurer under the Series D Policy which are not voidable preferences; or (ii) failure of the Series D Insurer to pay in accordance with the Series D Policy. (TSA Section 14.03)

Party in Interest

The Series D Insurer shall be included as a party in interest (third party beneficiary) with respect to the Agreement and as a party entitled to (i) notify the Trustee of the occurrence of an Event of Default, and (ii) request the Trustee to intervene in judicial proceedings that affect the Series D Bonds or the security therefore. (TSA Section 14.6)

Special Provisions of the Series D Bonds in the Variable Rate Modes or Fixed Rate Mode

Calculation and Payment of Interest; Change in Mode; Maximum Rate; Conversion to Auction Rate Mode.

(a) When a Short-Term Mode is in effect, interest shall be calculated on the basis of a 365/366 day year for the actual number of days elapsed. When a Long-Term Mode is in effect, interest shall be calculated on the basis of a 360-day year comprised of twelve 30-day months. Payment of interest on each Bond shall be made on each Interest Payment Date for such Bond for unpaid interest accrued during the Interest Accrual Period to the Owner of record of such Bond on the applicable Record Date.

(b) All or a portion of the Series D Bonds in any Mode, other than a Fixed Rate Mode, may be changed to any other Mode at the times and in the manner hereinafter provided. Subsequent to such change in Mode (other than a change to a Fixed Rate Mode), all or a portion of the Series D Bonds may again be changed to a different Mode at the times and in the manner hereinafter provided. A Fixed Rate Mode shall be in effect until the respective Maturity Date, or acceleration thereof prior to such Maturity Date, and may not be changed to any other Mode. The written consent of the Series D Insurer shall be required to change all or a portion of the Series D Bonds to the Flexible Mode, the Term Rate Mode, the Fixed Rate Mode or the Auction Rate Mode.

(c) No Series D Bonds shall bear interest at an interest rate higher than the Maximum Rate.

(d) In the absence of manifest error, the determination of interest rates (including any determination of rates in connection with a New Mode) and interest periods by the Remarketing Agent and the record of interest rates maintained by the Paying Agent shall be conclusive and binding upon the Remarketing Agent, the Paying Agent, the Liquidity Provider, the Series D Insurer, the Trustee, the Authority, the Obligated Group, the Owners and the Beneficial Owners.

(e) If all or a portion of the Series D Bonds are converted to an Auction Rate Mode, the Agreement will be amended, without consent of the Holders of any of the Series D Bonds, but with the consent of the Series D Insurer, to include the necessary and appropriate provisions for such Series D Bonds in an Auction Rate Mode, including the form of the Series D Bonds in the Auction Rate Mode. (TSA Section 5.04)

Determination of Flexible Rates and Interest Periods During Flexible Mode

(a) An Interest Period for the Series D Bonds in the Flexible Mode shall be of such duration of from one to 360 calendar days, ending on a Business Day or the Maturity Date, as the Remarketing Agent shall determine in accordance with the provisions of the Agreement. A Flexible Rate Bond can have an Interest Period, and bear interest at a Flexible Rate, different than another Flexible Rate Bond. In making the determinations with respect to Interest Periods, subject to limitations imposed by the second preceding sentence and by the provisions of the Agreement related to a change in Mode, on each Rate Determination Date for a Flexible Rate Bond, the

Remarketing Agent shall select for such Bond the Interest Period which would result in the Remarketing Agent being able to remarket such Bond at par in the secondary market at the lowest average interest cost; provided, however, that if the Remarketing Agent has received notice from the Obligated Group Agent that the Series D Bonds are to be changed from the Flexible Mode to any other Mode, the Remarketing Agent shall select Interest Periods which do not extend beyond the resulting applicable Mandatory Purchase Date of the Series D Bonds.

(b) By 1:00 P.M. on each Rate Determination Date, the Remarketing Agent, with respect to each Bond in the Flexible Mode which is subject to adjustment on such date, shall determine the Flexible Rate(s) for the Interest Periods then selected for such Bond and shall give notice by Electronic Means to the Paying Agent and the Obligated Group Agent, of the Interest Period, the Purchase Date(s) and the Flexible Rate(s). The Remarketing Agent shall make the Flexible Rate and Interest Period available after 2:00 p.m. on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such information. (TSA Section 5.05)

Determination of Interest Rates During the Daily Mode and the Weekly Mode.

(a) The interest rate for the Series D Bonds in the Daily Mode or Weekly Mode shall be the rate of interest per annum determined by the Remarketing Agent on and as of the applicable Rate Determination Date as the minimum rate of interest which, in the opinion of the Remarketing Agent under then-existing market conditions, would result in the sale of the Series D Bonds in the Daily Mode or Weekly Mode, as applicable, at a price equal to the principal amount thereof, plus interest, if any, accrued through the Rate Determination Date during the then current Interest Accrual Period.

(b) During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 9:30 A.M. on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The Remarketing Agent shall provide written notice by electronic means of the Daily Rate to the Trustee and the Paying Agent and shall make the Daily Rate available by 9:30 A.M. on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

(c) During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 P.M. on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The Remarketing Agent shall provide written notice by Electronic Means of the Weekly Rate to the Trustee and the Paying Agent and shall make the Weekly Rate available after 5:00 P.M. on the Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such rate. (TSA Section 5.06)

Determination of Term Rates and Fixed Rates.

(a) Term Rates. Except as provided in the immediately succeeding paragraph, once the Series D Bonds are changed to the Term Rate Mode, the Series D Bonds shall continue in the Term Rate Mode until changed to another Mode in accordance with the Agreement. The Term Rate shall be determined by the Remarketing Agent not later than 4:00 P.M. on the Rate Determination Date, and the Remarketing Agent shall make the Term Rate available by telephone or by Electronic Means to any Notice Party requesting such rate. The Term Rate shall be the minimum rate which, in the sole judgment of the Remarketing Agent, would result in a sale of the Series D Bonds at a price equal to the principal amount thereof on the Rate Determination Date for the Interest Period selected by the Obligated Group Agent in writing delivered to the Remarketing Agent before such Rate Determination Date. If a new Interest Period is not selected by the Obligated Group Agent prior to a Rate Determination Date (for a reason other than a court prohibiting such selection), the new Interest Period shall be the same length as the current Interest Period (or such lesser period as shall be necessary to comply with the last sentence of this paragraph). The Remarketing Agent shall provide written notice by Electronic Means of the Term Rate to the Trustee and the Paying Agent and shall make the Term Rate available by telephone or Electronic Means after 5:00 p.m. on the Rate Determination Date to any Notice Party requesting such Term Rate. No Interest Period in the Term Rate Mode may extend beyond the applicable Maturity Date.

(b) Fixed Rates. The Remarketing Agent shall determine the Fixed Rate for the Series D Bonds being converted to the Fixed Rate Mode in the manner and at the times as follows: not later than 4:00 P.M. on the

applicable Rate Determination Date, the Remarketing Agent shall determine the Fixed Rate (or Rates, if the Series D Bonds will have Serial Maturity Dates in accordance with the Agreement). Except as set forth in the Agreement, the Fixed Rate shall be the minimum interest rate which, in the sole judgment of the Remarketing Agent, will result in a sale of the Series D Bonds at a price equal to the principal amount thereof on the Rate Determination Date. The Remarketing Agent shall provide written notice by Electronic Means of the Fixed Rate to the Trustee and the Paying Agent and shall make the Fixed Rate available by telephone or by Electronic Means after 5:00 p.m. on the Rate Determination Date to any Notice Party requesting such Fixed Rate. Subject to the Agreement, the Fixed Rate so established shall remain in effect until the Maturity Date of such Series D Bonds. (TSA Section 5.07)

Alternate Rates.

(a) The following provisions shall apply in the event (i) the Remarketing Agent fails or is unable to determine the interest rate or Interest Period for the Series D Bonds, (ii) the method by which the Remarketing Agent determines the interest rate or Interest Period with respect to the Series D Bonds (or the selection by the Obligated Group Agent of the Interest Periods for Series D Bonds in the Term Rate Mode) shall be held to be unenforceable by a court of law of competent jurisdiction or (iii) if the Remarketing Agent suspends its remarketing effort in accordance with the Remarketing Agreement. These provisions shall continue to apply until such time as the Remarketing Agent (or the Obligated Group Agent, if applicable) again makes such determinations. In the case of clause (ii) above, the Remarketing Agent (or the Obligated Group Agent, if applicable) shall again make such determination at such time as there is delivered to the Remarketing Agent and the Authority an opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations. The following shall be the methods by which the interest rates and, in the case of the Flexible and Term Rate Modes, the Interest Periods, shall be determined for the Series D Bonds as to which either of the events described in clauses (i), (ii) or (iii) shall be applicable. Such methods shall be applicable from and after the date either of the events described in clauses (i), (ii) or (iii) first become applicable to the Series D Bonds until such time as the events described in clauses (i), (ii) or (iii) are no longer applicable to the Series D Bonds. These provisions shall not apply if the Obligated Group Agent fails to select an Interest Period for the Series D Bonds in the Term Rate Mode for a reason other than as described in clause (ii) above.

(b) For Flexible Rate Series D Bonds, the next Interest Period shall be from, and including, the first day following the last day of the current Interest Period for the Series D Bonds to, but excluding, the next succeeding Business Day and thereafter shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for the Series D Bonds shall be the applicable Alternate Rate in effect on the Business Day that begins an Interest Period.

(c) If the Series D Bonds are in the Daily Mode or the Weekly Mode, then the Series D Bonds shall bear interest during each subsequent Interest Period at the Alternate Rate in effect on the first day of such Interest Period.

(d) If the Series D Bonds are then in the Term Rate Mode, then the Series D Bonds shall automatically convert to Flexible Rate Series D Bonds, with an Interest Period commencing on the first day following the last day of the current Interest Period for the Series D Bonds to, but excluding, the next succeeding Business Day and thereafter shall commence on each Business Day and extend to, but exclude, the next succeeding Business Day. For each such Interest Period, the interest rate for the Series D Bonds shall be the applicable Alternate Rate in effect at the beginning of each such Interest Period. (TSA Section 5.08)

Changes in Mode

Subject to the provisions of this Section and the Liquidity Facility then in effect, the Obligated Group may effect a change in Mode with respect to all or a portion of the Series D Bonds by following the procedures set forth in this Section; provided that the Obligated Group's right to effect a change in Mode shall terminate on the date of defeasance of the Series D Bonds in accordance with the Agreement; and provided further that so long as the Initial Liquidity Facility is in effect, the Obligated Group shall not effect a change in Mode to the Flexible Mode, Term Rate Mode or Fixed Rate Mode. The Series D Insurer's written consent will be required to effect a change to the Flexible Mode, the Term Rate Mode, the Fixed Rate Mode or the Auction Rate Mode. If the Obligated Group Agent, the Remarketing Agent or any Underwriter determines that a change in Mode or change in length of the

Flexible Rate Period will make the Series D Bonds subject to Rule 15c2-12 promulgated under the Securities Act of 1934, as amended, the Obligated Group will execute a continuing disclosure undertaking satisfying the requirements of such Rule and shall cooperate with the Remarketing Agent and any Underwriter (as defined in such Rule) in satisfying the requirements of such Rule.

(a) Changes to Modes Other Than Fixed Rate Mode. All or a portion of the Series D Bonds (other than Series D Bonds in the Fixed Rate Mode) may be changed from a Variable Rate Mode to another Mode (other than the Fixed Rate Mode) as follows:

(i) Mode Change Notice; Notice to Owners. No later than a Business Day which is at least 15 days (or such shorter time as may be agreed to by the Authority, the Obligated Group, the Trustee, the Tender Agent and the Remarketing Agent) preceding the proposed Mode Change Date, the Obligated Group Agent shall give written notice to the Notice Parties and to the Rating Agencies of its intention to effect a change in the Mode from the Mode then prevailing (for purposes of this Section, the "Current Mode") to another Mode (for purposes of this Section, the "New Mode") specified in such written notice, and, if the change is to a Term Rate Mode, the length of the initial Interest Period as set by the Obligated Group, and if the change is to the Auction Rate Mode, the length of the Auction Period. In the case of a change to a Term Rate Mode or from one Term Rate Mode to another Term Rate Mode, such notice to the Notice Parties shall also include a statement as to whether there will be a Liquidity Facility and/or Credit Enhancement in effect with respect to the Series D Bonds following such change and the identity of any provider of such Liquidity Facility and/or Credit Enhancement. Notice of the proposed change in Mode shall be given by the Tender Agent to the Owners of the applicable Series D Bonds not less than the 7th day next preceding the Mode Change Date. Such notice shall state: (1) the Mode to which the conversion will be made and the Mode Change Date; (2) except in the case of a change from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode, that the Series D Bonds will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of the Series D Bonds; and (3) if the Book-Entry System is no longer in effect, information with respect to required delivery of Bond certificates and payment of Purchase Price.

(ii) Determination of Interest Rates. The New Mode shall commence on the Mode Change Date and the interest rate(s) (together, in the case of a change to the Flexible Mode, with the Interest Period(s)) shall be determined by the Remarketing Agent (or the Obligated Group in the case of the Interest Period for the Series D Bonds converted to the Term Rate Mode) in the manner provided in the applicable sections of the Third Supplemental Agreement.

(iii) Conditions Precedent:

(A) The Mode Change Date shall be:

(1) in the case of a change from the Flexible Mode, the next Mandatory Purchase Date for the Flexible Rate Series D Bonds;

(2) in the case of a change from the Daily or Weekly Mode, any Business Day; and

(3) in the case of a change from the Term Rate Mode to another Mode, or from a Term Rate Period to a Term Rate Period of a different duration, the Mode Change Date shall be limited to any Interest Payment Date on which the Series D Bonds are subject to optional redemption or to the last Interest Payment Date of the current Term Rate Period, as the case may be. Such Series D Bonds shall be purchased on such Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof, provided that if such Series D Bonds are to be purchased on an Interest Payment Date other than the last Interest Payment Date and would otherwise be subject to optional redemption on such Mode Change Date at a Redemption Price of more than 100% of the principal amount thereof, such Series D Bonds shall be purchased at a Purchase Price equal to such Redemption Price.

(B) If the Series D Bonds to be converted are in the Flexible Mode, no Interest Period set after delivery by the Obligated Group Agent to the Remarketing Agent of the notice of the intention to effect a change in Mode shall extend beyond the proposed Mode Change Date.

(C) The following items shall have been delivered to the Trustee, the Paying Agent and the Remarketing Agent on or prior to the Mode Change Date:

(1) in the case of a change from a Short-Term Mode to a Long-Term Mode or from a Long-Term Mode to a Short-Term Mode or the Auction Rate Mode, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Notice Parties;

(2) if there is to be an Alternate Liquidity Facility or Alternate Credit Enhancement delivered in connection with such change, the items required by Section 5.21(d) hereof; and

(3) a Rating Confirmation Notice, or if the Mode Change Date is a Mandatory Purchase Date, a notice from the Rating Agencies of the rating(s) to be assigned the Series D Bonds on such Mode Change Date.

(D) The Liquidity Facility to be in effect on the Mode Change Date shall entitle the Paying Agent to draw upon or demand and receive in immediately available funds an amount equal to the principal amount of the Series D Bonds then outstanding plus a number of days of accrued interest at the Maximum Rate at least equal to the number of days required to be covered in such new Mode.

(b) Change to Fixed Rate Mode. At the option of the Obligated Group, all or a portion of the Series D Bonds may be changed to the Fixed Rate Mode as provided in this Section. On any Business Day which is at least 15 days (or such shorter time as may be agreed to by the Authority, the Obligated Group, the Trustee and the Remarketing Agent, but in any event not less than the 10th day next preceding the Mode Change Date) before the proposed Mode Change Date, the Obligated Group Agent shall give written notice to the Notice Parties and to the Rating Agencies stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall also state whether or not there shall be Credit Enhancement with respect to the Series D Bonds following such change and, if so, the identity of the Credit Provider. In addition, such notice shall state whether some or all of the Series D Bonds to be converted shall be converted to Serial Series D Bonds and, if so, the applicable Serial Maturity Dates and Serial Payments, all as determined pursuant to subsection (v) of this subsection (b). Any such change in Mode shall be made as follows:

(i) Mode Change Date. The Mode Change Date shall be:

(A) in the case of a change from the Flexible Mode, the next Mandatory Purchase Date for the Flexible Rate Series D Bonds;

(B) in the case of a change from the Daily or Weekly Mode, any Business Day; and

(C) in the case of a change from the Term Rate Mode, the Mode Change Date shall be limited to any Interest Payment Date on which the Series D Bonds are subject to optional redemption or to the next Mandatory Purchase Date for the Term Rate Series D Bonds, as the case may be. Such Series D Bonds shall be purchased on such Mode Change Date at a Purchase Price equal to 100% of the principal amount thereof, provided that if such Series D Bonds would otherwise be subject to optional redemption on such Mode Change Date at a Redemption Price of more than 100% of the principal amount thereof, such Series D Bonds shall be purchased at a Purchase Price equal to such Redemption Price.

(ii) Notice to Owners. Not later than the 7th day next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the Obligated Group, a notice of such proposed change to the Owners of the Series D Bonds stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Owner is required to tender such Owner's Series D Bonds for purchase on such proposed Mode Change Date.

(iii) General Provisions Applying to Change to Fixed Rate Mode. The change to the Fixed Rate Mode shall not occur unless the following items shall have been delivered to the Authority, the Obligated Group, the Trustee and the Remarketing Agent on or prior to the Mode Change Date:

(A) a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Authority, the Obligated Group, the Trustee and the Remarketing Agent;

(B) if there is to be Credit Enhancement delivered in connection with such change, the items required by the Agreement in connection with the delivery of an Alternate Credit Enhancement;

(C) notice from the Rating Agencies of the rating(s) to be assigned the Series D Bonds on such Mode Change Date; and

(D) written consent of the Series D Insurer to such change to the Fixed Rate Mode.

(iv) Determination of Interest Rate. The Fixed Rate (or rates in the case of Serial Series D Bonds) for the Series D Bonds to be converted to the Fixed Rate Mode shall be established by the Remarketing Agent on the Rate Determination Date applicable thereto pursuant to the Agreement. Such Rate shall remain in effect until the Maturity Date of the Series D Bonds.

(v) Serialization and Sinking Fund; Price. Upon conversion of the Series D Bonds to the Fixed Rate Mode, the Series D Bonds shall be remarketed at par, shall mature on the same Maturity Date(s) and be subject to the same mandatory sinking fund redemption, if any, and optional redemption provisions as set forth in this Agreement for any prior Mode; provided, however, that if the Obligated Group shall deliver to the Trustee a Favorable Opinion of Bond Counsel, the Obligated Group may elect to (1) have some of the Series D Bonds be Serial Series D Bonds and some subject to sinking fund redemption even if such Series D Bonds were not Serial Series D Bonds or subject to mandatory sinking fund redemption prior to such change, (2) change the optional redemption dates and/or premiums set forth in the Agreement, and/or (3) sell some or all of the Series D Bonds at a premium or a discount to par.

(c) Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions described above in subsections (a) or (b), as applicable, of this Section have not been satisfied by the applicable Mode Change Date, then the New Mode shall not take effect (although any mandatory tender shall be made on such date if notice has been sent to the Owners stating that such Series D Bonds would be subject to mandatory purchase on such date). If the failed change in Mode was from the Flexible Mode, the Series D Bonds shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the failed Mode Change Date in accordance with the Agreement. If the failed change in Mode was from the Daily Mode, the Series D Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the Series D Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Agreement on and as of the failed Mode Change Date. If the failed change in Mode was from the Term Rate Mode, then the Series D Bonds shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for the Series D Bonds in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the failed Mode Change Date in accordance with the applicable provisions of the Agreement.

(d) Recission of Election. Notwithstanding anything herein to the contrary, the Obligated Group may rescind any election by it to change a Mode as described above prior to the Mode Change Date by giving written notice thereof to the Notice Parties prior to such Mode Change Date. If the Tender Agent receives notice of such rescission prior to the time the Tender Agent has given notice to the Owners of the Series D Bonds, then such notice of change in Mode shall be of no force and effect. If the Tender Agent receives notice from the Obligated Group of

rescission of a Mode change after the Tender Agent has given notice thereof to the Owners of the Series D Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Flexible Mode, the Series D Bonds shall remain in the Flexible Mode with interest rates and Interest Periods to be established by the Remarketing Agent on the proposed Mode Change Date in accordance with the applicable provisions of the Agreement. If the proposed change in Mode was from the Daily Mode, the Series D Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the Series D Bonds shall remain in the Weekly Mode, in each case with interest rates established in accordance with the applicable provisions of the Agreement on and as of the proposed Mode Change Date. If the proposed change in Mode was from the Term Rate Mode, then the Series D Bonds shall stay in the Term Rate Mode for an Interest Period ending on the following Interest Payment Date for the Series D Bonds in the Term Rate Mode and the interest rate shall be established by the Remarketing Agent on the proposed Mode Change Date in accordance with the applicable provisions of the Agreement. If the Remarketing Agent is unable to determine the interest rate on the proposed Mode Change Date, the provisions set forth under “Alternate Rates” shall apply. (TSA Section 5.09)

No Purchases or Sales After Credit Provider or Liquidity Provider Failure.

Anything in the Agreement to the contrary notwithstanding, if there shall have occurred and be continuing either a Credit Enhancement Failure or a Liquidity Facility Failure, the Remarketing Agent shall not remarket any Series D Bonds covered by the Credit Enhancement or Liquidity Facility, as applicable. All other provisions of this Agreement, including without limitation, those relating to the setting of interest rates and Interest Periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such Event of Default. (TSA Section 5.20)

Inadequate Funds for Tenders

If sufficient funds are not available for the purchase of all tendered Series D Bonds required to be purchased on any Purchase Date, the Paying Agent and the Trustee shall, subject to their rights, immunities and protections as Paying Agent and Trustee, take all actions available to them to obtain remarketing proceeds from the Remarketing Agent and sufficient funds from the Liquidity Provider or the Obligated Group to purchase all such Series D Bonds on or before 12:00 noon, New York City time, on the Business Day next succeeding such Purchase Date. Thereafter, the Paying Agent and the Trustee shall, subject to their rights, immunities and protections as Paying Agent and Trustee, continue to take all such action available to them to obtain such remarketing proceeds from the Remarketing Agent and such funds from the Liquidity Provider or the Obligated Group. Any obligations of the Remarketing Agent, the Liquidity Provider or the Obligated Group to cause the deposit of such funds from remarketing proceeds, proceeds of the Liquidity Facility or other amounts, respectively, shall remain enforceable pursuant to this Agreement, and such obligation shall be discharged only at such time as funds are deposited with the Paying Agent in an amount sufficient to purchase all such Series D Bonds, together with any interest which has accrued on such Series D Bonds to the subsequent actual purchase date. (TSA Section 5.23)

Appointment of Remarketing Agent.

The Remarketing Agent is appointed to remarket Series D Bonds pursuant to the Agreement, and to keep such books and records as shall be consistent with prudent industry practice and to make such books and records available for inspection by the Notice Parties at all reasonable times. The Remarketing Agent shall act as such under the Remarketing Agreement.

The Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Agreement by giving at least ten (10) days’ notice to the Notice Parties and the Rating Agencies. The Remarketing Agent may suspend its remarketing efforts as set forth in the Remarketing Agreement. The Remarketing Agent may be removed at any time, at the direction of the Obligated Group Agent, by an instrument filed with the Remarketing Agent, the Trustee and the Paying Agent and upon at least ten (10) days’ notice to the Remarketing Agent and the Rating Agencies. Any successor Remarketing Agent shall be selected by the Obligated Group, and shall be a member of the National Association of Securities Dealers, Inc., shall have a capitalization of at least fifteen million dollars ($15,000,000), shall be authorized by law to perform all the duties set forth in the Agreement and shall be acceptable to the Credit Provider and Liquidity Provider. The Obligated Group’s delivery to

the Trustee of a certificate setting forth the effective date of the appointment of a successor Remarketing Agent and the name of such successor shall be conclusive evidence that (i) if applicable, the predecessor Remarketing Agent has been removed in accordance with the provisions of this Agreement and (ii) such successor has been appointed and is qualified to act as Remarketing Agent under the terms of this Agreement.

If the Remarketing Agent consolidates with, merges or converts into, or transfers all or substantially all of its assets (or, in the case of a bank, national banking association or trust company, its corporate assets) to, another corporation, the resulting, surviving or transferee corporation without any further act shall be the successor Remarketing Agent. (TSA Section 5.24)

[THIS PAGE INTENTIONALLY LEFT BLANK]

SUMMARY OF CERTAIN PROVISIONS OF THE FALMOUTH HOSPITAL ASSOCIATION, INC. MASTER TRUST INDENTURE

The following is a brief summary of certain provisions of the Falmouth Hospital Association, Inc. (the "Institution") Master Trust Indenture (the "Master Trust Indenture"). Pursuant to the terms of the Supplemental Master Indenture for Obligation No. 5, the Obligations will be canceled, and the obligations of the Institution under the Agreement will cease to be secured by the Institution's Master Trust Indenture, when no Obligations issued under the Institution's Master Trust Indenture (other than Obligation No. 2, Obligation No. 3, Obligation No. 4, Obligation No. 5 and any other Obligations hereafter issued to secure the obligations of the Institution under the Agreement) remain Outstanding thereunder, subject to the conditions on such cancellation described below. **Accordingly, the covenants applicable to the Institution under the Master Trust Indenture may cease to be effective while the Series D Bonds remain Outstanding, and the Bondowners of the Series D Bonds should not rely upon such covenants in making their investment decision.**

This summary is limited to a summary of certain provisions of the Master Trust Indenture affecting the exercise of remedies with respect to the lien on the Gross Receipts of the Institution securing the Notes. This summary does not purport to be complete with respect to such provisions or any other provisions of the Master Trust Indenture, and reference is made to the Master Trust Indenture for full and complete statements of such and provisions thereof. Capitalized terms used in the summaries below shall have the meanings set forth in the Master Trust Indenture.

Events of Default.

Event of Default, as used in the Master Trust 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 Trust 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 Trust Indenture and the Related Supplement (as defined in the Master Trust Indenture);

(b) Any member of the Obligated Group shall fail duly to observe or perform any covenant or agreement on its part under the Master Trust Indenture for a period of 60 days (or such longer period as permitted in writing by the Master Trustee) 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 Indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to under this heading, 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 herein 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 paragraph (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, (ii) the power of acceleration ceases to be in effect, or (iii) such breach or event is remedied and the acceleration is wholly annulled. Each Member shall notify the Bond Insurer and 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 Bond Insurer and 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 or continues to be in effect;

(d) The Obligated Group shall fail to make any payment of the principal of, premium, if any, or interest on any note issued under the Master Trust Indenture or under any Related Bond Indenture within 14 days after the same shall become due and payable 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 (as defined in the Master Trust Indenture), 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; and

(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.

If the Master Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Master Trustee may waive the default and its consequences, including any acceleration, by written notice to the Institution and shall do so upon written instruction of the Holders of at least twenty-five (25%) in principal amount of the outstanding obligations. (Section 6.01).

Acceleration; Annulment of Acceleration; Rights as to Gross Receipts.

Upon the occurrence and during the continuation of an Event of Default under the Master Trust 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 Trust 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.

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 Trust 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 of 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 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. (Section 6.02)

Additional Remedies and Enforcement of Remedies.

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, absent any direction to the contrary pursuant to "Obligation Holders' Control of Proceedings" herein, proceed forthwith to protect and enforce its rights and the rights of the Obligation Holders under the Master Trust Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient.

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 therefore, 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 Master Trust Indenture by any acts which may be unlawful or in violation of Master Trust 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 Obligated Group 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 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, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the 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 after an Event of Default, 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 the Master Trust Indenture 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, notwithstanding anything in the Master Trust Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of Master Trust Indenture or for the appointment of a receiver or any other proceedings under the Master Trust Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Trust Indenture (including indemnity to the Master Trustee as provided in the Master Trust Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Obligation Holders not joining in such direction.

Certain Obligation Holders may exercise rights against the members of the Obligated Group in connection with Related Bonds and otherwise which are independent of the Master Trust Indenture. The Master Trustee shall not be required to take notice of the exercise of such rights, and the Master Trustee shall have no duty to other Obligation Holders where the exercise of such rights by a particular Obligation Holder is or may be prejudicial to such other Obligation Holders. (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 Trust Indenture, or before the completion of the enforcement of any other remedy under the Master Trust Indenture.

Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, 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 Trust 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 without the written consent of the Holders of all the Obligations at the time outstanding unless (i) certain conditions of the Master Trust Indenture set forth 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 Trust Indenture, the Members of the Obligated Group, the Master Trustee and the Obligation Holders shall be restored to their former positions and rights under Master Trust 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).

Notice of Default.

The Master Trustee shall, within 10 days after an officer of the Master Trustee in its corporate trust department has actual knowledge of the occurrence of an Event of Default or a written notice thereof addressed as required by the Master Trust Indenture has been received by the Master Trustee, whichever is earlier, mail to all Obligation Holders as the name and addresses of such Holders appear upon the registration books of the Master Trustee, notice of such Event of Default so known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice (the term "Event of Default" for the purposes of this heading being defined to be the events specified in the Master Trust Indenture under the heading "Events of Default", not including any periods of grace provided for in paragraphs (b) and (d) of that heading, respectively, and irrespective of the giving of written notice specified in paragraph (b) of that heading; and provided that, except in the case of default on the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in paragraphs (e) and (f) of that heading, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Master Trustee in good faith determine that the withholding of such notice is in the interests of the Obligation Holders. (Section 6.12)

Limitations on Responsibility of Master Trustee

The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction 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 Trust Indenture; and

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 Trust 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 Trust 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 Trust 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 Trust Indenture. The Master Trustee shall not be required to take notice of any breach or default under the Master Trust 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 Trust 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 to the Master Trust Indenture 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 enter into one or more supplements for one or more of the following purposes:

(i) To cure any ambiguity or formal defect or omission in the Master Trust Indenture;

(ii) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision therein, or to make any other provisions with respect to matters or questions arising thereunder and 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 Master Trust Indenture;

(iv) To qualify the Master Trust 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 Trust Indenture;

(vi) To obligate a successor to the Representative or other Member of the Obligated Group as provided in the Master Trust Indenture; or

(vii) To add additional property to the Restricted Property or to add additional security for the benefit of the Holders. (Section 8.01).

Supplements to the Master Trust Indenture Requiring Consent of Obligation Holders.

Other than supplements referred to above hereof and subject to the terms and provisions and limitations contained in the Master Trust Indenture and not otherwise, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve 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 Trust Indenture; provided, however, nothing in the Master Trust Indenture 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) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Trust Indenture in any manner which would materially and adversely affect the interests of Obligation Holders or any of them;

(iv) Create a preference or priority of one Obligation over any other Obligation; or

(v) 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).

Special Provisions for Cancellation of Obligation No. 2, Obligation No. 3, Obligation No. 4 and Obligation No. 5

When no Obligations issued under the Master Trust Indenture (other than Obligation No. 2, Obligation No. 3, Obligation No. 4, Obligation No. 5 and any other Obligations hereafter issued to secure the obligations of the Institution under the Agreement) remain Outstanding, Obligation No. 2, Obligation No. 3, Obligation No. 4 and Obligation No. 5 shall be canceled and cease to be Outstanding under the Master Trust Indenture upon the delivery to the Master Trustee, the Authority and the Trustee of (i) an opinion of counsel to the Institution to the effect that the lien on the Gross Receipts of Falmouth Hospital Association, Inc. granted to secure Obligation No. 2, Obligation No. 3, Obligation No. 4 and Obligation No. 5 has been assigned to the Authority, or that Falmouth Hospital Association, Inc. has granted to the Authority an independent lien on its Gross Receipts, that such lien on its Gross Receipts secures the obligations of the Institution under the Agreement, and that such lien is valid and perfected, subject to standard bankruptcy exceptions, and (ii) a certificate of an authorized officer of the Institution to the effect that there are no other liens on the Gross Receipts of the Institution, other than liens permitted under the Agreement.

SUMMARY OF THE AMENDED AND RESTATED PARITY INDEBTEDNESS AGREEMENT

The following is a brief summary, prepared by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Bond Counsel to the Authority, of certain provisions of the Amended and Restated Parity Indebtedness Agreement (the "Parity Indebtedness Agreement") dated as of October 9, 2001 as amended and restated as of December 7, 2004 among the Trustee, the Falmouth Master Trustee, the Authority, the Obligated Group and the Guarantors under the Guaranty (as defined below). Such summary does not purport to be complete and reference is made to the Parity Indebtedness Agreement for full and complete statement of its terms and provisions and for the definition of capitalized terms used herein.

Definitions

In addition to the terms defined in Appendix C, the following capitalized terms used in this summary are defined as follows.

"Cape Cod Mortgages" means, collectively, that certain Amended and Restated Mortgage and Security Agreement dated as of November 28, 2001, amended and restated as of December __, 2004 from Cape Cod Hospital to the Obligated Group Trustee and that certain Mortgage and Security Agreement dated as of November 28, 2001 from Cape Cod Hospital to the Falmouth Trustee.

"Cape Cod Mortgaged Property" means the Mortgaged Property as defined in the Cape Cod Mortgages.

"Cape Cod Security Agent" means U.S. Bank National Association, in its capacity as Obligated Group Trustee with the respect to the Guarantors' Gross Receipts and the Cape Cod Mortgaged Property, or any successor Cape Cod Security Agent or Agents pursuant to the Parity Indebtedness Agreement.

"Falmouth Mortgages" means, collectively, that certain Amended and Restated Mortgage and Security Agreement dated as of November 28, 2001, amended and restated as of December __, 2004 from Falmouth Hospital to the Obligated Group Trustee and that certain Mortgage and Security Agreement dated as of November 28, 2001 from Falmouth Hospital to the Falmouth Trustee.

"Falmouth Mortgaged Property" means the Mortgaged Property as defined in the Falmouth Mortgages.

"Falmouth Note" means Obligation No. 1 issued under the Falmouth Indenture to the Falmouth Master Trustee.

"Falmouth Obligated Group" means Falmouth Hospital, Cape Cod Healthcare, Inc., Cape Cod Hospital and Cape Cod Healthcare Foundation, Inc., as such entities may change from time to time in accordance with the Falmouth Indenture.

"Falmouth Obligated Group Notes" means Obligation No. 2, Obligation No. 3, Obligation No. 4 and Obligation No. 5 issued under the Falmouth Indenture to the Authority, as secured party under the Agreement.

"Falmouth Security Agent" means U.S. Bank National Association, in its capacity as the Falmouth Master Trustee with respect to Falmouth Hospital's Gross Receipts and the Falmouth Mortgaged Property, or any successor Falmouth Security Agent appointed pursuant to the Parity Indebtedness Agreement.

"Guaranty" means the Guaranty dated as of October 9, 2001 from Cape Cod Healthcare, Inc., Cape Cod Hospital and Cape Cod Healthcare Foundation, Inc., (collectively, the "Guarantors"), to U.S. Bank National Association, in its capacity as the Falmouth Master Trustee.

"Mortgages" means, collectively, the Cape Cod Mortgages and the Falmouth Mortgages.

"Mortgaged Property" means, collectively, the Cape Cod Mortgaged Property and the Falmouth Mortgaged Property.

"<u>Parity Agreements</u>" means the Guaranty, the Agreement, the Falmouth Obligated Group Notes, the Falmouth Note and the Mortgages.

"<u>Parity Obligations</u>" means the payments due from the Obligated Group under the Agreement, the payments due from the Guarantors under the Guaranty, the payments due from Falmouth Hospital under the Falmouth Note and the payments due from the Falmouth Obligated Group under the Falmouth Obligated Group Notes.

"<u>Secured Parties</u>" means the Authority, as a secured party under the Agreement and the Falmouth Obligated Group Notes, the Trustee as assignee of the Authority under the Agreement and as the secured party under certain of the Mortgages, the Falmouth Trustee, as a secured party under the Guaranty, the Falmouth Master Indenture, the Falmouth Note and certain of the Mortgages, and any other secured party with respect to the Gross Receipts or the Mortgaged Property under any Parity Agreement.

Parity

The parties to the Parity Indebtedness Agreement acknowledge that the Parity Obligations are and shall be secured equally and ratably as to the lien on Gross Receipts of all Obligated Group Members, all Guarantors and Falmouth Hospital notwithstanding any priority in time of creation, attachment or perfection of a security interest in, pledge, lien or other encumbrance on such Gross Receipts. The parties to the Parity Indebtedness Agreement further acknowledge that the Parity Obligations are and shall be secured equally and ratably as to the lien on the Mortgaged Property notwithstanding any priority in time of creation, attachment or perfection of a security interest in, pledge, lien or other encumbrance on such Mortgaged Property. (Section 2)

Notices of Default

Any Secured Party to the Parity Indebtedness Agreement that takes notice of any breach or default under any of the Parity Agreements shall promptly thereafter give notice thereof to the other Secured Parties. Such notice shall describe, with reasonable particularity, the event or events constituting the default under the Parity Agreement. (Section 3)

Designation of Security Agents

Each of the Authority and the Trustee designates and appoints the Falmouth Security Agent, and the Falmouth Security Agent accepts such appointment, as each of such party's exclusive agent under the Parity Indebtedness Agreement to act in such party's place, name and stead with respect to the receipt of Falmouth Hospital's Gross Receipts and exercise of the rights and remedies as to the lien on Falmouth Hospital's Gross Receipts set forth in the Agreement and the Falmouth Obligated Group Notes, as applicable, or in the applicable provision of any other Parity Agreement, as well as to exercise such powers and to perform such duties as are reasonably incident thereto. Each of the Authority and the Obligated Group Trustee designates and appoints the Falmouth Security Agent, and the Falmouth Security Agent accepts such appointment, as each of such party's exclusive agent under the Parity Indebtedness Agreement to act in such party's place, name and stead with respect to the Falmouth Mortgaged Property and exercise of the rights and remedies as to the lien on the Falmouth Mortgaged Property set forth in the Falmouth Mortgages, or in the applicable provision of any other Parity Agreement, as well as to exercise such powers and to perform such duties as are reasonably incident thereto. Falmouth Hospital acknowledges and assents to such appointment of the Falmouth Security Agent.

The Falmouth Trustee designates and appoints the Cape Cod Security Agent, and the Cape Cod Security Agent accepts such appointment, as such party's exclusive agent under the Parity Indebtedness Agreement to act in such party's place, name and stead with respect to the receipt of the Guarantors' Gross Receipts and exercise of the rights and remedies as to the lien on the Guarantors' Gross Receipts set forth in the Guaranty and the Falmouth Obligated Group Notes, as applicable, or in the applicable provision of any other Parity Agreement, as well as to exercise such powers and to perform such duties as are reasonably incident thereto. The Falmouth Trustee designates and appoints the Cape Cod Security Agent, and the Cape Cod Security Agent accepts such appointment, as such party's exclusive agent under the Parity Indebtedness Agreement to act in such party's place, name and stead with respect to the Cape Cod Mortgaged Property and exercise of the rights and remedies as to the lien on the Cape Cod Mortgaged Property set forth in the Cape Cod Mortgages, or in the applicable provision of any other Parity Agreement, as well as to exercise such powers and to perform such duties as are reasonably incident thereto. The Guarantors acknowledge and assent to such appointment of the Cape Cod Security Agent. (Section 4)

Exercise of Remedies as to Gross Receipts and Mortgaged Property

Each of the Secured Parties, provided it is entitled to do so under the applicable Parity Agreement, may direct the Security Agent to exercise on its behalf the rights and remedies as to the Gross Receipts and the Mortgaged Property in the applicable Parity Agreement. Upon receipt of such directions from one or more of such parties, the applicable Security Agent or Agents shall proceed to exercise such rights and remedies, provided that, prior to exercising such rights and remedies, such Security Agent or Agents shall give notice thereof to any of the Secured Parties from which it has not received such directions. Nothing in the Parity Indebtedness Agreement shall affect the rights of the Secured Parties to exercise any rights and remedies available to them other than the rights and remedies as to the Gross Receipts and the Mortgaged Property set forth as described above. Nothing in the Parity Indebtedness Agreement shall affect the rights and remedies of the Secured Parties with respect to funds established under their respective Parity Agreements. (Section 5)

Allocation Rule; Application of Proceeds

Any proceeds derived by either or both Security Agents from the exercise of rights and remedies under the Parity Indebtedness Agreement and the Parity Agreements or otherwise received by either of the Security Agents under the Parity Indebtedness Agreement shall be allocated as follows:

(i) Such proceeds shall be applied first to the reasonable fees, costs and expenses of collection, including without limitation reasonable attorneys' fees; and

(ii) thereafter such proceeds shall be distributed to the Secured Parties entitled to receive such proceeds under the Parity Agreements to make payments due but unpaid on the Parity Obligations, such distribution to be made pro rata in proportion to the principal amounts of indebtedness outstanding under the Agreement and under the Falmouth Master Indenture on the date of distribution (disregarding for such purposes any indebtedness which no longer is secured by a lien on the Gross Receipts or the Mortgaged Property).

Distributions shall be made by the applicable Security Agent from time to time on dates determined by the Security Agent taking into account the amount of proceeds available for distribution and the likelihood of obtaining additional proceeds. Moneys held by the applicable Security Agent pending distribution shall be invested as directed in writing by the Authority in Government or Equivalent Obligations, as described below, maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be distributed. Government or Equivalent Obligations means (i) obligations issued or guaranteed by the United States or (ii) any open-end or closed-end management type investment company or trust registered under 15 U.S.C. '80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to the investments described in clause (i). (Section 6)

Termination

The Parity Indebtedness Agreement shall terminate on the date on which the Falmouth Master Indenture is terminated or defeased in accordance with its terms.

SUMMARY OF CERTAIN PROVISIONS OF THE INITIAL LIQUIDITY FACILITY

General

The Loan and Trust Agreement requires the Obligated Group Members to maintain a Liquidity Facility in order to provide liquidity for the purchase of Series D Bonds in Daily Mode or Weekly Mode which are delivered to the Tender Agent pursuant to an optional tender or which are subject to mandatory purchase but, in either such case, are not remarketed by the Remarketing Agent. The initial Liquidity Facility is the Standby Bond Purchase Agreement dated as of December 7, 2004 (the "Standby Bond Purchase Agreement") among the Obligated Group Members, the Trustee and Fleet National Bank (the "Bank"). The Standby Bond Purchase Agreement will expire on December 23, 2009, prior to the scheduled date of maturity of the Series D Bonds, unless extended beyond such date or terminated prior to such date as described herein. The aggregate amount available to purchase Series D Bonds under the Standby Bond Purchase Agreement (the "Available Commitment") shall initially be equal to the sum of (i) $65,000,000, being the principal amount of the Series D Bonds (the "Available Principal Commitment") plus (ii) 35 days' accrued interest based upon an assumed interest rate of 12% per annum (the "Maximum Rate") and a 365-day year (the "Available Interest Commitment"). The Available Principal Commitment shall be permanently reduced upon reduction of the outstanding principal amount of Eligible Bonds by reason of redemption, repayment or other payment of all or any portion of the principal amount of the Eligible Bonds pursuant to the Loan and Trust Agreement or conversion of Eligible Bonds to a Non-Demand Mode (as defined in the Standby Bond Purchase Agreement) and, in each case, upon the Bank receiving notice of such redemption, repayment, payment or conversion. The Available Principal Commitment shall also be reduced by the principal amount of Series D Bonds purchased by the Bank under the Standby Bond Purchase Agreement. The Available Principal Commitment shall be increased by an amount equal to the principal amount of the Series D Bonds theretofore purchased by the Bank which are remarketed.

In general, the Available Interest Commitment will remain equal to 35 days' interest on the Available Principal Commitment based upon the Maximum Rate and a 365-day year.

UNDER CERTAIN CIRCUMSTANCES DESCRIBED BELOW UNDER "EVENTS OF DEFAULT SUSPENDING OR TERMINATING BANK'S OBLIGATION TO PURCHASE SERIES D BONDS", THE OBLIGATION OF THE BANK TO PURCHASE SERIES D BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE MAY BE TERMINATED OR SUSPENDED. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SERIES D BONDS TENDERED BY THE OWNERS THEREOF OR SUBJECT TO MANDATORY PURCHASE. THE BOND INSURANCE POLICY DOES NOT GUARANTY THE PAYMENT OF THE PURCHASE PRICE UPON THE MANDATORY PURCHASE OF SERIES D BONDS. IN TURN, THE STANDBY BOND PURCHASE AGREEMENT DOES NOT PROVIDE SECURITY FOR THE PAYMENT OF REGULARLY SCHEDULED PRINCIPAL OF OR INTEREST ON OR PREMIUM, IF ANY, ON THE SERIES D BONDS.

Purchase of Tendered Series D Bonds by the Bank

The Bank will purchase, from time to time during the Commitment Period, Series D Bonds that are Eligible Bonds and that have been tendered pursuant to either an optional tender or a mandatory purchase pursuant to the Loan and Trust Agreement and that the Remarketing Agent has been unable to remarket. See "Events of Default Suspending or Terminating Bank's Obligation to Purchase Series D Bonds" below. The price to be paid by the Bank for such Series D Bonds will be equal to the aggregate principal amount of such Series D Bonds plus interest (if the date of such purchase is not an Interest Payment Date), which interest shall not exceed the lesser of the Available Interest Commitment and the actual interest accrued on such Series D Bonds to the date of such purchase. The conditions to the Bank's obligation to purchase such Series D Bonds include the following: (1) no event of default resulting in automatic termination or suspension shall have occurred, (2) the Commitment Period shall not have otherwise expired or been terminated and (3) the Bank shall have received from the Trustee a Notice of Bank Purchase as described in the Standby Bond Purchase Agreement. After such purchase, Series D Bonds which are

Bank Bonds (as defined in the Standby Bond Purchase Agreement) will bear interest at the Bank Rate described in the Standby Bond Purchase Agreement, payable as provided in the Standby Bond Purchase Agreement.

Redemption or Purchase of Bank Bonds

Bank Bonds are subject to mandatory redemption in accordance with the Loan and Trust Agreement over a five-year period or to prepayment as otherwise set forth in the Standby Bond Purchase Agreement. Mandatory redemptions of Bank Bonds are to commence on that date (the "First Principal Payment Date") which is the last Business Day of the third full calendar month following the end of the applicable Hold Period. Such mandatory redemptions shall be made in quarterly installments, payable on the First Principal Payment Date and on the last Business Day of each third succeeding month until such Bank Bonds shall have been redeemed in full. Each such quarterly mandatory redemption amount will be equal to $1/20^{th}$ of the outstanding principal of the relevant Bank Bonds at the First Principal Payment Date, and, in any event, all such Bank Bonds will be redeemed in full on the last Business Day of the 60th full calendar month following the end of the Hold Period. In addition, pursuant to the Standby Bond Purchase Agreement, the Obligated Group Members have agreed to repurchase from the Bank all outstanding Bank Bonds (at par plus accrued interest at the Bank Rate to the date of purchase) at any time after the expiration or termination of the Commitment Period upon the demand of the Bank, provided that on the date of such demand the Bond Insurance Policy shall for any reason not be in full force and effect or any other Bond Insurer Event of Default shall have occurred and be then continuing.

Events of Default Suspending or Terminating Bank's Obligation to Purchase Series D Bonds

The consequences of the occurrence of different events of default under the Standby Bond Purchase Agreement differ significantly, including with respect to the obligation of the Bank to purchase Eligible Bonds tendered for purchase or subject to mandatory purchase. The following is a summary of certain "events of default" under the Standby Bond Purchase Agreement that cause the Bank's obligations under the Standby Bond Purchase Agreement to purchase Series D Bonds to be suspended or terminated or that cause a mandatory purchase of the Series D Bonds:

(i) any principal of or interest on any Series D Bonds (including principal of and interest on Bank Bonds, the interest component of the price paid by the Bank to purchase Series D Bonds tendered for purchase or subject to mandatory purchase and the Differential Interest Amount with respect to remarketed Bank Bonds) shall not be paid when due and any such principal or interest shall remain unpaid for 3 Business Days after written notice of such failure has been given to the Bond Insurer, the Obligated Group Members and the Trustee; or the Obligated Group Members shall fail to pay when due any commitment fee or other fee payable pursuant to the Standby Bond Purchase Agreement and such fee shall remain unpaid for 15 days after notice of such failure has been given to the Bond Insurer, the Obligated Group Members and the Trustee (note that any such event could result in termination of the Bank's obligation to purchase Series D Bonds upon 30 days' notice to the Bond Insurer, the Trustee, the Authority, the Obligated Group Members and the Remarketing Agent); or

(ii) the Bond Insurance Policy is surrendered, canceled or terminated or amended or modified in any material respect without the Bank's prior written consent (note that this event results in an automatic termination of the Bank's obligation to purchase Series D Bonds pursuant to the Standby Bond Purchase Agreement); or

(iii) the Bond Insurer shall fail, wholly or partially, to make a payment of principal or interest as required under the Bond Insurance Policy (note that this event results in an automatic termination of the Bank's obligation to purchase Series D Bonds pursuant to the Standby Bond Purchase Agreement); or

(iv) the occurrence and continuance of one or more of the following events:

(A) the issuance, under the laws of the State of Maryland (or other jurisdiction of domicile of the Bond Insurer), of an order of rehabilitation, liquidation, supervision or dissolution of the Bond Insurer;

(B) the commencement by the Bond Insurer of a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect including, without limitation, the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property;

(C) the consent of the Bond Insurer to any relief referred to in the preceding clause (B) in any involuntary case or other proceeding commenced against it or the commencement against the Bond Insurer of an involuntary case or other proceeding seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian, supervisor or other similar official for itself or any substantial part of its property, if such case or proceeding shall continue undismissed or unstayed and in effect for a period of 60 days or an order for relief shall be entered or a receiver, supervisor or similar official shall be appointed in any involuntary case against the Bond Insurer under any bankruptcy, insolvency, insurance or other similar law now or hereafter in effect;

(D) the making by the Bond Insurer of an assignment for the benefit of creditors;

(E) the taking of any corporate action on the part of the Bond Insurer to authorize any of the matters described in foregoing clauses (A)-(D); or

(F) the failure of the Bond Insurer to generally pay its debts as they become due (note that the occurrence of any of the events described in (iv) results in an automatic termination of the Bank's obligation to purchase Series D Bonds pursuant to the Standby Bond Purchase Agreement); or

(v) the Bond Insurer shall:

(A) in writing claim that the Bond Insurance Policy is not valid and binding on the Bond Insurer; or

(B) repudiate the obligations of the Bond Insurer under the Bond Insurance Policy, or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that the Bond Insurance Policy, with respect to the payment of principal of and interest on the Series D Bonds or any of the Bank Bonds, is not valid and binding on the Bond Insurer (note that any event described in (v) results in an immediate suspension of the Bank's obligations under the Standby Bond Purchase Agreement to purchase Series D Bonds as further described below); or

(vi) any governmental authority with jurisdiction to rule on the validity of the Bond Insurance Policy shall announce, find or rule that the Bond Insurance Policy is not valid and binding on the Bond Insurer (note that this event results in an immediate suspension of the Bank's obligations under the Standby Bond Purchase Agreement to purchase Series D Bonds as further described below); or

(vii) a downgrading of the rating of the Bond Insurer's financial strength by either or both of S&P and/or Moody's so that the Bond Insurer is rated below AA by S&P and/or below Aa3 by Moody's and such rating below AA by S&P (or below Aa3 by Moody's) shall continue for 30 consecutive days (note that this event results in termination of the Bank's obligations to purchase Series D Bonds upon 30 days' notice, which may be given during the above described 30-day period).

Upon the occurrence of an Event of Default as described in paragraphs (ii), (iii) or (iv) above, the Available Commitment and the obligation of the Bank to purchase Series D Bonds under the Standby Bond Purchase

Agreement shall immediately terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase Series D Bonds.

Upon the occurrence of an Event of Default as described in paragraphs (v) or (vi) above, the Bank's obligations to purchase Series D Bonds under the Standby Bond Purchase Agreement shall be immediately suspended without notice or demand, and thereafter the Bank shall be under no obligation to purchase Series D Bonds until the Available Commitment for such Standby Bond Purchase Agreement is reinstated. If a court with jurisdiction to rule on the validity of the Bond Insurance Policy shall thereafter enter a final, nonappealable judgment that the Bond Insurance Policy is not valid and binding on the Bond Insurer, then the Available Commitment and the obligation of the Bank to purchase Series D Bonds under the Standby Bond Purchase Agreement shall terminate immediately without notice or demand, and thereafter the Bank shall be under no obligation to purchase Series D Bonds. If a court with jurisdiction to rule on the validity of the Bond Insurance Policy shall find or rule that the Bond Insurance Policy is valid and binding on the Bond Insurer, then the Available Commitment and the obligations of the Bank under the Standby Bond Purchase Agreement shall thereupon be immediately reinstated (unless the Commitment Period shall otherwise have expired or the Available Commitment shall otherwise have been terminated or suspended).

Notwithstanding the foregoing, if three (3) years after the effective date of suspension of the Bank's obligations as described in this paragraph, a judgment regarding the validity of the Bond Insurance Policy has not been obtained, then the Available Commitment and the obligation of the Bank to purchase Series D Bonds shall, unless previously terminated pursuant to any other provision of the Standby Bond Purchase Agreement, at such time terminate without notice or demand, and thereafter the Bank shall be under no obligation to purchase Series D Bonds.

Upon the occurrence of an Event of Default as described in paragraph (i) above, the Bank may, in addition to any other remedies available to it at law or in equity, give written notice (a "Notice of Termination Date") of such Event of Default to the Trustee, the Obligated Group Members, the Bond Insurer, the Authority and the Remarketing Agent requesting a Default Tender. The obligation of the Bank to purchase Series D Bonds shall terminate 30 days after such Notice of Termination Date is received by the Trustee. The receipt of a Notice of Termination Date by the Trustee will result in a Termination Date occurring on the 30th day (or if such day is not a Business Day, on the following Business Day) after the Trustee's receipt of a Notice of Termination Date.

Upon the occurrence of any Event of Default as described in paragraph (vii) above, the Bank may, in addition to any other remedies available to it at law or in equity, give a Notice of Termination Date to the Trustee, the Obligated Group Members, the Bond Insurer, the Authority and the Remarketing Agent of such Event of Default and requesting a Default Tender, which notice may be given during the 30-day period described in paragraph (vii) above), the obligation of the Bank to purchase Series D Bonds shall terminate 30 days after such notice is received by the Trustee.

Other Events of Default

The Standby Bond Purchase Agreement provides for other Events of Default which do not entitle the Bank to suspend or terminate its obligations to purchase Series D Bonds under the Standby Bond Purchase Agreement. These include:

(i) lack of accuracy of material representations and warranties; or

(ii) failure of any Obligated Group Member to perform certain of its affirmative and negative covenants (including covenants with respect to performance of Bond documents, no amendments to Bond documents without the Bank's consent, certain notice and reporting requirements, limitations on use of information concerning the Bank, provisions relating to substitution of the Standby Bond Purchase Agreement, required substitution of Bond Insurer under certain circumstances, agreements as to hazardous waste, and prohibition against violation of fraud and abuse laws); or

(iii) failure by any Obligated Group Member to perform certain covenants relating to compliance with laws, maintenance of governmental permits, corporate existence, insurance and payment of taxes, which failure continues unremedied for 30 days after such Obligated Group Member has knowledge (or reasonably should have knowledge) thereof, or

(iv) any Obligated Group Member shall fail to perform any other covenant contained in the Standby Bond Purchase Agreement and such failure shall remain unremedied for 30 days after notice to the Obligated Group Members; or

(v) the occurrence of a default with respect to other indebtedness of any Obligated Group Member in excess of $250,000; or

(vi) the occurrence of certain bankruptcy or insolvency matters relating to any Obligated Group Member; or

(vii) the occurrence of other defaults under the Bond documents; or

(viii) invalidity of provisions of the Standby Bond Purchase Agreement or other Bond documents (other than the Bond Insurance Policy).

The occurrence of an Event of Default described in any of clauses (i) - (viii) above and not referred to above under the heading "Events of Default Suspending or Terminating Bank's Obligation to Purchase Series D Bonds" will have the following consequences: the Bank will have all remedies available to it at law or in equity, including, without limitation, the right to seek specific performance; however, the Bank will have no right to terminate its obligation to purchase Series D Bonds except as expressly provided above under the heading "Events of Default Suspending or Terminating Bank's Obligation to Purchase Series D Bonds". After the occurrence and among the continuance of any Event of Default, the Bank Rate will be increased to reflect a default rate and there will be an increase in the Bank's quarterly commitment fee.

Other Provisions of Standby Bond Purchase Agreement

The Standby Bond Purchase Agreement contains, among other things, conditions to the initial effectiveness of such Standby Bond Purchase Agreement (including issuance and rating of the Series D Bonds, truth of representations and warranties, absence of default, no material adverse change, issuance of the Bond Insurance Policy, delivery of relevant documents and delivery of legal opinions); provisions as to payment of commitment fees and other fees; mechanics of purchase and resale of Bank Bonds and provisions as to the calculation and payment of interest and other charges in respect of Bank Bonds. The Standby Bond Purchase Agreement contains various representations and warranties of the Obligated Group Members, including representations and warranties as to: due incorporation and legal existence; corporate power and authority; tax status; corporate authorization of documents; enforceability of documents; no conflict with laws, charter documents or other agreements; obtaining of certain consents; no material litigation, except as disclosed; no material violation of existing contracts; payment of taxes; compliance with laws; principal place of business; no burdensome contracts; no defaults; accuracy of Official Statement; issuance of Series D Bonds; no encumbrance on Bank Bonds; incorporation by reference of representations and warranties contained in certain other documents; accuracy of financial statements and other information; no proposed legal changes; and appointment of Trustee and Remarketing Agent. The Standby Bond Purchase Agreement also contains certain affirmative and negative covenants, including covenants as to: payment of obligations and performance of documents relating to the Series D Bond financing; limitation on certain amendments to the Bond documents; annual and quarterly financial reporting requirements; quarterly reports by independent construction consultant; furnishing management letters; furnishing annual budgets; giving of notices as to defaults, material litigation, loss of material permits, material controversies with third-party payors or other material adverse developments and certain other information; furnishing other information at the Bank's reasonable request; compliance with laws; certain limitations on conversion of Series D Bonds to a Non-Demand Mode; notices of defaults and other events under the Loan and Trust Agreement; limitation on inclusion of information relating to the Bank in offering material for the Series D Bonds; certain limitations on providing a substitute Liquidity Facility; provisions with respect to any successor Trustee or Remarketing Agent; maintenance of appropriate licenses and permits; provisions with respect to substitution of Bond Insurer (including required substitution upon the occurrence

and continuance of certain events and provisions with respect to increase in commitment fees upon certain downgrades with respect to the Bond Insurer); maintenance of corporate existence and tax status; continuance of business; maintenance of properties and insurance; payment of taxes and other charges; inspection by the Bank; further assurances; agreements as to hazardous waste; prohibition against violation of fraud and abuse laws; prohibition against violation of Regulation U; and requirement for retention of an independent construction consultant. The Standby Bond Purchase Agreement also contains provisions as to limitation of liability of the Bank, payment of expenses and indemnification, payment of taxes, notices and other miscellaneous provisions.

Term of the Standby Bond Purchase Agreement

The term of the Standby Bond Purchase Agreement will be until the later of (a) the last day of the Commitment Period and (b) the payment in full of the principal of and interest on all Bank Bonds and all other amounts due under the Standby Bond Purchase Agreement.

Upon the written request of the Obligated Group Members received by the Bank no later than 180 days prior to the Expiration Date then in effect, or such other date to which the Bank may consent in writing, the Bank is required within 60 days of such request to notify the Obligated Group Members, the Trustee, the Remarketing Agent and the Bond Insurer whether or not it will extend the scheduled Expiration Date for a period of one year or such other period as the Bank may agree in its sole discretion. If the Bank fails to so notify the Obligated Group Members of its decision within such 60-day period, the Bank will be deemed to have rejected such request.

Certain Definitions

Set forth below are definitions of certain capitalized terms used in the foregoing description of the Standby Bond Purchase Agreement.

“Bank Bonds” means Series D Bonds purchased with funds provided by the Bank under the Standby Bond Purchase Agreement until such Series D Bonds have been remarketed.

“Bank Rate” means the interest rate borne by Bank Bonds pursuant to the Standby Bond Purchase Agreement.

“Bond Insurer Event of Default” means any event described in any of numbered paragraphs (ii)-(vi) under the heading “Events of Default Suspending or Terminating Bank’s Obligation to Purchase Series D Bonds”, above.

“Commitment Period” means the period from the effective date of the Standby Bond Purchase Agreement to and including the earliest of (a) the Expiration Date, (b) the date on which no Series D Bonds in Daily Mode or Weekly Mode are Outstanding (as defined in the Loan and Trust Agreement), (c) the close of business on the Business Day following the date on which any Series D Bonds are converted to any Non-Demand Mode, (d) the close of business on the 30th day following the date on which a Notice of Termination Date (as defined in the Standby Bond Purchase Agreement) is received by the Trustee, or, if such day is not a Business Day, the next following Business Day, and (e) the date on which the Available Commitment has been reduced to zero or terminated in its entirety pursuant to the Standby Bond Purchase Agreement.

“Default Tender” means a mandatory tender of the Series D Bonds as a result of the Bank’s delivery of a Notice of Termination Date to the Trustee.

“Differential Interest Amount” means, as to any Bank Bonds which are remarketed, the difference between (x) the interest accrued on such Bank Bonds at the Bank Rate to the date of sale and (y) the accrued interest paid to the Bank by the purchasers of such remarketed Series D Bonds.

“Eligible Bonds” means Series D Bonds which satisfy all of the following criteria: (a) such Series D Bonds are in Daily Mode or Weekly Mode, (b) such Series D Bonds are not Bank Bonds or Institution Bonds.

“Expiration Date” means the later of (a) 5:00 p.m. Boston time on December 23, 2009 or, if such day is not a Business Day, the Business Day next following such day and (b) 5:00 p.m. Boston time on the last day of any extension of such date pursuant to the Standby Bond Purchase Agreement or, if such date is not a Business Day, the next following Business Day.

“Hold Period” means, with respect to any Bank Bonds, the period commencing on the purchase date for such Bank Bonds and ending 180 days thereafter.

“Institution Bonds” means (i) any Series D Bond owned of record by an Obligated Group Member and (ii) any Series D Bond which, to the knowledge of the Trustee, is held on behalf of or for the account of any Obligated Group Member or any of their respective affiliates or any of their successors or assigns.

“Non-Demand Mode” means any Mode (as defined in the Loan and Trust Agreement) which is not a Daily Mode or a Weekly Mode.

[THIS PAGE INTENTIONALLY LEFT BLANK]

MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
POPEO PC

Boston
Washington
Reston
New York
Stamford
Los Angeles
London

One Financial Center
Boston, Massachusetts 02111
617 542 6000
617 542 2241 fax
www.mintz.com

PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Closing]

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

Re: Massachusetts Health and Educational Facilities Authority Variable Rate Demand Revenue Bonds, Cape Cod Healthcare Obligated Group Issue, Series D (2004) (the "Bonds")

We have examined Chapter 614 of the Massachusetts Acts of 1968, as amended (the "Act"), and other applicable statutes. We have also examined executed copies of (i) the Loan and Trust Agreement dated as of June 1, 1993 (the "Loan and Trust Agreement") among the Massachusetts Health and Educational Facilities Authority (the "Authority"), The First National Bank of Boston, as trustee and Cape Cod Health Systems, Inc., Cape Cod Hospital, Cape Cod Hospital Foundation, Inc., Cape & Islands Nursing Home Corporation I and Cape & Islands Nursing Home Corporation II (the "Prior Obligated Group"), as amended by the First Amendment to the Loan and Trust Agreement dated as of October 4, 1994 (the "First Amendment") among the Authority, The First National Bank of Boston, as trustee and the Prior Obligated Group, as further amended and supplemented by the First Supplemental Loan and Trust Agreement dated as of August 11, 1998 (the "First Supplemental Agreement") among the Authority, the First National Bank of Boston, as trustee and the Prior Obligated Group, as further amended and supplemented by the Second Supplemental Loan and Trust Agreement dated as of October 9, 2001 (the "Second Supplemental Agreement") among the Authority, State Street Bank and Trust Company, as successor trustee and Cape Cod Healthcare, Inc., Cape Cod Hospital, Falmouth Hospital Association, Inc. and The Healthcare Foundation of Cape Cod, Inc. and as further amended and supplemented by the Third Supplemental Loan and Trust Agreement dated as of December 7, 2004 (the "Third Supplemental Agreement") among the Authority, U.S. Bank National Association, as successor trustee (the "Trustee") and Cape Cod Healthcare, Inc., Cape Cod Hospital, Falmouth Hospital Association, Inc. and Cape Cod Healthcare Foundation Inc. (collectively, the "Obligated Group") (the Loan and Trust Agreement, as so amended and supplemented by the First Amendment, the First Supplemental Agreement, the Second Supplemental Agreement and the Third Supplemental Agreement shall be referred to herein as the "Agreement") and (ii) the Purchase Contract dated December __, 2004 (the "Bond Purchase Contract") between the Authority and Cain Brothers & Company, LLC as representative of the underwriters (the "Underwriters"). We have also examined certified copies of the Resolution of the Authority adopted on December 7, 2004 relating to the Bonds, the Obligated Group's Tax Certificate, the Obligated Group's Certificate as to Arbitrage, the Authority's No Arbitrage Certificate and other papers submitted in connection with the issuance of the Bonds.

Terms which are defined in the Agreement and not otherwise defined herein are used herein as so defined.

Reference is made to an opinion of even date of Nutter, McClennen & Fish, LLP counsel to the Obligated Group, with respect to, among other matters, the corporate status and qualifications to do business of each Member of the Obligated Group, the status of each Member of the Obligated Group as an organization described in Section

501(c)(3) of the Internal Revenue Code, the power of each Member of the Obligated Group to enter into and perform the Agreement, the authorization, execution and delivery of the Agreement by the Obligated Group Agent and the extent to which the Agreement is binding and enforceable upon each Member of the Obligated Group.

In rendering the opinions set forth herein, we have relied upon the opinion described above and upon the accuracy of the representations of the Authority and the Obligated Group as set forth in such papers and documents as we have deemed necessary in connection with this opinion, including without limitation, the Bond Purchase Contract and the Agreement and the above-referenced Obligated Group's Tax Certificate, the Obligated Group's Certificate as to Arbitrage and the Authority's No Arbitrage Certificate.

Based upon our examination, we are of the opinion that:

(a) The Authority is validly existing as a body politic and corporate and public instrumentality under the laws of The Commonwealth of Massachusetts, authorized and empowered by the Act to borrow money and to issue the Bonds in evidence thereof, to loan the proceeds of the Bonds to the Obligated Group in order to finance the cost of the Project, as defined in the Agreement, and to enter into and perform its obligations under the Agreement.

(b) The Bonds have been duly authorized and issued by the Authority for the purpose of providing funds to be loaned to the Obligated Group in order to finance the cost of the Project as described in the Authority's Resolution dated December 7, 2004.

(c) The Agreement has been duly executed and delivered on behalf of the Authority and constitutes a valid and legally binding obligation of the Authority, enforceable in accordance with its terms, except as such enforcement may be limited by applicable bankruptcy, moratorium or other laws of general applicability from time to time in effect which affect the rights and remedies of creditors and secured parties and by the exercise of judicial discretion in accordance with legal and equitable limitations of general applicability.

(d) The Bonds have been duly executed, authenticated and delivered and are the valid and legally binding limited obligations of the Authority, enforceable in accordance with their terms, except as enforcement may be limited by applicable bankruptcy, moratorium or other laws of general applicability from time to time in effect which affect the rights and remedies of creditors and secured parties and by the exercise of judicial discretion in accordance with legal and equitable limitations of general applicability. The Bonds are entitled to the benefits of the Agreement and the Act. However, neither The Commonwealth of Massachusetts nor any political subdivision thereof, nor the Authority is obligated to pay principal of or redemption premium, if any, or interest on the Bonds except from the income and revenue to be derived by the Authority pursuant to the Agreement and from moneys held from time to time by the Trustee under the Agreement, and neither the faith and credit nor the taxing power of The Commonwealth of Massachusetts nor of any political subdivision thereof, nor of the Authority is pledged to the payment of the principal of or redemption premium, if any, or interest on the Bonds.

(e) (i) Under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that certain requirements of the Internal Revenue Code of 1986, as amended, be met subsequent to the date of issuance of the Bonds in order that interest be and remain excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

(ii) While interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed under federal tax law on individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations.

(iii) We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

(f) Under existing Massachusetts law, interest on the Bonds and any profit 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 or as to the taxability of the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, under the laws of states other than Massachusetts.

(g) The Bonds will initially bear interest at the Weekly Mode as defined in the Agreement, and may be converted, at the option of the Obligated Group, from the Weekly Mode to other Variable Rate Modes, the Auction Rate Mode or the Fixed Rate Mode in accordance with the Agreement. Notwithstanding paragraph (e) or (f) above, no opinion is expressed as to the interest on the Bonds for any period following any such conversion from a Short-Term Mode to a Long-Term Mode. The Agreement requires, as a condition of any such conversion that there be rendered an opinion of counsel to the effect that, among other things, such conversion will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation, subject to the exceptions contained in paragraph (e) and (f) above.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F
FORM OF FINANCIAL GUARANTY INSURANCE POLICY

Assured Guaranty Corp.
1325 Avenue of the Americas
New York, New York 10019

Financial Guaranty Insurance Policy No. _________

Issuer:	Massachusetts Health and Educational Facilities Authority		
Bonds:	$65,000,000 Massachusetts Health and Educational Facilities, Revenue Bonds, Cape Cod Healthcare Obligated Group Issues, Series 2004	Premium:	$ ____________
Effective Date:	__________ __, 2004	Term:	The period from and including the Effective Date to and including the date on which all Insured Payments (including Avoided Payments) have been paid.

Assured Guaranty Corp., a Maryland insurance company ("Assured Guaranty"), in consideration of the payment of the premium set forth above and subject to the terms of this financial guaranty insurance policy number _________ (the "Policy"), hereby unconditionally and irrevocably agrees to pay to [*insert name of trustee*], as trustee (the "Trustee") (as set forth in the documentation providing for the issuance of and securing the above-referenced Bonds (the "Bonds;" such documentation, the "Transaction Documentation")) for the benefit of the holders of the Bonds (the "Holders"), and in any case subject to the terms of this Policy, that portion of the principal of and interest on the Bonds that shall become Due for Payment (as hereinafter defined) but shall be unpaid by reason of Nonpayment by the Issuer (as hereinafter defined; such portion of principal and interest, hereinafter the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. *Capitalized terms used in this Policy are used with the meanings ascribed thereto elsewhere herein*.

Assured Guaranty will make such Insured Payments to the Trustee on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed notice of claim in the form attached hereto as Exhibit A. Payment by Assured Guaranty to the Trustee for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment. The Trustee will disburse the Insured Payments to the Holders in accordance with the terms of the Transaction Documentation only upon receipt by the Trustee, in form reasonably satisfactory to it, of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon such disbursement, Assured Guaranty shall become the Holder of the Bond, appurtenant coupon thereto, or right to payment of principal or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to payment thereof.

This Policy is non-cancelable for any reason. The premium on this Policy is not refundable for any reason, including without limitation any payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment premium which may be payable with respect to all or any portion of any Bond at any time, or the failure of the Trustee to remit amounts received hereunder to the Holder in accordance with the terms of the Transaction Documentation. No payment shall be made under this Policy in excess of the Policy Limit. No payment shall be made under this Policy with respect to a Bond if the Holder is the Issuer of such Bond.

At any time during the Term of the Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee, specifying the name and notice address of such Fiscal Agent. From and after the date of receipt of such notice by the Trustee or Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be simultaneously delivered to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to Trustee for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

Certain Defined Terms

"Avoided Payment" means any amount that is paid, credited, transferred or delivered to a Holder in respect of any Insured Payment by the Trustee, which amount has been rescinded or recovered from or otherwise required to be returned or repaid by such Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such holder.

"Business Day" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in New York City or in the States of Maryland or New York.

"Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof, or the date on which such Bond shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and means, when referring to interest on a Bond, the stated date for payment of such interest.

"Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on such Bond. It is further understood that the term "Nonpayment" in respect of a Bond includes any Avoided Payment.

"Notice" means a written notice from a Holder, the Trustee mailed by registered mail or personally delivered or telecopied to Assured Guaranty at 1325 Avenue of the Americas, New York, NY 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee in writing.

“Policy Limit” means $65,000,000, together with interest thereon at the rate or rates set forth in the Transaction Documentation; provided, however, that nothing set forth herein shall be construed to include in the coverage provided by this Policy interest calculated at a default rate.

"Receipt" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given.

To the fullest extent permitted by applicable law, Assured Guaranty agrees not to assert, and hereby waives, for the benefit of the Holders only, all rights and defenses to the extent that such rights and defenses may be available to Assured Guaranty to avoid payment of claims made under this Policy in accordance with its terms.

This Policy sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including without limitation any modification thereto or amendment thereof.

This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York (other than with respect to its conflicts of laws principles).

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

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer to become effective and binding upon Assured Guaranty by virtue of such signature.

ASSURED GUARANTY CORP.

By:_________________________________
Name:
Title:

SEAL

EXHIBIT A

NOTICE OF CLAIM

Assured Guaranty Corp.
1325 Avenue of the Americas
New York, New York 10019
Attention: General Counsel

The undersigned, [a duly authorized officer of [TRUSTEE]] [a Holder of the Bonds] (the "Trustee" or the "Holder"), hereby certifies to Assured Guaranty Corp. (the "Insurer") with reference to Financial Guaranty Insurance Policy No. _________ (the "Policy"), that:

(i) The deficiency with respect to the Insured Payment Due for Payment and unpaid by reason of Nonpayment by the Issuer on [insert applicable payment date] is $[insert applicable amount] (the "Defaulted Amount").

(ii) The [Trustee][Holder] is making a claim under the Policy for the Defaulted Amount to be applied to the payment of the above-described Insured Payment.

(iii) The [Trustee][Holder] agrees that, following payment by the Insurer made with respect to the Defaulted Amount which is the subject of this Notice of Claim, it (a) will cause such amounts to be applied directly to the payment of the applicable Insured Payment; (b) will insure that such funds are not applied for any other purpose; and (c) will cause an accurate record of such payment to be maintained with respect to the appropriate Insured Payment(s), the corresponding claim on the Policy, and the proceeds of such claim.

(iv) [If the undersigned is the Trustee] Payment should be made by credit to the following account:

____

____

Upon payment of the applicable Defaulted Amount(s), the Insurer shall be subrogated to the rights of the Trustee and the Holder of the Bonds with respect to such payment.

Capitalized terms used in this Notice of Claim and not otherwise defined herein shall have the respective meanings ascribed thereto in the Policy.

This Notice of Claim may be revoked at any time by written notice of such revocation by the [Trustee][Holder] to the Insurer, if and only to the extent that moneys are actually received prior to any such revocation from a source other than the Insurer with respect to the Defaulted Amount set forth herein.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Notice of Claim as of the __ day of _________ of 20__.

[TRUSTEE /HOLDER]

By:__________________________
Name:
Title

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY • VARIABLE RATE DEMAND REVENUE BONDS, • CAPE COD HEALTHCARE OBLIGATED GROUP ISSUE, SERIES D (2004)

Recycled Paper - Printed by
IMAGEMASTER 800.452.5152