

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



\$63,575,000
MASSACHUSETTS HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Emerson Hospital Issue, Series E (2005)

Dated: Date of Delivery

Due: August 15, as shown below

Principal of and interest on the Series E Bonds will be paid by J.P. Morgan Trust Company, National Association, as trustee and paying agent (the "Bond Trustee"). The Series E Bonds will be issued only as fully registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series E Bonds. Purchases of the Series E Bonds will be made in book-entry form. Purchasers will not receive certificates representing their interests in the Series E Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Series E Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series E Bonds. See "THE SERIES E BONDS—Book-Entry-Only System" herein. 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.

The Series E Bonds will be issued in denominations of \$5,000 or any multiple thereof and will bear interest at the rates set forth below, payable on each February 15 and August 15, commencing February 15, 2006.

The Series E Bonds are subject to redemption prior to maturity, including optional redemption, mandatory sinking fund redemption and special redemption in certain circumstances, as set forth in this Official Statement.

Payment of principal of and interest on the Series E Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series E Bonds by Radian Asset Assurance Inc.

Radian Asset Assurance Inc. **RADIAN**

The Series E Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues, as defined herein, of the Authority, including payments to the Bond Trustee for the account of the Authority by Emerson Hospital (the "Institution") in accordance with the provisions of the Agreement (as defined herein). The payments pursuant to the Agreement are general obligations of the Institution secured by the Series E Note (as defined herein) issued to the Bond Trustee pursuant to the terms of the Master Trust Indenture dated as of July 12, 2005 (the "Master Indenture") between the Institution, as the sole current member of the Obligated Group (the "Obligated Group"), and J.P. Morgan Trust Company, National Association, as master trustee (the "Master Trustee"). The Series E Note is secured by a security interest in the Gross Receipts of the Obligated Group under the Master Indenture, and by a mortgage on the Institution's primary hospital campus located in Concord, Massachusetts.

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

MATURITIES, AMOUNTS, INTEREST RATES, AND YIELDS
\$6,920,000 SERIAL BONDS

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2006	\$455,000	3.50%	3.05%	2011	\$780,000	5.00%	3.95%
2007	480,000	3.50	3.25	2012	815,000	5.00	4.03
2008	495,000	4.00	3.46	2013	845,000	4.00	4.10
2009	585,000	4.00	3.64	2014	870,000	4.125	4.20
2010	695,000	5.00	3.79	2015	900,000	4.25	4.30

\$20,795,000 5.00% Term Bonds Due August 15, 2025, Yield 4.60%*

\$9,035,000 4.625% Term Bonds Due August 15, 2028, Yield 4.73%*

\$26,825,000 5.00% Term Bonds Due August 15, 2035, Yield 4.73%*

The Series E Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Obligated Group by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York. It is expected that the Series E Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on August 24, 2005.

UBS Financial Services Inc.

August 11, 2005

* Priced to the first optional call date of August 15, 2015.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES E 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 information or to make representations with respect to the Series E Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer by any person to sell or the solicitation by any person of an offer to buy, nor shall there be any sale of the Series E 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, Radian Asset Assurance Inc. and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Authority. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Obligated Group has agreed to enter into a Continuing Disclosure Agreement pursuant to which the Obligated Group will provide certain continuing disclosure. The purpose of the Continuing Disclosure Agreement is to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE" herein.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. CONTAINED 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 RADIAN ASSET ASSURANCE INC., AND RADIAN ASSET ASSURANCE INC. MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES E BONDS; OR (III) THE TAX STATUS OF THE INTEREST ON THE SERIES E BONDS.

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

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CHRISTINE C. SCHUSTER

BENSON T. CASWELL, *Executive Director*

OFFICIAL STATEMENT

Relating to

\$63,575,000

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

Revenue Bonds, Emerson Hospital Issue, Series E (2005)

INTRODUCTION

Purpose of this Official Statement. The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority") and Emerson Hospital (the "Institution"), as the sole current member of the Obligated Group (the "Obligated Group") under the Master Indenture (defined below) and the \$63,575,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Emerson Hospital Issue, Series E (2005) (the "Series E Bonds"). The Series E Bonds are being issued under the Loan and Trust Agreement, dated as of July 12, 2005 (the "Agreement"), by and among the Authority, the Institution and J.P. Morgan Trust Company, National Association, as trustee (in such capacity, the "Bond Trustee"). The Series E Bonds are to be issued in accordance with the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act"), and the Agreement. The information contained in this Official Statement is provided for use in connection with the initial sale of the Series E Bonds. The definitions of certain terms used and not otherwise defined herein are contained in Appendix C-1—"DEFINITIONS OF CERTAIN TERMS."

Plan of Finance. The proceeds from the sale of the Series E Bonds, together with certain other available moneys, will be used to: (i) current refund the Authority's Revenue Bonds, Emerson Hospital Issue, Series D (the "Prior Bonds"), the proceeds of which Prior Bonds were used for construction and renovation at the Institution of various facilities, including facilities providing patient services, support services and parking; (ii) finance and refinance construction, renovation and expansion projects and acquisition of capital equipment at the Institution; (iii) fund a debt service reserve fund; (iv) pay the premium for the bond insurance policy described herein; and (v) pay certain costs and expenses incurred in connection with the issuance of the Series E Bonds.

A more detailed description of the use of the proceeds from the sale of the Series E Bonds and the use of certain other moneys, including approximate amounts and purposes, is included herein under "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

SECURITY FOR THE SERIES E BONDS

General

The Series E Bonds are equally and ratably secured by, and are issued pursuant to, the Agreement. The Agreement requires the Institution to make payments that, together with other available moneys therefor, will be sufficient to pay the principal of, premium, if any, and interest on all Bonds outstanding under the Agreement, when due. As security for the Institution's obligation to make payments under the Agreement, the Institution, as the sole current member of the Obligated Group, has granted a lien on its Gross Receipts (subject to the rights of the Obligated Group to grant a prior lien or parity lien for certain permitted Indebtedness). Pursuant to the Mortgage, dated as of July 12, 2005 (the "Mortgage") from the Institution to J.P. Morgan Trust Company, National Association, as master trustee (the "Master Trustee"), the Institution has granted a mortgage on its primary hospital campus, as described under the caption "Mortgaged Property" below. As further security for the Series E Bonds, the payment of principal of and interest on (but not premium on) the Series E Bonds when due will be insured by a Bond Insurance Policy issued by the Bond Insurer (both defined below), as described under the caption "Bond Insurance Policy" below.

Loan and Trust Agreement

The Authority, the Institution and the Bond Trustee will execute the Agreement, which provides that to the extent permitted by law, it is a general obligation of the Institution and that the full faith and credit of the Institution are pledged to its performance. With respect to the Series E Bonds, the Agreement also provides, among other things, that the Institution will make payments to the Bond Trustee equal to the principal or sinking fund installments, as the case may be, and interest on the Series E Bonds and certain other payments required by the Agreement. The Agreement will remain in full force and effect until such time as all of the Series E Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

The Agreement requires that the Institution pay to the Bond Trustee, on or before the first (1st) day of each month, one-sixth (1/6) of the interest coming due on the Series E Bonds on the next August 15 or February 15, as the case may be, and one-twelfth (1/12) of the principal (including sinking fund installments) coming due on the next August 15 for deposit in the Debt Service Fund. Appropriate adjustments shall be made to reflect the date of issue of the Series E Bonds and any purchase or redemption of the Series E Bonds. The Bond Trustee shall make transfers from the Debt Service Fund in amounts and at times necessary to provide for debt service payments on the Series E Bonds.

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

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the

Authority or the filing of reports, certificates or other documents with the Authority; or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions thereof.

The Series E Bonds are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the Agreement, the moneys received with respect to the Series E Bonds by the Bond Trustee for the account of the Authority pursuant to the Agreement, whether such moneys are received as Revenues paid or caused to be paid by the Institution pursuant to the Agreement.

The Series E Bonds shall not be deemed to constitute a debt, liability or moral obligation of The Commonwealth of Massachusetts (the “Commonwealth”) or any political subdivision thereof, but shall be payable solely from the Revenues derived by the Authority under the Agreement. The Authority does not have taxing power.

The Agreement provides that a Debt Service Reserve Fund will be established for the Series E Bonds. Amounts on deposit in the Debt Service Reserve Fund are available to pay principal (including sinking fund installments) and interest on the Series E Bonds, and to meet deficiencies in the Rebate Fund, if any. The Debt Service Reserve Fund may be funded in whole or in part with cash or Permitted Investments as provided in the Agreement.

The Agreement provides that a Rebate Fund will be established to satisfy certain requirements of the Internal Revenue Code. If on any date the amount in the Rebate Fund is less than the amount then required to be paid to the United States as provided in the Agreement, the Bond Trustee shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency. If on any date the amount in the Debt Service Fund is less than the amount then required to be transferred to the Bond Trustee to pay the principal (including sinking fund installments) and interest then due on the Series E Bonds, the Bond Trustee, after making all payments to the Rebate Fund required under the Agreement, shall apply moneys in the Debt Service Reserve Fund to the extent necessary to meet the deficiency.

If and to the extent that the amount in the Debt Service Reserve Fund on August 15 or February 15 of any year is less than the Debt Service Reserve Fund Requirement as a result of a withdrawal from the Debt Service Reserve Fund, the Institution shall during the succeeding twelve (12) month period pay to the Bond Trustee in twelve equal monthly installments for deposit in the Debt Service Reserve Fund the amount of the deficiency except to the extent that the deficiency is otherwise overcome (except by transfer from the Redemption Fund) on or before the date of each applicable installment. If and to the extent that the amount in the Debt Service Reserve Fund on August 15, November 15, February 15, or May 15 of any year is less than the Debt Service Reserve Fund Requirement as a result of a decline in the value of the investments in the Debt Service Reserve Fund, the Institution shall on or before the next November 15, February 15, May 15 or August 15, respectively, pay to the Bond Trustee for deposit in the Debt Service Reserve Fund the amount of the deficiency except to the extent such deficiency is otherwise overcome on or before the applicable date. See Appendix C-4—“SUMMARY OF THE LOAN AND TRUST AGREEMENT” under the heading “Debt Service Reserve Fund.”

If the amount in the Debt Service Reserve Fund on August 15 or February 15 of any year (less any payment made therefrom on that day pursuant to the Agreement) exceeds the Debt Service Reserve Fund Requirement, the Bond Trustee shall transfer the excess to the Debt Service Fund to be credited against payments otherwise required to be made by the Institution.

Series E Note and the Master Indenture

The Series E Bonds will also be secured by Obligation No. 1 (the “Series E Note”) registered in the name of the Bond Trustee and issued under the Master Trust Indenture, dated as of July 12, 2005 (the “Master Indenture”), between the Obligated Group and the Master Trustee, and Supplemental Master Indenture for Obligation No. 1, dated as of July 12, 2005 (the “Supplemental Master Indenture”), also between the Obligated Group and the Master Trustee and executed in accordance with the Master Indenture. Under the Master Indenture, the Series E Note will have a parity interest with other indebtedness or obligations, if any, secured by an Obligation (“Indenture Indebtedness”) or with respect to Obligations, if any, issued with respect to interest rate swaps or other similar arrangements (“Hedging Contracts”) under the Master Indenture in the Gross Receipts of each Member of the Obligated Group.

The Series E Note will be secured by a mortgage on the Mortgaged Property (defined below). Such mortgage is granted to the Master Trustee pursuant to the Mortgage and is pledged to secure the Series E Note. At the sole discretion of the Institution on a case-by-case basis, the Mortgaged Property may be pledged to secure, on a parity with the Series E Note, other Indenture Indebtedness at any time under the Master Indenture (such obligations are identified in the Mortgage as Mortgage-Secured Obligations). No real property other than the Mortgaged Property is pledged to secure the Series E Note.

Concurrently with the issuance of the Series E Note, the Obligated Group will issue Obligation No. 2 under the Master Indenture to secure its obligations to the provider of a letter of credit delivered in connection with the Pool Loan (as defined below). See the sub-caption “—Obligations Secured on a Parity with the Series E Bonds” below. Obligation No. 2 will be secured on a parity with the Series E Note by the Obligated Group’s Gross Receipts and by the Mortgage.

The Obligated Group covenants in the Master Indenture to maintain a Maximum Annual Debt Service Ratio of at least equal to 1.20 at the end of each Fiscal Year. If such ratio is less than the required amount, the Obligated Group covenants to retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required. Each Member of the Obligated Group, respectively, agrees that it will, subject to limitations imposed by applicable laws and governmental regulations, substantially follow the recommendations of the Consultant. So long as the Obligated Group retains a Consultant and each Member of the Obligated Group follows such Consultant’s recommendations except for the reasons described above, this covenant shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year, calculated as of the end of such Fiscal Year, is less than 1.20 provided the ratio achieved was at least 1.00. Under certain limited circumstances, the Obligated Group will not be required to retain a Consultant. See Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE” under the heading “Debt Service Coverage Ratios.”

The Obligated Group covenants in the Master Indenture to maintain at least 50 Days Cash on Hand measured as of March 31 and September 30 in each year. If the Days Cash on Hand is less than the required level, the Obligated Group covenants to retain a Consultant to make recommendations to increase the Days Cash on Hand for subsequent testing dates to the levels required. Each Member of the Obligated Group agrees that, subject to limitations imposed by applicable laws and governmental regulations, it will substantially follow the recommendations of the Consultant. Upon satisfaction of the conditions set forth in the Master Indenture, the Days Cash on Hand Covenant will be deemed satisfied even if the Days Cash on Hand is less than 50 as of a testing period. See Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE” under the heading “Days Cash on Hand”.

The Master Indenture permits the issuance of additional obligations and the creation of additional liens, including liens on Gross Receipts and on the Mortgaged Property, subject to the provisions thereof.

See Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE” under the headings “Limitations on Incurrence of Additional Indebtedness” and “Limitations on Creation of Liens”.

In connection with any merger, consolidation or similar transaction involving an affiliation of the Obligated Group with an entity or entities subject to an existing master trust indenture or similar financing document, the holders of Obligations, by acceptance of an Obligation, agree to surrender the Obligation to the Master Trustee upon satisfaction of the conditions set forth in the Master Indenture including but not limited to satisfaction of the test for adding a new member to the current Obligated Group. See Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE” under the caption “Substitution of Master Trust Indenture”.

The Supplemental Master Indenture for Obligation No. 1 makes certain revisions to the covenants in the Master Indenture, which are summarized in Appendix C-3 hereto. Such revisions will remain in effect so long as any Series E Bonds are outstanding.

Gross Receipts Pledge

As provided in the Master Indenture, the Institution has granted, and each member admitted to the Obligated Group shall grant as a condition of such admission, to the Master Trustee a first lien on all of its Gross Receipts (subject to the right of any member of the Obligated Group to grant a prior lien for certain permitted Indebtedness and to non-consensual liens arising by operation of law) as security for its obligation to make payments under all Obligations issued under the Master Indenture, including the Series E Note. Gross Receipts is defined in the Master Indenture as all receipts, revenues, income and other moneys received by or on behalf of any member including contributions, gifts, grants, bequests, pledges, revenues derived from the operation of any Member’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 any Member; 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 purpose, and the income therefrom to the extent required by such designation shall be excluded from Gross Receipts.

Pursuant to the Massachusetts Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if the proceeds are not paid over to the Master Trustee (or an agent of the Master 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 these proceeds within twenty days of receipt only in the event of the earlier failure by any Member of the Obligated Group to make a required payment pursuant to an Obligation when due and until such payment has been made. If any required payment is not made when due, any Gross Receipts with respect to which this security interest remains perfected pursuant to law are required to be transferred or paid over immediately to the Master Trustee without being commingled with other funds (unless already commingled) and any Gross Receipts thereafter received are required upon receipt by a Member of the Obligated Group to be transferred to the Master Trustee in the form received (with necessary endorsements) to the extent necessary to cure the deficiency. Each Member of the Obligated Group represents and warrants in the Master Indenture the Lien granted therein is and at all times will be a first Lien, subject only to (i) Liens permitted by the Master Indenture and (ii) non-consensual Liens arising by operation of law. The Master Indenture provides that no Member of the Obligated Group may 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 Gross Receipts of such member or rights to the proceeds thereof. The enforcement of the lien on 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

meeting expenses of the Institution before paying debt service. See “BONDOWNERS’ RISKS—Enforceability of Lien on Gross Receipts”. 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 Bond Trustee may violate federal regulations concerning the assignability of such accounts and hence be unenforceable. Furthermore, rental income, to the extent included in Gross Receipts, is not subject to perfection under the Massachusetts Uniform Commercial Code and accordingly the lien on Gross Receipts does not create a perfected lien on rental income.

Mortgaged Property

The Series E Bonds will be secured by a mortgage lien on an approximately 22-acre site in Concord, Massachusetts which constitutes the principal hospital campus of the Institution (the “Mortgaged Property”), including a lien on rents derived from the Mortgaged Property, pursuant to the Mortgage. Facilities of the Institution and other members of the Obligated Group not on the Mortgaged Property are not subject to the mortgage. The Master Indenture restricts the Institution from encumbering or permitting or suffering encumbrance of its title to the Mortgaged Property to secure any other indebtedness or other obligations of the Institution except as permitted thereby. The Master Indenture further restricts the ability of the Institution to sell or encumber property, subject to Permitted Encumbrances. The Mortgaged Property secures the Series E Note, Obligation No. 2 and any other Mortgage-Secured Obligations on a parity basis. See Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE” under the heading “Restrictions on Encumbrance, Sale and Lease of Property.” Realizing the value of the Mortgaged Property may be subject to certain regulatory approvals. See “BONDOWNERS” RISKS—Limitation on Value of Mortgaged Property”.

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

Obligations Secured on a Parity with Series E Bonds

The Series E Note is equally and ratably secured under the Master Indenture with Obligation No. 2 issued in the amount of \$5,080,000 to secure the Obligated Group's obligations to the provider of a letter of credit delivered in connection with a loan to the Representative by the Authority of proceeds of the Authority's Revenue Bonds, Capital Asset Program Issue, Series M-4A (2004), Pool 4 (the “Pool Loan”). The security interest in the Obligated Group's Gross Receipts and the Mortgage will secure the Obligated Group's letter of credit obligations for the Pool Loan and the Series E Bonds on a parity basis.

Under the Master Indenture, additional Obligations may be issued by the Obligated Group which are equally and ratably secured with the Series E Note by the security interest in the Gross Receipts and, at the sole discretion of the Institution, the Mortgaged Property.

Bond Insurance Policy

Payment of principal, including mandatory redemption from sinking fund installments, of and interest on (but not premium on) the Series E Bonds when due is insured by a municipal bond insurance policy (the “Bond Insurance Policy”) issued by Radian Asset Assurance Inc. (the “Bond Insurer”). See “BOND INSURANCE” herein.

THE AUTHORITY

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

Authority Membership and Organization

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

The members of the Authority are as follows:

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

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

JOSEPH G. SNEIDER, Vice Chairman; term as Member expired July 1, 2005; continues to serve until a successor is appointed.

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 of the Commonwealth of Massachusetts.. Mr. Sneider served as a trustee of Boston University Medical Center, (University Hospital), Boston. Mr. Sneider served as Senior Vice President of Olympic International Bank & Trust of Boston. He also served on a number of public boards and commissions, and he belongs to several civic associations.

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

Mr. Gordon, a resident of Milton, is Chairman of the Board, 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 E. KAVANAGH, III; term as Member expires July 1, 2011.

Mr. Kavanagh, a resident of Ipswich, is President and Chairman of William A. Berry & Son, Inc., one of the oldest construction companies in the country. During his 19 years as President, he has redirected the company's focus from restoration specialties to a full-service building and construction management organization, with emphasis on meeting the full range of customer needs: planning, design, construction, operation and maintenance services. Mr. Kavanagh is a Trustee and the former Chairman of the Board of the North Shore Music Theater, Corporator of Brigham and Women's Hospital and Partners Healthcare, Trustee and member of the Board of Directors of Massachusetts Eye and Ear Infirmary, Corporator of Danvers Savings Bank and a former member of Tufts University Board of Overseers.

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

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.

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

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

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

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

CHRISTINE C. SCHUSTER, RN, MBA; term as Member expires July 1, 2006.

Ms. Schuster, a resident of Sudbury, as of July 1, 2005 is the President and Chief Executive Officer of Emerson Hospital Health System located in Concord. Ms. Schuster previously served as the President and Chief Executive Officer of Quincy Medical Center. Ms. Schuster is a Member of the Board of Trustees of the South Shore Chamber of Commerce where she serves as Vice Chairman of Government Affairs; and is a Member of the Board of Trustees of the Massachusetts Hospital Association (“MHA”) where she serves as the MHA Chair of the Clinical Issues Advisory Council which provides advice and counsel to the Association on key medical, clinical, and public policy issues. She also serves on the American Hospital Association Regional Policy Board. Ms. Schuster was recognized by Modern Healthcare magazine and Witt Kieffer Associates as one of the Year 2000 “Up and Comers Award” recipients. She is a frequent speaker both locally and nationally on a wide variety of healthcare topics. Ms. Schuster received an MBA with Honors from the University of Chicago Graduate School of Business and a B.S. in Nursing from Boston University. Ms. Schuster abstained from voting and from all proceedings with respect to the Series E Bonds.

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 J.D. from the University of Chicago, an M.B.A. from Lehigh University and a B.S. from the University of Maine.

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

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.

THE OBLIGATED GROUP

The sole current member of the Obligated Group is the Institution.

The Institution is a not-for-profit corporation which operates a 148-bed acute care community hospital facility in Concord, Massachusetts.

See Appendix A for more information on the Obligated Group.

THE SERIES E BONDS

Description of the Series E Bonds

The Series E Bonds will be dated their date of delivery, will bear interest from such date, payable on February 15, 2006 and on each August 15 and February 15 thereafter at the rates set forth on the cover page hereof and will mature on August 15 of the indicated years and in the principal amounts set forth on the cover page hereof.

Subject to the provisions discussed under “THE SERIES E BONDS—Book-Entry-Only System” below, the Series E Bonds are issuable as fully registered bonds without coupons in the minimum denomination of \$5,000 or any multiple thereof. Principal or redemption premium, if any, of the Series E Bonds will be payable at the principal corporate trust office of J.P. Morgan Trust Company, National Association, as Bond Trustee (the “Bond Trustee”), and interest on the Series E Bonds will be paid by check or draft mailed to the registered owner as of the first day of the month preceding the date on which the interest is to be paid (the “Record Date”), or by wire transfer as provided in the Agreement.

Principal, Sinking Fund Installments, and Interest Requirements

The following table sets forth, for each respective year ending August 15, the amounts required to be made available by the Obligated Group in such year for payment of the principal of and sinking fund installments on the Series E Bonds, interest on the Series E Bonds and total debt service on the Series E Bonds in such year.

Year Ending <u>August 15</u>	Principal and Sinking Fund <u>Installments</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	\$455,000	\$3,019,800.48	\$3,474,800.48
2007	480,000	3,081,306.26	3,561,306.26
2008	495,000	3,064,506.26	3,559,506.26
2009	585,000	3,044,706.26	3,629,706.26
2010	695,000	3,021,306.26	3,716,306.26
2011	780,000	2,986,556.26	3,766,556.26
2012	815,000	2,947,556.26	3,762,556.26
2013	845,000	2,906,806.26	3,751,806.26
2014	870,000	2,873,006.26	3,743,006.26
2015	900,000	2,837,118.76	3,737,118.76
2016	1,615,000	2,798,868.76	4,413,868.76
2017	1,700,000	2,718,118.76	4,418,118.76
2018	1,790,000	2,633,118.76	4,423,118.76
2019	1,885,000	2,543,618.76	4,428,618.76
2020	1,985,000	2,449,368.76	4,434,368.76
2021	2,115,000	2,350,118.76	4,465,118.76
2022	2,230,000	2,244,368.76	4,474,368.76
2023	2,350,000	2,132,868.76	4,482,868.76
2024	2,475,000	2,015,368.76	4,490,368.76
2025	2,650,000	1,891,618.76	4,541,618.76
2026	2,875,000	1,759,118.76	4,634,118.76
2027	3,010,000	1,626,150.02	4,636,150.02
2028	3,150,000	1,486,937.52	4,636,937.52
2029	3,295,000	1,341,250.00	4,636,250.00
2030	3,460,000	1,176,500.00	4,636,500.00
2031	3,630,000	1,003,500.00	4,633,500.00
2032	3,815,000	822,000.00	4,637,000.00
2033	4,005,000	631,250.00	4,636,250.00
2034	4,205,000	431,000.00	4,636,000.00
2035	<u>\$4,415,000</u>	<u>220,750.00</u>	<u>4,635,750.00</u>
TOTAL	<u>\$63,575,000</u>	<u>\$64,058,563.22</u>	<u>\$127,633,563.22</u>

Redemption of the Series E Bonds

Optional Redemption of the Series E Bonds. The Series E Bonds maturing on or before August 15, 2015 are not subject to redemption unless redeemed pursuant to the special redemption provisions of the Agreement described below. The Series E Bonds maturing after August 15, 2015 are subject to optional redemption prior to maturity, on and after August 15, 2015 at the option of the Authority with the written consent of the Institution and written notice from the Institution to the Bond Trustee or by the written direction of the Institution to the Authority and the Bond Trustee, as a whole or in part at any time, in such order of maturity or sinking fund installment as directed by the Institution, at a redemption price of one hundred percent (100%) of the principal amount to be redeemed, plus accrued interest to the redemption date.

Subject to the prior written consent of the Bond Insurer, any Series E Bonds so called for optional redemption, at the option of the Authority with the consent of the Institution or by direction of the Institution, may, in lieu of redemption, be purchased by the Institution or by a person designated by the Institution on the redemption date at a price equal to the redemption price specified above, and if so purchased, shall continue to be outstanding under the Agreement for all purposes and shall continue to be subject to optional redemption as provided in the Agreement.

Mandatory Redemption of the Series E Bonds. The Series E Bonds maturing on August 15, 2025 shall be redeemed from sinking fund installments at their principal amounts, without premium, plus accrued interest to their redemption dates on each August 15, commencing August 15, 2016, as provided for in the Agreement and described below:

\$20,795,000 5.00% Term Bonds Due August 15, 2025

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2016	\$1,615,000	2021	\$2,115,000
2017	1,700,000	2022	2,230,000
2018	1,790,000	2023	2,350,000
2019	1,885,000	2024	2,475,000
2020	1,985,000	2025*	2,650,000

*Maturity

In addition, the Series E Bonds maturing on August 15, 2028 shall be redeemed from sinking fund installments at their principal amounts, without premium, plus accrued interest to their redemption dates on each August 15, commencing August 15, 2026, as provided for in the Agreement and described below.

\$9,035,00 4.625% Term Bonds Due August 15, 2028

<u>Year</u>	<u>Sinking Fund Installment</u>
2026	\$2,875,000
2027	3,010,000
2028*	3,150,000

*Maturity

In addition, the Series E Bonds maturing on August 15, 2035 shall be redeemed from sinking fund installments at their principal amounts, without premium, plus accrued interest to their redemption dates on each August 15, commencing August 15, 2029, as provided for in the Agreement and described below.

\$26,825,000 5.00% Term Bonds Due August 15, 2035

<u>Year</u>	<u>Sinking Fund Installment</u>	<u>Year</u>	<u>Sinking Fund Installment</u>
2029	\$3,295,000	2033	\$4,005,000
2030	3,460,000	2034	4,205,000
2031	3,630,000	2035*	4,415,000
2032	3,815,000		

*Maturity

Special Redemption of the Series E Bonds. Under the special redemption provisions of the Agreement, the Series E Bonds are subject to redemption prior to maturity, as a whole or in part at any time, in such order of maturity or sinking fund installment as directed by the Institution, at their principal amounts, without premium, plus accrued interest to the redemption date from unspent proceeds of the Series E Bonds or in the event that insurance proceeds or condemnation awards are delivered to the Bond Trustee pursuant to the Master Indenture for the payment of debt service. See Appendix C-4—“SUMMARY OF THE LOAN AND TRUST AGREEMENT” under the headings “Redemption Fund” and “Damage to or Destruction or Taking of the Mortgaged Property”.

If the amount available in the Redemption Fund to redeem the Series E Bonds by special redemption at any time is less than \$50,000, the Bond Trustee may, and upon written direction of the Institution shall, transfer such amount to the Debt Service Fund for credit against deposits otherwise required to be made therein with respect to principal instead of calling the Series E Bonds for redemption.

Selection of the Series E Bonds for Redemption. If less than all the Series E Bonds of a maturity are to be redeemed, the portion of the Series E Bonds to be redeemed shall be selected by the Bond

Trustee by lot or in any customary manner of selection as determined by the Bond Trustee; provided, however, that so long as DTC (as hereinafter defined) or its nominee is the Bondowner, the particular Series E Bonds or portions of the Series E Bonds of such maturity to be redeemed shall be selected by DTC in such manner as DTC may determine. If a Series E Bond is of a denomination in excess of five thousand dollars (\$5,000), portions of the principal amount in the amount of five thousand dollars (\$5,000) or any multiple thereof may be redeemed.

Acceleration. In addition to the foregoing redemption provisions, the Bond Trustee may with the consent of the Bond Insurer, and shall at the direction of the Bond Insurer, upon the occurrence of an Event of Default, as defined in the Agreement, by written notice to the Institution and the Authority, declare immediately due and payable the principal amount of the Outstanding Series E Bonds and the payments to be made by the Institution therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice at par prior to maturity. See Appendix C-4—“SUMMARY OF THE LOAN AND TRUST AGREEMENT” under the headings “Default by the Institution” and “Remedies for Events of Default.”

Notice of Redemption or Purchase in Lieu of Redemption. The Bond Trustee, in the name of the Authority, shall give notice of redemption, or purchase in lieu of redemption as described above, as applicable, to the Bondowners not less than thirty (30) days nor more than forty-five (45) days prior to the date fixed for redemption or purchase, as applicable. Failure to mail notice to a particular Bondowner, or any defect in the notice to such Bondowner, shall not affect the redemption or purchase, as applicable, of any other Series E Bond. So long as DTC or its nominee is the Bondowner, the Authority, and the Bond Trustee will recognize DTC or its nominee as the Bondowner for all purposes, including notices and voting. Any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (as hereinafter defined), having received notice from a DTC Participant (as hereinafter defined) or otherwise, to notify the Beneficial Owner so affected shall not affect the validity of the redemption or purchase, as applicable.

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

Book-Entry-Only System

The Depository Trust Company, New York, New York (“DTC”), will act as securities depository for the Series E Bonds. The Series E 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 E Bond certificate will be issued for each maturity, or for each interest rate within a maturity, if applicable, of the Series E Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also

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

Purchases of the Series E Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series E Bonds on DTC's records. The ownership interest of each actual purchaser of each Series E Bond (a "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, but Beneficial Owners are 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 E 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 interest in the Series E Bonds, except in the event that use of the book-entry system for the Series E Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series E Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series E Bonds, such as redemptions, defaults and proposed amendments to the documents relating to the Series E Bonds. For example, Beneficial Owners of the Series E Bonds may wish to ascertain that the nominee holding the Series E Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

BOND INSURANCE

Description of the Policy

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Bond Insurer") simultaneously with the issuance and delivery of the Series E Bonds. The Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Series E Bonds to the extent that the Bond Trustee has not received sufficient funds from the Authority for payment of the Series E Bonds on the "due date." The Bond Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Bond Insurer has received notice from The Bank of New York, as Insurance Bond Trustee (the "Insurance Bond Trustee"),

that the Issuer has failed to pay amounts due on the Series E Bonds. Under the Policy, the “due date” of the Series E Bonds, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Bond Insurer. With respect to interest on the Series E Bonds, the “due date” means the stated date for payment of interest. The Policy guarantees reimbursement of any recovery of any such payment from a Holder or the Bond Trustee pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon the occurrence and continuance of an Event of Default, the Bond Insurer, may, in its discretion, direct the acceleration of the Series E Bonds at a price equal to the principal amount thereof plus accrued interest, or the Bond Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Series E Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in Appendix F hereto. The Policy does not insure against nonpayment of principal or interest on the Series E Bonds due to the insolvency, misconduct or negligence of the Bond Trustee. The Policy does not insure the payment of any redemption premium.

Description of the Bond Insurer

The Bond Insurer is a financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states and the District of Columbia and the United States Virgin Islands. The Bond Insurer was formerly known as “Asset Guaranty Insurance Company.” The Bond Insurer changed its corporate name to Radian Asset Assurance Inc. The Bond Insurer has received approval to use its new corporate name in all jurisdictions where it is licensed to do business. As of June 30, 2005, the Bond Insurer had total shareholders' equity of approximately \$1,527,230,000 and total assets of approximately \$2,421,881,000.

The financial information relating to the Bond Insurer presented in this Official Statement was prepared internally by the Bond Insurer, based on accounting principles generally accepted in the United States of America (“GAAP”), and has not been audited by independent accountants. The address of the Bond Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

The Bond Insurer has filed the information in the next four paragraphs with entities designated as Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”) pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934:

- (i) The Bond Insurer’s consolidated financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 prepared in accordance with accounting principles generally accepted in the United States of America, together with the accompanying report of the Insurer’s independent registered public accounting firm, which expresses an unqualified opinion and includes an explanatory paragraph concerning the merger of Radian Reinsurance Inc. (“Radian Re”) with and into the Bond Insurer;
- (ii) The Bond Insurer’s quarterly unaudited consolidated balance sheet as of March 31, 2005 and unaudited consolidated statement of operations for the three month period then ended, prepared in accordance with accounting principles generally accepted in the United States of America;

(iii) The Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2005 and unaudited consolidated statement of operations for the three-month and six-month periods then ended, prepared in accordance with accounting principles generally accepted in the United States of America.

(iv) A table presenting selected unaudited balance sheet and income sheet data of the Bond Insurer as of December 31, 2001 (with respect to non-balance sheet information only), 2002 and 2003 and March 31, 2004 on a proforma combined basis as if Radian Re were merged with the Insurer as of the dates indicated, in accordance with accounting principles generally accepted in the United States of America. Though unaudited, the information so filed was derived from the respective audited financial statements of the Bond Insurer and Radian Re as of December 31, 2003 and 2002, and for each for the three years in the period ended December 31, 2003, together with the respective accompanying reports of the Bond Insurer's independent registered public accounting firm.

Additional information regarding the Bond Insurer can be found in the following documents filed by Radian Group with the Securities and Exchange Commission: (a) Annual report on Form 10-K for the year ended December 31, 2004 and Quarterly Report on Form 10-Q for the periods ended March 31, 2005 and June 30, 2005 under the headings: (i) "Safe Harbor Statement under the Private Securities Limitation Reform Act of 1995" (but only insofar as it relates to the financial guaranty insurance businesses); (ii) in the 10-K only, Item 1. Business: "Financial Guaranty Business," "Risk in Force - Financial Guaranty Business," "Customers - Financial Guaranty Business," "Sales and Marketing - Financial Guaranty Business," "Competition - Financial Guaranty Business," "Risk Management - Financial Guaranty" "Ratings" (but only insofar as it relates to the Insurer or Radian Re), "Defaults and Claims" (but only insofar as it relates to the financial guaranty business) and "Regulation - Direct Regulation" (but only insofar as it relates to the financial guaranty business); (iii) in the 10-K only, "Item 6 - Selected Financial Data," "Selected Ratios - Financial Guaranty" and "Other Data - Financial Guaranty," and (iv) Item 7 Managements' Discussion and Analysis of Financial Condition and Results of Operations "Financial Guaranty Results of Operations" and "Liquidity and Capital Resources" (but only to the extent it relates to the Insurer or Radian Re), and "Critical Accounting Policies;" and (b) the Reports of Form 8-K dated January 20, 2005, February 14, 2005 (as amended March 30, 2005), March 9, 2005, March 17, 2005, April 21, 2005, April 25, 2005, May 27, 2005, June 3, 2005, June 7, 2005, June 21, 2005, June 29, 2005, July 15, 2005, July 21, 2005 and July 25, 2005.

A complete copy of the audited consolidated financial statements and additional information of the Bond Insurer as of December 31, 2004 and 2003, and for each for the three years in the period ended December 31, 2004, together with the accompanying report of the Bond Insurer's independent registered public accounting firm, is available from the Bond Insurer upon written request. Prior year amounts included in such audited consolidated financial statements have been restated to reflect the combined balances and results of operations of the Bond Insurer and Radian Re.

The Insurer is a wholly owned indirect subsidiary of Radian Group Inc. ("Radian"), a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a leading credit enhancement provider to the global financial and capital markets, headquartered in Philadelphia. Radian's subsidiaries provide products and services through three business lines: financial guaranty, mortgage insurance and financial services. None of Radian, Radian's other subsidiaries or any of Radian's investors is obligated to pay the debts of or claims against the Bond Insurer. Effective April 3, 2005, Radian's Chief Executive Officer, Frank P. Filippis retired and effective May 5, 2005, Sanford A. Ibrahim become Radian's new Chief Executive Officer and a member of its board of directors. Mr. Ibrahim is a 27-year veteran of the banking and mortgage industries and most recently was the President

and Chief Executive Officer of GreenPoint Mortgage Funding, Inc., a residential mortgage lender. In July 2005, the Company named Stephen D. Cooke President of the Company. Mr. Cooke brings over 20 years of experience in the financial guaranty business and will, together with a senior management task force, focus on improving returns in the financial guaranty business. In July 2005, Radian and the Company also named Suzanne Hammett Executive Vice President and Chief Risk Officer. Ms. Hammett has nearly 30 years of experience in senior credit positions at global financial institutions and will focus on further developing Radian's credit culture.

Effective June 1, 2004, the financial guaranty reinsurance affiliate of the Bond Insurer, Radian Re was merged with and into the Bond Insurer. As a result of the merger, the financial guaranty reinsurance business conducted by Radian Re and the direct financial guaranty business conducted by the Bond Insurer is now conducted by the Bond Insurer. As a result of the merger, Radian has greater assets, liabilities and shareholder's equity than it previously had on a stand-alone basis.

One of the Bond Insurer's customers with a right to recapture business previously ceded to the Insurer in connection with the merger of Radian Re into the Insurer and the resulting downgrade of Radian Re from "Aa2" to "Aa3" in May 2004 has agreed, without cost to or concessions by the Bond Insurer, to waive its recapture rights. On November 8, 2004, the remaining primary insurer customer with recapture rights in connection with the May 2004 downgrade by Moody's notified the Bond Insurer of its intent to recapture, at an unspecified date in the near future, approximately \$6.4 billion of par in force ceded to the Insurer, including \$50.6 million of written premiums as of December 31, 2004, \$3.9 million of which would be recorded as an immediate reduction of earned premiums at the time of the recapture, which represents the difference between statutory unearned premiums and GAAP unearned premiums. This return of unearned premiums would also require an increase in policy acquisition costs of \$0.9 million. The amount of future lost premiums due to this recapture will be approximately \$129.7 million, which is made up of the unearned premium balance and the present value of future installment premiums. Based on a projected recapture dated of March 31, 2005, the total approximate reduction in pre-tax income for 2005 including the immediate impact would be \$12.3 million. Despite the recapture, the primary insurer customer also informally advised the Bond Insurer that, going forward, the customer intends to continue its reinsurance relationship with the Insurer on the same terms as prior to the recapture. The customer also has the right to recapture an additional \$5.2 billion of par in force ceded to the Insurer, including \$57.8 million of written premiums as of December 31, 2004, \$16.3 million of which would be recorded as an immediate reduction of earned premiums. By letter dated March 8, 2005, this primary insurer customer agreed to waive those recapture rights without cost to or concessions by the Insurer. There are no remaining recapture rights with respect to the May 2004 Moody's downgrade.

The Bond Insurer has a financial strength rating of "AA" (outlook: negative) from Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc. ("S&P"), an insurance financial strength rating of "Aa3" (outlook-stable) from Moody's Investors Service, Inc. ("Moody's") and a claims paying ability rating of "AA" (outlook: negative) by Fitch Ratings Services ("Fitch"). On April 27, 2005, Fitch affirmed the "AA" insurer financial strength rating of the Insurer, but revised its rating outlook for the Insurer from "stable" to "negative". None of the Bond Insurer's customers have the right to recapture business in connection with such ratings action. The ratings from the applicable rating agency reflect only the views of S&P, Moody's and Fitch, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

Neither the Bond Insurer nor any of its affiliates makes any representation regarding the Bonds or the advisability of purchasing the Bonds and makes no representation regarding this Official Statement other than as to the information supplied by the Bond Insurer and presented under the heading "BOND

INSURANCE” and as set forth in Appendix F of this Official Statement. The Bond Insurer’s role is limited to providing the coverage set forth in the Policy.

PLAN OF FINANCE

The proceeds from the sale of the Series E Bonds, together with certain other available moneys, will be used to: (i) provide for the current refunding of the Prior Bonds, the proceeds of which were used to construct, renovate and equip portions of the Institution’s campus including constructing the John Cumming Building, an addition to the Wheeler Building, construction of a building to house patient care services, laboratory and rehabilitation services, a 31-bed psychiatric unit, a 32-bed medical surgical unit, 24 obstetrics beds, 8 birthing rooms, 2 delivery rooms, a newborn nursery and construction of a five level parking garage with approximately 465 parking spaces and renovating the Wheeler Building; (ii) provide for the financing and refinancing of (A) renovations to existing pre- and post- operating surgical day care suites, the construction of a new cystoscopy room, construction of two operating rooms and renovation of the post anesthesia care unit, (B) expansion of existing space used for radiology services, including construction of separate entrances and segregated preparation access for inpatient versus outpatient use and the addition of new radiology equipment, (C) expansion of the existing obstetrics unit in order to create private rooms and (D) the acquisition and installation of capital equipment; (iii) fund the Debt Service Reserve Fund; (iv) pay the premium for the Bond Insurance Policy; and (v) pay certain costs and expenses incurred in connection with the issuance of the Series E Bonds.

Refunding of Prior Bonds

The Prior Bonds, which will be outstanding in the aggregate principal amount of \$29,505,000 on the date of delivery of the Series E Bonds, are to be refunded through the deposit of Series E Bond proceeds and other available funds in a refunding escrow deposit fund (the “Escrow Fund”) to be held by U.S. Bank National Association, in its capacity as escrow agent (the “Escrow Agent”) pursuant to a refunding trust agreement by and among the Authority, and the Institution and the Escrow Agent. Moneys in the Escrow Fund will be applied to the purchase of direct obligations of the United States Treasury (“Government Obligations”). The Government Obligations, together with interest and other earnings thereon, will be sufficient to pay, when due, the principal of, redemption premium and interest on the Prior Bonds to the date established for redemption, which is currently expected to be on or about November 1, 2005.

Verification of Mathematical Computations

The arithmetical accuracy of certain computations included in the schedules provided by the Underwriter on behalf of the Institution relating to the computation of the sufficiency of the monies to be used to refund the Prior Bonds and the forecasted payments of principal and interest to redeem the Prior Bonds will be examined by Chris D. Berens, CPA, P.C. Such computations will be based solely upon assumptions and information supplied by the Underwriter on behalf of the Institution. Chris D. Berens, CPA, P.C. will restrict its procedures to examining the arithmetical accuracy of certain computations and will not make any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, will not express an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Series E Bonds, together with certain other available moneys, are expected to be applied as follows:

Sources of Funds

Principal Amount of the Series E Bonds.....	\$63,575,000
Net Original Issue Premium.....	1,230,965
Moneys Released upon Defeasance of Prior Bonds ¹	<u>3,723,725</u>
Total Sources of Funds	<u>\$68,529,690</u>

Uses of Funds

Deposit to Project Fund	\$28,377,710
Deposit to Refunding Trust Fund.....	29,670,409
Debt Service Reserve Fund.....	4,637,000
Capitalized Interest.....	3,070,560
Costs of Issuance ²	<u>2,774,011</u>
Total Uses of Funds	<u>\$68,529,690</u>

¹Moneys released upon defeasance of Prior Bonds includes amounts in the debt service fund and debt service reserve fund securing the Prior Bonds.

²Estimated amount to provide for Underwriter's discount, legal, consulting and printing fees, Bond Insurance premium, and associated bond issuance costs related to the Series E Bonds.

BONDOWNERS' RISKS

For a discussion of certain of the risks to the Series E Bondowners, see Appendix A—"LETTER FROM THE INSTITUTION" particularly under the heading "Bondowners' Risks and Matters Affecting the Health Care Industry," as well as risks referred to below.

Payment of Debt Service

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

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

Bond Insurance

On the date the Series E Bonds are issued, the Bond Insurer will issue its Bond Insurance Policy guaranteeing the payment of the principal (but not premium) of the Series E Bonds due at maturity or upon mandatory sinking fund redemption (but not as a result of the acceleration or other redemption thereof) and the interest on the Series E Bonds due on the interest payment dates therefor. There can be no assurance that the Bond Insurer will be financially able to meet its contractual obligations under the Bond

Insurance Policy or that such failure will not adversely affect the market price or marketability of the Series E Bonds. A specimen policy is attached hereto as Appendix F. Certain information with respect to the Bond Insurer is set forth under the caption "BOND INSURANCE" herein. Such information was provided by the Bond Insurer, and no representation is made as to the adequacy or the accuracy thereof.

So long as the Bond Insurer has not failed to meet its obligations under the Bond Insurance Policy, the Series E Bonds cannot be accelerated without the prior written consent of the Bond Insurer. Furthermore, so long as the Bond Insurer has not failed to meet its obligations under the Bond Insurance Policy, the Bond Insurer may vote the Series E Bonds and direct the Bond Trustee to pursue any remedies that the Bond Trustee may exercise under the Agreement. In addition, in certain instances the Bond Insurer may consent to amendments to the Agreement and direct the Bond Trustee to consent to amendments to the Master Indenture in lieu of the consent of Bondowners.

Enforceability of Remedies Generally

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

Enforceability of Lien on Gross Receipts

The Agreement provides that the Institution will make payments to the Bond Trustee sufficient to pay the Series E Bonds and the interest thereon as the same becomes due. The obligation to make such payments is secured by the Series E Note. Pursuant to the Master Indenture, the Institution has granted and any additional Member of the Obligated Group is required to grant, a lien on its Gross Receipts to the Master Trustee as security for the Series E Note. Such lien also secures on a parity, any additional Obligations issued under the Master Indenture and may be subject to senior liens on Gross Receipts as permitted under the Master Indenture..

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. 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. With respect to receivable and Gross Receipts not subject to the lien, the Authority would occupy the position of an unsecured creditor.

In the event of bankruptcy of a Member of the Obligated Group, transfers of property by a Member of the Obligated Group, 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 a Member of the Obligated Group before paying the debt service on the Series E Bonds.

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

Rental income, to the extent included in Gross Receipts, is not subject to perfection under the Massachusetts Uniform Commercial Code and accordingly the lien on Gross Receipts does not create a perfected lien on rental income. 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 E Bonds as to the security interest in the Gross Receipts. Additionally, as noted above, under certain circumstances superior liens can be created in Gross Receipts.

Any disposition of a substantial amount of the Obligated Group's assets or operations, including the transfer of any collateral (for instance the Gross Receipts) may require notice to the Attorney General of Massachusetts ("Attorney General") prior to such disposition, unless the Attorney General waives such notice requirement. If such notice is required, the Attorney General may engage in an investigation relating to such disposition and may conduct a public hearing in connection with such investigation. In connection with such an investigation, the Attorney General may consider whether (i) the proposed transaction complies with applicable general nonprofit and charities law; (ii) due care was followed by the nonprofit entity; (iii) conflict of interest was avoided by the nonprofit entity at all phases of decision making; (iv) fair value will be received for the nonprofit assets; and (v) the proposed transaction is in the public interest. The proposed entity or person receiving the assets may be assessed the reasonable costs related to such investigation, as determined by the Attorney General, and may be assessed additional costs on an on-going basis. Such disposition may also be subject to approval by a court of competent jurisdiction.

Enforceability of Master Indenture

Under Massachusetts law, a nonprofit corporation may guaranty 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 corporation or the obligation of a corporation to make payments due with respect to indebtedness issued for the benefit of another corporation 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 corporation or a trustee in bankruptcy in the event of the bankruptcy of the corporation from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the Massachusetts fraudulent conveyance statute if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example,

the Institution's or another Member of the Obligated Group's joint and several obligation under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other members, may be held to be a "transfer" which makes the Institution or any other Member of the Obligated Group "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, the Institution or another Member of the Obligated Group may be deemed to have received less than "fair consideration" for such obligation because only a portion of the proceeds of the indebtedness may be used to finance facilities occupied or used by the Institution or another Member of the Obligated Group, as applicable. While the Institution may benefit generally from the facilities financed from the indebtedness for a Member of the Obligated Group and the members may benefit generally from the facilities financed from the indebtedness for the other members under the Master Indenture, the actual cash value of these benefits may be less than the obligation of the Institution and of any Member of the Obligated Group under the Master Indenture. 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 an agreement.

In addition, the assets of any nonprofit corporation 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 nonprofit corporation has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such nonprofit corporation were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the nonprofit corporation was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the Commonwealth. In the absence of clear legal precedent in this area, the extent to which the assets of any Member of the Obligated Group including the Institution can be used to pay the obligations of others cannot be determined at this time.

Limitation on Value of Mortgaged Property

The Mortgaged Property of the Institution is pledged as security for the Series E Note pursuant to the 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 Master Trustee may not obtain an amount equal to the amount of the outstanding Series E Note and of other Mortgage-Secured Obligations from the sale or lease of such Mortgaged Property.

In addition, in order to operate the Mortgaged Property as a health care facility, a purchaser of the Mortgaged Property at foreclosure sale under present law would 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 Master Trustee's lien under the Mortgage could attach to the Mortgaged Property to secure the costs of removing or otherwise treating such pollutants or contaminants. Such a lien would adversely affect the Master Trustee's ability to realize value from the disposition of the Mortgaged Property upon foreclosure. Furthermore, in determining whether to exercise any foreclosure rights with respect to the Mortgaged Property under the Master Indenture, the Master Trustee would need to take into account the potential liability of any owner of the Mortgaged Property, including an owner by foreclosure, for clean-up costs with respect to such pollutants and contaminants. For a description of

certain environmental contaminants present on the Mortgaged Property, see Appendix A—“Bondowner’s Risks and Matters Affecting Health Care Industry—Environmental Matters.”

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 E Bonds.

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

The tax-exempt status of the Series E Bonds is based on the continued compliance by the Authority and the Institution with certain covenants contained in the Agreement and the Tax Certificate and 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 E Bonds. Failure to comply with any of these covenants may result in the treatment of interest on the Series E Bonds as taxable retroactive to the date of issuance.

Revocation of Tax Exemption; Private Inurement

Revocation of the tax-exempt status of the Institution under Section 501(c)(3) of the Code (as defined below) could subject the interest paid to Bondowners to federal income taxation retroactively to the date of issuance of the Series E 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 “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 addresses many common arrangements between exempt hospitals or entities and non-exempt individuals or entities. While the management of the Institution believes that the Institution’s 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 Institution.

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. The Institution has established a compensation committee that exercises responsibilities consistent with this process.

Although management of the Institution 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 if Institution were determined to have engaged in an excess benefit transaction would likely result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Institution.

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, 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 and/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.

Financial Distress of Private Health Plans

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

CONTINUING DISCLOSURE

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

The Institution has covenanted for the benefit of Bondowners to provide certain financial information and operating data relating to the Institution by not later than 150 days following the end of the Institution's Fiscal Year beginning with the Fiscal Year ending September 30, 2005 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if deemed by the Institution to be material. The Annual Report will be filed on behalf of the Institution with each Nationally Recognized Municipal Securities Information Repository and with the appropriate State Repository if such repository is established (collectively, a "Repository") or with the Texas Municipal Advisory Council ("MAC"). The notices of material events will be filed on behalf of the Institution with the Municipal Securities Rulemaking Board and with the appropriate State Repository if such repository is established or MAC. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized in Appendix E—"FORM OF CONTINUING DISCLOSURE AGREEMENT". These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission.

Quarterly Disclosure

The Institution has agreed to furnish, or cause to be furnished, to (1) the Authority, (2) each Repository or MAC, and (3) each Bondowner who is the registered owner or Beneficial Owner of in excess of an aggregate \$1 million principal amount of the Series E Bonds who has so requested in writing, no later than 60 days subsequent to the last day of each of the first three calendar quarters, and no later than 90 days subsequent to the last day of the fourth calendar quarter, in each Fiscal Year, certain types of information required to be included in the Institution's Annual Report except that financial statements will be the Institution's internal, unaudited statements, all statements and reports will be for the year-to-date period then ended and all comparisons will be for the comparable period of the prior year.

TAX EXEMPTION

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

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

To the extent the issue price of any maturity of the Series E Bonds is less than the amount to be paid at maturity of such Series E Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series E Bonds), the difference constitutes "original issue discount," the

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

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

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

LEGALITY OF THE SERIES E BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Series E 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 E Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer or any agency or

political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

DESCRIPTION OF RATINGS

Standard & Poor's Rating Services and Fitch Ratings are expected to assign their municipal bond rating of "AA" and "AA", respectively, to the Series E Bonds based on the Bond Insurance Policy to be issued by the Bond Insurer.

The ratings are not a recommendation to buy, sell or hold the Series E Bonds, and such rating may be subject to revision or withdrawal at any time by the respective rating agency. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Series E Bonds. Any further explanation as to the significance of the above rating may be obtained only from the respective rating agency. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions.

COMMONWEALTH NOT LIABLE ON THE SERIES E BONDS

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

UNDERWRITING

The Series E Bonds are being purchased for reoffering by the underwriter listed on the cover hereof (the "Underwriter") pursuant to a Purchase Contract between the Authority and the Underwriter. The Underwriter has agreed to purchase the Series E Bonds at a purchase price equal to \$64,396,457.10 (representing the aggregate principal amount of \$63,575,000, plus a net original issue premium of \$1,230,964.60 and less an underwriter's discount of \$409,507.50), and to reoffer such Series E Bonds at the initial reoffering prices or yields set forth on the cover page hereof. The obligations of the Underwriter are subject to certain terms and conditions contained in the Purchase Contract. The Underwriter will be obligated to purchase all of the Series E Bonds if any of the Series E Bonds are so purchased. The Institution has agreed to indemnify the Underwriter and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws. The Underwriter may offer and sell the Series E Bonds to certain dealers (including dealers depositing the Series E Bonds into investment trusts, certain of which may be sponsored or managed by the Underwriter) and others at prices or yields lower than the public offering prices or yields stated on the cover page hereof. The initial offering prices or yields set forth on the cover page of this Official Statement may be changed from time to time by the Underwriter.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Series E Bonds by the Authority are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax exempt status of the Series E Bonds will be delivered with

the Series E Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed on for the Obligated Group by its counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. Certain legal matters will be passed on for the Underwriter by its counsel, Hawkins Delafield & Wood LLP, New York, New York.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Series E Bonds or questioning or affecting the validity of the Series E Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. See Appendix A with respect to any material litigation affecting the Obligated Group.

MISCELLANEOUS

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

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

Attached hereto as Appendix A is a letter from the Institution to the Authority which contains certain information relating to the Institution. While the information contained therein is believed to be reliable, the Authority and the Underwriter make no representations or warranties whatsoever with respect to the information contained therein. Attached hereto as Appendix B are the audited combined financial statements of Emerson Health System, Inc. and Affiliates for the years ended September 30, 2004 and 2003 and the report of its independent auditors. Such audited combined financial statements contain financial information of certain entities that are not members of the Obligated Group. For information concerning the Institution (the current sole member of the Obligated Group) see the columns relating to the Institution in the consolidating schedules in such audited combined financial statements.

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

Appendix C-1—“DEFINITIONS OF CERTAIN TERMS,” Appendix C-2—“SUMMARY OF THE MASTER TRUST INDENTURE”, Appendix C-3—“SUMMARY OF SUPPLEMENTAL MASTER INDENTURE”, and Appendix C-4—“SUMMARY OF THE LOAN AND TRUST AGREEMENT” and Appendix D—“PROPOSED FORM OF BOND COUNSEL OPINION” have been prepared by Palmer & Dodge LLP, Bond Counsel to the Authority.

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

Appendix F has been provided by the Bond Insurer.

All appendices are incorporated as integral parts of this Official Statement.

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

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

**MASSACHUSETTS HEALTH AND
EDUCATIONAL FACILITIES AUTHORITY**

By: /s/ Benson T. Caswell
Executive Director

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APPENDIX A

LETTER FROM THE INSTITUTION

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August 11, 2005

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

Dear Members of the Authority:

We are pleased to submit the following information in connection with the issuance by the Massachusetts Health and Educational Facilities Authority of its Revenue Bonds, Emerson Hospital Issue, Series E (2005) (the “Bonds”). As used hereinafter, and unless otherwise indicated by the context, all utilization and financial data for any year refers to the fiscal year ending September 30.

BACKGROUND

Emerson Hospital (sometimes referred to herein as “Emerson” or the “Hospital”) is a nonprofit, acute care community hospital currently licensed by the Massachusetts Department of Public Health (the “DPH”) to operate 148 beds (70 medical/surgical, 14 intensive care, 11 pediatric, 24 obstetrical and 29 psychiatric) and 29 newborn bassinets, five of which are Level II special care nursery. In addition, the Hospital operates a 20-bed Transitional Care Unit (“TCU”). The Hospital was founded in 1911 and incorporated in 1924 as Emerson Hospital. The Hospital is located in Concord, 17 miles northwest of Boston. The Hospital’s approximately 22-acre site on Old Road to Nine Acre Corner is adjacent to Route 2, a major highway connecting Concord and Boston, and is about one mile from the center of the town of Concord. Emerson also operates two ambulatory satellite facilities in Groton and Westford. An additional site is scheduled to open in Sudbury in January 2007.

The Hospital is a regional provider of healthcare services, providing care to over 230,000 residents of a 20-town area northwest of Boston. The Hospital is the leading acute care hospital located within its primary service area, which consists of the Massachusetts communities of Concord, Acton, Maynard, Bedford, Westford, Sudbury, Littleton, Stow, Boxborough, Lincoln, Carlisle, Harvard and Bolton (the “Primary Service Area”). The Hospital ranks second as measured by total acute care hospital discharges from each town within its secondary service area, which consists of the Massachusetts communities of Ayer, Groton, Lexington, Pepperell, Shirley, Townsend, and Wayland (the “Secondary Service Area”, and together with the Primary Service Area the “Service Area”). The Hospital provides a broad range of inpatient and outpatient services to residents of its service area.

CORPORATE ORGANIZATION

Emerson Health System, Inc. (“EHS”) is the parent of five affiliated organizations, including the Hospital. It is a not-for-profit corporation providing management services to its affiliated entities. See “GOVERNANCE” below. A chart depicting the relationship of the various EHS affiliates is set forth below. Neither EHS or its affiliates, other than the Hospital, is obligated to make payments with respect to the Bonds and no assets of such corporations, other

than the Hospital, are pledged to secure payment of the Bonds. A brief description of the four affiliates, other than the Hospital, and their activity is as follows:

Emerson Property Development Corporation (“EPDC”)

A for-profit corporation organized to develop, acquire and manage real estate properties for purposes that support the Hospital (see “Existing Facilities”).

Emerson Health Care Foundation (“EHCF”)

A not-for-profit corporation involved in coordinating and developing the fundraising effort for the Hospital. EHCF is governed by a 20-member Board of Directors and has five full-time staff members.

Emerson Practice Associates (“EPA”)

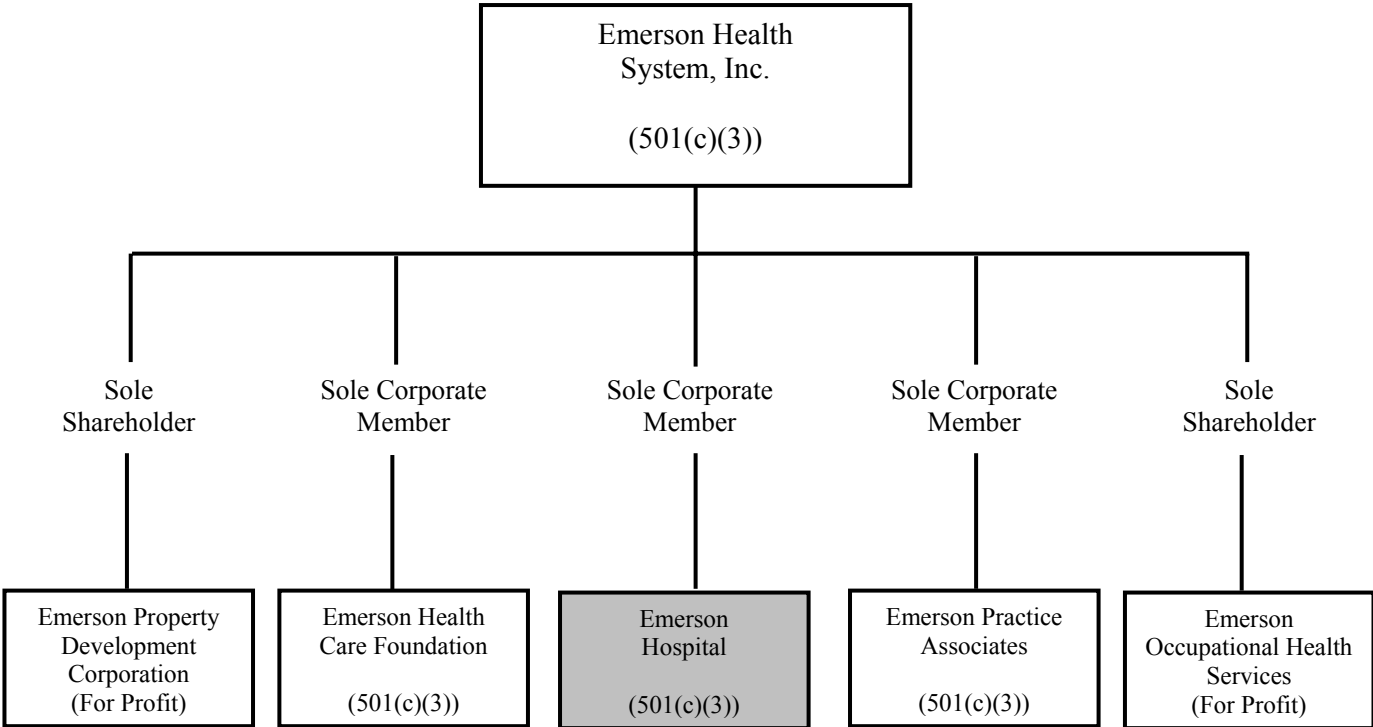
A not-for-profit corporation organized to employ primary care physicians. As of September 30, 2004, all operations for EPA have ceased and there is no expectation of significant activity for 2005 or beyond.

Emerson Occupational Health Services (“EOHS”)

A for-profit corporation organized to sell health programs to industry (i.e., employee physicals, social services, etc.) and purchase services from the Hospital, participating physicians or other providers.

EMERSON HEALTH SYSTEM, INC.

Organizational Chart



Note: Shaded box represents Member of the Obligated Group

GOVERNANCE

EHS was organized in June 1982 for the purposes, among others, of promoting flexible and cost-effective approaches to the delivery of health care and community services and of coordinating the medical services provided by physicians on the Hospital's active staff with the health care services provided by the Hospital. The Hospital and EHS are not-for-profit corporations organized under Massachusetts law and are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Since October 1983, EHS has controlled the Hospital by serving as its sole member and by electing the Board of Directors of the Hospital. EHS is also sole corporate member of EHCF and EPA and sole corporate shareholder of EPDC and EOHS (see "Corporate Organization").

Neither EHS nor any EHS affiliate other than the Hospital is an obligor with respect to the Bonds and none of the revenues or assets of EHS or any other affiliate other than the Hospital are available for payment of debt service on or as security for the Bonds.

EHS currently has 187 Corporators who are representatives of the communities served by Emerson Hospital and whose role is to advance the mission of the Hospital and act as ambassadors for Emerson in their communities. Corporators serve a three-year term and are elected by incumbent Corporators. At each annual meeting of EHS, the Corporators elect new members of the Board of Directors of EHS for four-year staggered terms and the Board of Directors of EHS in turn elects the members (other than ex-officio members) of the Board of Directors of the Hospital (the "Hospital Board"). The Board of Directors of EHS and the Hospital Board meet monthly. Currently, the Board of EHS and the Hospital Board are identical in membership.

The Chairman of the Board, Vice Chairman, President, Secretary and Treasurer of the Hospital are elected annually by the EHS Board. Current members of the EHS and Hospital Boards, their initial year of election and the principal business and other affiliations of each member are as follows:

<u>Board Member</u>	<u>Year of Initial Election</u>	<u>Principal Affiliation</u>
Philip W. Cheney* Chairman	1991	Retired Vice President of Engineering, Raytheon Lexington
John M. Lowe, III* Vice Chairman	1996	Professor, Simmons College Graduate School for Health Studies Boston
John F. Magee* Secretary	1994	Retired Chairman, Arthur D. Little Cambridge
William G. Mallon* Treasurer	1997	Managing Director, NewStar Financial Boston
Ingrid A. Balcomb, MD	2004	Physician Concord
Gloria Clough	2005	Psychotherapist, Concord Counseling Service Concord

<u>Board Member</u>	<u>Year of Initial Election</u>	<u>Principal Affiliation</u>
Jonathan A. Donaldson	2000	Surgical Sealants Woburn
Prof. David Garvin	2002	Professor, Harvard Business School Cambridge
Rose Ann Giordano	2005	High-Tech Consultant Acton
Eric Haartz	2004	President, Haartz Corporation Acton
Winston R. Hindle, Jr.	1995	Retired Senior Vice President, Digital Equipment Corporation Maynard
Robert Hopkins, MD*	Ex-officio	Physician Concord
Mary B. Johnson	2000	Community volunteer Concord
Ronald H. Johnson	2000	Executive Vice President, Photo Metrics California
Joan Burden Litle	1998	President, Catalog Connection Lowell
David Margolius, MD*	Ex-Officio	Physician, Emerson Hospital Medical Staff Concord
Pat Morrison*	Ex-Officio	President, Emerson Hospital Auxiliary
Mary S. Newman	1993	Community and civic volunteer Lincoln
Fontaine Richardson	2000	Retired General Partner, Eastech Management Company Carlisle
Ian Sanderson	2003	Investment Analyst, SG Cowen Boston
Christine C. Schuster*	2005	President and CEO, Emerson Hospital and Emerson Health Systems, Inc. Concord
Jon W. Way, M.D.	2000	Physician, Acton Medical Associates Acton
D. Elliott Wilbur, Jr.	1997	Retired Executive, Arthur D. Little Cambridge
Byron E. Woodman, Jr.	1999	President, Woodman & Eaton, PC Concord
Alan C. Woodward, MD*	Ex-Officio	Chief of Emergency Services, Emerson Hospital Concord

<u>Board Member</u>	<u>Year of Initial Election</u>	<u>Principal Affiliation</u>
Michael Zak	2003	Partner, Charles River Ventures Waltham

* Members of the Executive Committee

The Executive Committee is empowered to act on behalf of the full Hospital Board in most matters. It is currently inactive since the full Board meets monthly.

Committees of the Hospital Board and their respective Chairpersons are as follows:

<u>Chairperson</u>	<u>Committee</u>
John Magee	Compensation Committee
Philip Cheney	Executive Committee
William Mallon	Finance Committee
David Green, M.D.	Human Rights Committee
Ian Sanderson	Investment Committee
Robert Hopkins, M.D.	Joint Conference Committee
Mary Newman	Nominating Committee
Gregory Martin, M.D.	Patient Care Assessment Committee
John Lowe	Strategic Planning Committee

Committee chairpersons are not required to be Board members.

EMERSON HOSPITAL SENIOR MANAGEMENT TEAM PROFILE

The President and Chief Executive Officer, the Senior Vice President and Chief Medical Officer, the Senior Vice President Finance and Chief Financial Officer, and five other Vice Presidents manage the day-to-day operations of the Hospital. Biographical information for these Hospital officers is presented below:

Christine C. Schuster, age 45, joined Emerson Hospital on July 1, 2005 as President and Chief Executive Officer. For the five years prior, she has served as President and Chief Executive Officer of Quincy Medical Center, Quincy, Massachusetts, a 232-bed acute care hospital affiliated with Boston Medical Center. Ms. Schuster also served as President and Chief Executive Officer of Athol Memorial Hospital in Athol, Massachusetts and Vice President and Chief Operating Officer of the Tenet Saint Vincent Healthcare System in Worcester, Massachusetts. Ms. Schuster served as the Director of Critical Care Services at the New England Deaconess Hospital. She also spent five years as a healthcare management consultant with Coopers and Lybrand. Ms. Schuster received a Bachelor of Science degree in Nursing from Boston University and a Masters in Business Administration with honors from the University of Chicago Graduate School of Business. She is a member of the Board of Trustees of the South Shore Chamber of Commerce, the Massachusetts Hospital Association, and the Massachusetts Health and Educational Facilities Authority.

C. Gregory Martin, M.D., age 54, was named Senior Vice President and Chief Medical Officer of Emerson Hospital in July 2005. Prior to assuming this position, Dr. Martin served as interim President and Chief Executive Officer of the Hospital from December 2004 through June 2005 following the departure of Geoffrey Cole, who resigned the position after serving for ten years as the Hospital's President and Chief Executive Officer. Dr. Martin, a primary care internist, served for the past five years as Medical Director at Concord Hillside Medical Associates (CHMA), a division of Harvard Vanguard Medical Associates. Prior to working at CHMA, Dr. Martin was Chief of Internal Medicine and Urgent Care at Harvard Pilgrim Health Care's Chelmsford Health Center. He also served as Vice President of Medical Affairs at Saints Memorial Medical Center and Medical Director at St. John's Hospital in Lowell. He earned his medical degree from the University of Cincinnati College of Medicine, and completed his residency at the University of Rochester in New York. He holds an undergraduate degree from Denison University.

Dana P. Diggins, age 55, has been Senior Vice President Finance and Chief Financial Officer of the Hospital since June 1999. He also serves as Chief Compliance Officer of the Hospital. From 1988 to 1999, Mr. Diggins served as Vice President for Finance and Chief Financial Officer of Mount Auburn Hospital in Cambridge, Massachusetts. Previously, he served for nine years at Choate-Symmes Health System in Arlington, Massachusetts, the last four of which were as Vice President for Fiscal Services. Mr. Diggins holds a Bachelor's degree in accounting from Bentley College in Waltham, Massachusetts, and a Master of Arts with a concentration in business from Framingham State College in Framingham, Massachusetts.

Glenn W. Smith, age 48, has been Vice President of Clinical and Administrative Services of the Hospital since February 1989. Prior to joining the Hospital, he was senior consultant for health care services at Peat Marwick & Mitchell in Boston. Mr. Smith is a member of the American College of Health Care Executives. He received an Associate's degree from George Washington University, a Bachelor's degree from Southern Illinois University and a Master's degree in Health Administration from George Washington University.

Linda Wells, age 58, joined the Hospital in January 2001 as Vice President, Nursing and Patient Care Services. Prior to coming to the Hospital, she served as Director of Nursing for three years at Carney Hospital in Dorchester, Massachusetts. From 1994 to 1997, Ms. Wells was Vice President for Patient Care Services at Tobey Hospital in Wareham, Massachusetts. She has also held nursing positions at Goddard Memorial Hospital in Stoughton, Massachusetts and at Spaulding Rehabilitation Hospital in Boston, Massachusetts. Ms. Wells is a member of the American Organization of Nurse Executives. She earned her nursing degree at New England Baptist Hospital and holds a Master's degree in business from Northeastern University, both in Boston, Massachusetts.

Christine M. Gallery, age 37, has been Vice President of Strategic Planning and Market Development since March 1996. Prior to joining the Hospital, she was employed for five years by St. Elizabeth's Hospital in the area of Program Development and Physician Relations. Ms. Gallery received her Bachelor's degree from the College of the Holy Cross in Worcester, Massachusetts and earned a Juris Doctor from Suffolk University Law School.

Pamela M. Muccilli, age 50, has been Vice President and Chief Information Officer since October 2000. She also serves as Chief Privacy Officer for the Hospital. She joined the Hospital in July 1998 as Chief Information Officer. Prior to joining the Hospital, she was a manager for First Consulting Group for three years, and Director of Information Systems at Solaris Health System in Edison, New Jersey for eight years. She holds a Bachelor of Science degree in Nursing from West Virginia University and continued her education in business and information management at the University of Pittsburgh and the University of Michigan.

John A. Dresser, age 46, has been Vice President of Development and Executive Director of the Emerson Hospital Foundation since August 2002. Prior to joining the Hospital, he served as Chief Development Officer at New England Baptist Hospital for five years. He has also held positions in support of development programs for Beth Israel Deaconess Medical Center, Massachusetts Institute for Technology and Cornell University. Mr. Dresser earned his Bachelor's degree from Cornell University.

PATIENT CARE SERVICES PROVIDED BY THE HOSPITAL

Medical and surgical services provided by the Hospital include obstetrics/gynecology, cancer care, radiology (including CT, MRI, digital mammography, and interventional radiology), inpatient and outpatient surgery, pediatrics, endoscopy, respiratory, pulmonary and cardiac medicine, and 24-hour emergency treatment. Also, in November 2004, Emerson became a state-designated stroke center.

The Hospital's Birthing Center has combined labor/delivery/recovery rooms, a postpartum suite and a five-bed special care nursery staffed by a neonatologist from Massachusetts General Hospital ("MGH"). The Birthing Center is located in a separate area of the Hospital with its own parking and private entrance. Patients can consult with specialists in high-risk obstetrics and reproductive endocrinology at the Hospital in Concord and with an Emerson-affiliated physician group with offices in Lexington.

The Bethke Cancer Center at Emerson, accredited by the American College of Surgeons, offers a full-range of oncology services. The Emerson Hospital-Massachusetts General Hospital Radiation Oncology Program is a joint venture between the Hospital and MGH. The Radiation Oncology Program is staffed by the MGH Department of Radiation Oncology and includes a linear accelerator on site at Emerson. Board-certified hematology and oncology specialists provide the Hospital's medical oncology services. All physicians involved in cancer care participate in regular case conferences where specific patient cases are reviewed and discussed. Since 2002, Emerson has had a collaborative program with Dana Farber/Partners Cancer Care offering patients access to clinical trials at the Hospital. Support services for oncology patients include nutritional assessment, social services, support groups, rehabilitation services, home care and hospice. In 1995, a 30-bed medical-surgical unit was constructed to provide inpatient care specifically for cancer patients (see "Existing Facilities").

The Hospital's inpatient and outpatient psychiatric program includes 29 inpatient psychiatric beds, post-hospital care, psychiatric emergency services and a substance abuse program. The substance abuse program includes emergency and outpatient detoxification, individual counseling for patients and families, and a variety of support group services.

The Hospital operates a 20-bed Transitional Care Unit that is licensed as a hospital-based skilled nursing facility to provide medical, nursing and rehabilitation services at Emerson. Staffing for this program includes registered nurses, licensed practical nurses, nurse's aides, physical therapists, occupational therapists, speech therapists and social workers. The Hospital contracts with an outside manager to run this unit.

The Hospital's Home Health Care Program provides care at home to residents of the Primary Service Area and other surrounding towns. Staff for this program includes registered nurses, home health aides, physical therapists, occupational therapists, speech therapists, psychiatric nurses and social workers. Medicare and the Joint Commission on Accreditation of Healthcare Organizations certify the Home Health Care Program.

As part of its commitment to growth, Emerson has expanded its geographical reach by establishing outpatient services at satellite Health Centers located in the towns of Westford and Groton. The Westford Health Center houses 20 medical and surgical practices, outpatient radiology (computed tomography imaging (CT), magnetic resonance imaging (MRI), mammography, and diagnostic radiology), and physical therapy and rehabilitation services. The Health Center in Groton has adult and pediatric internal medicine, cardiology and general surgery practices as well as services in diagnostic radiology. An additional site is scheduled to open in Sudbury in January 2007.

In addition to Concord, Westford and Groton, Emerson-affiliated physicians have offices in the towns of Acton, Ayer, Bedford, Harvard, Leominster, Lexington, Lincoln, Littleton, Maynard, and Sudbury.

In June 2004, the Hospital opened a Breast Health Center (the "Center") in a separate, 7,929 square foot leased facility across the street from the Hospital on Route 2 in Concord. Services provided at the Center include digital mammography, stereo-tactic biopsy, ultrasound, and bone density testing. The Hospital created the Center as a means to expand and consolidate services in one location and to improve patient access and environment of care. With this move, the Hospital fully converted from analog mammography to state-of-the-art digital technology.

Also in late 2004, the Hospital's outpatient rehabilitation service was relocated and expanded at a separate leased facility across the street from the Hospital on Route 2 in Concord. Emerson-affiliated specialists in podiatry, orthopedics and rheumatology all currently lease office space at this facility. With this move, the Hospital nearly doubled its outpatient rehabilitation space to 6,948 square feet.

The Hospital's outpatient services include rehabilitation services, speech pathology, respiratory therapy, radiology (including digital mammography services and interventional radiology), nuclear medicine, clinical laboratory and blood bank, non-invasive diagnostic neurology and cardiology testing, a recently expanded endoscopy suite, nutrition, social services and an infusion clinic.

In 1982, the Hospital established its Advanced Life Support System, a community hospital-based program in which paramedics and an emergency room physician operate as a team through radio contact from the moment the paramedics are first summoned until the patient

is treated in the Hospital's emergency room. The program currently serves 14 towns in and around the Hospital's Primary Service Area. The Hospital's Lifeline program offers an emergency communications system for elderly and disabled persons who live at home. This program, like the Advanced Life Support System, operates 24 hours a day.

In addition to its clinical programs and in keeping with its tradition of community-based care, the Hospital provides a wide variety of free educational programs, health screenings and support groups.

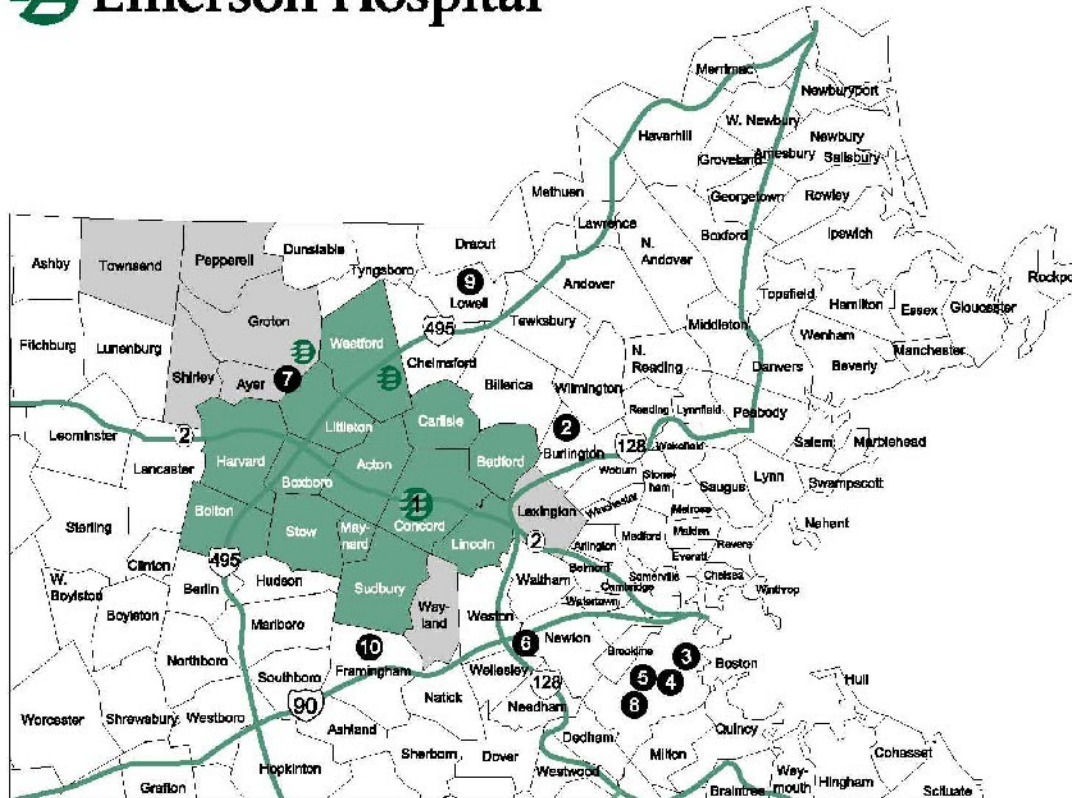
SERVICE AREA, COMPETITIVE FACILITIES AND MARKET SHARE

In its Primary Service Area, the Hospital has maintained a market share of at least forty-four percent of inpatient discharges from 1999 through 2003, the most recent year for which information is available. The Hospital defines its Primary Service Area as consisting of those towns in which Emerson has the greatest market share among all hospitals serving those communities. The Hospital's Primary Service Area accounted for approximately 62% of the Hospital's discharges in 2003. In 2003, the Primary Service Area had an aggregate population of approximately 143,000.

In its Secondary Service Area, the Hospital's market share has grown from 9.5% in 1999 to over 11% in 2003. The Hospital defines its Secondary Service Area as including those towns in which the Hospital has the second greatest number of inpatient discharges as compared to other hospitals. In 2003, the Secondary Service Area had an aggregate population of approximately 89,000.

The list of towns in the Primary Service Area and Secondary Service Area has not changed over the past five years. A map of the Hospital's Primary and Secondary Service Areas is set forth as Exhibit I.

EXHIBIT I PRIMARY AND SECONDARY SERVICE AREA



Emerson Hospital
Primary Service Area

- | | |
|------------|-----------|
| Acton | Lincoln |
| Bedford | Littleton |
| Bolton | Maynard |
| Boxborough | Stow |
| Carlisle | Sudbury |
| Concord | Westford |
| Harvard | |

Emerson Hospital
Secondary Service Area

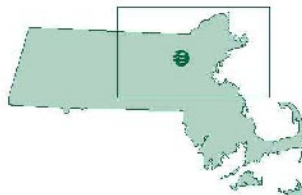
- | | |
|-----------|-----------|
| Ayer | Townsend |
| Groton | Lexington |
| Pepperell | Wayland |
| Shirley | |

Emerson Hospital and Satellite Health Centers

- Emerson Hospital
- Emerson Hospital Health Center, Westford
- Emerson Hospital Health Center, Groton

Area Hospitals and Clinics

- 1** Emerson Hospital
- 2** Lahey Clinic
- 3** Mass General Hospital
- 4** Brigham and Women's Hospital
- 5** Beth Israel Deaconess
- 6** Newton Wellesley Hospital
- 7** Nashoba Regional Medical Center
- 8** Children's Hospital Boston
- 9** Lowell General Hospital
- 10** Metrowest Medical Center



The population in the Hospital's Service Area grew by 6.9% in the ten years 1990 to 2000. Population growth is projected to continue with estimates of 4.5% and 3.1% growth from 2000 to 2010 in the Primary and Secondary Service Areas, respectively. In the Secondary Service Area, the towns of Ayer and Shirley have experienced declines in population because of the conversion of the Fort Devens Army Base (located in Ayer) to a Reserve Forces Training Area in 1996, at which time all family housing was either sold or demolished. A chart showing population trends in the Hospital's Primary and Secondary Service Areas is presented in Exhibit II.

Hospital management monitors population growth patterns by town and has strategically located satellite health centers where demand for services is demonstrated. Currently the Hospital has centers in Westford and Groton and plans to develop health centers in Sudbury and Littleton.

Exhibit III shows trends in market share by town in the Primary and Secondary Service Areas. A chart showing the market share of the principal hospitals drawing patients from the Primary Service Area is set forth as Exhibit IV.

Nashoba Valley Medical Center ("Nashoba"), located approximately 17 miles west of the Hospital in Ayer, is the only other hospital located in the Service Area. Nashoba is an acute facility with 41 beds and in 2003 its discharges accounted for 3.0% of total discharges of residents in the Primary Service Area. Nashoba, formerly named Deaconess-Nashoba Community Hospital, was acquired in 2002 by Essent Healthcare, a for-profit healthcare company based in Nashville, Tennessee. Other community hospitals that accounted for discharges of more than 2% in the Hospital's Primary Service Area in 2003 included MetroWest Medical Center in Framingham, Lowell General Hospital in Lowell, and Newton-Wellesley Hospital in Newton. In addition to the community hospitals, five tertiary care teaching hospitals are substantial competitors for market share in Emerson's Primary Service Area: MGH, Brigham and Women's Hospital, Beth Israel Deaconess Hospital and Children's Hospital in Boston and Lahey Clinic Hospital in Burlington. These teaching hospitals accounted for 28.5% of the total Primary Service Area discharges in 2003. Children's Hospital of Boston and Beth Israel Deaconess Hospital jointly own an outpatient facility within the Hospital's Primary Service Area, in Lexington. This facility provides primary care, OB\GYN outpatient services, laboratory, radiology services, and day surgery.

Lahey Clinic Hospital, located approximately 10 miles northeast of Concord, is in the midst of an approximately \$100 million construction and renovation project that targets growth in cancer services, ambulatory surgery, and cardio-vascular care. Construction is scheduled for completion in 2006.

In 2004, MGH completed construction of the Yawkey Pavilion, on its Boston campus, which houses outpatient services including oncology, pediatrics, cardiology, musculoskeletal disorders and women's health. Additional expansion is slated for completion in 2007 for day surgery and diagnostic imaging.

MetroWest Medical Center was purchased in 2004 by Vanguard, a for-profit health care company. Vanguard is the third for-profit owner of this facility in the last ten years.

As shown in Exhibit IV, the Hospital's market share in its Primary Service Area in 2003 was approximately 45%. From 1999 to 2003, the Hospital experienced a 0.8% decrease in market share in the Primary Service Area. The remaining share of the market was distributed among providers in eastern Massachusetts, including several of the major Boston teaching hospitals. Four hospitals held market share in excess of 4% in the Hospital's Primary Service Area, namely Lahey Clinic, MGH, Brigham and Women's Hospital, and Beth Israel Deaconess Hospital. Of these, MGH made the biggest gain from 5% market share in 1999 to 8% in 2003.

A statistical comparison of those hospitals with a market share of at least 2% in the Primary Service Area is set forth as Exhibit V.

Newton-Wellesley Hospital and the Boston teaching hospitals are strong competitors for obstetrics admissions. The planned construction of private rooms in Obstetrics (see "The Project") is one component of Management's initiative to expand this service. Management also plans to recruit additional Obstetricians.

EXHIBIT II SERVICE AREA POPULATION TRENDS

	<u>1990</u>	<u>2000</u>	<u>2003</u>	<u>2010</u>	<u>Population Change</u>		<u>Projected Change</u>	
	<u>Census</u>	<u>Census</u>	<u>Estimate</u>	<u>Projection</u>	<u>1990-2000</u>	<u>2000-2010</u>	<u>Number</u>	<u>Percent</u>
Primary Service Area					<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Acton	17,846	20,277	20,883	21,228	2,431	13.6%	951	4.7%
Bedford	16,153	15,505	15,467	15,029	(648)	(4.0%)	(476)	-3.1%
Bolton	3,198	4,215	4,520	4,774	1,017	31.8%	559	13.3%
Boxborough	3,348	4,875	5,199	5,305	1,527	45.6%	430	8.8%
Carlisle	4,309	4,691	4,806	5,042	382	8.9%	351	7.5%
Concord	17,127	17,082	17,223	16,974	(45)	(0.3%)	(108)	-0.6%
Harvard	4,597	5,160	5,316	5,489	563	12.2%	329	6.4%
Lincoln	4,490	5,112	5,281	5,458	622	13.9%	346	6.8%
Littleton	7,019	8,145	8,530	9,226	1,126	16.0%	1,081	13.3%
Maynard	10,355	10,373	10,379	10,021	18	0.2%	(352)	-3.4%
Stow	5,279	5,942	6,100	6,651	663	12.6%	709	11.9%
Sudbury	14,362	16,845	17,393	17,776	2,483	17.3%	931	5.5%
Westford	16,402	20,765	21,851	22,216	4,363	26.6%	1,451	7.0%
Subtotal - Primary	124,485	138,987	142,948	145,189	14,502	11.6%	6,202	4.5%
Secondary Service Area								
Ayer	14,544	8,043	7,989	7,157	(6,501)	(44.7%)	(886)	-11.0%
Groton	7,494	9,534	10,149	11,337	2,040	27.2%	1,803	18.9%
Pepperell	10,105	11,142	11,455	11,808	1,037	10.3%	666	6.0%
Shirley	6,143	6,402	6,304	6,392	259	4.2%	(10)	-0.2%
Townsend	8,496	9,198	9,308	9,640	702	8.3%	442	4.8%
Lexington	28,948	30,335	30,574	30,955	1,387	4.8%	620	2.0%
Wayland	11,958	13,226	13,669	13,323	1,268	10.6%	97	0.7%
Subtotal - Secondary	87,688	87,880	89,448	90,612	192	0.2%	2,732	3.1%
Total - Primary & Secondary	212,173	226,867	232,396	235,801	14,694	6.9%	8,934	3.9%

Source: Claritas Inc. May 18, 2005

**EXHIBIT III
MARKET SHARE BY TOWN
(excludes Nursery)**

	FY 1999			FY 2000			FY 2001			FY 2002			FY 2003		
	Emerson Hospital Discharges	Total Discharges	Percent Market Share	Emerson Hospital Discharges	Total Discharges	Percent Market Share	Emerson Hospital Discharges	Total Discharges	Percent Market Share	Emerson Hospital Discharges	Total Discharges	Percent Market Share	Emerson Hospital Discharges	Total Discharges	Percent Market Share
	Primary Market Area														
Acton	840	1,405	59.8%	771	1,316	58.6%	810	1,397	58.0%	817	1,381	59.2%	856	1,424	60.1%
Bedford	509	1,338	38.0%	513	1,318	38.9%	508	1,337	38.0%	513	1,347	38.1%	437	1,311	33.3%
Bolton	60	295	20.3%	71	277	25.6%	68	323	21.1%	63	294	21.4%	69	321	21.5%
Boxborough	142	264	53.8%	129	264	48.9%	145	261	55.6%	147	254	57.9%	154	260	59.2%
Carlisle	97	242	40.1%	124	256	48.4%	114	262	43.5%	109	249	43.8%	128	290	44.1%
Concord	1,009	1,567	64.4%	920	1,463	62.9%	924	1,480	62.4%	986	1,566	63.0%	849	1,395	60.9%
Harvard	92	318	28.9%	98	337	29.1%	105	364	28.8%	89	356	25.0%	107	377	28.4%
Lincoln	146	386	37.8%	149	408	36.5%	173	442	39.1%	135	391	34.5%	138	386	35.8%
Littleton	316	738	42.8%	367	788	46.6%	353	784	45.0%	357	757	47.2%	373	802	46.5%
Maynard	656	1,020	64.3%	693	1,027	67.5%	671	1,061	63.2%	618	978	63.2%	689	1,080	63.8%
Stow	204	391	52.2%	236	436	54.1%	221	455	48.6%	193	395	48.9%	221	409	54.0%
Sudbury	389	1,313	29.6%	428	1,325	32.3%	456	1,447	31.5%	384	1,374	27.9%	439	1,467	29.9%
Westford	<u>463</u>	<u>1,420</u>	<u>32.6%</u>	<u>474</u>	<u>1,442</u>	<u>32.9%</u>	<u>509</u>	<u>1,492</u>	<u>34.1%</u>	<u>507</u>	<u>1,509</u>	<u>33.6%</u>	<u>502</u>	<u>1,461</u>	<u>34.4%</u>
Subtotal - Primary	4,923	10,697	46.0%	4,973	10,657	46.7%	5,057	11,105	45.5%	4,918	10,851	45.3%	4,962	10,983	45.2%
Secondary Market Area															
Ayer	106	886	12.0%	138	911	15.1%	142	875	16.2%	135	893	15.1%	148	905	16.4%
Groton	168	658	25.5%	152	680	22.4%	179	738	24.3%	186	760	24.5%	222	836	26.6%
Pepperell	92	700	13.1%	135	785	17.2%	106	810	13.1%	131	825	15.9%	138	971	14.2%
Shirley	60	495	12.1%	60	578	10.4%	62	624	9.9%	74	556	13.3%	99	701	14.1%
Townsend	74	666	11.1%	73	666	11.0%	85	657	12.9%	64	678	9.4%	89	716	12.4%
Lexington	113	2,758	4.1%	155	2,671	5.8%	164	2,576	6.4%	178	2,691	6.6%	180	2,912	6.2%
Wayland	<u>82</u>	<u>1,133</u>	<u>7.2%</u>	<u>77</u>	<u>1,148</u>	<u>6.7%</u>	<u>61</u>	<u>1,159</u>	<u>5.3%</u>	<u>108</u>	<u>1,210</u>	<u>8.9%</u>	<u>69</u>	<u>1,229</u>	<u>5.6%</u>
Subtotal Secondary	695	7,296	9.5%	790	7,439	10.6%	799	7,439	10.7%	876	7,613	11.5%	945	8,270	11.4%
Total - Primary & Secondary	5,618	17,993	31.2%	5,763	18,096	31.8%	5,856	18,544	31.6%	5,794	18,464	31.4%	5,907	19,253	30.7%

Source: HealthShare Technology, Inc., "Healthshare One" database

EXHIBIT IV
MARKET SHARE ANALYSIS OF PRIMARY SERVICE AREA*
(excludes Nursery)

	FY 1999		FY 2000		FY 2001		FY 2002		FY 2003		FY 1999 - 2003	
	Number of Discharges from Hospital	Percent of Total Discharges	Number of Discharges from Hospital	Percent of Total Discharges	Number of Discharges from Hospital	Percent of Total Discharges	Number of Discharges from Hospital	Percent of Total Discharges	Number of Discharges from Hospital	Percent of Total Discharges	Change in Number of Discharges	Change in Percentage Market Share
Emerson Hospital	4,923	46.0%	4,973	46.7%	5,057	45.5%	4,918	45.3%	4,962	45.2%	39	(0.8%)
Lahey Clinic Hospital	747	7.0%	736	6.9%	762	6.9%	797	7.3%	885	8.1%	138	1.1%
Massachusetts General Hospital	606	5.7%	669	6.3%	691	6.2%	801	7.4%	825	7.5%	219	1.8%
Brigham and Women's Hospital	577	5.4%	618	5.8%	628	5.7%	583	5.4%	603	5.5%	26	0.1%
Beth Israel Deaconess Hospital	501	4.7%	486	4.6%	512	4.6%	499	4.6%	521	4.7%	20	0.1%
Nashoba Valley Medical Center	375	3.5%	329	3.1%	420	3.8%	380	3.5%	333	3.0%	(42)	(0.5%)
MetroWest Medical Center	180	1.7%	286	2.7%	322	2.9%	345	3.2%	303	2.8%	123	1.1%
Children's Hospital	329	3.1%	311	2.9%	272	2.5%	304	2.8%	300	2.7%	(29)	(0.3%)
Newton-Wellesley Hospital	389	3.6%	373	3.5%	372	3.3%	320	2.9%	278	2.5%	(111)	(1.1%)
Lowell General Hospital	301	2.8%	323	3.0%	326	2.9%	306	2.8%	274	2.5%	(27)	(0.3%)
All Other	<u>1,769</u>	<u>16.5%</u>	<u>1,553</u>	<u>14.6%</u>	<u>1,743</u>	<u>15.7%</u>	<u>1,598</u>	<u>14.7%</u>	<u>1,699</u>	<u>15.5%</u>	<u>(70)</u>	<u>(1.1%)</u>
Total Primary Service Area Discharges	10,697	100.0%	10,657	100.0%	11,105	100.0%	10,851	100.0%	10,983	100.0%	286	

* Acton, Bedford, Bolton, Boxborough, Carlisle, Concord, Harvard, Lincoln, Littleton, Maynard, Stow, Sudbury, Westford

Source: HealthShare Technology, Inc., "Healthshare One" database

Exhibit V
Statistical Comparison To Selected Other Area Hospitals

	Discharges ⁽¹⁾	Patient Days ⁽¹⁾	Nursery Days	Births	Average Length of Stay	Occupancy %	Licensed Beds ⁽¹⁾	Emergency Department Visits
Emerson Hospital								
2001	7,916	35,945	3,871	1,463	4.52	64.80%	145	31,265
2002	7,944	36,367	3,448	1,303	4.59	68.70%	145	32,579
2003	7,939	37,017	3,512	1,262	4.66	69.90%	145	33,604
2004	7,850	36,474	3,424	1,249	4.65	68.90%	145	33,650
Lahey Clinic Hospital								
2001	16,918	80,122	N/A	N/A	4.74	89.60%	245	39,854
2002	17,642	84,028	N/A	N/A	4.76	88.89%	259	44,769
2003	18,574	86,674	N/A	N/A	4.67	88.94%	267	55,106
2004	19,139	89,073	N/A	N/A	4.65	91.15%	267	53,782
Massachusetts General Hospital								
2001	41,298	247,666	10,406	3,416	6.00	78.81%	861	74,983
2002	43,086	253,778	10,263	3,377	5.89	79.83%	871	75,605
2003	44,267	259,719	10,802	3,604	5.87	80.49%	884	74,905
2004	45,124	272,463	9,457	3,510	6.04	83.22%	897	76,135
Brigham And Women's Hospital								
2001	40,185	215,541	24,120	10,091	5.36	85.96%	687	51,215
2002	39,894	213,174	23,794	10,065	5.34	84.40%	692	50,760
2003	41,269	219,113	22,898	9,444	5.31	86.13%	697	54,626
2004	41,892	221,629	22,020	8,904	5.29	86.62%	701	53,288
Beth Israel Deaconess Medical Center								
2001	32,568	158,360	12,117	4,629	4.86	78.03%	556	47,902
2002	32,845	155,533	12,191	4,721	4.74	80.10%	532	47,172
2003	33,884	160,545	12,088	4,794	4.74	82.68%	532	47,591
2004	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Nashoba Valley Medical Center								
2001	2,324	8,631	N/A	N/A	3.71	57.67%	41	31,172
2002	2,193	8,040	N/A	N/A	3.67	53.73%	41	31,889
2003	1,675	6,026	N/A	N/A	3.60	53.84%	41	21,687
2004	2,619	9,786	N/A	N/A	3.74	59.42%	45	28,188
MetroWest Medical Center								
2001	14,606	64,828	5,259	2,260	4.44	98.67%	180	75,453
2002	14,632	67,590	5,346	2,350	4.62	56.46%	328	71,627
2003	15,312	69,829	5,319	2,231	4.56	57.97%	330	69,689
2004	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Children's Hospital								
2001	16,357	92,612	N/A	N/A	5.66	78.31%	324	53,321
2002	16,431	93,106	N/A	N/A	5.67	78.73%	324	52,288
2003	17,291	93,557	N/A	N/A	5.41	79.60%	322	51,006
2004	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Newton-Wellesley Hospital								
2001	12,358	53,182	8,684	3,304	4.30	63.35%	230	36,785
2002	11,935	53,369	8,227	3,112	4.47	58.72%	249	39,470
2003	12,165	54,457	8,177	2,977	4.48	58.28%	256	42,660
2004	13,188	58,070	8,005	2,939	4.40	64.67%	246	46,747
Lowell General Hospital								
2001	10,741	44,328	5,120	2,121	4.13	60.12%	202	46,657
2002	9,641	37,061	4,962	2,015	3.84	50.27%	202	45,316
2003	9,792	36,277	5,031	2,006	3.70	59.16%	168	43,852
2004	10,208	35,549	4,646	1,874	3.48	57.97%	168	42,475

⁽¹⁾ Excludes TCU And Newborn
N/R Not Reported, N/A Not Applicable

Source: Hospital Records and Rate Setting Commission 403 Cost Reports For Each Respective Year

STRATEGIC PLANNING AND NETWORK AFFILIATION

Overview

The Hospital is currently working under a Strategic Plan approved by the Board in June 2002 for the three-year period October 1, 2002 through September 30, 2005. Four major goals are articulated in this plan, namely quality, people, growth and financial viability. Specifically under the goal of growth, the Hospital has concentrated efforts and resources on profitable service lines such as surgery, imaging, and procedure-based services (such as endoscopy and interventional radiology). The project, financed with the proceeds of the Bonds, will enable Emerson to complete necessary facility upgrades identified in the 2002 – 2005 Strategic Plan. See “The Project”.

The Board of Directors approved the 2006 – 2015 Strategic Plan in June 2005. This new plan is the product of a nine-month, interdisciplinary effort by Hospital administrators, the Board of Directors and a Physician Advisory Group. With the assistance of a professional facilitator, this team conducted a thorough examination and assessment of strategic issues and competitive forces in the environment, Emerson’s own strategic situation and positioning, core competencies and growth opportunities, and strategic choices. The following are the major strategic themes articulated in the 2006 – 2015 Strategic Plan:

1. *Affiliation.* Continued affiliation with Partners Community Healthcare, Inc. (“PCHI”) in order to maintain and further develop an integrated delivery system for Emerson’s Service Area.
2. *Physician Recruitment.* Develop a recruitment plan to ensure adequate replacement for medical staff turnover and growth in select clinical specialties to support programs and services.
3. *Primary Care.* Develop a sufficient number of primary care practitioners affiliated with the Hospital that are well distributed in the Service Area.
4. *Programs and Services.* Provide a continuum of high quality, appropriately sized services to support the anticipated health care needs of the community, with an initial emphasis on cardiology, general surgery, obstetrics, oncology, and orthopedics.
5. *Facilities.* Renovate and expand select patient care areas of the Hospital to accommodate growth and bring to state-of-the art condition, with initial projects in surgical day care, obstetrics, and radiology (see “The Project”).
6. *Customer Satisfaction.* Be perceived by the Hospital’s patients and the community as providing extraordinary service.
7. *Employee Recruitment and Retention.* Attract, develop, retain and empower the best people, who share Emerson’s values and achieve results.

8. *Service Excellence.* Develop an organization-wide program for service excellence and continue specific service improvements using patient survey results.
9. *Quality and Safety.* In collaboration with physicians, continuously improve and demonstrate outcomes in the quality and safety of clinical care services.
10. *Infrastructure.* Develop organizational structures and functions necessary for the provision of excellent clinical care, patient and family services, and employee development and satisfaction.

PCHI Affiliation

The Hospital has been affiliated with PCHI, New England's largest integrated health care delivery system, for nearly a decade, working initially under a Memorandum of Understanding and under a formal Affiliation Agreement signed in 1999. The agreement had an initial five-year term that expired in December 2003 and renews automatically for subsequent five-year terms. Either party may terminate the affiliation with twelve-months advance written notice.

As a PCHI Affiliate, the Hospital is one of a limited number of regional service organizations possessing specific contractual geographic exclusivity, linked to the Partners Healthcare System, the holding company controlling the MGH and Brigham and Women's Hospital, as well as other Boston-area hospitals.

PCHI's mission is "to develop and operate an integrated system for the delivery of health care services to patients through a network of providers in Eastern Massachusetts (the "Network") in order to provide efficient, cost-effective and high quality medical care, to participate in medical education, training and research programs and to promote the general public health." The Emerson Physician Hospital Organization ("PHO") and the Hospital share similar goals and values with PCHI, and are committed to the integration of health care resources, including but not limited to acute care, primary care, home care, rehabilitation services, extended care and the development of a network-wide, integrated electronic medical record platform ("EMR"), to achieve optimum patient outcomes.

The Affiliation Agreement designates a specific service area, dedicated expressly to the PHO, within which PCHI has agreed not to enter into contracts with non-Emerson PHO physicians without the expressed written consent of the PHO. The Agreement further stipulates that a network negotiating team be empowered by PCHI to negotiate third party payer contracts on behalf of the entire PCHI Network, thereby bringing formidable leverage to the negotiating table during contract discussions with major health plans.

MANAGED CARE ARRANGEMENTS

The Hospital's position in its Primary Service Area has enabled it to secure contracts with many of the major managed care providers in the area. Managed Care Plans are defined as non-governmental payers with which the Hospital has a signed agreement to provide services for payments based on other than actual charges (i.e., discounted charges, per diems, fee schedules or capitated payments (see "Sources of Patient Revenue"). Emerson's affiliation with PCHI has resulted in the Hospital's inclusion (via the PHO) in PCHI contracts with the largest commercial health plans in the Hospital's market, specifically Blue Cross Blue Shield of Massachusetts, Tufts Health Plan, and Harvard Pilgrim Health Care. Because of the size of its provider network, PCHI has significant negotiating strength in the market, garnering multi-year, risk-based arrangements with favorable payment terms. Independently, the Hospital has also negotiated favorable, multi-year, non-risk agreements with all major health plans to assure that the Hospital's entire mix of business with these plans is complete. In addition, Emerson has contracted to provide hospital-level treatments, and a comprehensive array of related ancillary services, with every commercial health plan represented in the Hospital's market.

Managed Care discharges for the period 2000 to 2004 are presented in the following table:

Managed Care Discharges

	<u>Fiscal Year Ended September 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Harvard Pilgrim Health Care	978	712	680	650	705
Tufts Associated Health Plan *	1,229	996	1,061	1,028	860
HMO Blue	464	694	716	740	819
Medicare HMO	764	645	659	654	631
Other	<u>1,302</u>	<u>1,599</u>	<u>1,455</u>	<u>1,408</u>	<u>1,267</u>
Total Managed Care Discharges	4,737	4,646	4,571	4,480	4,282
Percent of Total Hospital Discharges	60.5%	58.7%	57.5%	56.4%	54.6%

Source: Hospital Records

* Management attributes the decline in discharges of patients with Tufts Associated Health Plan (TAHP) to significant reductions in membership in this managed care plan in recent years. Specifically, the plan has reported reductions in membership of approximately 144,000 in 2003, 126,000 in 2004, and 55,000 in the first quarter of 2005.

Emerson also has contractual relationships with three Medicare Advantage Plans in 2005: Tufts Secure Horizons HMO (via the PHO), Tufts Medicare Advantage PPO, and Harvard Pilgrim Health Care's "First Seniority Plan" (HMO). The Tufts Secure Horizons Plan is a capitated arrangement that has proven to be a fundamentally sound risk agreement for the hospital over the last several years. The latter two contracts are non-risk, fee-for-service relationships, reimbursed at Medicare rates. The Hospital has participated in Medicare managed care arrangements with Tufts and Harvard Pilgrim since the mid-1990s (see "Sources of Patient Revenue").

Emerson has served as one of the 17 regional providers for Adult Mental Health and Substance Abuse Service for Tufts Associated Health Plan (“TAHP”) since 1990 when TAHP first implemented the Designated Facility Program. The Hospital currently provides mental health and substance abuse services under this risk agreement for 58,973 covered lives on a capitated basis (see “Sources of Patient Revenue—Managed Care Programs and Commercial Insurance”).

MEDICAL STAFF

As of March 30, 2005, the medical, dental and podiatry staff (the “Staff”) of the Hospital consisted of 412 physicians, dentists and podiatrists, of whom 268 are members of the Active Staff, 113 are members of the Courtesy Staff, and 31 are members of the Honorary Staff.

The Active Staff members are physicians and dentists who have admitting privileges to the Hospital, who have a primary association or affiliation with the Hospital, who practice in proximity to the Hospital, and who may vote and hold office on the Staff.

The Courtesy and Consulting Staff members admit only a limited number of patients and neither hold office nor vote in Staff meetings. Courtesy Staff members who have completed one year on the Courtesy Staff are eligible for consideration for appointment to the Active Staff.

The Honorary Staff consists of those members of the Staff who have retired from active Hospital practice as well as certain physicians and dentists of outstanding reputation so honored by the Staff.

The table on the following page shows the number of and average age of the Active Staff by clinical specialty and their fiscal year 2004 admissions.

**Statistics Regarding the Active Medical Staff
(as of March 30, 2005)**

<u>Specialty</u>	Number of Physicians	Number of Board Certified Physicians	FY 2004 Total Admissions	Percent of Total Admissions	Average Age
Primary Care Physicians:					
Internal Medicine	56	52	2,236	31.2%	49
Pediatrics	34	34	177	2.5	43
OB/GYN & GYN	<u>9</u>	<u>9</u>	<u>1,239</u>	<u>17.3</u>	46
Subtotal Primary Care Physicians	99	95	3,652	51.0	46
Specialists:					
Allergy	3	3	-		51
Anesthesia	8	8	-		46
Cardiology	5	5	479	6.7	62
Dentistry	9	3	6	0.1	52
Dermatology	12	12	-		48
Emergency Medicine	14	14	-		48
Endocrinology	3	2	324	4.5	63
Gastroenterology	9	9	182	2.5	48
General Surgery	5	4	389	5.4	55
Gynecology	8	6	1	0.0	50
Hematology/Oncology	5	4	77	1.1	47
Neurology	3	4	5	0.1	57
Neurosurgery	1	1	37	0.5	66
Ophthalmology	18	15	111	1.6	51
Orthopedics	7	6	287	4.0	52
Otolaryngology	3	3	14	0.2	62
Pathology	4	4	-		52
Plastic Surgery	3	5	40	0.6	51
Podiatry	6	4	4	0.1	42
Psychiatry	12	11	613	8.6	58
Pulmonary	3	3	311	4.3	54
Radiology	16	15	165	2.3	46
Rheumatology	5	5	119	1.7	51
Thoracic Surgery	1	1	29	0.4	64
Urology	4	4	115	1.6	54
Vascular Surgery	<u>2</u>	<u>2</u>	<u>199</u>	<u>2.8</u>	48
Subtotal Specialists	169	153	3,507	49.0%	53
Total or Average	268	248	7,159	100.0%	52

Source: Hospital Records.

During the period from October 1, 2000 through September 30, 2004, 77 members joined the Hospital's Active Medical Staff while 49 resigned or retired, resulting in a net increase of 28 physicians, or approximately 12% between October 1, 2000 and September 30, 2004. In order to ensure appropriate replacement of physicians retiring from the Active Medical Staff and to increase future utilization of the Hospital and its market share, Management actively recruits physician staff to be placed in various geographic locations in the Hospital's Service Area. Management often provides financial assistance to newly recruited physicians in the form of income guarantees and forgivable loans. With the exception of Hospitalists, the Hospital does not currently employ any physicians and does not anticipate using an employment model for physician recruitment in 2005 or beyond.

Physician practices range in size from 1 to 22 physicians. The two major physician groups that admit to Emerson Hospital are (1) Acton Medical Associates (AMA), with 22 primary care physicians and offices located in Acton, Harvard and Littleton; and (2) Concord-Hillside Medical Associates (CHMA) with 19 primary care physicians located at sites in Concord and Harvard. The remainder of the Hospital's Active Medical Staff consists of 50 independent primary care physicians and 176 specialists with practices located throughout Emerson's primary service area.

The Emerson Physician-Hospital Organization, which was established in September 1993, is a corporation organized and capitalized jointly by the Hospital and certain of its physicians. The PHO was created to allow physicians to maintain independent practices while offering payers an integrated provider network. The PHO provides the organizational structure through which the Hospital and the physicians share risk for a defined patient population in an increasingly competitive market.

The PHO has two classes of members, Class A and Class B. The Class A members are the members of Emerson Independent Physician Association, Inc. ("IPA"), a corporation separately organized by various Emerson-affiliated physicians, and the Class B member is Emerson. The IPA is comprised of the 50 independent primary care physicians and 176 specialists on the Emerson Active Medical Staff.

The PHO is governed by a Board of Directors that has twelve directors, six appointed by the IPA and six appointed by the Hospital. Of the six appointed by the IPA, three members are primary care physicians.

The following table shows the specialty, medical group affiliation, and age of the top twenty admitters to the Hospital in the fiscal year 2004.

**Top 20 Admitters of the Active Medical Staff
Medical/Surgical and Others
FY 2004**

<u>Specialty</u>	<u>Age</u>	<u>Admissions</u>	<u>Percent of Total Admissions</u>
Cardiology	58	284	4.0%
OB/GYN	55	267	3.7
Pulmonary	46	221	3.1
OB/GYN	34	214	3.0
OB/GYN	42	195	2.7
Psychiatry	59	181	2.5
Internal Medicine	41	167	2.3
Endocrinology ⁽¹⁾	59	162	2.3
Endocrinology	66	162	2.3
OB/GYN	36	162	2.3
OB/GYN	66	158	2.2
Psychiatry	62	154	2.2
OB/GYN	36	148	2.1
General Surgery	34	143	2.0
General Surgery	49	141	2.0
Orthopedics	46	136	1.9
Vascular Surgery	55	125	1.7
Internal Medicine	73	124	1.7
Internal Medicine ⁽²⁾	48	114	1.6
Internal Medicine ⁽¹⁾	57	<u>111</u>	<u>1.6</u>
Total or Average	51	3,369	47.1%

⁽¹⁾ Member of Concord Hillside Medical Associates

⁽²⁾ Member of Acton Medical Associates

Source: Hospital Records

NURSING

As of September 30, 2004, the Hospital employed 365 nursing personnel (234.5 FTEs). Of the 365 nurses, 349 are staff registered nurses and 16 are licensed practical nurses. Of the total number of RNs, 13% are full-time, 54% are part-time, and 33% are per diem. The average age of staff RNs is 47 years. Creation of a substantial part-time and per diem pool provides flexibility in maintaining a core staffing level consistent with meeting patient needs while building a mechanism to provide additional nursing hours when the census or acuity of patients requires it. During 2004, the turnover rate for nurses at the Hospital was approximately 7%, the lowest it has been in six years.

In July 2004, the Emerson Hospital Board of Directors voted to support a three-year initiative to achieve Magnet Status, a national award given by the American Nurses' Association to those hospitals that demonstrate the very highest quality of nursing care in an environment that supports and recognizes the contribution and value of the professional nurse. Management deems this award an important vehicle for attracting and retaining nurses. While there is no guaranty that Magnet Status will be achieved, Management is confident that the Hospital will receive this designation by 2008.

EMPLOYEES

As of September 30, 2004, the Hospital had 1,132 FTEs and employed 1,555 employees. Between January and March of 2004, as one component of a hospital-wide cost reduction effort, the Hospital reduced its workforce by approximately 50 FTEs through a combination of layoffs and the elimination of vacant positions.

The Hospital provides employees with a comprehensive compensation and benefits package that it believes is competitive with other hospitals and employers in the area. The Hospital has a non-contributory defined benefit pension plan covering a substantial number of its employees and offers several section 403(b) tax sheltered annuity options. As of September 30, 2004, the actuarial present value of benefits exceeded the pension plan assets by \$16,353,454. As of September 30, 2004, the Hospital had an accrued pension liability of \$8,222,807. The Hospital's policy is to contribute amounts as required under the Employee Retirement Income Security Act of 1974. In 2004, the unfunded accumulated benefit obligation was reduced by \$1,016,863 resulting in a reduction to the additional minimum pension liability.

The Maintenance Department, comprised of 13 FTEs, is represented by the International Union of Operating Engineers (IUOE). The current agreement with the IUOE covers calendar years 2004 through 2006. There are no other employees represented by a union. In June 2003, a representation election was held by the United Federation of Security Officers, during which the Hospital's 11 security officers voted to unionize. One year later, in June 2004, a petition to decertify the union was filed with the National Labor Relations Board and a de-certification election was held in October 2004. As a result of this election, security staff determined that the United Federation of Security Officers would be decertified as their collective bargaining representative.

The Hospital's Management believes it has good relations with its employees. Hospital leadership promotes open communication, and seeks and responds to employee feedback regarding work life at Emerson. Staff turnover, the metric used to measure employee satisfaction, was 13% for all staff in 2004 and 7% for staff RN.

HOSPITAL UTILIZATION STATISTICS

Set forth on the following page is significant statistical data for the Hospital for each of the five fiscal years ended September 30 and the eight-month periods ended May 31, 2004 and May 31, 2005.

Hospital Utilization Statistics

INPATIENT STATISTICS	<u>Fiscal Year Ended September 30,</u>					<u>Eight Months Ended May 31,</u>	
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>
Licensed Beds							
Medical Surgical	147	145	145	145	145	145	148
Transitional Care Unit (TCU)	20	20	20	20	20	20	20
Bassinets	29	29	29	29	29	29	29
Patient Days (excl. newborn)	34,951	35,945	36,367	37,017	36,474	24,733	24,055
TCU Patient Days	6,133	5,907	5,511	5,395	4,332	2,950	2,826
Discharges (excl. newborn)	7,824	7,920	7,944	7,939	7,850	5,285	5,239
Medical	3,479	3,684	3,625	3,695	3,776	2,576	2,490
Surgical	1,092	969	1,010	1,028	1,060	707	770
ICU/CCU	463	512	465	478	563	350	353
Obstetrics	1,598	1,580	1,470	1,438	1,390	912	857
Pediatrics	241	225	289	248	240	177	151
Psychiatry	951	950	1,085	1,052	821	563	618
TCU Discharges	569	486	510	533	457	305	300
Observation Visits (not admitted)	2,440	2,633	2,522	2,511	2,071	1,384	1,636
Total Discharges and Observation Visits	10,833	11,039	10,976	10,983	10,378	6,974	7,175
Total Average Length of Stay (Days)	4.5	4.5	4.6	4.7	4.7	4.7	4.6
Medical	4.3	4.3	4.4	4.4	4.4	4.4	4.1
Surgical	4.2	4.3	4.0	4.3	4.0	4.1	4.4
ICU/CCU	8.4	7.5	8.8	8.5	7.1	7.8	7.4
Obstetrics	2.7	2.8	2.8	2.8	2.9	2.9	2.9
Pediatrics	2.4	2.2	2.3	2.3	2.2	2.2	2.0
Psychiatry	7.0	7.8	6.9	7.2	8.8	8.7	8.1
TCU ALOS	10.9	12.2	10.8	10.2	9.5	9.7	9.4
Total Occupancy % (excl. newborn)	65.0%	64.8%	68.7%	69.9%	68.9%	70.2%	66.9%
TCU Occupancy %	91.5%	80.9%	75.5%	73.9%	59.3%	60.7%	58.1%
ANCILLARY SERVICES AND OUTPATIENT STATISTICS							
Surgical Day Care Visits	5,641	5,555	5,876	6,158	6,073	4,156	3,912
Endoscopy Procedures	4,719	4,994	6,086	7,672	7,276	4,832	5,008
Emergency Department Visits	30,475	31,265	32,579	33,233	33,650	22,416	22,137
Rehabilitation Services Visits	58,124	61,530	69,712	68,550	63,734	43,353	45,208
Home Care Visits	51,972	44,506	45,978	45,882	45,227	30,309	29,852
Diagnostic Radiology	52,861	50,838	54,771	57,993	53,484	36,340	35,726
Radiology Specials	652	790	2,075	2,076	1,873	1,256	1,193
Ultrasound	15,327	16,326	17,903	18,477	17,179	11,517	11,863
Cat Scan	14,686	18,211	20,094	21,268	21,006	13,945	14,962
Mammography	27,312	29,818	33,081	29,962	33,906	21,595	36,331
MRI	5,794	7,762	8,854	9,233	9,797	6,534	6,705
Nuclear Medicine	6,626	9,548	6,872	6,865	5,855	4,142	3,380
Laboratory (Billable Tests)	713,954	781,172	844,849	853,803	853,193	571,183	570,118

Source: Hospital Records

MANAGEMENT DISCUSSION OF UTILIZATION

Discharges. Discharge volume has been stable over the five-year period 2000 to 2004. The Hospital experienced an increase in discharges of approximately 1.5% from 2000 to 2003, then a drop of 1.1% from 2003 to 2004. Specifically, discharges declined in two service areas: Obstetrics and Psychiatry. Obstetric discharges have decreased 13.0% from 2000 to 2004. Management attributes this trend to the Hospital's lack of private rooms for obstetrics patients (see "The Project"). Psychiatry discharges increased approximately 10.6% from 2000 to 2003, then decreased by over 20% from 2003 to 2004. Management believes this decrease is due to the resignation of one busy psychiatrist in 2004. In early 2005, Emerson added two new psychiatrists to the Medical Staff. Also, to be effective October 1, 2005, the Hospital secured contracts with two additional behavioral health payers.

For the eight months ended May 31, 2005, discharge volume has remained stable as compared to the same period ended May 31, 2004. By specialty the Hospital has experienced an 8.9% increase in surgical discharges and a 9.8% increase in psychiatry discharges, offset by decreases of 3.3% in medical discharge volume, 6.0% in obstetrics volume and 14.7% in pediatrics.

Average Length of Stay. The overall average length of stay increased 4.0%, from 2000 to 2004, or from 4.5 days to 4.7 days. This increase is attributable largely to increases in average length of stay for mental health and substance abuse cases.

Management attributes the increase in Psychiatry length of stay to overall industry trends as well as an increase in admissions of geriatric psychiatry patients who tend to have longer lengths of stay than younger patients. From 2003 to 2004 alone, length of stay in Psychiatry increased by 23.2%. Management attributes this increase to weakened medical case management due to the loss of the psychiatrist in 2004, as discussed above. This trend is being reversed in 2005 with the addition of two psychiatrists to the Medical Staff.

For the eight months year-to-date May 31, 2005, total average length of stay is 4.6 days.

TCU. Discharges from the TCU decreased by 14.6% from 2000 to 2001, then increased by 9.7% over the next two years. In 2004, TCU volume again dropped by 14.3%. Management attributes the 2001 and 2004 decreases to a nurse staffing shortages on the TCU in those years. Also in 2004, six TCU beds were temporarily converted to Medical Surgical beds for a portion of the year to accommodate high census during influenza season.

For the eight months ended May 31, 2005, TCU volume is 1.6% below volume for the same period ended May 31, 2004.

Surgical Services. Since 2001, inpatient surgery cases have increased each year and by 9.4% overall for the four year period 2001 to 2004. From 2000 to 2004 surgical day care visits increased by 7.7%. In 1994, the Hospital completed a renovation of its surgical suites, which included the addition of two ambulatory care suites. The Project contemplates renovation of the Hospital's surgical day care pre-and post-operative suites, as well as the addition of a new cystoscopy room and two new operating rooms (see "The Project").

For the eight months ended May 31, 2005, inpatient surgical discharges are 8.9% above volume for the same period ended May 31, 2004 and surgical day care visits are 5.9% below prior year volume. Management attributes the decrease in surgical day care visits to the retirement of a busy surgeon in November 2004. This drop in volume is offset in part by continued growth in the practice of a new surgeon recruited to Emerson in 2002. Further, the new Strategic Plan calls for recruitment of three new surgeons over the next eighteen months to support planned growth of surgical services.

Endoscopy Service. Endoscopy procedures have increased by over 50% in the five years 2000 to 2004. Management attributes this growth in part to an expansion of the endoscopy suite in 2002 as well as to industry wide increases in the number of patients to get screening colonoscopies. Emerson added a new gastroenterologist to the active medical staff in 2004. For the eight months ended May 31, 2005, endoscopy volume is 3.6% above volume for the same period ended May 31, 2004.

Two gastroenterology physician groups currently perform procedures at Emerson. One of these groups has announced plans to open a freestanding endoscopy center in Acton, Massachusetts sometime in 2006. The group currently performs approximately half of all endoscopy procedures at Emerson. Physicians in this group will remain on the Hospital's active medical staff (see "BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY – Competition").

Emergency Department. Over the last five years, Emergency Department visits have increased 10.4%. Management attributes the increase in visits since 2000 to population growth in the Primary Service Area as well as to greater utilization by patients presenting in the Emergency Department with psychiatric disorders. In July 2005, the Hospital completed an expansion to the Emergency Department, adding six new treatment bays.

For the eight months ended May 31, 2005, emergency department visits are 1.2% below volume for the same period ended May 31, 2004.

Rehabilitation Services Visits. Physical Therapy services are provided at the Hospital in Concord and at the Westford Health Center. Occupational Therapy was offered at both sites, as well, until 2003, when this service was discontinued in the Westford Health Center. During the period 2000 to 2002, physical therapy visits increased by 21.3%, then decreased from 2002 to 2004 by 7.4%. The decrease in utilization occurred solely at the Hospital campus in Concord. Management attributes the decrease in visits to patient and physician dissatisfaction with inadequacies in Hospital-based space. In the period 2000 to 2002, occupational therapy visits increased by 17%, then decreased by 14% from 2002 to 2004. Management attributes the decrease in occupational therapy visits to the discontinuation of this service in Westford during 2003. In late 2004, the Hospital's Concord-based outpatient rehabilitation service was relocated and expanded at a separate, leased facility across the street from the Hospital on Route 2 in Concord. The new location features newly renovated space, state-of-the art equipment, free parking and easy access for patients.

For the eight months ended May 31, 2005, rehabilitation services visits were 4.3% above volume for the same period ended May 31, 2004.

Home Care Visits. Home Care visits decreased 13.0% from 2000 to 2004, and visits for the eight months ended May 31, 2005 are 1.5% below volume for the eight months ended May 31, 2004. The beginning of this trend coincides with the implementation of the Medicare Prospective Payment System (“PPS”) on October 1, 2000, which changed the reimbursement methodology for home care from a per-visit payment to a per-case payment. During the period 2000 to 2004, the average census of patients being treated by Emerson Home Care has remained relatively constant.

Other Ancillary Services. Radiology exams increased slightly from 2000 through 2004. For the period 2000 through 2004, there has been significant growth in ultrasound tests, CT scans, MRI tests, mammography exams, and laboratory tests which increased 12.1%, 43.0%, 24.1%, 69.0% and 19.5%, respectively. These increases primarily reflect industry growth trends in outpatient ancillary testing modalities and the Hospital continues to experience growth in 2005. In particular, for the eight months ended May 31, 2005, mammography exam volume is 68.2% higher than volume in the eight months ended May 31, 2004. Management attributes this increase to the Hospital’s full conversion from film-based, analog technology to digital mammography in the summer of 2004.

Nuclear medicine is the only outpatient ancillary testing modality to have declined in volume. From 2000 to 2004, nuclear medicine volume has decreased by 11.6% as physicians perform more of these tests in their own offices. This trend has continued in the first eight months of 2005.

SUMMARY OF REVENUE AND EXPENSES

The following Statement of Operations of the Hospital for the last five fiscal years ended September 30 was derived from the supplemental schedules of the combined financial statements of Emerson Health System, Inc. and Affiliates audited by PricewaterhouseCoopers LLP. The unaudited Statement of Operations for the eight-month periods ended May 31, 2004 and May 31, 2005 was derived from the schedules prepared by the Hospital’s management. In the opinion of Management, the financial data fairly states the results of such periods. Partial results for the first eight months of 2005 may not be indicative of results for the full fiscal year. The report of PricewaterhouseCoopers LLP relating to the audit of Emerson Health System, Inc. and Affiliates combined financial statements for the year ended September 30, 2004 is included in Appendix B to this Official Statement. The following Statement of Operations should be read in conjunction with the audited financial statements of EHS and related notes included in this Official Statement as Appendix B.

Statements of Operations
(in thousands of dollars)

	September 30,					Eight Months Ended May 31,	
	2000	2001	2002	2003	2004	2004	2005
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:							
Net patient service revenue	\$ 88,142	\$ 97,490	\$109,968	\$115,612	\$122,392	\$ 80,166	\$ 88,535
Other revenue	2,931	1,952	3,172	2,831	3,044	1,944	1,851
Net assets released from restrictions for operations	<u>1,077</u>	<u>707</u>	<u>529</u>	<u>1,122</u>	<u>1,261</u>	<u>546</u>	<u>683</u>
Total unrestricted revenues, gains and other support	<u>92,150</u>	<u>100,149</u>	<u>113,669</u>	<u>119,565</u>	<u>126,697</u>	<u>82,656</u>	<u>91,069</u>
EXPENSES:							
Salaries, wages and fringe benefits	48,427	54,215	63,574	70,282	72,460	47,896	50,921
Physician fees	1,226	684	885	1,431	1,300	917	1,238
Supplies and other expenses	29,437	27,699	31,350	33,709	34,392	22,761	26,286
Depreciation and amortization	7,184	8,465	9,041	9,302	8,875	6,252	5,600
Interest	2,554	2,595	2,318	2,202	1,994	1,408	1,316
Provision for doubtful accounts	<u>3,674</u>	<u>2,412</u>	<u>2,772</u>	<u>2,225</u>	<u>3,069</u>	<u>1,841</u>	<u>2,152</u>
Total expenses	<u>92,502</u>	<u>96,070</u>	<u>109,940</u>	<u>119,151</u>	<u>122,090</u>	<u>81,075</u>	<u>87,513</u>
Subtotal	(352)	4,079	3,729	414	4,607	1,581	3,556
Nonrecurring charges:	<u>(1,247)</u>	<u>(13)</u>	<u>(116)</u>	<u>(1,025)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Operating income (loss)	<u>(1,599)</u>	<u>4,066</u>	<u>3,613</u>	<u>(611)</u>	<u>4,607</u>	<u>1,581</u>	<u>3,556</u>
NONOPERATING GAINS (LOSSES):							
Investment income, net	213	1,003	679	911	375	255	262
Income from rental operations, net	417	436	378	414	362	269	286
Equity interest in VHA	-	201	-	-	(201)	-	-
Other-than-temporary impairment of investment	-	-	(2,581)	-	-	-	-
Change in interest in Foundation	-	(422)	(256)	19	509	162	128
Gain (loss) on disposal of equipment	<u>(184)</u>	<u>(13)</u>	<u>1</u>	<u>7</u>	<u>(548)</u>	<u>(503)</u>	<u>(62)</u>
Nonoperating gains (losses), net	<u>446</u>	<u>1,205</u>	<u>(1,779)</u>	<u>1,351</u>	<u>497</u>	<u>183</u>	<u>614</u>
Excess (deficit) of revenues and gains over expenses and losses	(1,153)	5,271	1,834	740	5,104	1,764	4,170
Change in net unrealized appreciation on investments	1,429	(689)	2,309	1,282	1,777	1,333	1,149
Net assets released from restrictions for the purchase of plant and equipment	27	8	42	14	214	213	870
Change in additional minimum pension liability obligation	-	-	(3,696)	(1,674)	1,017	-	-
Transfers to affiliates	<u>(3,338)</u>	<u>(2,463)</u>	<u>2,062</u>	<u>(725)</u>	<u>(7)</u>	<u>165</u>	<u>138</u>
Increase (decrease) in unrestricted net assets, before cumulative effect of accounting change	(3,035)	2,127	2,551	(363)	8,105	3,475	6,327
Cumulative effect of accounting change	<u>—</u>	<u>1,354</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Increase (decrease) in unrestricted net assets	<u>(\$ 3,035)</u>	<u>\$3,481</u>	<u>\$2,551</u>	<u>(\$ 363)</u>	<u>\$ 8,105</u>	<u>\$3,475</u>	<u>\$6,327</u>

Source: Hospital Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE

Emerson improved its financial performance significantly over the five years 2000 to 2004, ending the 2004 fiscal year with income from operations of \$4.6 million, or 3.6% of total operating revenue as compared to a loss from operations in 2000 of (\$1.6 million), or (1.7%) of total operating revenue. Management attributes this improvement to several factors including concerted efforts to secure more favorable reimbursement rates from payers, to enhance patient volume via new programs and program expansion, facility and technology upgrades and physician recruitment, and to manage operating expenses. The following describes the Hospital's financial performance in each of the past five years.

In 2000, Emerson experienced a loss from operations of (\$1.6 million), or (1.7%) of total operating revenue. Management attributes this performance to inadequate reimbursement rates, largely from local managed care plans. For several years in the late 1990's and early 2000's local managed care payers competed fiercely on price, and allowed only modest increases in payment rates to providers. During that period, inflation outstripped reimbursement rate increases, and over 50% of all hospitals in Massachusetts generated a loss from operations. During and since that period, Management has remained focused on renegotiating more favorable payment terms with its payers while simultaneously managing costs in line with expected net revenues. In 2000, the Hospital incurred a non-recurring charge of (\$1.247 million) of which \$851,000 was attributable to severance costs related to a management restructuring in late 1999, and \$396,000 in decreased value of supplemental retirement insurance policies.

In 2001, the Hospital reported a gain from operations of \$4.1 million, or 4.1% of total operating revenue, which represents significant improvement over 2000 results. Management attributes the improvement in part to the impact of the prior year cost reductions. In addition, net patient service revenue increased by \$9.3 million, or 10.6%, in 2001 which is attributable to a variety of factors including increases in patient volume, more favorable contracting terms with third party payers, improved payer mix, and charge adjustments via a rate sensitivity analysis.

In 2002, the Hospital reported positive results of \$3.6 million from operations. Management attributes this result to a continuation of improved reimbursement rates as well as increased utilization trends in surgical day care and endoscopy, as well as in nearly all other ancillary and outpatient services.

In 2003, the Hospital experienced a loss from operations of approximately (\$611,000), or (0.5%) of total operating revenue. This result includes a non-recurring charge of (\$1.0 million) related to the Hospital's buyout of a contract between the Hospital and the Concord Radiology Group. Management attributes modest financial performance in 2003 to lower than expected volume in the Westford Health Center. CT and MRI were added in 2002, but volume and related net revenue did not begin to meet expectations until 2004. Further, the Hospital experienced higher than expected increases in expenses in both 2002 and 2003. Salaries, wages and fringe benefits increased by \$9.3 million, or 17.3% in 2002 and by \$6.7 million, or 10.6% in 2003. One factor that contributed to these increases is salary rates, which rose in response to labor shortfalls

in nursing and radiology. Simultaneously, the Hospital increased its nursing staffing complements to meet revised guidelines to increase nurse-to-patient ratios on the inpatient units.

In 2004, the Hospital again posted positive results with a gain from operations of \$4.6 million, or 3.6% of total operating revenue. Management attributes the improved financial performance over 2003 to several factors affecting net revenue including improved payer contracts, expanded services, favorable payer mix, and improved billing and collection practices. In addition, Management implemented cost reduction initiatives in 2004, including a reduction in its work force of approximately 50 FTEs, which helped to limit total operating expense increases to 2.5% in that year.

Through the eight months ended May 31, 2005, Emerson has realized a gain from operations of \$3.6 million, or 3.9% of total operating revenue. This compares to prior year performance through May 31, 2004 of a \$1.6 million gain from operations, or 1.9% of total operating revenue. Prior year reserves taken into income were approximately \$1.9 million through the eight months ended May 31, 2005 and \$0.6 million through the eight months ended May 31, 2004. Management attributes the improvement in performance during this period principally to the impact of cost reduction initiatives implemented in the second fiscal quarter of 2004, annualized benefits of the 2004 revenue enhancements, and continued growth in certain outpatient ancillary services.

Since 2000, the Hospital has maintained an overall debt service coverage ratio ranging from a low of 1.7 times in 2000 to a high of 2.6 times in both 2001 and 2004. During the five-year period days cash-on-hand has ranged from a low of 52.7 days in 2000 to a high of 75.1 days in 2002. Periodically, EHCF transfers cash from its annual appeal and unrestricted gifts and bequests to the Hospital. Days cash-on-hand for the Hospital fluctuates in part based upon the timing of those transfers. The Hospital ended the fiscal year 2004 with 67.4 days cash-on-hand.

As of May 31, 2005, the Hospital's debt service coverage ratio is 3.5 times and days cash-on-hand is 71.4 days.

Coverage of Annual Debt Service
(in 000s)

	Fiscal Year Ended September 30,					Pro Forma 2004	Eight months ended
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>		<u>May 31, 2005</u>
Excess (deficit) of revenues and gains over expenses and losses	\$ (1,153)	\$ 5,271	\$ 1,834	\$ 740	\$ 5,104	\$ 5,104	\$4,170
Depreciation and amortization	7,184	8,465	9,041	9,302	8,875	8,875	5,600
Interest	2,554	2,595	2,318	2,202	1,994	3,182	1,316
Nonrecurring charges	<u>1,247</u>	<u>13</u>	<u>116</u>	<u>1,025</u>	-	-	-
Income available for debt service	<u>9,832</u>	<u>16,344</u>	<u>13,309</u>	<u>13,269</u>	<u>15,973</u>	<u>17,162</u>	<u>11,086</u>
Annual debt service ⁽¹⁾	\$ 5,936	\$ 6,348	\$ 6,237	\$ 6,297	\$ 6,178	\$ 6,406	\$3,278
Coverage of annual debt service	1.7	2.6	2.1	2.1	2.6	2.7	3.4

⁽¹⁾ Includes principal and interest payments on capital leases, a working capital loan, a mortgage, a guarantee on notes held by EPDC and Massachusetts HEFA bonds.

Source: Hospital Financial Statements

Liquidity Analysis
(in 000s)

	Fiscal Year Ended September 30,					Eight months ended
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>May 31, 2005</u>
Cash, cash equivalents and short term investments	\$ 784	\$ 4,836	\$ 6,398	\$ 2,276	\$ 2,506	\$ 4,348
Unrestricted and board designated investments	<u>11,173</u>	<u>12,419</u>	<u>13,819</u>	<u>15,666</u>	<u>17,831</u>	<u>19,081</u>
Total	<u>\$11,957</u>	<u>\$17,255</u>	<u>\$20,217</u>	<u>\$17,942</u>	<u>\$20,337</u>	<u>\$23,429</u>
Days cash on hand	52.7	73.9	75.1	60.3	67.4	71.4

Source: Hospital Financial Statements

OUTSTANDING LONG TERM INDEBTEDNESS

As of September 30, 2004, the Hospital's long-term indebtedness, excluding the current portion of long-term debt, totaled \$32,404,144 including:

- (1) A \$29,034,606 total outstanding balance on the Authority's Revenue Bonds, Emerson Hospital Issue, Series D (the "Series D Bonds") net of the original issue discount. The Series D Bonds are payable in varying amounts through 2018, bearing interest of between 4.25% and 5.8% per year. The Series D Bonds will be refunded with a portion of the proceeds of the Bonds.
- (2) \$3,369,538 total outstanding balance for capital lease obligations and mortgages payable.

In February 2005, the Hospital closed on a tax-exempt Pooled Equipment Loan for \$5.0 million through the Authority, the proceeds of which will be used to finance a portion of the Hospital's annual capital budget. In August 2005, the Hospital will obtain a mortgage of \$2.8 million in connection with the purchase of the land parcel across the street from the Hospital on Old Road to Nine Acre Corner (see "Existing Facility"). The Hospital has signed a 20-year lease agreement in connection with the new health center in Sudbury, construction of which is expected to be complete in January 2006 with lease payments commencing once the premises are deemed ready for occupancy. Annual lease payments will be \$425,000.

PATIENT CARE QUALITY AND SAFETY

Each of Emerson's nine medical staff departments have established systems for medical staff peer review with monthly oversight by the Quality Improvement Leadership Committee which is chaired by the Hospital Chief Executive Officer and includes physician representatives from each medical staff department and patient care assessment professional staff. A subcommittee of the Board of Trustees, made up of Board members, physicians, and senior leadership, convenes twice each year to review reports summarizing hospital-wide quality initiatives including an annual summary of patient and family complaints.

Emerson participates in several state and national external quality initiatives including:

"The Quality Initiative" sponsored by the American Hospital Association in June 2003 through which hospital specific data was sent to the Centers for Medicare and Medicaid Services for posting on their public web site.

"Hospital Quality Alliance," a 2005 American Hospital Association program that involves public reporting of quality data and the development of a patient survey, the results of which will be publicly reported.

"100,000 Lives Campaign," a 2005 initiative sponsored by the Institute for Healthcare Improvement (IHI) in which hospitals across the country will join forces on six identified quality improvement projects targeted to prevent 100,000 patient deaths over an 18-month period.

“Patients First,” a state-wide initiative launched by the Massachusetts Hospital Association in January 2005 that includes public posting of patient staffing plans, supporting a culture of quality and safety through leadership and Board involvement, performance measurement and public reporting.

EDUCATIONAL AFFILIATIONS AND PROGRAMS

The Hospital, in cooperation with 17 colleges and schools, sponsors medical, nursing, technical and administrative training programs. These programs include training in community medicine for 20 medical students each semester from the Tufts University Medical School and 24 medical students from Boston University for pediatric medical training. Approximately 70 nursing students train each semester from Northeastern University, Regis College, and Mt. Wachusett Community College. The Hospital strives to employ graduating students, particularly in the areas of nursing and radiology.

Numerous other students, in a variety of disciplines, train each semester from Fitchburg State College, University of Massachusetts Lowell, Middlesex Community College, Massachusetts Bay Community College, Assabet Valley Regional Vocational School and Shawsheen Valley Adult Technical Institute.

The Hospital operates a cooperative education program with Northeastern University to train students for degrees in pharmacy. The Hospital also offers clinical training in physical therapy to students from Boston University, Northeastern University, Simmons College and the University of Massachusetts Lowell, and in speech therapy to students from Boston University, MGH Institute of Graduate Health Sciences, Northeastern University, Worcester State College and Emerson College. A clinical training program in occupational therapy is being developed for students from Springfield College.

LICENSURE, ACCREDITATION, AND MEMBERSHIPS

The Hospital is licensed by the Department of Public Health in the Commonwealth of Massachusetts. In May 2004, the Joint Commission on the Accreditation of Healthcare Organizations issued a three-year accreditation to the Hospital. The Hospital is a member of the Massachusetts Hospital Association, the New England Health Network, and the Voluntary Hospitals of America.

The Hospital’s Clinical Laboratory is accredited by the College of American Pathologists and is a “Registered Laboratory” under the Clinical Laboratory Improvement Act. The Laboratory’s Blood Bank is approved by, and is a member of, the American Association of Blood Banks and is certified by the DPH’s Division of Food and Drugs. The Hospital’s Radiology Department is certified by the DPH’s Radiation Control Program. The Nuclear Medicine Department is licensed by the Nuclear Regulatory Commission. The Hospital’s Cancer Care Program is approved by the American College of Surgeons.

VOLUNTEERS AND AUXILIARY

In 2004, Emerson had over 520 adult community volunteers from 32 area towns who provided over 76,922 hours of service to the Hospital and 130 high school and college students who participated in the Student Volunteer Program. Volunteer programs are administered by two full-time employees: a Director, and an Assistant Director of Volunteers.

FUNDRAISING

A yearly fundraising drive (the “Annual Appeal”) conducted by the Emerson Health Care Foundation solicits gifts from individuals, local businesses and corporations, community organizations and foundations. In 2004, the Annual Appeal raised \$633,000 from 2,800 donors. Support for capital projects and equipment is raised through major capital campaigns and targeted solicitations. A capital campaign conducted from 1998 through 2002 raised \$9.1 million for the construction of the Critical Care Unit and the Cancer Care Unit. As of February 2005, the Hospital has received gifts totaling \$1.1 million for the expansion of the Emergency Department and a \$1.0 million leadership commitment to support redevelopment of the surgery center and interventional radiology suite. Major contributions for medical equipment have also been secured over the past three years including \$500,000 for a picture archiving and communications system, \$100,000 for post-anesthesia care patient monitors and \$80,000 for hand-held computers for homecare nurses. Fundraising is also conducted to support priority hospital programs. As an example, in 2003, the Hospital raised \$650,000 for scholarships to train new nurses and retain experienced nurses. Emerson also maintains an active “Planned Giving” program to encourage and accept bequests and life income funds such as gift annuities, pooled income funds, and remainder funds. In 2004, the Hospital received a bequest of \$100,000 to endow support for the community health library.

EXISTING FACILITIES

The Hospital’s existing facilities consist of six interconnected buildings and one freestanding building, which contain a total of approximately 335,000 gross square feet. Portions of the existing hospital campus were constructed in 1965, 1972 and 1985. Substantial renovations were made in 1999 and 2000 to upgrade the Critical Care Unit and to construct a 30-bed medical-surgical unit to provide inpatient care for cancer patients.

The John Cuming Building (“JCB”), a medical condominium owned in part by the Emerson Property Development Corporation, was constructed adjacent to the Hospital in 1969, with an addition of four floors in 1986. The top four floors are divided into physician office condominiums that were sold or are leased to individual physicians and groups of physicians on the Hospital’s Medical Staff. Management of the Hospital believes that these office condominiums have promoted closer relations with members of its Medical Staff and have strengthened their practices and thus benefit the Hospital, the Staff and the Hospital’s patients. The first four floors contain certain outpatient and administrative offices of the Hospital and two condominiums owned by members of the Active Staff. A portion of the JCB continues to be used for Hospital purposes.

The Hospital also owns three single-family residences directly across from its facilities on Old Road to Nine Acre Corner and two single-family residences on Old Marlborough Road. In May 2005, the Hospital purchased an additional parcel of land of approximately three acres adjacent to these properties. In total, the Hospital owns 15 acres across the street from the hospital campus on the corner of Old Road to Nine Acre Corner and Old Marlborough Road. This asset is not part of the properties mortgaged in conjunction with the Bonds.

THE PROJECT

Management intends to use approximately \$29.5 million of new money proceeds associated with the Bonds for three distinct projects.

Surgery Project. The Surgery Project will include renovation of existing pre-and post-operative surgical day care suites, the construction of a new cystoscopy room, construction of two new operating rooms, and renovation of the post acute care unit. This project is expected to increase surgical capacity by 33 percent, improve access and environment of care by creating separate entrances and segregated preparation areas for inpatient versus outpatient use, and refresh worn facilities. The estimated construction cost for the Surgery Project is \$17.3 million.

Radiology Project. The Radiology Project will include expansion of existing space used for radiology services at the Hospital and add new equipment for Interventional Radiology. Management expects that this project will create additional capacity for imaging services and improve access and environment of care by creating separate entrances and segregated preparation areas for inpatient versus outpatient use. The estimated construction cost for the Radiology Project is \$5.8 million, of which the Hospital has received a pledge for \$1.0 million for the acquisition of Interventional Radiology equipment.

Obstetrics Project. The Obstetrics Project will add patient rooms through an expansion of the existing obstetrics unit in order to create private patient rooms. Extensive market studies conducted by Management together with the Obstetricians on the Medical Staff reveal a strong preference for private rooms for maternity inpatient care and that many potential patients will choose a facility other than Emerson in order to be guaranteed a private room. Management believes that by creating private rooms in conjunction with physician recruitment for obstetricians, new patients will be attracted to Emerson for obstetrical care. The estimated construction cost for the Obstetrics Project is \$7.4 million.

INSURANCE

The Hospital presently carries fire and extended coverage insurance covering all buildings and contents, including boilers and machinery, in the amount of \$63,456,000. This policy provides coverage up to 100% of replacement value of the insured property, eliminating any deduction for depreciation.

The Hospital has comprehensive general and professional liability insurance with the Massachusetts Medical Professional Mutual Insurance Company (ProMutual). The policy provides limits of \$2,000,000 for each claim and \$20,000,000 annual aggregate for Professional Liability, and \$2,000,000 Bodily Injury and Property Damage per occurrence and \$20,000,000 annual aggregate for comprehensive general liability.

The Hospital carries theft insurance for office equipment, medical equipment and data processing equipment.

The Hospital carries liability insurance with respect to owned and non-owned motor vehicles in the amount of \$1,000,000 for injuries to each person, and \$1,000,000 aggregate and \$500,000 each occurrence for property damage. A liability insurance policy covers the Hospital's Directors and officers up to a limit of \$3,000,000 for certain "wrongful acts" and is subject to a \$100,000 deductible. The Hospital also carries a Helipad Aviation Policy with a general aggregate limit of \$5,000,000. A Workers compensation policy is carried with the required statutory coverage.

SOURCES OF PATIENT REVENUE

Overview

The Hospital is a participating provider in the federal Medicare program, administered by the Centers for Medicare & Medicaid Services ("CMS") of the United States Department of Health and Human Services ("HHS"), and maintains agreements with Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim Health Care, Tufts Associated Health Plans, Inc., and other insurance carriers and managed care payers for the provision of services to patients covered by these payers. In addition, the Hospital maintains agreements with The Commonwealth of Massachusetts ("the Commonwealth") under the Medicaid program.

The following table displays the distribution of total gross inpatient service revenue of the Hospital by payer source for the five fiscal years ended September 30, 2004 and for the eight months ended May 31, 2005. This table should be read in conjunction with the consolidated financial statements and related notes and the report of independent auditors included in Appendix B. The information provided was compiled from the records of the Hospital and is based on patient classification categories at the time of registration or admission.

	<u>Fiscal Year Ended September 30,</u>					<u>Eight Months Ended May 31,</u>
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Medicare	24%	24%	24%	24%	25%	26%
Managed Care						
Harvard Pilgrim Health Plan	16%	13%	12%	12%	13%	10%
Tufts Associated Health Plan	18%	16%	17%	17%	15%	10%
Medicare HMO	9%	8%	8%	8%	7%	8%
Other	9%	10%	10%	9%	8%	10%
Blue Cross	16%	20%	21%	21%	22%	27%
Commercial	3%	3%	3%	3%	3%	4%
Self Pay and Others	2%	3%	3%	3%	4%	2%
Medicaid	2%	2%	1%	2%	2%	2%
Workers Compensation	1%	1%	1%	1%	1%	1%
Total	100%	100%	100%	100%	100%	100%

Source: Hospital Records.

Medicare

Medicare is the commonly accepted name for the federal reimbursement program created by Title XVIII of the Social Security Act, 42 U.S.C. Sections 1395 et. seq. Medicare reimburses the Hospital for services provided on an inpatient basis according to the inpatient prospective payment system (“PPS”). Under the PPS, payments are based on a standard national amount (adjusted for Boston area wage levels), depending on the patient’s diagnosis (Diagnosis Related Group or “DRG”) without regard to each hospital’s actual inpatient operating and capital costs. Hospitals receive additional payment for cases that exceed DRG-specific cost thresholds. The standardized rates are updated annually (the update factor) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the market basket). Currently, the update factor equals the percentage increase in the market basket, but from time to time Congress has set updates legislatively that are less than the market basket. There are certain services, such as psychiatry and rehabilitative medicine, that are outside the PPS and are reimbursed based on actual costs incurred in a base year subject to certain limitations, updated by a trend factor established by CMS. In addition, hospitals receive a predetermined amount per discharge for Medicare inpatient-related capital costs that previously had been a blend of federal standard rates and hospital-specific costs, but which became a 100% federal rate as of October 1, 2000.

The Medicare reforms contained within the Balanced Budget Act of 1997 (“BBA”) reduced payments to hospitals for the annual PPS update factor, inpatient capital, certain inpatient cases receiving post-acute services, Medicare bad debt, disproportionate share and outpatient

services. The BBA mandated a prospective payment system for hospital outpatient services (“OPPS”), which was implemented on August 1, 2000. OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics, and is based on approximately 700 ambulatory payment classes. Previously, payment for outpatient services varied by type of service: prospectively determined fee schedules, the lower of costs or charges, or a blend of fee schedules and costs. These previous payment methodologies continue to apply to services not covered by the OPPS.

The Balanced Budget Refinement Act of 1999 (“BBRA”) provided some relief to hospitals and other healthcare providers from the BBA reductions. Among other things, the BBRA alleviated the planned decreases in the disproportionate share payments in fiscal years 2001 and 2002, and it increased Medicare payments for hospital outpatient services provided to certain high-cost outlier patients and for innovative medical devices and drugs. Further relief was offered by the Medicare, Medicaid, and SCHIP Benefits Improvement and Protection Act of 2000, which included approximately \$13 billion in increased Medicare spending for hospital services, as well as a delay in scheduled payment cuts to home care agencies. One of the most significant provisions gave hospitals a full market basket increase in PPS rates in fiscal year 2001 and set the rate increases for fiscal years 2002 and 2003 at market basket minus 0.55 points, significantly higher than the increases allowed by the BBA.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“MMA”) further altered Medicare’s reimbursement of hospitals for care provided. In addition to establishing a Medicare prescription drug benefit, the MMA also implements a number of quality provisions. For fiscal years 2005 through 2007, hospitals will only receive their full market basket update if they submit data on ten distinct hospital quality measures. If they do not submit data they will receive the update of market basket minus .4 percentage points. The MMA also decreases the labor-related share of the wage index (used in Medicare’s PPS for inpatient hospital services) from 71.1% to 62%, unless the revision would result in lower payments.

Managed Care Programs and Commercial Insurance

Managed care providers, including health maintenance organizations (“HMOs”) and preferred provider organizations (“PPOs”) (collectively “Managed Care Organizations” or “MCOs”), are organizations that provide insurance coverage and a network of providers of medical services to members for a fixed monthly premium. To control costs, these organizations typically contract with hospitals and physicians for discounted prices, review medical services to ensure that unnecessary services are not provided, and channel patients to contracted providers of healthcare services. MCOs also establish economic incentives directed at patients and physicians to ensure compliance with each plan’s utilization criteria.

Payments to a hospital on behalf of MCO subscribers are generally based on contracts negotiated between the hospital and the MCO organization. These contracts provide for various reimbursement methodologies including per diem rates, per discharge rates, discounts from established charges and capitation payments. Under a capitated payment arrangement, providers are reimbursed on a “per member, per month” basis; the provider bears some or all of the risk if the cost of services provided exceeds the amount of the capitation payments.

Medicaid

Under Title XIX of the Social Security Act, the federal government reimburses a portion of the funds provided by the Commonwealth for medical assistance under the Medical Assistance Program (Medicaid). This federal reimbursement is referred to as “federal financial participation,” or “FFP.” In Massachusetts, the Division of Medical Assistance (“DMA”) administers Medicaid, as well as the Children’s Health Insurance Program (“CHIP”) under Title XXI. In the Commonwealth, Medicaid and CHIP are combined into one program called MassHealth. Under Chapter 118E of the Massachusetts General Laws, Medicaid rates are generally set by contracts between providers and DMA. Under the typical provider contract, Medicaid pays for acute inpatient and outpatient services prospectively on a per inpatient discharge or per outpatient visit basis. The payment amount per discharge or per visit is a statewide average cost per discharge or per visit, adjusted by several factors including case mix, and a blending of hospital-specific and state-wide average capital costs, and the relative differences in labor costs across the state. The Commonwealth has obtained a federal waiver that allows it to require most Medicaid beneficiaries to enroll in managed care programs.

There are frequent proposals and periodic changes to the Medicaid program in terms of eligibility criteria, scope of benefits and reimbursement rates. Medicaid only accounts for two percent of total gross inpatient service revenue.

Reimbursement for Uncompensated Care

The Massachusetts Division of Healthcare Finance and Policy is responsible for the administration of the Uncompensated Care Pool (“the Pool”). The Pool covers uncompensated care to low-income Massachusetts residents for inpatient and outpatient hospital services, as well as for bad debt arising in conjunction with emergency care, for uninsured individuals who do not or cannot pay for the services provided. The Pool is funded through a legislatively mandated annual assessment on hospitals and health plans (HMOs and other private insurers), and by a contribution by the Commonwealth. Total funding for the pool is capped on an annual basis. The amount of the cap may vary from year to year, and all Massachusetts acute care hospitals share, based upon each hospital’s share of statewide uncompensated care costs, in any shortfall resulting from free care and bad debt expenditures in excess of the funding in the Pool that is available to hospitals. For additional information on shortfalls in the Pool, see “Bondowners’ Risks and Matters Affecting the Healthcare Industry – Reimbursement for Uncompensated Care.” The Hospital is a net payer into the Pool. In 2004, the Hospital’s net payment to the Pool was approximately \$2.8 million.

Accruals for Estimated Amounts Due to Third Party Payers

Cost reports of hospitals are prepared annually for and are subject to audit by the Medicare program and by the Massachusetts Division of Healthcare Finance and Policy for the Medicaid Program. In addition, certain agreements with various third party payers contain provisions for retroactive settlements and dispute resolution related to issues such as allowable cost, utilization and charge structure. Changes occur periodically in the rules and regulations applicable to Medicare and Medicaid, as well as in the agreements of various private third party payers. Similarly, the data used to estimate amounts due to third parties often changes. When appropriate, accruals for estimated settlements with Medicare and other third party payers are

established for unresolved items and incomplete data. Upon resolution, any such accruals that are no longer necessary are reversed (or amounts required in excess of accruals are recorded) and are reflected in the Statement of Operations in the year of resolution in accordance with generally accepted accounting principles. The Hospital believes that adequate reserves for estimated settlements with Medicare and other third-party payers have been established based upon information consistent with the current regulatory environment and contractual obligations.

LITIGATION

There are currently several claims pending or threatened against the Hospital occurring with respect to the ordinary course of the Hospital's operations. Management believes that there is no pending or threatened litigation that would materially and adversely affect the Hospital's ability to enter into its obligation with respect to the Bonds or to carry out its obligations thereunder.

BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTH CARE INDUSTRY

In General

Future revenues and expenses of the Hospital will be affected by events and conditions relating generally to, among other things, demand for the services of the Hospital and of physicians in its network ("Network Physicians"); the ability of the Hospital and Network Physicians to provide the services required by patients; physicians' relationships with the Hospital and Network Physicians and funding for research from non-governmental entities; potential establishment of free-standing surgery centers in the hospital's service area; management capabilities; the correctness of the design and success of the Hospital's strategic plans; economic developments in the Hospital's service area; the Hospital's ability to control expenses and maintain relationships with NIH, corporate and other sponsors of research, HMOs and other managed healthcare organizations and third-party payers; competition; rates; costs; third-party reimbursement; legislation; and government regulation. While the Hospital reasonably expects in the future to generate sufficient revenues to cover its expenses, third-party payments, statutes and regulations governing research grants, and contractual terms and provisions may change, and unanticipated events and circumstances may occur that cause variations from this expectation, and the variations may be material. Accordingly, there is no assurance that the Hospital will realize sufficient income from operations in future years to meet its obligations, including payments with respect to the Bonds. The following general factors, among others, could affect the level of revenues to the Hospital or its financial condition or otherwise result in risks for Bondholders.

Industry Pressures

The Commonwealth's healthcare industry is under significant economic pressure, triggered by a number of factors, including federal payment reductions under the BBA, the deregulation of the acute-care hospital-reimbursement system, accelerated costs of pharmaceuticals and new technology, efforts by payers to reduce payments to providers, increasing labor costs due to growing shortages of workers, the financing mechanism in

Massachusetts to fund uncompensated care and the lasting effects of a state budget crisis that precipitated cutbacks of funding for the Medicaid program.

The changing healthcare environment affects the revenue and expenses of the Hospital. These changes are a result of efforts by the federal and state governments, managed care organizations, private insurance companies and business coalitions to reduce and contain healthcare costs, including, but not limited to, the costs of inpatient and outpatient care, physician fees, capital expenditures and the costs of graduate medical education. In addition to matters discussed elsewhere herein, the following factors may have a material effect on the operations of the Hospital to an extent that cannot be determined at this time.

The receipt of future revenues by the Hospital is subject to, among other factors, federal and state regulations and policies affecting the healthcare industry and the policies and practices of managed care providers, private insurers and other third party payers, and private purchasers of healthcare services. The effect on the Hospital of recently enacted statutes, regulatory changes and future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts could also adversely affect the future revenues of the Hospital.

Future economic conditions, which may include an inability to control expenses in periods of inflation, and other conditions such as demand for healthcare services, including an anticipated continued decline in utilization of in-patient facilities, the capability of the management of the Hospital, the receipt of grants and contributions, referring physicians' and self-referred patients' confidence in the Hospital, increased use of contracted discounted payment schedules with HMOs, PPOs and other payers, economic and demographic developments in the United States and in the service area in which the Hospital is located, competition from other healthcare institutions, changes in interest rates which affect the investment results, and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment, are among other factors that may adversely affect revenues and expenses and, consequently, the Hospital's ability to make payments pursuant with respect to the Bonds.

Medicare and Medicaid Managed Care

The Medicare Program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system at will. Medicare managed care products can be offered only by a licensed HMO or, in some instances, a specially approved network called a Provider Sponsored Organization ("PSO").

The federal Medicare program pays the HMO a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in an HMO product. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the HMO pays for all the covered and medically necessary services delivered to the enrollee in the month. The HMO is at full financial risk for costs incurred for caring for its enrollees in the given month. Although Medicare HMOs have a strong interest to control utilization and thereby control costs for their population, implementation has proven

more difficult. Accordingly, some HMOs have withdrawn their Medicare product offerings in Massachusetts due to their experience with costs exceeding premium revenue.

In order to control Medicaid expenditures, Massachusetts has sought to enroll large numbers of Medicaid patients in managed care programs because experience in other states has shown that inpatient utilization decreases for Medicaid recipients who are enrolled in such programs. The rules for the enrollment of Medicaid patients in managed care programs, premium payments to managed care organizations, and the resulting and potential financial risks to the Hospital are similar to those already discussed for Medicare managed care programs.

The movement toward enrolling more Medicaid beneficiaries in managed care may result in a moderate decrease in Medicaid patient revenue over time, but such a result cannot be predicted. Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on reimbursement for hospital services. The Hospital cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

Outlier Payments

In 2002, the Centers for Medicare & Medicaid Services (“CMS”) initiated an audit of aggressive pricing strategies at one of the nation’s largest hospital chains. The audit, which was designed to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations, focused on whether the charge data used by the hospitals to calculate their outlier reimbursements was inflated to increase reimbursements. The United States Department of Health and Human Services, Office of the Inspector General (“OIG”) and the Department of Justice have also initiated probes into the potentially abusive billing practices of such organizations.

Following the initiation of this audit, CMS issued Program Memoranda to its fiscal intermediaries (i.e., non-governmental organizations or agencies that contract with the federal government to process Medicare claims) directing them to analyze outlier payments and to identify other hospitals across the country with high outlier payments. CMS indicated that hospitals found to have engaged in strategies to obtain excessive outlier payments could be referred to the CMS Program Integrity Unit for further investigation, and, where appropriate, to the OIG for investigation and/or prosecution. CMS also issued a rule that would change the way outlier payments are calculated in the future. The new rule, which became effective in 2003, limits the opportunity of a hospital to manipulate the outlier formula to maximize reimbursement, and allows for recovery of overpayments in certain cases. There can be no assurance that the Hospital will not become the subject of an audit in the future with respect to outlier payments. However, the Hospital believes its fiscal 2004 outlier revenues were below the Medicare benchmark, and its change in ratio cost to charges is below the threshold that would trigger a retroactive payback. The Hospital employs an active compliance program to minimize exposure to CMS review.

Competition

Payments to the hospital industry have undergone rapid and fundamental change triggered by the deregulation of the acute care hospital reimbursement system and the

requirement to negotiate all non-government contracts and prices. The last decade has seen the consolidation of most hospitals in eastern Massachusetts into a few systems and increasing competition among these systems as well as between individual hospitals. Hospitals are expanding or reconfiguring their service lines to capture incremental market share, entering potentially lucrative service lines, or reducing or limiting unprofitable services. This may further increase competitive pressures on acute care hospitals, including the Hospital.

The Hospital faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar healthcare services. In addition, alternative modes of healthcare delivery offering lower priced services to the same population, such as ambulatory surgery centers, private laboratories, private radiology services, skilled nursing facilities, and home care, compete with the Hospital. These developments may contribute to pressure to control utilization of inpatient facilities.

The Hospital believes that insurers will continue to encourage competition among hospitals and providers on the basis of price and payment terms. To some degree, payers have used the threat of patient steerage, restrictive physician contracting, carve outs, and network exclusion to drive provider prices lower. Because providers have resisted these strategies over the past year or so, the Hospital believes payers will shift their cost increases to employers in the form of premium increases. This may lead to increased competition among hospitals based on price where insurance companies attempt to steer patients to the hospitals that have the most favorable contracts.

The Hospital believes that sustained growth in patient volume, together with firm cost controls, have been and will remain fundamental to its financial stability. There are many limitations on the 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 Hospital will occur.

Workforce Shortages

Workforce shortages are affecting healthcare organizations at the local, regional and national level, in part due to the fact that a smaller number of students are considering careers in nursing and the allied health professions than in the past. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Hospital's ability to control costs and its financial performance.

Legislative, Regulatory and Contractual Matters Affecting Revenues

The hospital industry is heavily regulated by federal and state governments and is dependent on governmental sources for a substantial portion of revenues. Governmental revenue sources are subject to statutory and regulatory changes, administrative rulings, interpretations of policy, determinations by fiscal intermediaries and government funding restrictions, all of which may materially increase or decrease the rates of payment and cash flow to hospitals. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. Many of these changes are implemented retroactively, resulting in significant subsequent year adjustments. There is reason to believe that substantial additional changes will occur in the future.

Legislation is periodically introduced in Congress and in the Massachusetts Legislature that could result in reductions in hospital revenues, third-party payments and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to maintain the Hospital's tax-exempt status. No assurances can be given that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Hospital cannot be predicted.

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 Hospital cannot be predicted.

The Hospital also is subject to regulatory and administrative actions by CMS and DMA in the administration of the Medicare and Medicaid programs and by the Massachusetts Departments of Public Health ("DPH") and Mental Health ("DMH"), the Division of Healthcare Finance and Policy ("DHCFP"), the Massachusetts Division of Public Charities of the Department of the Attorney General, the United States Food and Drug Administration, the Department of Labor, the National Labor Relations Board, and other federal, state and local government agencies. In addition, the Hospital is subject to accreditation by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO").

Actions of these organizations could adversely affect future operations or revenue of the Hospital. See "Sources of Patient Service Revenue." Renewal and continuation of the Hospital's operating licenses, certifications and accreditations are based on inspections, surveys, investigations and other reviews, some of which may require or include affirmative action or response by the Hospital. These activities are conducted in the normal course of business of health facilities, both in connection with periodic renewals and in response to specific complaints, which may be made to governmental agencies, private agencies or the media by patients, ombudsmen or employees, among others. While the Hospital believes that it is in substantial compliance with the standards of the aforementioned regulatory bodies, there can be no assurances that such a challenge or investigation will not occur in the future or that the outcome of any such event will not have a material effect on the Hospital's operations or revenue.

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

The Commonwealth maintains a Determination of Need ("DON") program pursuant to which healthcare facilities, including acute care hospitals, are required to obtain state approval before expending funds in excess of a specified dollar threshold on capital projects or offering certain innovative services or new technologies. Without DON approval, acute care hospitals may not make major renovations or additions to units offering inpatient services if the cost exceeds a threshold amount that is currently approximately \$12 million, subject to annual indexing for inflation. In addition, an acute care hospital must seek DON approval to offer new technologies or innovative services, including air ambulance, extracorporeal membrane oxygenation, open heart surgery, neonatal intensive care units, organ transplantation, megavoltage radiation therapy, positron emission tomography ("PET"), magnetic resonance imaging ("MRI"),

and extracorporeal shock wave lithotripters. Finally DON approval is required for an acute care hospital to undertake freestanding ambulatory surgery services or to convert beds to certain non-acute uses, such as rehabilitation, psychiatric or skilled nursing.

The existence of the DON program has several implications for healthcare providers, such as the Hospital. First, the program may limit a provider's ability to respond on a timely basis to competitive programs offered by other providers who may not be subject to similar DON requirements. Already, the time required for approval of a DON application is sometimes at least a year. Staffing cuts in the DON program have made it likely that continued delays in processing DON applications will occur. Second, while the existence of the DON program may limit a provider's ability to expand or add services needed to compete, the program has also, in certain instances, served as a barrier to entry that prevents would-be competitors from entering or expanding operations in a particular field of service, such as PET and MRI. For instance, a moratorium on the filing of new DON applications has been imposed on occasion, and in certain instances, the DPH has refused to accept or consider pending applications due to the absence of need for a particular program or service, as determined by the DPH. Finally, interpretations of the DON regulations and accompanying exemptions are not static and occasionally change over time, directly affecting the ability of the Hospital to proceed with certain projects.

Pursuant to legislation enacted in calendar year 2000 and regulations subsequently promulgated by DPH in 2001, limits have been imposed on the ability of an acute care hospital to terminate "essential services" without prior notice to DPH, a public hearing, and various remedial actions, including in certain circumstances financial payments to support or continue public access to such services through other means. To some extent, this law limits the flexibility of the Hospital to reconfigure its service lines in pursuit of cost reduction initiatives or other goals.

These type of regulatory approvals required by the Commonwealth, and the changing interpretations concerning when such approvals are required may impact the ability of the Hospital to undertake certain renovations, construction projects, changes in service, new equipment purchases or acquisitions, and other facility improvements.

Reimbursement for Uncompensated Care

As discussed under "Sources of Patient Service Revenue – Reimbursement for Uncompensated Care," the Commonwealth operates an Uncompensated Care Pool (the Pool), which is funded by payments from hospitals, insurance companies and the Commonwealth. Adequate funding for the Pool has been an issue in the past and the Hospital expects it to be a more significant issue in the future. Notwithstanding efforts over the last several years to shift reliance for coverage of the poor from the Pool to other programs administered by the Commonwealth, funding for the Pool continues to be inadequate. To the extent that funding is inadequate, hospitals will not receive payment for all of the care that they provide and may be responsible for paying an increased portion of the Pool's shortfall. Each hospital is also required to absorb any shortfall that results if the total free care it provides exceeds its available free care allocation.

Certain factors increase demand on the Pool's funds, thereby decreasing the amount available to reimburse hospitals for the amount of free care that they provide and bad debt incurred. Such factors include an increase in the number of Massachusetts's residents that lack

health insurance and programmatic cutbacks in MassHealth. The percentage of Massachusetts's residents without health insurance has been increasing in recent years, and rose from 6.7% in 2002 to 7.4% in 2004. Furthermore, since 2000, MassHealth has experienced the elimination of certain programs and benefits. Both of these factors have increased the demand on Pool funds and if they continue, will further deplete this source of revenue. For Pool Fiscal Year 2005, the projected Pool deficit may total as much as \$165,000,000, with an even more substantial projected deficit in Pool Fiscal Year 2006.

Effective October 1, 2004, DHCFP amended the Pool regulations to restrict the types of charges for which the Pool will reimburse hospitals. Under these new regulations, the Pool will no longer cover the costs of hospital based primary care that is not emergent or urgent, except in limited circumstances. Further, the Pool will reimburse hospitals for the costs of urgent services provided to Massachusetts residents only and claims for routine or urgent services provided to non-Massachusetts residents may not be billed to the Pool. The new regulations also limit the retroactive billing period to six (6) months from the date of service or the date that the charges were written off as bad debt, whereas previously hospitals could bill for up to a year, and in some cases, for an indefinite period beyond these dates. In addition, the new regulations impose more stringent income requirements, and limit the types of Pool reimbursable services to exclude such services as ambulance and home health services. The impact of these restrictions on the types of Pool reimbursable charges is not certain, but it may have the effect of increasing the amount of non-reimbursable free care and bad debt for hospitals, including the Hospital.

Programmatic cutbacks, eligibility restrictions, and funding shortages within the Commonwealth's Medicaid program, MassHealth, may occur and could increase the number of uninsured in Massachusetts and further deplete Pool resources, thereby having an adverse effect on hospitals' reimbursement levels for services provided. For instance, in April of 2003, the Commonwealth eliminated MassHealth Basic coverage under Medicaid, a program that provided fairly comprehensive health insurance to approximately 50,000 long term unemployed adults. While the Commonwealth restored this program as MassHealth Essential, the new program further restricted eligibility and instituted an enrollment cap of 44,000 individuals that may increase the number of uninsured in Massachusetts.

MassHealth Essential is just one of many of MassHealth's programs that are funded through a federal Medicaid Waiver, the Section 1115 Waiver, which grants states the ability to offer Medicaid coverage to populations that are not otherwise categorically eligible for Medicaid, and still receive FFP for the state's spending on these populations. The Section 1115 Waiver was set to expire in July 2005, but Secretary Thompson renewed the waiver on January 26, 2005 and now it will remain in effect for three years starting July 1, 2005. As part of the renewal, Secretary Thompson established a Safety Net Care Pool ("SNCP") to pay for costs that otherwise do not receive FFP and terminated three existing Intergovernmental Transfers ("IGTs"), a major source of funding for both the Pool and for two area public DSH hospitals, Boston Medical Center ("BMC") and Cambridge Health Alliance ("Cambridge"). The federal government has eliminated the use of IGTs for public hospitals, but for one year, will continue to allow IGTs for public health plans, such as the ones offered by BMC and Cambridge. The effect of the elimination of these IGTs will cause a substantial Pool deficit in the upcoming years, and may jeopardize the financial stability of BMC and Cambridge, all of which could have a significant adverse effect on the Hospital because

of the potential for greater unreimbursed care, and for increases in the number of uninsured individuals in the surrounding area.

Under the renewed waiver, the Commonwealth may only access federal funds in the SNCP with prior approval from CMS. The SNCP will be funded by the FFP received for the Commonwealth's healthcare expenditures that currently do not receive federal match dollars, but that the Commonwealth, first, is able to identify and second, are eligible for FFP. The impact that these changes will have on hospitals in the Commonwealth cannot be predicted, but it may be adverse and material. Also, if the Secretary of Health and Human Services refuses to renew the Waiver in 2008, it would impact the Commonwealth's ability to fund many of MassHealth's programs, and that also could have a negative impact on the Hospital's ability to obtain reimbursement for services provided.

Currently, all three branches of Massachusetts' government are seeking to implement major healthcare coverage and Pool funding and reimbursement reforms. The success of any such measures and the possibility of future changes in the operation and funding of the Pool and their effect on the Hospital cannot be predicted, but it may be adverse.

Federal and State "Fraud and Abuse" Laws and Regulations

There is an increasingly expanding and complex body of laws, regulations and policies relating to federal and state health programs that are not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are so broadly drafted (and so broadly interpreted by several applicable federal cases and in statements by OIG officials) that they may create liability in connection with a wide variety of business transactions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Hospital). Criminal penalties may also be imposed. If determined adversely to the provider involved, an enforcement or qui tam action could have a materially adverse effect on such provider. These penalties may be applied to many cases where hospitals and physicians conduct joint business activities, such as practice purchases, physician recruiting and retention programs, various forms of hospital assistance to individual physicians, medical practices or physician contracting entities, physician referral services, hospital-physician services or management contracts, and space or equipment rentals between hospitals and physicians. The Hospital conducts these or similar types of activities, which pose varying degrees of risk. Much of this risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG. While the Hospital is not aware of any challenge or investigation with respect to such matters, there can be no assurance that one or more will not occur in the future.

One of the broadest prohibitions is the Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law"), which makes it a criminal felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in return for or to induce business that may be paid for, in whole or in part, under a federal healthcare program including, but not limited to, the Medicare or Medicaid programs. In addition to criminal penalties, including fines of up to \$25,000 and five years imprisonment, violations of

the Anti-Kickback Law can lead to civil monetary penalties and exclusion from the Medicare and Medicaid programs. The scope of prohibited payments in the Anti-Kickback Law is expansive and includes certain economic arrangements involving hospitals, physicians and other healthcare providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

Limited “safe harbor” regulations, published by the OIG, provide defenses for a limited scope of arrangements in case of prosecution or administrative enforcement action. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relations that many hospitals, physicians and other healthcare providers consider to be legitimate business arrangements. However, failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of the applicable statute.

The Hospital may have certain relationships with physicians and other referral sources that do not necessarily meet all of the requirements of each applicable safe harbor under the safe harbor regulations. Nonetheless, the Hospital believes that it is presently in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of the case law interpreting the Anti-Kickback Law, there can be no assurances that the Hospital will not be found to have violated the Anti-Kickback Law, and if so, that any sanction imposed would not have a material adverse effect on the operations or the financial condition of the Hospital.

In addition, Massachusetts has both a Medicaid anti-kickback statute, as well as an all payer anti-kickback statute. The all payer anti-kickback statute applies more broadly than the federal Anti-Kickback Statute because it applies to services covered by all payers, in addition to services covered by Medicare and Medicaid. Furthermore, dissimilar from the federal statute, both of Massachusetts’ anti-kickback statutes lack an intent requirement and do not incorporate safe harbor provisions. Violations of the Massachusetts anti-kickback statute may also result in criminal and/or civil penalties. The Hospital believes that its business arrangements are in substantial compliance with the Massachusetts prohibitions, but considering the lack of available defenses and general applicability, there can be no assurances that a third party reviewing such arrangements would not find a violation, and such a finding could have a material and adverse effect on the Hospital.

Federal and State False Claims Acts

The federal False Claims Act is another broad statute that the government often utilizes in fighting fraud and abuse. In the healthcare field, the most commonly used provisions under the False Claims Act prohibit a person from “knowingly” presenting or causing to be presented a false or fraudulent claim for payment or approval to the federal government, and from “knowingly” making, using or causing to be made a false record or statement to get a false or fraudulent claim paid or approved by the federal government. These prohibitions extend to claims submitted to federal healthcare programs, including, but not limited to, Medicare or Medicaid.

Importantly, the False Claim Act broadly defines the terms “knowing” and “knowingly.” Specifically, knowledge will have been proven for purposes of the False Claims Act if the person: (1) has actual knowledge of the information; (2) acts in deliberate ignorance of the truth

or falsity of the information; or (3) acts in reckless disregard of the truth or falsity of the information. Moreover, the statute specifically provides that a specific intent to defraud is not required in order to prove that the law has been violated.

A person found to have violated this statute is liable for a per claim civil penalty of not less than \$5,500 and not more than \$11,000, plus three times the amount of damages sustained by the federal government. In certain limited cases involving prompt disclosure of False Claims Act violations, the statute provides for double, rather than treble, damages. Private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions arise in a variety of contexts in which hospitals (including the Hospital) and healthcare providers operate. If determined adversely, such actions could have a materially adverse effect on the Hospital.

While the Hospital is not aware of any material challenge or investigation concerning it with respect to such matters, there can be no assurance that one or more such challenges or investigations will not occur in the future or that the outcome of any such event will not have a material effect on the Hospital's operations.

Additionally, Massachusetts has a Medicaid False Claims Act that makes it a criminal violation for any person to "knowingly and willfully make or cause to be made any false statement or representation of a material fact in any application" for a Medicaid benefit. The Attorney General of Massachusetts may also seek civil remedies for violations of this law. Massachusetts has another False Claims Law that is identical to the Medicaid False Claims Act in every respect except that it applies to all health care benefits rather than just Medicaid benefits.

The Hospital conducts a variety of activities that pose varying degrees of risk under the federal and state False Claims Acts, as well as a variety of other laws, rules and regulations. While the Hospital believes that it complies with these laws, there can be no assurances that a reviewing third party would not find some violation of other fraud and abuse laws that would justify the bringing of a federal or state False Claims Act suit.

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

The Federal Ethics in Patient Referrals Act (known as the "Stark Law") prohibits a physician (or an immediate family member of such physician) with a financial relationship with an entity, from referring a Medicare or Medicaid patient to such entity for the furnishing of certain designated health services, and prohibits such person from presenting or causing to be presented a claim for payment under the Medicare or Medicaid program for designated health services furnished pursuant to a prohibited referral. The designated health services subject to these prohibitions are clinical laboratory services, physical and occupational therapy services, radiology services (including magnetic resonance imaging, computerized tomography and ultrasound), radiation therapy services, durable medical equipment, parenteral and enteral nutrients (including equipment and supplies), orthotic and prosthetic devices, speech language pathology, home health services, outpatient prescription drugs and inpatient and outpatient hospital services.

A financial relationship, for purposes of the Stark Law is defined as either an ownership or investment interest in the entity or a compensation arrangement between the physician (or immediate family member) and the entity. An ownership or investment interest may be through equity, debt, or other means and includes an interest in an entity that holds an ownership or investment interest in an entity providing the designated health services.

The Stark provisions provide certain exceptions to these restrictions. If the physician has a financial relationship with an entity that provides one of the designated health services, the Stark prohibitions will apply unless one of the specified exceptions are available. Unlike the Anti-Kickback Law's safe harbors discussed above (where the failure to meet a safe harbor does not necessarily mean the referral is prohibited), failure to satisfy an exception to the Stark provisions means: (1) that the referral itself is prohibited, and (2) the entity receiving the referral is prohibited from seeking payment for such service. However, the mere existence of a financial relationship does not violate the Stark provisions. The Stark Law is only violated if: (1) a financial relationship exists, (2) a referral for designated services is made, and (3) no relevant exception is available. To the extent a relationship is found to exist, an applicable exception under Stark is necessary in order for the entity receiving the referral to accept such referral (for a designated service) and to bill for the designated service generated by such referral.

The exceptions under the Stark provisions can be broken down into three categories, based upon the nature of the financial relationship between the referring provider and the referral entity. The three categories of exception include: (1) exceptions to ownership arrangements, (2) exceptions to compensation arrangements, and (3) exceptions to both compensation and ownership arrangements.

If the relationship (which would include employment and other professional services relationships) between a physician/practitioner and the hospital cannot be made to fit within the exceptions, the hospital will not be permitted to accept referrals for designated services from the physician/practitioner who has such financial relationship. Similar to the Anti-Kickback Law discussed above, failure to comply with the Stark provisions can result in liability in connection with a wide variety of business transactions.

"Phase I" of the final Stark Law regulations is now in effect. On March 26, 2004, CMS promulgated an interim final rule - known as "Phase II" - further regulating prohibitions against certain financial arrangements between referring physicians and entities that provide designated health services. This second phase of the Final Rule became effective on July 26, 2004. Although the Phase II regulations broaden the range of permissible financial arrangements, there can be no assurance that a third party reviewing all financial relationships between the Hospital and physicians would find them in compliance with the Stark Law. Of note, Phase II imposes new record-keeping requirements on hospitals and strictly prohibits the use of income guarantees to shift the overhead costs of a recruiting group practice to the hospital. In a third phase of rulemaking, CMS will promulgate additional rules regarding financial interests with respect to Medicaid providers.

Violations of the Stark Law can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may also create liability under the False Claims Act, which is discussed herein. There can be no assurance that a third party reviewing the financial relationships

between the Hospital and physicians would find each to be in compliance with the Stark Law. The failure of arrangements between the Hospital and a physician to fall within one or more of these exceptions could have a materially adverse effect on the Hospital. Compliance with the Stark Law is a threshold requirement for a business arrangement between hospitals and a referring physician, but the arrangement also must not violate other healthcare fraud and abuse laws discussed herein.

The OIG has encouraged all healthcare providers to adopt and implement programs to promote compliance with federal and state laws, including the False Claims Laws, the Anti-Kickback Statute and the Stark Law. Emerson has a Compliance Program (“Program”) that is intended to promote ethical behavior and prevent and detect problems and instances of non-compliance. The Program is comprised of a Code of Organizational Behavior and Ethics (“Code”) to help employees understand and recognize their ethical and legal responsibilities, a Compliance Policy that assigns and communicates the responsibility for implementing and administering the program, and a Compliance Committee to oversee implementation and operation of the Code and the Program. In addition to the Code, the core elements of Program include systems for reporting and response to identify potential violations of the program, ongoing audit and assessment to monitor compliance with the Program, and education and training of all employees. The presence of a compliance program, however, is not an assurance that a healthcare provider will not be investigated by one or more federal and state agencies that enforce the False Claims Laws or that it will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs).

OIG Compliance Guidelines

On February 23, 1998, the OIG published Compliance Program Guidance (“CPG”) for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG’s publication, the OIG published Supplemental Compliance Program Guidance on January 31, 2005. These issuances (collectively, the “Guidances”) provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. However, the presence of a compliance program is not an assurance that a healthcare provider, such as the Hospital, will not be investigated by one or more federal or state agencies that enforce healthcare fraud and abuse laws or that it will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs).

MMA Impact on Urban Hospitals

As discussed above in “Sources of Revenue,” the MMA equalized payment for rural and urban hospitals and tied payment to hospitals on certain required demonstrations of quality. The future impact of these and future Medicare funding changes on the Hospital cannot be predicted but they could have an adverse effect on it.

Regulation of Patient Transfer

Federal law requires hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act (“EMTALA”) in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient’s inability to pay for the services provided. This law mandates certain medical screening and stabilizing treatment requirements be met before a patient who is medically unstable or in labor may be transferred to another facility, unless the patient asks to be transferred or a physician certifies that the benefits of the transfer outweigh the risks. This law applies even when the hospital is temporarily on diversion status. The law further prohibits hospitals delaying such screening or treatment in order to inquire about an individual’s method of payment. In 1999, CMS and the OIG jointly issued a special advisory bulletin that reinforces EMTALA’s obligations in the face of pressure on hospitals from managed care payers to discourage utilization of emergency department services. Then, in 2003, CMS promulgated final EMTALA regulations.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties of up to \$50,000 per violation. Accordingly, failure of the Hospital to meet its responsibilities under the law could adversely affect its financial condition. However, the Hospital believes that it is in compliance with these requirements.

Not-for-Profit Status

From time to time, legislation affecting the tax-exempt status of not-for-profit organizations has been introduced in Congress. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of such organizations, particularly where such authorities have been dissatisfied with the amount of service provided to indigents. Any legislation affecting the tax-exempt status of the Hospital or the imposition or increase in taxes related to its property and operations, could have a material adverse effect on its operations.

Internal Revenue Code Limitations

The Internal Revenue Code (“Code”) contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of healthcare facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Hospital’s ability to finance its future capital needs and could have other adverse effects on the Hospital that cannot be predicted at this time. The Code continues to subject unrelated business income of non-profit organizations to taxation.

As a tax-exempt organization, the Hospital is limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The Internal Revenue Service (“IRS”) has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or

revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select healthcare providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Hospital or assessment of significant tax liability could have a material adverse effect on the Hospital and might lead to loss of tax exemption of interest on the Bonds issued. Revocation of the tax-exempt status of the Hospital under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of issuance of the Bonds.

Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt healthcare providers and nonexempt individuals or entities. While the Hospital believes that its arrangements with private persons and entities are generally consistent with guidance by the IRS, there can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Hospital.

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, and trustee or other person having similar powers or responsibilities that participated in the transaction willfully or without reasonable cause, knowing it will 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 market 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 substantially influence the affairs of the organization; their family members; and entities that are more than 35% controlled by a disqualified person. 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 the Hospital 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 Hospital 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 Hospital.

Recently, there have been a series of class action lawsuits filed against non-profit hospitals on the unprecedented theory that these hospitals breached contracts with federal and state governments by not providing sufficient public benefit to justify their tax-exempt status. These claims targeted non-profit hospitals' practices of charging uninsured patients more for services than insured patients and aggressively seeking payment for these services. Although these lawsuits ultimately may fail on procedural and other grounds, the Hospital is aware of the potential for these suits to arise and of the possibility that a successful suit could jeopardize its tax-exempt status and create other liabilities.

In February 2004, CMS and the OIG provided guidance to hospitals on whether offering discounts to uninsured and underinsured patients is consistent with health care fraud and abuse laws such as the Anti-Kickback Law, and Medicare reimbursement principles. In particular, the guidance made clear that the Anti-Kickback Law does not prohibit a hospital's offering of discounts to uninsured or underinsured patients, provided that the discount is not linked in any manner to the generation of business payable under a federal healthcare program. Furthermore, CMS strongly encouraged hospitals to offer discounts and cost-sharing waivers to uninsured and underinsured patients, including Medicare beneficiaries.

While the Hospital is not aware of any challenge or investigation concerning its Members with respect to such matters, there can be no assurance that none will occur in the future. Such a challenge could pose a risk to the Hospital's tax-exempt status, the consequences of which could be material.

Tax Audits

Taxing authorities have recently been conducting general tax audits on non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Although the Hospital is not the subject of any such audit at this time, other non-profit hospitals have been the subject of such audits.

Health Insurance Portability and Accountability Act

Congress enacted The Health Insurance Portability and Accountability Act of 1996 (previously defined herein as "HIPAA") to mandate portability of health insurance and protect the use and disclosure of personal health information. In addition, Congress recognized that increased electronic exchange of health information presents privacy concerns and security risks and, therefore, required that privacy and security safeguards be put into place.

Congress also included in HIPAA certain “administrative simplification” provisions intended to reduce the administrative costs of processing healthcare payments by encouraging the electronic exchange of health information and the use of standardized formats for healthcare claims and other transactions. These administrative simplification provisions require the establishment of four national health information standards, including:

- standardized electronic transaction formats and code sets to allow standardized electronic transmission of healthcare claims and information;
- unique identifiers to support these standard transmissions;
- comprehensive privacy standards establishing a minimum threshold for determining when to allow access to or disclosure of personal health information; and
- security mechanisms to guard against unauthorized access to health information.

HIPAA and its regulations apply to health plans, healthcare clearinghouses, and those healthcare providers who electronically conduct certain financial and administrative transactions (e.g., electronic healthcare claim submissions). Regulations regarding privacy, security and transaction standards have been finalized. The final privacy regulations address five basic privacy principles: (1) consumer control over health information, (2) boundaries on patient record use and release, (3) safeguards for personal health information, (4) accountability for patient record use and release, and (5) a balance between public responsibility and privacy protections. The final transaction standards regulations require covered entities to conduct certain electronic transactions in compliance with the applicable transactions and code sets standards published by HHS. The final transaction standards regulations are effective now, although individual payers are permitted to temporarily accept non-compliant claims at this time. The final data security regulations became effective on April 21, 2003, and compliance with those regulations will be required on or after April 20, 2005.

Under HIPAA, there will be specific federal penalties if a patient’s right to privacy is violated. Civil violations, including disclosures made in error, will carry a monetary penalty of \$100 per violation up to \$25,000 per year. Criminal penalties for intentional violations carry fines of up to \$250,000 and 10 years in prison.

Compliance with HIPAA has required changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. While the Hospital is actively engaged in achieving compliance with the HIPAA regulations, in light of their complexity and the lack of guidance from HHS with respect to numerous provisions of the regulations, it is impossible to accurately assess the financial and operational impact of HIPAA on the Hospital.

The Hospital has a HIPAA Implementation Compliance Plan in place that addresses these regulatory requirements. Funds have been expended to address these requirements, and the balance of funds expected to be required has been included in the current budget.

Affiliation, Merger, Acquisition and Divestiture

As part of its ongoing planning and property management functions, the Hospital reviews the use, compatibility and financial viability of many of their operations, and from time to time, may pursue changes in the use, or disposition, of their facilities. Likewise, the Hospital may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the Hospital in the future, or about the potential sale of some of the operations and properties of the Hospital. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Hospital, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Hospital 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, payer contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm from allegedly anti-competitive behavior. Common areas of potential liability include joint action among providers with respect to payer contracting, medical staff credentialing, and issues relating to market share. 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 payer contracting, the Hospital, from time to time, may be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources is dependent on a myriad of factors that may change from time to time.

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

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

into ancillary healthcare businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

While the Hospital believes that it is currently in compliance with relevant antitrust laws, there can be no assurance that a third party reviewing the activities of the Hospital would find such activities to be in full compliance with such laws.

Environmental Matters

In 1995, the Hospital removed an underground heating oil tank from the vicinity of the loading dock north of the emergency department entrance. Soil impacted by a release from the tank was removed, and the environmental professional overseeing the work determined that the tank release had been remediated. In November 1999, petroleum was discovered floating on the groundwater (a condition referred to as “LNAPL”) in the area of the former tank. This finding was reported to the Massachusetts Department of Environmental Protection (“DEP”). An investigation found petroleum in soil and in groundwater, with up to 5.1 feet of LNAPL. Remedial options were evaluated, and the remediation method selected was long-term monitoring for natural attenuation. While the site was initially determined to be within an area contributing to a drinking water well (Zone II), it was later found to be outside the limit of the DEP-approved Zone II. The site achieved Response Action Outcome (RAO) status in January 2003. The RAO concluded that it was not feasible to remove the petroleum, but that the petroleum plume appeared to be stable and could be left in place and monitored without unacceptable risk to human health or the environment, thereby achieving a “temporary solution” under the Massachusetts cleanup regulations (“MCP”). Since LNAPL greater than ½ inch exceeds upper concentration limits under the MCP, a “permanent solution” could not be reached. Under the terms of the RAO and the MCP, periodic sampling will continue to monitor petroleum levels in groundwater, and every five years the remedial status will be evaluated to determine the feasibility of other remedial options. An area of approximately 1932 square feet in the area of the former tank is subject to a recorded Activity and Use Limitation, which restricts that area from residential use and also restricts exposure to soil containing petroleum on that portion of the property. Based on facts and input from legal counsel, the Hospital believes any material financial impact is remote.

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. Healthcare operators and employers, such as the Hospital, are subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated from their properties or the improper off-site disposal of such substances and the harm to person or property that such release or disposal may cause. At the present time, the Hospital is not aware of any pending or threatened environmental claim, investigation or enforcement action, which, if determined adversely to the Hospital, could have material adverse consequences.

Malpractice Lawsuits

Although the number of malpractice lawsuits filed against physicians and hospitals has stabilized in recent years, the dollar amounts of patient damage recoveries still remain potentially significant. A number of insurance carriers have withdrawn from this segment of the insurance market citing underwriting losses, and premiums have increased sharply in the last several years. The effect of these developments has been to significantly increase the operating costs of hospitals, including the Hospital.

Investment and Gift Matters

The Hospital derives a portion of its excess of revenues over expenses from income from investments and gifts. Any significant deterioration in the securities markets generally or adverse results in the specific investments which the Hospital has made, or on its ability to receive gifts, would reduce its income and cash flow and, therefore, could impair its ability to finance its operating and capital needs and future growth.

Other Risk Factors

The following additional factors, among others, may adversely affect the operations of healthcare providers, including the Hospital, to an extent that cannot be determined at this time:

- Unionization of additional employees at the Hospital that could result in an increased risk of employee strikes and other adverse labor actions and conditions, which in turn could result in a substantial reduction in revenues without a corresponding decrease in costs;
- Increased unemployment or other adverse economic conditions in the Hospital'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 healthcare costs, causing employees to be more selective and cost-conscious in choosing healthcare services;
- Reduced need for hospitalization or other healthcare services arising from medical and scientific advances;
- Increases in cost and limitations in the availability of any insurance, such as fire, terrorism and/or business interruption, automobile and comprehensive general liability, that the Hospital generally carries; and
- Acts of war or acts of so-called terrorists, including the use of weapons capable of mass destruction.

This letter and the information contained herein are submitted to the Authority for inclusion in its Official Statement relating to Revenue Bonds, Emerson Hospital Issue, Series E (2005).

EMERSON HOSPITAL

By: /s/ Christine C. Schuster
President and Chief Executive Officer

By: /s/ Dana P. Diggins
Senior Vice President Finance and Chief
Financial Officer

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APPENDIX B

FINANCIAL STATEMENTS OF THE INSTITUTION

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Emerson Health System, Inc. and Affiliates

**Combined Financial Statements
September 30, 2004 and 2003**

Emerson Health System, Inc. and Affiliates

Index

September 30, 2004 and 2003

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Report of Independent Auditors

To the Board of Directors of
Emerson Health System, Inc.

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

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information included on pages 23 to 26 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and changes in net assets of the individual affiliates. Accordingly, we do not express an opinion on the financial position, results of operations and changes in net assets of the individual affiliates. However, the combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

PricewaterhouseCoopers LLP

December 3, 2004

Emerson Health System, Inc. and Affiliates
Combined Balance Sheets
September 30, 2004 and 2003

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 5,970,345	\$ 4,492,555
Accounts receivable		
Patients, less allowance for doubtful accounts of \$3,760,859 in 2004 and \$3,487,427 in 2003	18,506,726	17,769,542
Other (Note 14)	1,385,211	1,876,952
Inventories	1,167,244	1,162,807
Prepaid expenses	1,246,863	578,700
Pledges receivable (Note 10)	527,197	1,052,918
Assets whose use is limited (Notes 3 and 6)	1,725,112	1,645,838
Total current assets	<u>30,528,698</u>	<u>28,579,312</u>
Investments (Note 3)		
Assets whose use is limited (Notes 3 and 6)	2,265,225	2,219,653
Unrestricted	8,902,934	7,802,048
Board designated	8,927,835	7,864,102
Temporarily restricted	193,014	210,138
Total investments	<u>20,289,008</u>	<u>18,095,941</u>
Property, plant and equipment, net (Note 5)	<u>52,321,837</u>	<u>55,943,733</u>
Other assets		
Pledges receivable (Note 10)	197,149	-
Beneficial interest in split-interest agreements (Note 15)	1,187,384	1,169,977
Goodwill (Note 1)	2,615,848	3,662,187
Deferred financing costs, less accumulated amortization of \$349,711 in 2004 and \$311,164 in 2003	539,383	577,930
Investment in joint venture	367,404	436,877
Other	1,201,321	1,060,685
Total other assets	<u>6,108,489</u>	<u>6,907,656</u>
Total assets	<u>\$ 109,248,032</u>	<u>\$ 109,526,642</u>
Liabilities and Net Assets		
Current liabilities		
Current portion of long-term debt (Note 6)	\$ 1,505,000	\$ 1,415,000
Current portion of capital lease obligations and other long- term debt (Note 6)	1,388,054	2,795,622
Accounts payable and accrued expenses	6,402,255	4,688,075
Accrued payroll and vacation	2,814,570	3,632,395
Estimated final settlements due to third-party payors (Note 7)	4,781,215	7,143,616
Total current liabilities	<u>16,891,094</u>	<u>19,674,708</u>
Accrued pension liability (Note 8)	8,222,807	10,829,914
Long-term debt, less current portion (Note 6)		
Massachusetts Health and Educational Facilities Authority Revenue Bonds	29,034,606	30,506,206
Capital lease obligations and other long-term debt, less current portion	3,060,178	4,340,811
Mortgages payable, less current portion	628,676	657,297
Total liabilities	<u>57,837,361</u>	<u>66,008,936</u>
Commitments and contingencies (Notes 6, 11, 12 and 14)		
Net assets		
Unrestricted	48,063,059	39,938,853
Temporarily restricted (Note 4)	2,281,312	2,671,782
Permanently restricted (Note 4)	1,066,300	907,071
Total net assets	<u>51,410,671</u>	<u>43,517,706</u>
Total liabilities and net assets	<u>\$ 109,248,032</u>	<u>\$ 109,526,642</u>

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

Emerson Health System, Inc. and Affiliates
Combined Statements of Operations
Years Ended September 30, 2004 and 2003

	2004	2003
Unrestricted revenues, gains and other support		
Net patient service revenue (Notes 1 and 7)	\$ 122,392,571	\$ 116,603,786
Other revenue	3,351,169	3,191,122
Net assets released from restrictions for operations	1,260,644	1,121,664
Total unrestricted revenues, gains and other support	<u>127,004,384</u>	<u>120,916,572</u>
Expenses		
Salaries, wages and fringe benefits	72,786,916	72,004,436
Physician fees	1,299,743	1,430,954
Supplies and other expenses	34,323,542	34,336,578
Depreciation and amortization	8,896,244	9,362,218
Interest	2,004,583	2,217,409
Provision for doubtful accounts	3,068,647	2,280,620
Total expenses	<u>122,379,675</u>	<u>121,632,215</u>
	4,624,709	(715,643)
Nonrecurring charges (Note 2)	-	(1,196,519)
Operating income (loss)	<u>4,624,709</u>	<u>(1,912,162)</u>
Nonoperating gains (losses)		
Investment income, net (Note 3)	374,792	911,199
Write-off of investment in VHA	(201,388)	-
Income from rental operations (net of depreciation expense of \$37,398 in 2004 and \$37,334 in 2003)	362,489	414,316
Loss on disposal of equipment	(548,421)	(45,828)
Nonoperating (losses) gains, net	<u>(12,528)</u>	<u>1,279,687</u>
Excess (deficit) of revenues and gains over expenses and losses	4,612,181	(632,475)
Change in net unrealized appreciation on investments	1,777,584	1,282,083
Contributions for plant and equipment	300	26,587
Net assets released from restrictions for the purchase of plant and equipment	717,278	1,039,044
Change in additional minimum pension liability obligation	1,016,863	(1,674,486)
Increase in unrestricted net assets	<u>\$ 8,124,206</u>	<u>\$ 40,753</u>

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

Emerson Health System, Inc. and Affiliates
Combined Statements of Changes in Net Assets
Years Ended September 30, 2004 and 2003

	2004	2003
Unrestricted net assets		
Excess (deficit) of revenues and gains over expenses and losses	\$ 4,612,181	\$ (632,475)
Change in net unrealized appreciation on investments	1,777,584	1,282,083
Contributions for plant and equipment	300	26,587
Net assets released from restrictions for the purchase of plant and equipment	717,278	1,039,044
Change in additional minimum pension liability obligation	1,016,863	(1,674,486)
Increase in unrestricted net assets	<u>8,124,206</u>	<u>40,753</u>
Temporarily restricted net assets		
Contributions	1,557,790	2,184,863
Net assets released from restriction for the purchase of plant and equipment	(717,278)	(1,039,044)
Change in net unrealized appreciation (depreciation) on investments	29,662	61,239
Net assets released from restriction for operations	(1,260,644)	(1,121,664)
(Decrease) increase in temporarily restricted net assets	<u>(390,470)</u>	<u>85,394</u>
Permanently restricted net assets		
Contributions	159,229	238,061
Increase in permanently restricted net assets	<u>159,229</u>	<u>238,061</u>
Increase in net assets	7,892,965	364,208
Net assets, beginning of year	43,517,706	43,153,498
Net assets, end of year	<u>\$ 51,410,671</u>	<u>\$ 43,517,706</u>

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

Emerson Health System, Inc. and Affiliates
Combined Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 7,892,965	\$ 364,208
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	8,896,244	9,362,218
Change in additional minimum pension liability obligation	(1,016,863)	1,674,486
Loss on disposal of equipment	548,421	45,828
Provision for doubtful accounts	3,068,647	2,280,620
Restricted contributions	(845,170)	(1,717,163)
Equity earnings on joint venture	(370,877)	(408,392)
Net realized and unrealized (appreciation) depreciation on investments	(1,790,606)	(1,385,819)
Beneficial interest in split-interest agreements	(17,407)	(1,079,719)
Changes in operating assets and liabilities		
Patient accounts receivable	(3,805,831)	(4,414,035)
Pledges receivable	328,572	856,731
Inventories, prepaid expenses and other assets	(774,689)	(77,632)
Other accounts receivable	491,741	(382,280)
Accounts payable and accrued expenses	431,537	(389,962)
Estimated settlements due to third-party payors	(2,362,401)	(591,209)
Accrued pension liability	(1,590,244)	(2,595,542)
Net cash provided by operating activities	<u>9,084,039</u>	<u>1,542,338</u>
Cash flows from investing activities		
Property, plant and equipment acquisitions	(4,456,009)	(4,884,873)
Cash received from sale of property, plant and equipment	144,396	-
Contingent consideration paid on MRI practice	-	(1,224,508)
Distribution from joint venture	440,350	469,460
Purchases of investments	(481,734)	(1,146,454)
Sales of investments	-	1,198,151
Net cash used in investing activities	<u>(4,352,997)</u>	<u>(5,588,224)</u>
Cash flows from financing activities		
Principal payment on long-term debt and capital lease obligations	(4,098,422)	(4,006,115)
Proceeds from loan	-	2,800,000
Proceeds from restricted contributions	845,170	1,717,163
Net cash (used in) provided by financing activities	<u>(3,253,252)</u>	<u>511,048</u>
Net increase (decrease) in cash and cash equivalents	1,477,790	(3,534,838)
Cash and cash equivalents at beginning of year	4,492,555	8,027,393
Cash and cash equivalents at end of year	<u>\$ 5,970,345</u>	<u>\$ 4,492,555</u>
Supplemental disclosures of cash flow information		
Cash paid during the year for		
Interest (including interest capitalized in 2004 of \$92,690 and 2003 of \$46,316)	\$ 2,111,285	\$ 2,263,725
Supplemental disclosures of noncash investing activities		
Fixed asset acquisitions remaining in accounts payable amounted to \$515,097 and \$50,279 at September 30, 2004 and 2003, respectively.		

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

Emerson Health System, Inc. and Affiliates

Notes to Combined Financial Statements

September 30, 2004 and 2003

1. Significant Accounting Policies

Basis of Presentation

The combined financial statements include Emerson Health System, Inc. and its affiliates ("the Health System," Note 2). All intercompany transactions have been eliminated from the combined financial statements. The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting for healthcare organizations.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and money market instruments with original maturities of three months or less. Included in cash and cash equivalents is approximately \$1,192,000 and \$1,198,000 at September 30, 2004 and 2003, respectively, to be designated and invested with board designated investments.

Assets Whose Use is Limited

Assets whose use is limited primarily includes assets held by trustees under indenture agreements. Amounts required to meet current liabilities of the Health System have been classified as current assets in the balance sheet.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. 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 or loss is restricted by donor or law. Unrealized appreciation (depreciation) on investments is excluded from the excess of revenues and gains over expenses and losses. On a periodic basis, the Health System reviews significant declines in the value of equity securities below historical cost and records an impairment charge (included in the performance indicator) for declines determined to be other-than-temporary.

Certain investments are pooled. Earnings on pooled investments are allocated based on units of participation in the pool.

The Hospital maintains a 50% joint venture investment in the Emerson Physician-Hospital Organization, Inc., which is a taxable not-for-profit corporation formed to organize third-party payor contracting functions (risk sharing contracts) for the Hospital and physicians. The Hospital also maintains a 50% joint venture investment in a Radiation Oncology Center (the "Center"). These investments are accounted for under the equity method of accounting. There is no remaining equity recorded for the PHO on the System's books. The equity income for the Center in 2004 and 2003 amounted to \$370,877 and \$408,392, respectively, and is recorded as other revenue. In addition, during 2004 and 2003, the Hospital received distributions of \$440,350 and \$469,460, respectively, from the Center. The remaining investment in the Center amounts to \$367,404 and \$436,877 at September 30, 2004 and 2003, respectively.

Emerson Health System, Inc. and Affiliates

Notes to Combined Financial Statements

September 30, 2004 and 2003

Net Assets

Permanently restricted net assets include the historical dollar amounts of gifts and related earnings, which are required by donors to be permanently retained. Temporarily restricted net assets include gifts, and income and gains which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds) or by interpretations of law (gains available for appropriation but not appropriated in the current period). Realized and unrealized gains and losses are classified as unrestricted net assets unless they are restricted by the donor or law. Unless permanently restricted by the donor, realized and unrealized net gains on permanently restricted gifts are classified as temporarily restricted until appropriated for spending in accordance with policies established by the Board of Directors.

Unrestricted net assets include all other remaining net assets of the Health System. See Note 4 for further information on the composition of restricted net assets.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; repairs and maintenance are charged to expense. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited or charged to income.

Depreciation of property, plant and equipment is recorded based on historical cost using the straight-line method over the following estimated useful lives:

Buildings	15-30 years
Fixed equipment and building improvements	15-30 years
Equipment	3-7 years

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as equipment that are received absent donor restrictions are recorded at fair market value as unrestricted support on the date of receipt. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted net assets. Absent explicit donor stipulations, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Inventories

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

Deferred Financing Costs

Deferred financing costs relating to the issuance of long-term debt are amortized using the straight-line method over the term of the related bonds payable.

Emerson Health System, Inc. and Affiliates

Notes to Combined Financial Statements

September 30, 2004 and 2003

Goodwill

On November 2, 1999, the Hospital entered into an asset purchase agreement for a magnetic resonance imaging ("MRI") practice (Note 14). The allocation of the closing purchase payment included \$4,365,500 which represented goodwill and \$500,000 which represented a noncompete clause. Goodwill is being amortized over seven years and the noncompete portion is being amortized over five years. Accumulated amortization related to the MRI amounted to \$4,099,652 and \$2,953,313 as of September 30, 2004 and 2003, respectively. During fiscal 2003, contingent consideration of \$1,224,508 was paid pursuant to the asset purchase agreement. Such contingent consideration was recorded as goodwill.

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, *Goodwill and Other Intangible Assets*, which requires that goodwill no longer be amortized, but rather will be tested for impairment at least annually. The effective date of this statement has been deferred for not-for-profit organizations until FASB Statement No. 141, *Business Combinations*, is issued related to not-for-profit organizations.

Net Patient Service Revenue

The Health System has agreements with third-party payors that provide for payments to the Health System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Health System does not pursue collection of amounts determined to qualify as charity care, accordingly, charity care is not reported as revenue (Note 9).

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the conditions are substantially met. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statement of operations as net assets released from restrictions.

Emerson Health System, Inc. and Affiliates

Notes to Combined Financial Statements

September 30, 2004 and 2003

Excess of Revenue and Gains over Expenses and Losses

The statement of operations includes excess of revenues and gains over expense and losses. Changes in unrestricted net assets which are excluded from excess of revenues and gains over expenses and losses, consistent with industry practice, include unrealized appreciation (depreciation) on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and amounts related to additional minimum pension liabilities.

Concentration of Credit Risk

Financial instruments which potentially subject the Health System to concentration of credit risk consist of patient accounts receivable and certain investments. However, this risk is mitigated by the fact that the investments are placed with what management believes are high quality financial institutions. Investments include common stock mutual funds, corporate and government bonds, U.S. Treasury obligations and fixed income mutual funds. The Health System investments are not concentrated in bonds or stocks of any corporation or industry.

The fair value of the Health System's financial instruments approximate the carrying amount reported in the balance sheet for cash equivalents, receivables, payables and long-term debt. See Note 3 for the fair value of investments and assets whose use is limited or restricted.

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The Health System receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Medicaid, Blue Cross of Massachusetts, Harvard Pilgrim Health Care and Tufts Associated Health Plan. The Health System has not historically incurred any significant credit losses outside the normal course of business.

The mix of receivables from third-party payors at September 30, 2004 include the following:

Medicare	25 %
Medicaid	7 %
Blue Cross	21 %
Harvard Pilgrim Health Care	13 %
Tufts Associated Health Plan	12 %
Other third-party payors	18 %
Patients	4 %
	<hr/>
	100 %

Use of Estimates

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

Emerson Health System, Inc. and Affiliates

Notes to Combined Financial Statements

September 30, 2004 and 2003

2. Corporate Organization

The Health System is the parent of five wholly-owned affiliated organizations. A brief description of these affiliates and their activity is as follows:

Emerson Hospital (the "Hospital")

An acute care nonprofit community hospital which serves Concord, Acton, Lincoln, Sudbury and 18 other surrounding towns.

During fiscal 2003, the Hospital incurred \$1,025,000 of nonrecurring expenses for a contract termination with a hospital-based physician group.

Emerson Property Development Corporation ("EPDC")

A for-profit corporation organized to develop, acquire and manage real estate properties for purposes that support the Hospital.

Emerson Occupational Health Services ("EOHS")

A for-profit corporation organized to sell health programs to industry (i.e., employee physicals, social services, etc.) and purchase services from the Hospital, participating physicians or other providers. There has been no significant activity for fiscal years 2003 or 2004.

Emerson Health Care Foundation, Inc. ("EHCF")

A not-for-profit corporation involved in coordinating and developing the fundraising effort for the hospital.

Emerson Practice Associates, Inc. ("EPA")

A not-for-profit corporation organized to promote access and provide high quality and cost-effective primary care in the communities served by the Hospital. During fiscal year 2004, EPA had no financial activity. During fiscal 2003, EPA incurred severance expenses of \$171,519 relating to the spin-off of the Internal Medicine group. As of September 30, 2004, all operations for EPA have ceased and there is no expectation of significant activity for 2005.

Emerson Health Care Foundation qualifies as a nonprivate foundation under the Internal Revenue Code Section 509(a)(3). All other not-for-profit entities qualify as tax-exempt organizations under the Internal Revenue Code Section 501(c)(3).

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

3. Investments

The composition of investments at September 30, 2004 and 2003 is set forth in the following table.

	2004	2003
Assets limited to use held by trustee		
U.S. Treasury obligations	\$ 2,265,225	\$ 2,219,653
	<u>\$ 2,265,225</u>	<u>\$ 2,219,653</u>
Other noncurrent assets		
Cash and cash equivalents	\$ 79,227	\$ 126
Common stock funds	7,390,098	7,744,394
Equity funds	2,273,263	2,059,685
Fixed income funds	8,281,195	6,072,083
	<u>\$ 18,023,783</u>	<u>\$ 15,876,288</u>
Current assets whose use is limited		
U.S. Treasury obligations	\$ 1,725,112	\$ 1,645,838
	<u>\$ 1,725,112</u>	<u>\$ 1,645,838</u>

Investment income, net realized gains and losses and changes in unrealized appreciation (depreciation) on assets whose use is limited, cash and cash equivalents, and other investments of unrestricted and temporarily restricted net assets are comprised of the following for the years ended September 30, 2004 and 2003:

	2004	2003
Unrestricted		
Dividend and interest income	\$ 391,432	\$ 868,702
Realized gains (losses) on sales of securities	(16,640)	42,497
	<u>\$ 374,792</u>	<u>\$ 911,199</u>
Other changes in unrestricted net assets		
Change in net unrealized appreciation (depreciation)	\$ 1,777,584	\$ 1,282,083
Temporarily restricted		
Change in net unrealized appreciation (depreciation)	\$ 29,662	\$ 61,239
	<u>\$ 29,662</u>	<u>\$ 61,239</u>

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

4. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2004 and 2003:

	2004	2003
Health care services		
Educational programs	\$ 247,720	\$ 182,206
Department or program specific	293,311	473,052
Capital appreciation on permanently restricted net assets	34,200	21,324
Pledges and split-interest agreements	1,706,081	1,995,200
	<u>\$ 2,281,312</u>	<u>\$ 2,671,782</u>

Permanently restricted net assets at September 30, 2004 and 2003 are restricted to:

	2004	2003
Pledges	\$ 205,649	\$ 227,695
Investment to be held in perpetuity, the income from which is expendable to support health care services	860,651	679,376
	<u>\$ 1,066,300</u>	<u>\$ 907,071</u>

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

5. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	2004	2003
Hospital and Emerson Health System, Inc.		
Land	\$ 32,430	\$ 32,430
Land improvements	1,295,793	1,294,850
Buildings and improvements	77,763,496	76,417,675
Fixed equipment	19,851,919	18,719,414
Major movable equipment	44,470,772	44,454,254
	<u>143,414,410</u>	<u>140,918,623</u>
John Cuming Building		
Building	1,792,288	1,792,288
Fixed equipment	25,658	48,275
Major movable equipment	87,007	87,007
Alterations	2,878,928	2,878,928
	<u>4,783,881</u>	<u>4,806,498</u>
Other dwellings		
Land	965,327	965,327
Land improvements	11,761	11,761
Buildings and improvements	799,499	798,855
Equipment	2,771	2,771
Alterations	187,707	187,707
	<u>1,967,065</u>	<u>1,966,421</u>
Construction in progress	<u>2,024,204</u>	<u>1,289,892</u>
	152,189,560	148,981,434
Less accumulated depreciation	<u>99,867,723</u>	<u>93,037,701</u>
	<u>\$ 52,321,837</u>	<u>\$ 55,943,733</u>

The Hospital capitalized interest relating to construction activities of \$92,690 in 2004 and \$46,316 in 2003.

The Hospital has commitments of approximately \$1,850,000 and \$750,000 in 2004 and 2003, respectively, to complete various construction projects.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

6. Long-Term Debt

Long-term debt, capital lease obligations and other borrowing arrangements consist of the following at September 30, 2004:

	Massachusetts Health and Educational Facilities Authority Series D Revenue bonds	Fleet Loan Agreements	Mortgage Agreements	GE Capital Lease Agreement	Total
2005	\$ 1,505,000	\$ 1,003,889	\$ 30,196	\$ 353,970	\$ 2,893,055
2006	1,595,000	926,667	30,596	372,113	2,924,376
2007	1,680,000	926,667	31,941	216,954	2,855,562
2008	1,765,000	617,777	33,310	-	2,416,087
2009	1,855,000	-	34,807	-	1,889,807
Thereafter	<u>22,610,000</u>	<u>-</u>	<u>498,021</u>	<u>-</u>	<u>23,108,021</u>
	31,010,000	3,475,000	658,871	943,037	36,086,908
Original issue discount	<u>(470,394)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(470,394)</u>
	30,539,606	3,475,000	658,871	943,037	35,616,514
Less current obligation	<u>(1,505,000)</u>	<u>(1,003,889)</u>	<u>(30,195)</u>	<u>(353,970)</u>	<u>(2,893,054)</u>
Long-term obligation	<u>\$ 29,034,606</u>	<u>\$ 2,471,111</u>	<u>\$ 628,676</u>	<u>\$ 589,067</u>	<u>\$ 32,723,460</u>

In October 1995, the Hospital issued Massachusetts Health and Educational Facilities Authority Revenue Series D Bonds in the amount of \$39,130,000 to refund the Massachusetts Health and Educational Facilities Authority Series C Bonds.

In connection with the Series D Bonds, the Hospital must maintain a debt service coverage ratio of at least 1.10, among other things. As provided in the Master Trust Indenture, the Hospital has granted to the Master Trustee a collateral interest in all of its gross receipts as collateral for its obligation to remit payments under obligations issued under the Master Trust Indenture. The interest rate in fiscal 2004 and 2003 is approximately 5% and 4.9%, respectively.

Unamortized discounts on long-term debt amounted to \$470,394 and \$503,794 at September 30, 2004 and 2003, respectively.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

The terms of the Hospital's Mortgage and Trust Agreement require the establishment of certain funds which are held by a trustee. A portion of these funds has been classified as a current asset to offset current liabilities that will be paid from these funds. These funds consist of the following:

	2004	2003
Debt Service Reserve Fund	\$ 2,265,225	\$ 2,219,653
Debt Service Fund	1,725,112	1,645,838
	<u>3,990,337</u>	<u>3,865,491</u>
Less current portion	1,725,112	1,645,838
	<u>\$ 2,265,225</u>	<u>\$ 2,219,653</u>

The fair value of the Health System's remaining long-term debt is based on the Health System's current incremental borrowing rates for similar types of borrowing arrangements available to the Health System. The carrying amount reported in the balance sheet for long-term debt approximates its fair value.

In March 2000, the Hospital entered into a \$5,000,000 loan agreement to pay for or reimburse the Hospital for costs of capital expenditures incurred by the Hospital during fiscal years 1999 and 2000 and to repay \$2,500,000 on its outstanding line of credit. Interest is computed at a fluctuating rate equal to prime rate less a percentage determined by the bank. The interest rate was 3.75% and 3.0% at September 30, 2004 and 2003, respectively. In June 2003, the Hospital renegotiated their loan and received additional proceeds of \$2,800,000. Covenants that exist on the renegotiated loan relate to asset collateralization and days cash on hand. The amount outstanding on the loan was \$3,475,000 at September 30, 2004.

In April 2002 the Hospital assumed a capital lease for a MRI. The lease term is 59 months with an initial obligation and net asset value of \$1,464,957. Interest is computed using the incremental borrowing rate of 4.84%. In September 2002 the Hospital assumed a capital lease for four radiology film processors. The lease term is 60 months with an initial obligation and asset value of \$249,789. Interest is computed using an incremental borrowing rate of 6.03%. The amounts outstanding on the leases were \$943,037 at September 30, 2004.

In September 2000, the Hospital and EPDC entered into mortgage notes of \$371,000 and \$381,500, respectively to finance the property located at 174 Old Road to Nine Acre Corner and to refinance units in the John Cuming Building Condominium. Interest is computed at a fluctuating rate equal to .5% per annum below the Wall Street Journal Prime rate. The interest was 4.25% and 3.5% at September 30, 2004 and 2003, respectively. A collateral interest is granted to the bank on the mortgaged properties as well as collateral assignments of leases and rentals. In connection with the notes, the Hospital and EPDC must maintain a ratio of cash flow to total debt service of not less than 1.2 to 1 and a ratio of the outstanding balance of the notes to the fair market value of the Mortgaged premises of not greater than .75 to 1. The amounts outstanding on the mortgage notes were \$658,871 at September 30, 2004.

The Hospital has a line of credit available with Fleet Bank for up to \$2,500,000. Interest on the line of credit is based on prime rate less 1% per annum. The line expires on March 29, 2005. There were no amounts outstanding on the line of credit at September 30, 2004 or 2003.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

7. Net Patient Service Revenue

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

Medicare

Inpatient acute care services rendered to Medicare program recipients are paid at prospectively determined rates per discharge. These rates, which are based on the diagnosis related group ("DRG"), vary according to the intensity of service required by the patient. Effective August 1, 2000, the majority of outpatient services are reimbursed by Medicare on a prospective system. These rates, called Ambulatory Payment Classifications ("APC's"), vary according to the intensity of services. Inpatient capital costs are paid a federal rate per discharge. Hospital claims for reimbursement are subject to review and audit. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2002.

Uncompensated Care Pool

The Commonwealth of Massachusetts operates an "Uncompensated Care Pool" (the "Pool"). In fiscal year 2004, the sources of pool funding were \$157,500,000 in hospital assessments, \$157,500,000 from insurers and \$378,000,000 from general and other state funds for a total funding of \$693,000,000. In fiscal year 2004, the Pool regulations were amended capping all hospitals allowable income from Free Care and Bad Debt. Any Free Care or Bad Debt incurred above the capped amount would be the hospital's responsibility. Also, there was a budgeted shortfall of \$72,000,000 in fiscal year 2004. As a result of this shortfall, the Hospital's pro rata share incurred was \$208,056. The Hospital has recognized its obligations to the Pool.

Blue Cross

The Hospital has a contract with Blue Cross that was negotiated through September 30, 2005. The contract has an annual contractual increase. The method of reimbursement is based on a case mix adjusted rate per discharge, specified discounts on approved outpatient charges and an outpatient fee schedule.

Other

The Hospital also has entered into payment agreements with most regional and certain national commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. These contracts are periodically renegotiated.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

Net patient service revenue for the years ended September 30, are as follows:

	2004	2003
Patient service revenue		
Inpatient routine services	\$ 40,750,604	\$ 37,644,735
Inpatient ancillary services	79,310,824	74,365,591
Ambulatory services	225,897,296	207,888,366
Physician services	1,916,794	1,877,400
	<u>347,875,518</u>	<u>321,776,092</u>
Deductions from revenue		
Contractual allowances	223,397,971	203,380,001
Uncompensated care pool	3,382,717	2,744,906
	<u>226,780,688</u>	<u>206,124,907</u>
	121,094,830	115,651,185
Reduction of prior year estimated settlements	1,297,741	952,601
	<u>\$ 122,392,571</u>	<u>\$ 116,603,786</u>

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

8. Pension Plan

The Hospital has a noncontributory defined benefit pension plan (the "Plan") covering substantially all of their employees. The Hospital's policy is to contribute amounts as required under the Employee Retirement Income Security Act of 1974. The measurement date for determining the funded status of the Plan was September 30, 2004 and 2003.

	2004	2003
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 47,889,865	\$ 39,584,262
Service cost	2,343,685	1,779,160
Interest cost	2,969,907	2,776,070
Actuarial (gain) loss	832,108	4,832,299
Benefits paid	<u>(1,116,143)</u>	<u>(1,081,926)</u>
Benefit obligation at end of year	<u>\$ 52,919,422</u>	<u>\$ 47,889,865</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 29,193,540	\$ 21,410,670
Actual return on plan assets	4,025,043	4,118,292
Employer contribution	4,463,508	4,746,504
Benefits paid	<u>(1,116,143)</u>	<u>(1,081,926)</u>
Fair value of plan assets at end of year	<u>\$ 36,565,948</u>	<u>\$ 29,193,540</u>
Funded status	\$ (16,353,474)	\$ (18,696,325)
Unrecognized actuarial (gain) loss	12,484,095	13,243,084
Unrecognized prior service cost (credit)	<u>(61)</u>	<u>(6,443)</u>
Net amount recognized	<u>\$ 3,869,440</u>	<u>\$ (5,459,684)</u>
Amounts recognized in the balance sheet consist of		
Accrued benefit liability	\$ (8,222,807)	\$ (10,829,914)
Cumulative reduction in net assets	<u>4,353,367</u>	<u>5,370,230</u>
Net amount recognized	<u>\$ 3,869,440</u>	<u>\$ (5,459,684)</u>
Components of net periodic benefit cost		
Service cost	\$ 2,343,685	\$ 1,779,160
Interest cost	2,969,907	2,776,070
Expected return on plan assets	(2,918,242)	(2,405,968)
Amortization of		
Prior service cost (credit)	(6,372)	(7,598)
Actuarial loss (gain)	<u>464,286</u>	<u>36,298</u>
Net periodic benefit cost (income)	<u>\$ 2,853,264</u>	<u>\$ 2,177,962</u>

In September 2003, the System increased its additional minimum liability by \$1,674,486 which resulted from the unfunded accumulated benefit obligation at September 30, 2003. In 2004, the unfunded accumulated benefit obligation was reduced by \$1,016,863 resulting in a reduction to the additional minimum pension liability.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

The more significant assumptions underlying the actuarial computations at September 30 were as follows:

	2004	2003
Assumptions used to determine benefit obligations		
Discount rate	5.875%	6.0%
Expected long-term return on plan assets	8.75%	8.75%
Rate of compensation increase	3.5%	3.5%
Assumptions used to determine net period benefit (income) cost		
Discount rate	6.0%	6.75%
Expected long-term return on plan assets	8.75%	8.75%
Rate of compensation increase	3.5%	4.0%

The expected long-term rate of return assumption represents the expected average rate of earnings on the funds invested or to be invested to provide for the benefits included in the benefit obligations. The long-term rate of return assumption is determined based on a number of factors, including historical market index returns, the anticipated long-term asset allocation of the plan, historical plan return data, plan expenses and the potential to outperform market index returns.

Plan Assets

The weighted-average asset allocations of the investment portfolio for the pension plan at September 30, 2004 and 2003 and target allocations are as follows:

	Target Allocation	Plan Assets as of September 30,	
		2004	2003
Asset category			
Equity securities	60%	60%	64%
Fixed income securities	40%	40%	36%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The investment objectives for the assets of the plan are to minimize expected funding contributions and to meet or exceed the rate of return assumed for plan funding purposes over the long term. The nature and duration of benefit obligations, along with assumptions concerning asset class returns and return correlations, are considered when determining an appropriate asset allocation to achieve the investment objectives.

Investment policies and strategies governing the assets of the plan are designed to achieve investment objectives within prudent risk parameters. Risk management practices include the use of external investment managers and the maintenance of a portfolio diversified by asset class, investment approach and security holdings, and the maintenance of sufficient liquidity to meet benefit obligations as they come due.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

Expected benefit payments, net of participant contributions, are as follows: 2005 - \$1,284,625; 2006 - \$1,383,896; 2007 - \$1,529,354; 2008 - \$1,753,662; 2009 - \$1,995,846; and thereafter - \$13,690,757. The System is not required to make contributions into the plan in the 2005 fiscal year.

9. Charity Care

The Health System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services furnished under its charity care policy. The following information measures the level of charity care provided during the years ended September 30:

	2004	2003
Charges foregone, based on established rates	\$ 3,382,717	\$ 2,744,906
Percentage of charity care charges to total gross patient charges	1.0%	0.8%

10. Pledges Receivable

Pledges receivable at September 30, 2004 and 2003 are expected to be realized in the following time frame:

	2004	2003
In one year or less	\$ 527,197	\$ 1,193,557
Between one and five years	395,731	374,176
Less allowance for uncollectible contributions	(155,819)	(366,120)
Pledges receivable, net of allowance	767,109	1,201,613
Unamortized discount (3.95% in 2004 and 2003)	(42,763)	(148,695)
Net pledges receivable	\$ 724,346	\$ 1,052,918

11. Malpractice Insurance

The Hospital and EPA have obtained malpractice insurance coverage on a "claims-made" basis from ProMutual, previously the Massachusetts Medical Professional Insurance Association ("MMPIA"), a company created by The Commonwealth of Massachusetts for the purpose of providing malpractice insurance to health care providers. Under this type of policy, claims based on occurrences during its term, but reported subsequently, will be uninsured should the policy not be renewed or replaced. Management expects to be able to obtain renewal coverage in future periods.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

12. Commitments and Contingencies

Operating Leases

The Hospital is committed under long-term operating leases for the rental of certain equipment. The leases expire at various dates through the year 2009. Rental expense for the years ended September 30, 2004 and 2003 was \$718,565 and \$180,834, respectively. At September 30, 2004, the minimum commitments are as follows:

2005	\$ 1,482,645
2006	1,482,645
2007	1,475,545
2008	493,465
2009	359,881
	<u>\$ 5,294,181</u>

Litigation

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

13. Functional Expenses

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	September 30,	
	2004	2003
Health care services	\$ 103,742,004	\$ 103,097,401
General and administrative	18,124,939	18,047,700
Fundraising	512,732	487,114
Total expenses	<u>\$ 122,379,675</u>	<u>\$ 121,632,215</u>

14. Related Party Transactions

In 1996, the Hospital entered into an agreement with physician practices to form the Emerson Physician-Hospital Organization, Inc. ("PHO"). The PHO was formed to organize third-party payor contracting functions (risk-sharing contracts) for the Hospital and physicians. At September 30, 2004 and 2003, amounts due from the PHO, and included in other current assets, were \$380,188 and \$1,005,821, respectively.

In 1999, the Hospital entered into an asset purchase agreement for a magnetic imaging practice with Concord Radiology which was partially owned by a related party. The closing purchase included \$4,365,500 of goodwill which is amortized over seven years.

Emerson Health System, Inc. and Affiliates
Notes to Combined Financial Statements
September 30, 2004 and 2003

15. Beneficial Interest in Split-Interest Agreements

The Health System is party to various split interest agreements with regards to irrevocable trusts. These agreements include: charitable remainder trusts, charitable gift annuities, and pooled life income funds.

When the Health System is the trustee for the trust/fund, the assets held are included in investments. When a donor makes a contribution to these funds, contribution revenue is recognized and a liability for the present value of the estimated future payments to the donors and/or other beneficiaries is recorded as a liability. Liabilities are based upon actuarial estimates and assumptions regarding the duration of the agreement and the rates used to discount the liabilities. Circumstances affecting these assumptions can change the estimate of the liabilities in future periods.

Assets held by an outside trustee are classified as beneficial interest in split-interest agreements. These assets represent the Health System's share of the fair market value of the trust assets as of the balance sheet date net of a liability for the present value of estimated future payments to the donors or other beneficiaries. Distributions of income from the trusts to the Health System are recorded as revenue and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

Emerson Health System, Inc. and Affiliates
Supplementary Information
Combining Balance Sheet
September 30, 2004

	Emerson Health System	Emerson Hospital	Emerson Occupational Health Services	Emerson Property Development Corporation	Emerson Health Care Foundation	Eliminations	Total
Assets							
Current assets							
Cash and cash equivalents	\$ 2,907	\$ 2,505,730	\$ 1,650	\$ 57,889	\$ 3,402,169	\$ -	\$ 5,970,345
Accounts receivable: Patients, less allowance for doubtful accounts of \$3,760,859		18,506,726					18,506,726
Other		1,385,211					1,385,211
Inventories		1,167,244					1,167,244
Prepaid expenses		1,246,863					1,246,863
Due from affiliates		766,899				(766,899)	-
Pledges receivable					527,197		527,197
Assets whose use is limited		1,725,112					1,725,112
Total current assets	<u>2,907</u>	<u>27,303,785</u>	<u>1,650</u>	<u>57,889</u>	<u>3,929,366</u>	<u>(766,899)</u>	<u>30,528,698</u>
Investments							
Assets whose use is limited		2,265,225					2,265,225
Unrestricted		8,902,934					8,902,934
Board designated		8,927,835					8,927,835
Temporarily restricted		193,014					193,014
Total investments	<u>-</u>	<u>20,289,008</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,289,008</u>
Property, plant and equipment, net							
	<u>-</u>	<u>52,107,682</u>	<u>-</u>	<u>214,155</u>	<u>-</u>	<u>-</u>	<u>52,321,837</u>
Other assets							
Pledges receivable					197,149		197,149
Beneficial interest in split-interest agreements		127,489			1,059,895		1,187,384
Goodwill		2,615,848					2,615,848
Deferred financing costs, less accumulated amortization of \$349,711		539,383					539,383
Investment in joint venture		367,404					367,404
Investments in affiliates	941,978					(941,978)	-
Investment interest in Foundation		4,358,510				(4,358,510)	-
Other		1,201,321					1,201,321
Total other assets	<u>941,978</u>	<u>9,209,955</u>	<u>-</u>	<u>-</u>	<u>1,257,044</u>	<u>(5,300,488)</u>	<u>6,108,489</u>
Total assets	<u>\$ 944,885</u>	<u>\$ 108,910,430</u>	<u>\$ 1,650</u>	<u>\$ 272,044</u>	<u>\$ 5,186,410</u>	<u>\$ (6,067,387)</u>	<u>\$ 109,248,032</u>

Emerson Health System, Inc. and Affiliates
Supplementary Information
Combining Balance Sheet
September 30, 2004

	Emerson Health System	Emerson Hospital	Emerson Occupational Health Services	Emerson Property Development Corporation	Emerson Health Care Foundation	Eliminations	Total
Liabilities and Net Assets							
Current liabilities							
Current portion of long-term debt	\$ -	\$ 1,505,000	\$ -	\$ -	\$ -	\$ -	\$ 1,505,000
Current portion of capital lease obligations and other long-term debt		1,373,216		14,838			1,388,054
Accounts payable and accrued expenses		6,341,254			61,001		6,402,255
Due to affiliates					766,899	(766,899)	-
Accrued payroll and vacation		2,814,570					2,814,570
Estimated final settlements due to third-party payors		4,781,215					4,781,215
Total current liabilities	<u>-</u>	<u>16,815,255</u>	<u>-</u>	<u>14,838</u>	<u>827,900</u>	<u>(766,899)</u>	<u>16,891,094</u>
Long-term obligations (net of current)							
Accrued pension liability		8,222,807					8,222,807
Long-term debt, less current portion Massachusetts Health and Educational Facilities Authority Revenue Bonds		29,034,606					29,034,606
Capital lease obligations and other long- term debt, less current portion		3,060,178					3,060,178
Mortgages payable, less current portion		309,360		319,316			628,676
Total liabilities	<u>-</u>	<u>57,442,206</u>	<u>-</u>	<u>334,154</u>	<u>827,900</u>	<u>(766,899)</u>	<u>57,837,361</u>
Net assets							
Unrestricted	944,885	48,120,612	(94,843)	(907,595)	1,203,912	(1,203,912)	48,063,059
Temporarily restricted		2,281,312			2,088,298	(2,088,298)	2,281,312
Permanently restricted		1,066,300			1,066,300	(1,066,300)	1,066,300
Common stock			100	123,750		(123,850)	-
Paid-in capital			96,393	721,735		(818,128)	-
Total net assets	<u>944,885</u>	<u>51,468,224</u>	<u>1,650</u>	<u>(62,110)</u>	<u>4,358,510</u>	<u>(5,300,488)</u>	<u>51,410,671</u>
Total liabilities and net assets	<u>\$ 944,885</u>	<u>\$ 108,910,430</u>	<u>\$ 1,650</u>	<u>\$ 272,044</u>	<u>\$ 5,186,410</u>	<u>\$ (6,067,387)</u>	<u>\$ 109,248,032</u>

Emerson Health System, Inc. and Affiliates
Supplementary Information
Combining Statement of Operations
Year Ended September 30, 2004

	Emerson Health System	Emerson Hospital	Emerson Occupational Health Services	Emerson Property Development Corporation	Emerson Health Care Foundation	Eliminations	Total
Unrestricted revenues, gains and other support							
Net patient service revenue	\$ -	\$ 122,392,571	\$ -	\$ -	\$ -	\$ -	\$ 122,392,571
Other revenue	9	3,044,354		57,985	512,732	(263,911)	3,351,169
Net assets released from restrictions for operations		1,260,644					1,260,644
Total unrestricted revenues, gains and other support	9	126,697,569	-	57,985	512,732	(263,911)	127,004,384
Expenses							
Salaries, wages and fringe benefits		72,460,504			326,412		72,786,916
Physician fees		1,299,743					1,299,743
Supplies and other expenses	50	34,392,202	165	8,716	186,320	(263,911)	34,323,542
Depreciation and amortization		8,875,568		20,676			8,896,244
Interest		1,993,636		10,947			2,004,583
Provision for doubtful accounts		3,068,647					3,068,647
Total expenses	50	122,090,300	165	40,339	512,732	(263,911)	122,379,675
Operating income (loss)	(41)	4,607,269	(165)	17,646	-	-	4,624,709
Nonoperating gains (losses)							
Investment income, net		374,792					374,792
Write-off of investment in VHA		(201,388)					(201,388)
Change in interest in Foundation		509,422				(509,422)	-
Income from rental operations (net of depreciation expense of \$37,398)		362,489					362,489
Loss on disposal of equipment		(548,421)					(548,421)
Nonoperating gains (losses), net	-	496,894	-	-	-	(509,422)	(12,528)
Excess (deficit) of revenues and gains over expenses and losses	(41)	5,104,163	(165)	17,646	-	(509,422)	4,612,181
Change in net unrealized appreciation on investments		1,777,584					1,777,584
Contributions for plant and equipment		-			300		300
Net assets released from restrictions for the purchase of plant and equipment		214,243			503,035		717,278
Change in additional minimum pension liability obligation		1,016,863					1,016,863
Transfers to affiliates		(7,387)	1,300	-	6,087		-
Increase (decrease) in unrestricted net assets	\$ (41)	\$ 8,105,466	\$ 1,135	\$ 17,646	\$ 509,422	\$ (509,422)	\$ 8,124,206

Emerson Health System, Inc. and Affiliates
Supplementary Information
Combining Statement of Changes in Net Assets
Year Ended September 30, 2004

	Emerson Health System	Emerson Hospital	Emerson Occupational Health Services	Emerson Property Development Corporation	Emerson Health Care Foundation	Eliminations	Total
Unrestricted net assets							
Excess (deficit) of revenues and gains over expenses and losses	\$ (41)	\$ 5,104,163	\$ (165)	\$ 17,646	\$ -	\$ (509,422)	\$ 4,612,181
Change in net unrealized appreciation on investments		1,777,584					1,777,584
Contributions for plant and equipment		-			300		300
Net assets released from restrictions for the purchase of plant and equipment		214,243			503,035		717,278
Change in additional minimum pension liability obligation		1,016,863			-		1,016,863
Transfers to affiliates	-	(7,387)	1,300	-	6,087		-
Increase (decrease) in unrestricted net assets	(41)	8,105,466	1,135	17,646	509,422	(509,422)	8,124,206
Temporarily restricted net assets							
Contributions		796,208			761,582		1,557,790
Change in interest in Foundation		(373,346)				373,346	-
Net assets released from restrictions for the purchase of plant and equipment					(717,278)		(717,278)
Change in net unrealized appreciation on investments		29,662					29,662
Net assets released from restriction for operations		(842,994)			(417,650)		(1,260,644)
Increase (decrease) in temporarily restricted net assets		(390,470)			(373,346)	373,346	(390,470)
Permanently restricted net assets							
Contributions					159,229		159,229
Change in interest in Foundation		159,229				(159,229)	-
Increase in permanently restricted net assets	-	159,229	-	-	159,229	(159,229)	159,229
Increase (decrease) in net assets	(41)	7,874,225	1,135	17,646	295,305	(295,305)	7,892,965
Net assets, beginning of year	944,926	43,593,999	515	(79,756)	4,063,205	(5,005,183)	43,517,706
Net assets, end of year	\$ 944,885	\$ 51,468,224	\$ 1,650	\$ (62,110)	\$ 4,358,510	\$ (5,300,488)	\$ 51,410,671

APPENDIX C-1

DEFINITIONS OF CERTAIN TERMS

APPENDIX C-2

SUMMARY OF THE MASTER TRUST INDENTURE

APPENDIX C-3

SUMMARY OF THE SUPPLEMENTAL MASTER INDENTURE

APPENDIX C-4

SUMMARY OF THE LOAN AND TRUST AGREEMENT

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DEFINITIONS OF CERTAIN TERMS

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

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

“Additional Indebtedness” means any Indebtedness (including all Indenture Indebtedness) incurred by any Member of the Obligated Group, subsequent to its becoming a Member of the Obligated Group, but shall not include the Bonds, Obligation No. 1 securing such bonds or the loan of proceeds of such bonds.

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

“Affiliate” shall mean a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof: (a) which Controls or which is Controlled, directly or indirectly, by any Member or any Affiliate; or (b) a majority of the members of any Governing Body of which are members of the Governing Body of any Member.

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

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

“Agreement” means the Loan and Trust Agreement dated as of July 12, 2005 among the Authority, the Institution and the Trustee.

“Assumed Rate” means (i), with respect to Variable Rate Indebtedness which is not subject to a Hedging Contract, the average interest rate on such Indebtedness for the most recent prior twelve month period or for the period for which such Indebtedness has been outstanding if less than twelve months and (ii), with respect to Variable Rate Indebtedness or a portion thereof which is subject to a Hedging Contract, the rate payable on a Hedging Contract applicable to Variable Rate Indebtedness provided that there has been no default under such Hedging Contract.

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

“Available Monies” means any monies on deposit with a trustee for the benefit of Bondowners 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 United States Bankruptcy Code has been filed by or against the entity which paid such money, and no similar proceedings have been instituted under state insolvency or other laws

affecting creditors' rights generally; (iii) any monies with respect to which an unqualified opinion from nationally recognized counsel has been received stating that such payments to Bondowners would not constitute voidable preferences under Section 547 of the United States 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 United States Bankruptcy Code, or similar state or federal laws with voidable preference provisions by or against the entity from whom the money is received.

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

"Bond Counsel" means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States.

"Bond Insurance Policy" means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Bond Insurer" means Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York or any successor thereto.

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

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

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

"Bonds" the Massachusetts Health and Educational Facilities Authority Revenue Bonds, Emerson Hospital Issue, Series E (2005), and any Bond or Bonds duly issued in exchange or replacement therefor.

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

"Business Day" means a day on which banks in the city in which the corporate trust office of the Trustee charged with administration of the Agreement is located is not required or authorized to remain closed and on which the New York Stock Exchange is not closed.

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

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

"Commonwealth" means The Commonwealth of Massachusetts.

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

“Consultant” means an independent firm which is a certified public accountant or professional management consultant, selected by the Representative, and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement dated as of the date of issuance of the Bonds between the Institution and J.P. Morgan Trust Company, National Association, as originally executed and as it may be amended from time to time in accordance with its terms.

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

“Date of Maturity” means as to any Indebtedness, as of any date of determination, the first date thereafter on which such Indebtedness is payable, whether at maturity, by mandatory (including sinking fund) redemption (or purchase) or by redemption (or purchase) at the option of the holders; provided that if portions of any Indebtedness are payable on different dates, the Date of Maturity shall be separately determined for each such portion. If there is a refinancing arrangement for any Indebtedness meeting the requirements of Section 5.07(a), in determining Dates of Maturity, such Indebtedness shall be deemed to be payable in accordance with the terms of the refinancing arrangement.

“Days Cash on Hand” means the quotient produced by dividing the sum of unrestricted cash, investments and board designated funds (which cash, investments and funds shall exclude any cash collateral amounts held to support obligations under any Hedging Contract) by operating expenses minus depreciation, amortization and other non-cash items, and then multiplying the quotient by 365.

“Debt Service Requirement” means, with respect to each Member of the Obligated Group, as to any period of time, the aggregate of the amounts required to be paid to amortize principal of Outstanding Long-Term Indebtedness and to pay interest (other than capitalized interest) on Outstanding Long-Term Indebtedness of such Member during such period, taking into account in determining the Debt Service Requirement (A) for any future period that (i) Indebtedness described in the sections captioned “Debt Service on Guaranties,” “Debt Service on Balloon Indebtedness and Variable Rate Indebtedness” and “Debt Service on Discount Indebtedness” shall be deemed payable on the dates and in the amounts contemplated in such Sections, and (ii) except as otherwise expressly permitted in the Indenture, principal on all Indebtedness shall be deemed to be payable on the Date of Maturity thereof, (B) for any period with respect to Indebtedness that has been refunded or refinanced or is secured by an Irrevocable Deposit and that accordingly is not required to be carried on the books of any Member of the Obligated Group according to generally accepted accounting principles, the amounts of principal and interest taken into account during such period shall exclude amounts payable from proceeds (and/or the investment thereof) of such refunding or refinancing or from such Irrevocable Deposit, and (C) for any Indebtedness which is covered by a Hedging Contract, the Debt Service Requirement shall be calculated at the actual rate paid by the Member under the Hedging Contract.

“Debt Service Reserve Fund Requirement” means, on any date, the lower of (i) 10% of the original principal amount of the Bonds, less any original issue discount, or (ii) the greatest amount required in the then

current or any future Bond Year to pay the sum of: (A) interest on the Bonds payable on February 15 of such Bond Year and on August 15 of the next succeeding Bond Year, excluding capitalized interest financed by the issuance of the Bonds; and (B) the principal of the Bonds or the sinking fund installment, as the case may be, payable on August 15 of the next succeeding Bond Year, with such amount required to be deposited in the Debt Service Reserve Fund within one (1) month of the date such calculation is certified to the Trustee and the Bond Insurer by an Authorized Officer of the Institution. For this purpose, principal becoming due by reason of acceleration or redemption of Bonds shall be treated as coming due on the originally scheduled dates until the same has been paid.

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

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

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

“Government or Equivalent Obligations” means, with respect to the Agreement, (i) obligations issued or guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian; and (iii) shares of any open-end or closed-end management type investment company or trust registered under 15 U.S.C. §80(a)-1 et seq., provided that the portfolio of such investment company or trust is limited to obligations described in clause (i) and repurchase agreements fully collateralized by such obligations, and provided further that such investment company or trust shall take custody of such collateral either directly or through a custodian satisfactory to the Trustee or the Authority.

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

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

“Gross Receipts” means all receipts, revenues, income and other moneys received by or on behalf of any Member including contributions, gifts, grants, bequests, pledges, revenues derived from the operation of any

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

"Hedging Contract" means an interest rate swap, exchange, cap or other agreement between a Member and another party for the purpose of hedging payment, interest rate, spread or similar exposure. Anything to the contrary in the Indenture notwithstanding, any so-called mark to market charge or credit attributable to any Hedging Contract under Financial Accounting Standard 133 or otherwise shall be excluded from calculation of the revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants in the Indenture for all purposes of this Indenture.

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

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

"Indenture" means the Master Trust Indenture dated as of July 12, 2005 between the Institution and J.P. Morgan Trust Company, National Association, as Master Trustee, as amended and supplemented from time to time, including by Related Supplement No. 1 and Related Supplement No. 2.

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

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

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

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

"Legal Limitations" means limitations imposed by applicable laws and governmental regulations, including in the case of a Member that is a non-profit or charitable entity and/or an organization that is tax-exempt under section 501(c)(3) of the Code limitations, requirements and fiduciary obligations imposed under the statute pursuant to which such entity is organized and, if applicable, section 501(c)(3) of the Code.

“Lien” means any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group, or which secures any obligation of any Person other than an obligation to any Member of the Obligated Group, excluding liens applicable to Property in which the Member of the Obligated Group has only a leasehold interest unless the lien secures Indebtedness of any Member of the Obligated Group.

“Long-Term Indebtedness” means any Indebtedness which is not Short-Term Indebtedness.

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

“Maximum Annual Debt Service” means the maximum Aggregate Debt Service Requirement in the then current or any future Fiscal Year.

“Maximum Annual Debt Service Ratio” or “Debt Service Coverage Ratio” means the ratio determined by dividing Aggregate Net Revenues Available for Debt Service by Maximum Annual Debt Service.

“Member” means a Member of the Obligated Group, as defined in the Indenture.

“Member of the Obligated Group” or “Member” means (i) the Initial Member and (ii) any other Person which at any time after the delivery of this Indenture has become a Member of the Obligated Group in accordance with the Indenture, but excluding any Person who has withdrawn from the Obligated Group pursuant to the Indenture.

“Moody’s” means Moody’s Investors Service, Inc., or any successor rating agency.

“Net Revenues Available for Debt Service” means, with respect to each Member of the Obligated Group, (a) the unrestricted revenues of such Member less (b) all unrestricted operating expenses and nonoperating expenses as shown on such Member’s financial statements, adjusted by (c) subtracting (to the extent such items would otherwise increase “Net Revenues Available for Debt Service”) (i) realized and unrealized gains on investments, (ii) gains resulting from periodic valuation of Hedging Contracts, (iii) gains resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business, and (iv) extraordinary gains under GAAP and by (d) adding (to the extent such items would otherwise reduce “Net Revenues Available for Debt Service”) (i) realized and unrealized losses on investments, (ii) losses resulting from periodic valuation of Hedging Contracts, (iii) losses resulting from the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iv) extraordinary losses under GAAP, and (v) depreciation, amortization, interest expense and loss on extinguishment of debt.

“Note” means the Obligation No. 1 issued under the Indenture.

“Obligated Group” means the Initial Member and each other Member of the Obligated Group, if any.

“Obligation” means an instrument evidencing or securing the repayment of particular Indenture Indebtedness, provided such instrument has been issued and authenticated in accordance with the Indenture.

“Obligation Holder” or “Holder” means the registered owner of any Obligation.

“Obligation No. 1” means the Obligation No. 1 issued pursuant to Related Supplement No. 1.

“Obligation No. 2” means the Obligation No. 2 issued pursuant to Related Supplement No. 2.

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

“Opinion of Bond Counsel” means an opinion in writing signed by Palmer & Dodge LLP or Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. or another attorney or firm of attorneys nationally recognized as experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means an opinion in writing signed by Palmer & Dodge LLP or Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. or by another attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for any Member of the Obligated Group.

“Outstanding” when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding as provided in the Indenture or for which the requirements of (c)(ii) of the section of the Indenture captioned “Limitations on the Creation of Additional Indebtedness” have been satisfied from proceeds of Long-Term Indebtedness or from any other funds, and (iii) Obligations and any coupons appurtenant thereto in lieu of which other Obligations have been authenticated and delivered pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser.

“Permitted Liens” has the meaning given the section captioned “Limitations on Creation of Liens”.

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

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

(i) Existing Part of the Project: the refinancing of the Series D Bonds which were issued to finance or refinance the following at Old Road to Nine Acre Corner, Concord, Massachusetts: (A) construction of the John Cuming Building; (B) construction of an addition to the Wheeler Building; (C) renovation of a portion of the Wheeler Building; (D) replacement of boiler equipment and kitchen facilities in the Wheeler Building; (E) construction of approximately 200 parking spaces to serve the Wheeler and John Cuming Buildings; (F) construction of a building to house patient care services, expanded areas for laboratory and rehabilitation services, a 31-bed psychiatric unit, a 32-bed medical surgical unit, 24 obstetrics beds, 8 birthing rooms, 2 delivery rooms and a newborn nursery; (G) renovations to existing hospital buildings to reduce the number of four-bed rooms, to relocate support services closer to patient care areas, and to expand space for radiology and nuclear medicine; (H) construction of a five-level parking garage with approximately 465 parking spaces; and (I) routine capital expenditures for renovations to, and the acquisition and installation of furnishings, fixtures and equipment for the Institution’s facilities; and

(ii) New Part of the Project: the financing of the following at Old Road to Nine Acre Corner, Concord, Massachusetts: (A) renovation of existing pre-and post-operative surgical day care suites, the construction of a new cystoscopy room, construction of two new operating rooms, and renovation of the post anesthesia care unit; (B) expansion of existing space used for radiology services at the Institution, including construction of separate entrances and segregated preparation areas for inpatient versus outpatient use and the addition of new equipment for Interventional Radiology; (C) expansion of the existing obstetrics unit in order to create private patient rooms; and (D) the acquisition and installation of capital equipment and construction of improvements and renovations to other existing facilities.

The word “Project” also refers to the facilities which result or have resulted from the foregoing activities. The scope of the Project may be increased or decreased upon certification by the Project Officer on behalf of the Institution to the Trustee and the Authority describing the change, estimating the resulting increase or decrease in the cost of the Project and stating: (A) that the amendment will not cause the Project to violate any applicable building, zoning, land use, environmental protection, historical, sanitary, safety or health care laws, rules and regulations or applicable grant, reimbursement or insurance requirements or the provisions of the Agreement; (B) that the changes are covered by a Determination of Need (which shall mean a determination pursuant to Chapter 111, Section 25C, of the Massachusetts General Laws) or are exempt from the requirement of a Determination of

Need; (C) with respect to any portion of the Project to which the amendment relates and for which a Determination of Need has been obtained, that the amendment is consistent with the Determination of Need and is not expected to increase its cost beyond the amount approved in the Determination of Need; (D) with respect to any portion of the Project to which the amendment relates and which is exempt from the requirement of a Determination of Need, that the amendment is consistent with the exemption; and (E) as to any portion to which the amendment relates and which is exempt by reason of its cost being not more than the amount exempted by statute, that the amendment is not expected to increase its cost beyond that amount. The signers of the certificate may rely, as to conclusions of law, on an opinion of counsel furnished to the Authority and referred to in the certificate. The scope of the Project may be increased only upon receipt by the Trustee and the Authority of an Opinion of Bond Counsel regarding the increase in scope.

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

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

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

“Project Officer” means the Chief Financial Officer of the Institution or an alternate or successor appointed by the Institution.

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

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

“Refunding Trust Agreement” means the Refunding Trust Agreement dated as of July 12, 2005 among the Authority, the Institution, and U.S. Bank National Association, as refunded bond trustee.

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

“Related Bond Issuer” means the Governmental Issuer of any issue of Related Bonds.

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

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

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

“Related Supplement No. 1” means the Supplemental Master Trust Indenture for Obligation No. 1 between the Representative and J.P. Morgan Trust Company, National Association, as Master Trustee, dated as of July 12, 2005.

“Related Supplement No. 2” means the Supplemental Master Trust Indenture for Obligation No. 2 between the Representative and J.P. Morgan Trust Company, National Association, as Master Trustee, dated as of July 12, 2005.

“Representative” means the Hospital or such other Member of the Obligated Group as may be designated from time to time pursuant to written notice to the Master Trustee executed by each Member of the Obligated Group.

“Restricted Property” means the existing inpatient and outpatient facilities and the land thereunder at 133 Old Road to Nine Acre Corner, Concord, Massachusetts, as modified from time to time pursuant to an amendment to the Indenture executed in connection with the admission or withdrawal of Members of the Obligated Group.

“Revenues” means all rates, mortgage payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security 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.

“Short-Term Indebtedness” means any issue of Indebtedness no portion of which has a Date of Maturity more than one year from the date of original issuance thereof or has a Date of Maturity that may be extended beyond one year from the date of original issuance.

“S&P” means Standard & Poor’s Ratings Group, Inc., or any successor rating agency.

“Series D Bonds” means the Authority’s \$39,130,000 Revenue Bonds, Emerson Hospital Issue, Series D dated October 1, 1995.

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

“UCC” means the Massachusetts Uniform Commercial Code.

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

“Variable Rate Indebtedness” means any Indebtedness that does not bear a fixed rate of interest.

Words importing persons include firms, associations and corporations, and the singular and plural form of words shall be deemed interchangeable wherever appropriate.

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SUMMARY OF THE MASTER TRUST INDENTURE

THE FOLLOWING IS A SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE. CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE HAVE BEEN AMENDED IN CONNECTION WITH THE ISSUANCE OF OBLIGATION NO. 1. REFERENCE IS MADE TO THE SUMMARY OF THE SUPPLEMENTAL MASTER TRUST INDENTURE FOR A SUMMARY OF SUCH AMENDMENTS AND OF CERTAIN ADDITIONAL PROVISIONS APPLICABLE TO THE BONDS ONLY FOR SO LONG AS THE BOND INSURER IS IN COMPLIANCE WITH ITS OBLIGATIONS UNDER THE BOND INSURANCE POLICY.

Amount of Indenture Indebtedness.

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

Designation of Indenture Indebtedness.

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

Security for Obligations.

Subject to the section captioned "Limitations on Creation of Liens", any Obligation issued under the Indenture may be secured by security (including, without limitation, letters or lines of credit, insurance or permitted Liens on Property, or security interests in depreciation reserves, debt service or interest reserves or debt service or similar funds) in addition to the Lien on Gross Receipts granted under the Indenture, which additional security need not extend to any other Indebtedness (including any other Obligations). Each Related Supplement pursuant to which any Obligation is issued may provide for such supplements or amendments to the provisions of the Indenture as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligation or Obligations entitled thereto. (Section 2.06)

Issuance of Obligations in Forms Other than Notes.

Obligations may be issued under the Indenture in a form other than a promissory note to evidence any type of Indenture Indebtedness or Hedging Contract that itself is in a form other than a promissory note, including without limitation, deeming such Indenture Indebtedness or Hedging Contract or certain payments due thereunder to be an Obligation. Consequently, the Related Supplement pursuant to which any Obligation is issued may provide for such supplements or amendments to the provisions of the Indenture, as are necessary or appropriate to permit the issuance of such Obligation under the Indenture and as are not inconsistent with the intent of the Indenture that all Obligations issued under the Indenture be equally and ratably secured by the lien on the trust estate created under the Indenture except to the extent that an Obligation provides for subordination of some or all of the payment obligations thereunder and/or subordination of security therefor. Any Hedging Contract (or any particular payments thereunder) which is or are authenticated as an Obligation under the Indenture shall be equally and ratably secured by any lien created under the Indenture with all other Obligations except as otherwise provided in the Indenture; provided, however, that any such Obligation shall be deemed outstanding under the Indenture solely for the purpose of receiving payment under the Indenture and shall not be entitled to exercise any rights under the Indenture, including without limitation the right to vote or control remedies and any Obligations issued to secure any Hedging Contract shall not be deemed to be Outstanding for any purpose under the provisions of the Indenture concerning supplements and amendments, other than the right to receive payment of amounts due thereunder equally and ratably with all other Obligations. Accrued interest under a Hedging Contract shall be deemed to be "interest" and the termination value of a Hedging Contract shall be deemed to be "principal." (Section 2.08)

Conditions for Membership.

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

(a) Such Person shall execute and deliver to the Master Trustee an appropriate instrument, in form as may be satisfactory to the Master Trustee, (i) containing the agreement of such Person to become a Member of the Obligated Group under the Indenture and thereby to become subject to compliance with all provisions of the Indenture pertaining to a Member of the Obligated Group, including the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Indenture whether then existing or thereafter arising; (ii) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding under the Indenture will be paid in accordance with the terms thereof and of the Indenture when due; and (iii) granting to the Master Trustee a Lien on its Gross Receipts in accordance with the Indenture;

(b) The Master Trustee shall have received an Opinion of Counsel to the effect that (i) the Indenture and the instrument executed and delivered by such Person in accordance with subsection (a) are valid and binding obligations of such Person, enforceable against such Person in accordance with their terms; provided that such opinion as to enforceability may be qualified to the extent that enforcement of the rights and remedies created by the Indenture or such instrument is subject to general principles of equity or to bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights in general, and federal and applicable state law prohibiting or limiting the ability of a charitable corporation to undertake or make payment on an obligation incurred by or for the benefit of another corporation, and other exceptions customarily included in opinions of this type; and provided further that such opinion may be qualified to the extent that the making of such instrument or any payment required to be made by such Person pursuant to the Indenture or such instrument with respect to Indenture Indebtedness other than that for which it is primarily liable, might constitute a fraudulent conveyance under applicable bankruptcy and insolvency laws; and (ii), subject to Permitted Liens, the grant of a Lien on Gross Receipts by such Person constitutes a valid and perfected security interest in such Gross Receipts as are subject to perfection under the UCC by filing of financial statements, subject to customary exceptions;

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

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

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

(f) The Master Trustee shall have received (A) an Officer's Certificate of the Representative's chief financial officer to the effect that (i) the Obligated Group would, after the addition of the new Member, be able to incur one dollar of Long-Term Indebtedness pursuant to subsection (a) of the Indenture under the section captioned "Limitations on the Incurrence of Additional Indebtedness"; and

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

Joint and Several Obligation; Individual Obligation.

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

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

Withdrawal From the Obligated Group.

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

- (i) the Representative consents to such withdrawal in writing; and
- (ii) if such Member is a party to a Related Bond Indenture and/or is primarily liable for the payment of any Indenture Indebtedness pursuant to subsection (b) of the section captioned "Limitations on Creation of Liens" with respect to Related Bonds then Outstanding, such Member either makes provision prior to withdrawal for the payment or defeasance of such Related Bonds in accordance with the provisions of the Related Bond Indenture, or Indenture Indebtedness, or such Member meets the conditions for withdrawal contained in the Related Bond Indenture; and
- (iii) if any Related Bond which bears interest that is not includable in gross income under the Code has not been paid, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group would not cause the interest payable on such Related Bond to become includable in gross income under the Code; and
- (iv) the Master Trustee shall have received an Officer's Certificate of the Representative's chief financial officer to the effect that the Obligated Group, assuming the withdrawal of such Member would be able to incur one dollar of Long-Term Indebtedness pursuant to subsection (a) of the Indenture under the section captioned "Limitations on the Incurrence of Additional Indebtedness"; and
- (v) the Master Trustee shall have received an Officer's Certificate to the effect that, immediately after the withdrawal of such Member from the Obligated Group, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Indenture; provided that the Master Trustee may waive the provisions of this paragraph upon determining that it is in the interests of the Holders of a majority in the principal amount of Indenture Indebtedness to do so. (Section 4.03)

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

Each Member of the Obligated Group, respectively, covenants:

- (a) Except as otherwise expressly provided in the Indenture, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualifications; provided, however, that nothing in the Indenture contained shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business or affairs.

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

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof and with all material and valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties; provided, nevertheless, that nothing in the Indenture contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith.

(d) Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Properties; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof.

(e) To procure and maintain all necessary licenses and permits and to use its best efforts to procure and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available or, except in the case of the Hospital, is deemed by the Member to be unnecessary or undesirable) by the Joint Commission on Accreditation of Healthcare Organizations or other applicable recognized accrediting body, when and as available, and the status of its health care facilities (if it owns or operates such facilities) as a provider of health care services eligible for reimbursement under the Medicare and Medicaid programs (or any successors thereto); provided, however, that it need not comply with this Subsection (e) if and to the extent that its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due. (Section 5.02)

Insurance.

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

(b) In lieu of obtaining third-party coverage for the risks described in Subsection (a)(ii), (iii), or (v), a Member may self-insure any of the required coverages or a portion thereof (or may participate in captive insurance programs sponsored by the Representative, any Affiliate, or any association or organization exposed to comparable risks); provided that such Member's self-insurance plan provides for (i) the establishment by the Member of a separate segregated self-insurance fund funded in an amount determined (initially and on at least an annual basis thereafter) by an insurance or actuarial consultant satisfactory to the Bond Insurer employing accepted actuarial techniques and (ii) the establishment and maintenance of a claims processing and risk management program.

(c) The insurance maintained by any Member pursuant to Subsection (a), other than self-insurance, shall also be subject to the review of an Insurance Consultant who shall, initially upon a Person becoming a Member and every two (2) years thereafter, prepare and file with the Master Trustee a report on the adequacy of such

insurance. Each Member of the Obligated Group, respectively, agrees that it will follow any reasonable recommendations of the Insurance Consultant to the extent permitted by law. (Section 5.03)

Limitations on Creation of Liens.

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

(b) Permitted Liens shall consist of the following:

(i) Any lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the property subject to such lien or encumbrance.

(ii) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with tenders, leases or real estate, bid or contracts (other than contracts for the payment of money), deposits by a Member of the Obligated Group to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges.

(iii) Statutory rights of the United States of America to recover against any Member of the Obligated Group by reason of any Federal loan, grant or subsidy made available to the Member of the Obligated Group and similar rights under state statutes.

(iv) Any lien arising by reason of deposits to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker'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.

(v) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations conducted on all Property.

(vi) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are being contested and execution thereon is stayed or which have been due for less than 90 days and (C) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title of any Property that do not materially impair the use of such Property.

(vii) Any lien on the Property of any Member of the Obligated Group that is existing on the date of bond closing, including without limitation the lien on the Mortgaged Property securing Obligation No. 1, provided that no lien so described may be extended, renewed or replaced by another lien, nor may it be modified to apply to any property of any Member of the Obligated Group not subject to such lien on the date of bond closing, unless the lien qualifies as a Permitted Encumbrance; and provided further that no additional indebtedness may be incurred that is secured by such lien unless the foregoing conditions are met.

(viii) Any liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness.

(ix) Liens to which the Property is subject at the time (the "Effective Date") either (A) the owner of the property becomes, or is merged into or consolidated with, a Member of the Obligated Group or (B) all

or substantially all of its assets are sold or otherwise conveyed to a Member of the Obligated Group; provided that (1) no lien so described may be extended or renewed, nor may it be modified, to apply to any Property of any Member of the Obligated Group not subject to such lien on the Effective Date, unless the lien as so extended, renewed or modified, or the replacement lien, otherwise qualifies as a Permitted Lien; (2) no additional indebtedness may be thereafter incurred that is secured by such lien; (3) no lien so described was created in order to avoid the limitations contained herein on the impositions of liens on the Property of any Member of the Obligated Group; and (4) such indebtedness does not become part of the indebtedness of any Member of the Obligated Group, unless it is incurred in accordance with the Indenture.

(x) Any lease and leaseback, lien security interest or similar arrangements entered into by a Member of the Obligated Group with an issuer, to the extent that such arrangement is required by law in connection with the issuance of bonded indebtedness.

(xi) Any lien with respect to property acquired after the date of issuance of the Bonds, which lien either secures the purchase price of such property (including any refinancing of such purchase price) or is a lien to which such property is subject at the time of its acquisition.

(xii) Any lien imposed by the grantor, expressed or implied, on property of a Member of the Obligated Group received as a gift, grant or bequest, pursuant to the terms thereof.

(xiii) Liens on moneys deposited by patients or others with a Member of the Obligated Group as security for, or as prepayment for, the cost of patient care; or any rights or residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

(xiv) Any license or other use agreement made with respect to property where all or a portion of the revenues generated inure to the benefit of the Obligated Group, and operating and ground leases, the term (or any renewals or extensions of any term) of which, if any Member of the Obligated Group is the lessor and such lease is executed after the date of issuance of Obligation No. 1, shall not exceed ten (10) years and which shall provide the Member of the Obligated Group with the right of termination at the end of such term, renewal and or extension.

(xv) Any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by an obligor to secure payment of indebtedness (including any commitment indebtedness, whether or not then drawn upon); and any lien on money (or the investment made with such money) held in escrow or similar fund to defease indebtedness.

(xvi) Liens securing Non-Recourse Indebtedness.

(xvii) Any lien on property (other than real estate) in the nature of a purchase money security interest resulting from installment sale agreements or borrowings, financing leases, or similar agreements relating to the acquisition of property (including the refinancing of underlying indebtedness); or liens of a lessee or a vendee on the property being leased or sold under a lease, installment sale or similar agreement.

(xviii) Such minor defects and irregularities of title as normally exist with respect to property similar in character to the property involving, and which do not materially adversely affect the value of or materially impair the property affected thereby.

(xix) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and liens on or property given, bequeathed or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (A) such liens attach solely to the property which is the subject of such gift, bequest or devise, and (B) the indebtedness secured by such liens is not assumed by the Member of the Obligated Group.

(xx) Any lien securing all Indenture Indebtedness on a parity basis.

(xxi) Liens securing Indebtedness in an aggregated amount not to exceed 10% of net Property, Plant and Equipment.

(xxii) Rights of setoff of a financial institution with respect to accounts established by a Member of the Obligated Group at such financial institution.

(xxiii) Liens securing termination payments on Hedging Contracts that are not insured by a bond insurer provided that any such Lien on Gross Receipts shall be junior and subordinate to the Lien of the Indenture on the Gross Receipts and the applicable Hedging Contract shall preclude the initiation of any remedial action with respect to such Lien at any time that any Indenture Indebtedness secured by the Lien of the Indenture remains Outstanding, unless the Master Trustee shall have initiated a remedial action with respect to its Lien on Gross Receipts.

If the Obligated Group or any one or more Members thereof elects to grant a Lien pursuant to Paragraph (xx) which is on a parity with the Lien on Gross Receipts granted pursuant to the Indenture, the Master Trustee and (if applicable) the Authority, upon the request of the Representative, shall execute such documents as are necessary to effectuate such parity status.

If the Obligated Group or any one or more Members thereof elects to grant a Lien pursuant to Paragraph (xxi) which is senior to the Lien on Gross Receipts granted pursuant to the Indenture, the Master Trustee and (if applicable) the Authority, upon the request of the Representative, shall execute such documents as are necessary to subordinate the Lien on Gross Receipts granted under the Indenture to such senior lien.

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

Limitations on Incurrence of Additional Indebtedness.

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

(a) Indebtedness, including Indenture Indebtedness, not exceeding in aggregate principal amount Outstanding at any time 15% of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants. Any Outstanding Indebtedness incurred under this Subsection (a) shall be deemed to have been incurred under another provision of this section captioned "Limitations on Incurrence of Additional Indebtedness" upon the satisfaction of such other provision as if such Outstanding Indebtedness were then being incurred. To the extent that Indebtedness is deemed to be incurred pursuant to another provision of this section captioned "Limitations on Incurrence of Additional Indebtedness", it shall not reduce the amount of Indebtedness permitted to be incurred pursuant to this subsection (a).

(b) Long-Term Indebtedness, including Indenture Indebtedness, if prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee an Officer's Certificate of the Representative's chief financial officer or, in the case of subparagraph (ii)(B) of this section captioned "Limitations on Incurrence of Additional Indebtedness", a report of a Consultant or an Officer's Certificate of the Representative's chief financial officer, as applicable, certifying that:

(i) For each of the two most recent Fiscal Years for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants, the Maximum Annual Debt Service Ratio assuming the incurrence of the proposed Additional Indebtedness would have been not less than 1.30; or

(ii) Subject to the provisions of Subsection (1), (A) the Maximum Annual Debt Service Ratio for the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants, not including the proposed Additional

Indebtedness, is not less than 1.30 and (B) (i) a Consultant's report to the effect that the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, for each of the two consecutive Fiscal Years succeeding the date on which the Indebtedness is incurred, will be not less than 1.40 or (ii) an Officer's Certificate to the effect that the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, for each of the two consecutive Fiscal Years succeeding the date on which the Indebtedness is incurred, will not be less than 1.60.

(c) Completion Indebtedness in an amount not greater than ten percent (10%) of the Indebtedness originally incurred to finance the facilities being completed, provided that there is delivered to the Master Trustee a certificate of an independent architect to the effect that the amount of such Completion Indebtedness will be sufficient to complete the related project.

(d) Long-Term Indebtedness incurred for the purpose of refunding any Long-Term Indebtedness if the conditions described in Subsection (b) of this Section are met with respect to such proposed Long-Term Indebtedness or if upon the incurrence thereof an Officer's Certificate is delivered to the Master Trustee stating that, taking the proposed Long-Term Indebtedness and the refunding of the existing Long-Term Indebtedness into account, Maximum Annual Debt Service will not be increased by more than ten percent (10%).

(e) Short-Term Indebtedness, including working capital loans, if: (i) immediately after the incurrence of such Short-Term Indebtedness, the principal amount of all Outstanding Short-Term Indebtedness does not exceed ten percent (10%) of operating revenues of the Obligated Group as of the end of the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants and (ii) the amount of Outstanding Short-Term Indebtedness is reduced to zero for a period of seven consecutive days, or reduced to an amount equal to three percent (3%) of operating revenues of the Obligated Group for a period of twenty (20) days.

(f) Non-Recourse Indebtedness, if immediately after the incurrence of such Non-Recourse Indebtedness, the principal amount of all Outstanding Non-Recourse Indebtedness does not exceed ten percent (10%) of operating revenues of the Obligated Group as of the end of the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants.

(g) Indebtedness (and any renewals or extensions thereof) the payment of which is at all times wholly subordinate and junior in right of payment to any and all Indenture Indebtedness ("Subordinated Indebtedness"), subject to the following criteria:

(i) 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 Indenture Indebtedness shall first be paid in full before any payment is made upon the Subordinated Indebtedness, provided, however, that 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 Indenture 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 Indenture Indebtedness, pro rata, for application in payment thereof unless and until such Indenture Indebtedness shall have been paid or satisfied in full; and

(ii) In the event that the Subordinated Indebtedness is declared or becomes due and payable because of the occurrence of any Event of Default under the Indenture (or under any Related Bond Indenture) or otherwise than at the option of the Obligated Group, under circumstances when the foregoing clause (A) 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 Indenture Indebtedness outstanding at the

time the Subordinated Indebtedness so became due and payable because of any such event, or payment shall have been provided for in a manner satisfactory to the holders of such Indenture 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.

(iii) The Obligated Group agrees for the benefit of the holders of Indenture 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 Indenture, (i) the Obligated Group will give prompt notice in writing of such happening to the holders of Indenture Indebtedness and (ii) all Obligations securing Indenture Indebtedness shall forthwith become immediately due and payable upon demand, regardless of the expressed maturity thereof, provided that if the acceleration of such Subordinated Indebtedness is voided or rescinded, such acceleration of such Obligations shall be rescinded.

(iv) Any default in the covenants contained in this Subsection (g) shall be an immediate Event of Default without regard to any grace period otherwise contained in the Indenture.

(v) 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.

(h) Agreements relating to letters or lines of credit or similar credit facilities used to secure Additional Indebtedness incurred in accordance with the provisions of this Section.

(i) (1) Capitalized leases, installment purchase contracts, purchase money debt incurred to finance equipment and similar Indebtedness, if immediately after the incurrence of such Indebtedness, the Outstanding principal amount of all such Indebtedness incurred under this subsection (i)(1) does not exceed ten percent (10%) of operating revenues of the Obligated Group as of the end of the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants and (2) Indebtedness secured by Liens of the type permitted under (b)(ii) of "Limitations on Creation of Liens".

(j) Indebtedness incurred for the purpose of funding a debt service reserve fund established in connection with any series of Related Bonds.

(k) Indebtedness to any Member of the Obligated Group.

(l) Pre-existing Indebtedness of a Member assumed in connection with consolidation, merger, sale or conveyance under the Indenture.

No Additional Indebtedness may be incurred pursuant to this section if an Event of Default under the Indenture or under any Related Bond Indenture shall have occurred and be continuing, unless such Event of Default would be cured as a result of the issuance of such Additional Indebtedness. (Section 5.05)

Debt Service on Guaranties.

In determining the Debt Service Requirement of any Member, whether historical or projected, computations of debt service on Long-Term Indebtedness shall include an amount equal to: (i) twenty-five percent (25%) of the debt service on obligations of Persons other than Members of the Obligated Group (each a "guaranteed entity") for borrowed money guaranteed by any Member of the Obligated Group for the period during which such Debt Service Requirement is computed so long as the net revenues available for debt service of such guaranteed entity (such net revenues to be calculated in the same manner as the Net Revenues Available for Debt Service with respect to a Member of the Obligated Group is calculated) divided by the maximum amount of principal of and

interest on the outstanding Long-Term Indebtedness of such guaranteed entity payable or accruing in the then current or any future year (such debt service to be calculated in the same manner as the Debt Service Requirement of a Member of the Obligated Group is calculated) (the “Guaranteed Entity Maximum Annual Debt Service Ratio”) is greater than 2.00 times in its latest fiscal year, or (ii) fifty percent (50%) of the debt service on obligations of others for borrowed money guaranteed by an Member of the Obligated Group for the period during which such Debt Service Requirement is computed so long as the guaranteed entity has a Guaranteed Entity Maximum Annual Debt Service Ratio of 1.50 to 2.00 times in its latest fiscal year, or (iii) seventy-five percent (75%) of the debt service on obligations of others for borrowed money guaranteed by any Member of the Obligated Group for the period during which such Debt Service Requirement is computed so long as the guaranteed entity has a Guaranteed Entity Maximum Annual Debt Service Ratio of 1.25 to 1.50 times in its latest fiscal year; provided, however, that debt service on such guaranteed obligations with respect to which the guaranteed entity has a Maximum Annual Debt Service Ratio of less than 1.25 times in its latest fiscal year or a payment has been made or monetary advances have been made to the guaranteed entity by any Member during the preceding three fiscal years or with respect to which the primary obligor is in default by reason of bankruptcy or insolvency shall be included at one hundred percent (100%) of such debt service. (Section 5.06)

Debt Service on Balloon Indebtedness and Variable Rate Indebtedness; Treatment of Hedging Contracts.

(a) At the election of any Member, for the purpose of any computation of the Debt Service Requirement, whether historical or projected, the principal and interest deemed to be payable on Balloon Indebtedness of such Member Outstanding for the period during which such Debt Service Requirement is computed, shall be as set forth below:

(i) if the Member has obtained a binding commitment of a financial institution rated at least “Aa” by Moody’s or “AA” by S&P to refinance such Balloon Indebtedness (or a portion thereof), including without limitation, a letter of credit or a line of credit, which commitment is subject only to usual conditions applicable to loans to entities similar to such Member, the Balloon Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or

(ii) If (A) the Date of Maturity of any portion of such Balloon Indebtedness is more than 18 months after the date of any transaction for which a Projection is made or (B) the condition of paragraph (a) above is satisfied with respect to such portion by a financing arrangement having a term not less than 18 months, such portion of such Balloon Indebtedness may be deemed to be Indebtedness payable over a 20 year term, at the interest rate certified below, in equal annual installments of principal and interest, provided that the Representative has delivered to the Master Trustee a certificate of an investment banker satisfactory to the Master Trustee stating that it is reasonable to assume that such Indebtedness of the Member could be sold and stating the interest rate then applicable to 20 year obligations of comparable quality and type.

(b) In determining the Debt Service Requirement of any Member, whether historical or projected, the interest deemed to be payable on Indebtedness which bears interest at other than a fixed rate shall be calculated at the lesser of (i) 120% of the average interest rate for the preceding twenty-four (24) months or (ii) the maximum interest rate payable on such Indebtedness; provided, however, that if such Indebtedness has not been outstanding for twenty-four (24) months, then the interest deemed to be payable on such Indebtedness shall be calculated at 120% of the average interest rate for the preceding twelve (12) months (or, if less, the maximum interest rate payable on such Indebtedness) or the interest rate in effect on such Indebtedness on the date of calculation, whichever is higher; and provided further that if such Indebtedness has not been outstanding for twelve (12) months, then the interest deemed to be payable on such Indebtedness shall be calculated at (1) for tax-exempt debt, the lesser of (A) 120% of the Bond Market Association Municipal Swap Index, or (B) the maximum interest rate payable on such Indebtedness, or (2) for taxable debt, the lesser of (A) 120% of LIBOR or (B) the maximum interest rate payable on such Indebtedness.

(c) In determining the Debt Service Requirement of any Member, whether actual or projected, on any Indebtedness which is the subject of a Hedging Contract, account shall be taken of amounts payable by or to the Member pursuant to the Hedging Contract in addition to amounts payable by the Member on such Indebtedness so long as the long-term credit rating of the provider of such Hedging Contract (or any guarantor thereof) is in one of

the two highest rating categories of any rating agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise), and if the net obligation of the Obligated Group under such Indebtedness and Hedging Contract is variable, such Indebtedness may be deemed variable rate Indebtedness under clause (b) above. In addition, so long as any Indebtedness is deemed to bear interest at a rate taking into account amounts payable by or to a Member pursuant to a Hedging Contract pursuant to this Subsection (c), any amounts payable by such Member pursuant to such Interest Rate Agreement shall be excluded from the expenses of such Member and any amounts payable to such Member pursuant to such Hedging Contract shall be excluded from the revenues of such Member, in each case for all purposes of the Indenture. (Section 5.07)

Debt Service on Discount Indebtedness.

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

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

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

Debt Service Coverage Ratios.

The Obligated Group agrees to charge and collect rates and charges which shall, together with other available moneys, provide moneys sufficient at all times to make any payments required under the Indenture. The Obligated Group agrees to maintain the Maximum Annual Debt Service Ratio at least equal to 1.20 calculated as of the end of each Fiscal Year. Within one hundred fifty (150) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate stating, based on calculations shown in such Certificate, that the requirement of the foregoing sentence was met as of the end of such Fiscal Year. If the Maximum Annual Debt Service Ratio, as calculated as of the end of any Fiscal Year, is less than 1.20, the Obligated Group covenants to retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required. Each Member of the Obligated Group, respectively, agrees that it will, subject to Legal Limitations, substantially follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations except as set forth above, this Section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year, calculated as of the end of such Fiscal Year, is less than 1.20, provided the ratio actually achieved was at least 1.00. The Obligated Group shall not be required to cause a Consultant's report referred to in this paragraph to be prepared more frequently than once every two Fiscal Years. (Section 5.09)

Sale, Lease or Other Disposition of Property.

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

(a) To any Person if prior to the Transfer there is delivered to the Master Trustee an Officer's Certificate stating that in the judgment of the signer such Property has become, or within the next succeeding 24

calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the Transfer thereof will not impair the structural soundness, efficiency or economic value of the remaining Property in any material respect;

(b) To another Member of the Obligated Group;

(c) To any Person provided that if such Transfer is not in the ordinary course of business prior thereto, there is delivered to the Master Trustee (i) a Consultant's Report stating that the Projected Debt Service Coverage Ratio for the Fiscal Year immediately following such Transfer is at least 1.35 and would not be reduced by more than thirty percent (30%) of what it would have been if such transaction did not occur; or (ii) an Officer's Certificate of the Representative stating that the Maximum Annual Debt Service Ratio would be higher than it would have been if such transaction did not occur; or

(d) As part of a merger, consolidation, sale or conveyance permitted by the section captioned "Consolidation, Merger, Sale or Conveyance";

(e) To any Person if in exchange therefor such Member receives the fair market value of the Property so transferred, provided that, in the case of Transfers of real property with a value in excess of the greater of \$2,000,000 or one half of one percent (0.5%) of the Obligated Group's Property, Plant and Equipment, prior to such Transfer there is delivered to the Master Trustee an Officer's Certificate certifying that the Member will receive at least the fair market value of such real property;

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

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

(h) To an entity controlled by, under common control with, or contractually affiliated with, one or more Members of the Obligated Group for establishing, capitalizing, and maintaining a program of insurance that provides insurance coverage to one or more Members of the Obligated Group, provided that prior to such transfer, an Insurance Consultant shall have issued a report stating that the establishment of such insurance and the proposed funding thereof are consistent with reasonable insurance practices; which transferee entity may be organized under the laws of any jurisdiction or nation and which may include an entity providing insurance to entities other than Members of the Obligated Group. (Section 5.10)

Consolidation, Merger, Sale or Conveyance.

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

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

(ii) If any Related Bond which bears interest that is not includable in gross income under the Code has not been fully paid, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance reasonably satisfactory to the Master Trustee, to the effect that under then existing law the

consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not cause the interest payable on such Related Bonds to be includable in gross income under the Code;

(iii) The Master Trustee shall have received an Officer's Certificate to the effect that after such proposed merger, consolidation or conveyance, the Obligated Group could issue at least one dollar of Additional Indebtedness under (a) of the section captioned "Limitations on Incurrence of Additional Indebtedness"; and

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

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

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee shall receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Indenture concerning amendments and supplements and of this section captioned "Consolidation, Merger, Sale or Conveyance" to join in the execution of the supplement provided for in this section captioned "Consolidation, Merger, Sale or Conveyance". (Section 5.11)

Insurance and Condemnation Proceeds.

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

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

(i) if there is delivered to the Master Trustee an Officer's Certificate of the Member's chief financial officer (the "Coverage Certificate"), to the effect that the Projected Debt Service Coverage Ratio for the two Fiscal Years immediately following such loss or condemnation is at least 1.35; then the Member may retain the amounts for its own use;

(ii) if there is delivered to the Master Trustee a certification of a feasibility consultant, to the effect that (A) the Projected Debt Service Coverage Ratio for the construction period and for each of the two Fiscal Years immediately following such loss or condemnation is at least 1.35; and (B) the insurance proceeds plus funds available for rebuilding or replacing shall be sufficient to complete the project; then the Member may expend so much of such amounts to restore or replace the property lost or taken or to acquire

other capital assets, provided that the Member shall determine how insurance proceeds will be applied within twelve months after the damage or destruction to the property and any insurance proceeds received within such twelve month period and prior to the making of such decision shall be held in trust until such time as a decision is rendered regarding use of insurance proceeds, until either (i) all the amounts are expended or (ii) the Member opts to meet the requirements of (b)(i) above, or (iii) it shall apply the remaining amounts as provided in the following clause (iii); or

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

(c) Prior to any application of insurance or condemnation proceeds as provided in (a) and (b) above there shall be delivered an Opinion of Bond Counsel to the effect that such application shall not adversely affect the exclusion from gross income of the interest on any Related Bond. (Section 5.13)

Days Cash on Hand.

The Obligated Group shall maintain Days Cash on Hand of at least 50 days as of March 31 and September 30 of each Fiscal Year. Within one hundred fifty (150) days after the end of each March 31 and September 30, the Obligated Group shall furnish to the Master Trustee an Officer's Certificate stating, based on calculations shown in such Certificate, that the requirement of the foregoing sentence was met at the end of each March 31 or September 30, as applicable, calculated as of the end of such March 31 or September 30. If the Days Cash on Hand, as calculated at the end of any March 31 or September 30, is less than 50 days, the Obligated Group covenants to retain a Consultant to make recommendations to increase the Days Cash on Hand for subsequent Fiscal Years to the levels required. Each Member of the Obligated Group, respectively, agrees that, subject to Legal Limitations, it will substantially follow the recommendations of the Consultant or file with the Master Trustee its reasons for not following the recommendations. So long as the Obligated Group shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations except as set forth above, this Section shall be deemed to have been complied with and no Event of Default shall be deemed to have occurred even if the Days Cash on Hand for any subsequent semiannual period is less than 50, unless (i) Days Cash on Hand is less than 50 for two consecutive semiannual test periods or (ii) Days Cash on Hand declines below 35 for any semiannual test period. Notwithstanding the foregoing, the Obligated Group shall not be required to cause a Consultant's report referred to in this paragraph to be prepared more frequently than once every two Fiscal Years. (Section 5.15)

Substitution of Master Trust Indenture.

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

(i) original replacement notes or similar obligations (the "Substitute Obligations") issued by the Obligated Group or a surviving, resulting or transferee entity meeting the requirements of Section 5.11 of the Indenture (the "Substitute Obligated Group") under and pursuant to and secured by such existing master trust indenture or similar financing document (the "Substitute Master Indenture") executed by the Obligated Group or any Substitute Obligated Group (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") (which may be the Master Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Indenture, which Substitute Obligations have been duly authenticated by the New Trustee;

(ii) the Substitute Master Indenture which shall contain (a) a pledge of the Gross Receipts of the New Group, (b) the agreement of each member of the New Group (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Substitute Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Substitute Master Indenture) to jointly and severally make payments upon each obligation, including the Substitute Obligations, issued under the

Substitute Master Indenture at the times and in the amount provided in each such obligation and (c) terms, covenants and provisions which substantially cover the matters and do not materially weaken the requirements imposed for the benefit of the Obligation Holders contained in the Indenture (including the defined terms used in the Indenture);

(iii) evidence of compliance with the tests for adding a new member of the Obligated Group set forth in (f) of the section captioned “Conditions for Membership”;

(iv) evidence that the ratings, if any, on Indebtedness secured by Obligations issued pursuant the Indenture will be the same as or better than the ratings on such Indebtedness following the substitution of the Indenture;

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

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

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

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

(b) The provisions of this section captioned “Substitution of Master Trust Indenture” may be implemented by the Obligated Group, notwithstanding any provisions of the sections captioned “Supplements Not Requiring Consent of Obligation Holders” and “Supplements Requiring Consent of Obligation Holders”, so long as the provisions of this section captioned “Substitution of Master Trust Indenture” are substantially complied with by the Obligated Group.

(c) Following the surrender of the Obligations, and satisfaction of the conditions set forth above in this section captioned “Substitution of Master Trust Indenture”, and receipt of security and indemnity satisfactory to the Master Trustee, the Master Trustee will cancel the Obligations and assign, set over and transfer all of its right, title and interest in and to the trust estate under the Indenture, to the New Trustee, and shall execute such documents and instruments as are necessary and appropriate to effect such transfer and assignment and to discharge the lien of the Indenture upon the trust estate. Then and thereafter, Obligation Holders shall no longer be entitled to any rights and remedies under the Indenture, but shall have all of the rights and remedies granted under the Substitute Master Indenture. (Section 5.16)

Events of Default.

Event of Default, as used in the 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 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 Indenture and the Related Supplement;

(b) Any Member of the Obligated Group shall fail duly to observe or perform any covenant or agreement on its part under the Indenture for a period of 30 days (or, provided the Obligated Group is proceeding with due diligence to cure such default, such longer period as is required to cure such default) after the date on which written notice of such failure, expressly 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 twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding;

(c) With respect to Indebtedness for borrowed money, a breach shall occur (and continue beyond any applicable grace period) with respect to a payment by any Member of Indebtedness, or with respect to the performance of any agreement securing such other Indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, and as a result of such breach or occurrence a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates or, with respect to a default of the character referred to in paragraph (a) of this section only, is empowered to accelerate, any such Indebtedness in an amount exceeding \$500,000; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (c) if (i) the Member is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (ii) such breach or event is remedied and the acceleration is wholly annulled. Each Member shall notify the Master Trustee in writing of any such breach or event immediately upon becoming aware of its occurrence and shall from time to time furnish such information as the Master Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph has occurred and whether such power of acceleration has been exercised;

(d) The Obligated Group shall fail to make any payment of the principal of, premium, if any, or interest on any note or under any loan agreement or similar agreement securing any Related Bonds after the same shall become due and payable and following any grace periods, if applicable, in accordance with the terms thereof;

(e) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Member of the Obligated Group a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days or the consent of such Member to such decree or order; or

(f) The institution by any Member of the Obligated Group of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(g) 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 Representative and shall do so upon written instruction of the Holders of at least twenty-five percent (25%) in principal amount of the Outstanding Obligations. (Section 6.01)

Acceleration; Annulment of Acceleration; Rights as to Gross Receipts.

(a) Upon the occurrence and during the continuation of an Event of Default under the 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 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.

(b) At any time after the principal of the Outstanding Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted on account of such default, if (i) so directed in writing by Holders of not less than fifty percent (50%) in aggregate principal amount of the Obligations then Outstanding or (ii)(A) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest, and interest on installments of principal and interest, and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding, (B) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents incurred as a result of such Event of Default, (C) all other amounts then payable by the Obligated Group under the Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (D) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then, unless otherwise directed in writing by Holders of not less than fifty percent (50%) in aggregate principal amount of the Obligations then Outstanding, the Master Trustee shall annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by its terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(c) Upon the occurrence and during the continuation of an Event of Default under the Indenture, the Master Trustee may exercise all of the rights and remedies of a secured party, under the UCC or otherwise, with respect to the Lien on Gross Receipts. Without limiting the generality of the foregoing, to the extent permitted by law, the Master Trustee may realize upon such lien by any one or more the following actions: (i) take possession of the financial books and records of any Member of the Obligated Group relating to the Gross Receipts and of all checks or other orders for payment of money and cash in the possession of the Member representing Gross Receipts or proceeds thereof; (ii) notify account debtors obligated on any Gross Receipts to make payment directly to the order of the Master Trustee, (iii) collect, compromise, settle, compound or extend Gross Receipts which are in the form of accounts receivable or contract rights from the Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member, whether or not the full amount of any such account receivable or contract right owing shall be paid to the Master Trustee; (iv) require the Member to deposit all cash, money and checks or other orders for the payment of money which represent Gross Receipts within five (5) business days after receipt of written notice of such requirement, and thereafter as received, into a fund or account to be established for such purpose by the Master Trustee, provided, however, that the requirement to make such deposits shall cease, and the balance of such fund or account shall be paid to the Member, when all Events of Default have been cured; (v) forbid the Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; and (vi) endorse in the name of the Member any checks or other orders for the payment of money representing Gross Receipts or the proceeds thereof. (Section 6.02)

Additional Remedies and Enforcement of Remedies.

(a) Subject to the section of the Indenture captioned "Issuance of Obligations in Forms Other than Notes", 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 for any associated costs, expenses and liabilities, shall, absent any written direction to the contrary pursuant to the section captioned "Obligation Holders' Control of Proceedings", proceed forthwith to protect and enforce its rights and the rights of the Obligation Holders under the Indenture by such suits, actions or proceedings as the Master Trustee shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Obligation Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Obligation Holders;

(iv) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Obligation Holders or to specifically enforce any covenant, obligation or agreement contained in the Indenture; and

(v) Enforcement of the provisions of the Indenture or any other right of the Obligation Holders conferred by law or under the Indenture including (to the extent the Indenture may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the provisions of the Indenture and the rights of the Obligation Holders.

(b) Subject to the section captioned "Security for Obligations", regardless of the occurrence of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of Obligations then Outstanding, shall, upon being indemnified to its satisfaction for any associated costs, expenses and liabilities, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in violation of the Indenture or which with the giving of notice or the passage of time or both would constitute an Event of Default. (Section 6.03)

Application of Revenues and Other Moneys After Default.

During the continuance of an Event of Default, the Master Trustee may by written notice to the Representative require that all payments of Outstanding Obligations be made to the Master Trustee when due in immediately available funds. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto 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 and redemption premiums, if any, of any Obligations which shall have become due, whether at maturity or by call for redemption, without regard to the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amount of principal installments and redemption premiums, if any, due on such date, to the Persons entitled thereto, without any discrimination or preference.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this section captioned "Application of Revenues and Other Moneys After 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 this section captioned “Application of Revenues and Other Moneys After Default” 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 Indenture to the contrary, subject to the section captioned “Issuance of Obligations in Forms Other than Notes”, 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 the Indenture or for the appointment of a receiver or any other proceedings under the Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Indenture (including indemnity to the Master Trustee as provided in the 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 and provided further that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action under the Indenture which it may deem proper and which is not inconsistent with such direction by Obligation Holders.

It is recognized that 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 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.

(a) No delay or omission of the Master Trustee or of any Obligation Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Indenture to the Master Trustee and the Obligation Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) 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 Indenture, or before the completion of the enforcement of any other remedy under the Indenture.

(c) Notwithstanding anything contained in the Indenture to the contrary, the Master Trustee, subject to the section captioned “Issuance of Obligations Other than Notes”, 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 Indenture and its consequences; provided, however, that a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived, subject to the section captioned “Issuance of Obligations Other than Notes”, without the written consent of the Holders of all the Obligations at the time Outstanding unless (i) the conditions set forth in clauses (ii) to (iv) of the section captioned “Acceleration; Annulment of Acceleration; Rights as to Gross Receipts” are satisfied and (ii) if the principal of the Obligations has been declared due and payable, such declaration has been annulled.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Indenture, the Members of the Obligated Group, the Master Trustee and the Obligation Holders shall be restored to their former positions and rights under the Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. (Section 6.09)

Limitations on Responsibility of Master Trustee

The Master Trustee shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the direction, subject to the provisions in the section captioned "Security for Obligations," of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture.

The Master Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. (Section 7.01)

Except as specifically provided in the Master Indenture, the Master Trustee shall not be required to monitor the financial condition of the Members of the Obligated Group or the physical condition of the Property and, except as specifically provided in the Master Indenture, shall not have any responsibility with respect to reports, notices, certificates or other documents filed or to be filed with it under the Master Indenture. The Master Trustee shall not be required to take notice of any breach or default under the Master Indenture by the Institution or any Member of the Obligated Group, except for (i) those of which it receives written notice by an Obligation Holder, and (ii) the failure of the Master Trustee to receive certificates, reports, or opinions specifically required to be furnished to the Master Trustee by the Master Indenture. The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member of the Obligated Group, personally or by agent or attorney. (Section 7.02)

Supplements Not Requiring Consent of Obligation Holders.

The Representative, on behalf of each Member of the Obligated Group, and the Master Trustee may, without the consent of or notice to any of the Holders, 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 Indenture.
- (ii) To correct or supplement any provision in the Indenture which may be inconsistent with any other provision in the Indenture, or to make any other provisions with respect to matters or questions arising under the Indenture which shall not materially and adversely affect the interests of the Holders.
- (iii) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Indenture.
- (iv) To qualify the 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 Indenture.
- (vi) To obligate a successor to the Representative or other Member of the Obligated Group as provided in subsection (a) of each of the sections captioned "Conditions for Membership" and "Consolidation, Merger, Sale or Conveyance".
- (vii) To add additional property to the Restricted Property or to add additional security for the benefit of the Holders. (Section 8.01)

Supplements Requiring Consent of Obligation Holders.

Other than supplements referred to in the section captioned “Supplements Not Requiring Consent of Obligation Holders” and subject to the terms and provisions and limitations contained in the 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 Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, and the Master Trustee of such supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, nothing in this Section shall permit or be construed as permitting a supplement which would:

- (i) Extend the stated maturity of or time for paying interest on any Obligations or reduce the principal amount of or the redemption premium, if any, or rate of interest payable on any Obligations;
- (ii) Make any Obligation redeemable other than in accordance with its terms;
- (iii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the 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)

Satisfaction and Discharge of Indenture.

If (a)(i) all Members of the Obligated Group shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Related Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and shall have been paid or all Outstanding Indenture Indebtedness shall have been paid or deemed paid, or (iii) the Members of the Obligated Group shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Representative and such bank or trust company in form acceptable to the Master Trustee) as trust funds Government or Equivalent Obligations bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem in full all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal, premium and interest due or to become due to such date of maturity or redemption date, as the case may be, and (b) the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Indenture by the Members of the Obligated Group or any thereof, then the Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group or any thereof, and at the cost and expense of the Members of the Obligated Group or any thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Indenture and the lien on Gross Receipts of each Member of the Obligated Group granted under the Indenture. If any Obligation is to be redeemed prior to Maturity thereof, the Indenture shall not cease to be in effect until all action necessary to redeem such Obligation shall have been taken or irrevocable provision satisfactory to the Master Trustee has been made for the taking of such action. Each Member of the Obligated Group, respectively, hereby agrees to reimburse the Master Trustee for any costs or expenses theretofore or thereafter reasonably and properly incurred by the Master Trustee in connection with the Indenture or such Obligations. (Section 9.01)

Revocation; Instruments Executed by Holders Bind Future Holders.

At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in the Indenture, of the taking of any action by the Holders of the percentage in aggregate principal amount of Obligations specified in the Indenture in connection with such action, any Holder of such an Obligation that is shown by such evidence to be included in Obligations the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in the Indenture, revoke such action so far as concerns such Obligation. Except upon such revocation any such action taken by the Holder of an Obligation in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Obligation which by any provision of the Indenture is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Obligation, and of any Obligation issued in lieu thereof, whether or not any notation in regard thereto is made upon such Obligation. Any action taken by the Holders of the percentage in aggregate principal amount of Obligations specified in the Indenture in connection with such action shall be conclusively binding upon each Member of the Obligated Group, the Master Trustee and the Holders of all of such Obligations. (Section 10.03)

Audited Financial Statements.

Anything to the contrary in the Indenture notwithstanding, in the event the Obligated Group does not produce combined audited financial statements, any references in the Indenture to such combined audited financial statements shall be deemed to refer to information derived from the audited financial statements and unaudited combining statements of the Members of the Obligated Group, after consideration of appropriate accounting adjustments and elimination for transactions between the Members of the Obligated Group, if any. (Section 11.09)

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**SUMMARY OF THE SUPPLEMENTAL MASTER
TRUST INDENTURE FOR OBLIGATION NO. 1**

THE FOLLOWING IS A SUMMARY OF CERTAIN PROVISIONS OF THE SUPPLEMENTAL MASTER TRUST INDENTURE. CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE HAVE BEEN AMENDED IN CONNECTION WITH THE ISSUANCE OF OBLIGATION NO. 1. THE FOLLOWING SUMMARIZES CERTAIN SUCH AMENDMENTS AND CERTAIN ADDITIONAL PROVISIONS APPLICABLE TO THE BONDS ONLY FOR SO LONG AS THE BOND INSURER IS IN COMPLIANCE WITH ITS OBLIGATIONS UNDER THE BOND INSURANCE POLICY.

Definitions.

Unless otherwise required by the context, all terms used herein which are defined in “Definitions of Certain Terms” shall have the meanings assigned to them therein. (Section 2)

Issuance of Obligation No. 1.

The Supplemental Master Trust Indenture for Obligation No. 1 creates and authorizes the issuance of an Obligation under the Indenture (“Obligation No. 1”) in an aggregate principal amount equal to the par amount of the Bonds. (Section 3)

Payments on Obligation No. 1; Credits.

Principal of, premium, if any, and interest on Obligation No. 1 are payable in lawful money of the United States of America. Principal and interest on Obligation No. 1 shall be payable on such dates and in such amounts as are required under the Agreement to provide for payment of the principal (including sinking fund installments), premium, if any, and interest on the Bonds when due.

The Institution’s payments under Obligation No. 1 may be prepaid at such times and with such notice to the Bond Trustee as will accomplish simultaneous prepayment under the Agreement of the Bonds otherwise payable therefrom. Such payments may also be reduced (and the Institution’s obligations with respect thereto correspondingly credited) to the extent that the principal (including sinking fund installments) of and interest on the Bonds payable therefrom is actually paid from other sources.

When all Outstanding Bonds are deemed to have been paid in full when due or prepaid in whole and all other conditions imposed by the Agreement are satisfied, Obligation No. 1 shall be deemed to have been paid and to be no longer Outstanding under the Indenture. (Sections 4 and 7)

Amendments to the Master Trust Indenture.

Provided that the Bond Insurer is not then in default of its payment obligations under the Bond Insurance Policy, the following amendments to the Indenture shall apply as long as the Bonds and Obligation No. 1 remain Outstanding:

- (a) Definitions (Section 1.02). The following definitions are added:

“Bond Insurer” means Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York or any successor thereto.

“Insurance Trustee” means The Bank of New York.

“Mortgage” means the Mortgage dated as of July 12, 2005 from the Representative to J.P. Morgan Trust Company, National Association, as Master Trustee under the Indenture and providing for the mortgage of the Mortgaged Property.

“Mortgaged Property” means the existing inpatient and outpatient facilities and the land thereunder at 133 Old Road to Nine Acre Corner, Concord, Massachusetts.

“Mortgage-Secured Obligation” means Obligation No. 1 and any other Obligation that, pursuant to the terms of the applicable Related Supplement, is secured by the Mortgage.

(b) Conditions for Membership (Section 301(f)) is amended to insert “(i)” after the phrase “to the effect that” and “and (ii) the Maximum Annual Debt Service Ratio after giving effect to the admission of such Person will be at least equal to 1.35 and 70% of what it was prior to the admission, or, alternatively, with the consent of the Bond Insurer, the Maximum Annual Debt Service Ratio for the Obligated Group after giving effect to such addition is greater than it would be if such addition did not occur, and (iii) the Obligated Group’s Days Cash on Hand immediately following such addition will be at least 50” at the end of such subsection.

(c) Withdrawal from the Obligated Group (Section 4.03) is amended to insert “, and provided further that the Hospital shall not withdraw from the Obligated Group so long as the Bonds are Outstanding at the end of subsection (ii) and amended to insert in subsection (iv), “(i)” after the phrase “to the effect that” and “(ii) the Maximum Annual Debt Service Ratio, after giving effect to the withdrawal of such Member is at least 1.35 and 70% of what it was prior to such withdrawal, or alternatively, with the consent of the Bond Insurer, the Maximum Annual Debt Service Ratio after giving effect to the withdrawal of such Member is higher than it was prior to such withdrawal; and (iii) the Obligated Group’s Days Cash on Hand immediately following such withdrawal will be at least 50” at the end of such subsection.

(d) Insurance (Section 5.03(a)) is amended to insert “provided that such coverage shall at all times be maintained in an amount at least equal to the aggregate outstanding principal amount of all Outstanding Obligations securing bonds insured by the Bond Insurer” at the end of subsection (i) and by inserting “, and (vi) during construction periods for projects with an aggregate value exceeding \$10,000,000, provide and continuously maintain coverage of the kind and amount customarily used under similar circumstances including a performance and payment bond in an amount covering the cost of the contract, which contract shall be based on a ‘guaranteed maximum price’” at the end of such subsection.

(e) Limitations on Creation of Liens (Section 504)(b) is amended as follows:

(1) Subsection (xx) is deleted and replaced in its entirety as follows: “(xx) Any lien securing all Indenture Indebtedness on a parity basis, provided that Indenture Indebtedness shall not, without the consent of the Bond Insurer, include any Obligation relating to a termination payment on a Hedging Contract unless such termination payment is insured by a bond insurance policy.”

(2) Subsection (xxii) is deleted and replaced in its entirety as follows: “(xxii) Rights of setoff of a financial institution with respect to unrestricted funds of a Member of the Obligated Group in accounts established by a Member of the Obligated Group at such financial institution if such lien or right is given or made in the ordinary course (excluding for this purpose investment on margin) in connection with the investment of such unrestricted funds by such Member of the Obligated Group.”

(3) Subsection (xxiii) is hereby deleted and replaced in its entirety as follows: “(xxiii) Liens securing termination payments on Hedging Contracts that are not insured by a bond insurer provided that any such Lien on Gross Receipts or the Mortgaged Property shall be junior and subordinate to the Lien of this Indenture and the Mortgage, on the Gross Receipts and the Mortgaged Property, respectively, and the applicable Hedging Contract shall preclude the initiation of any remedial action with respect to such Lien at any time that any Indenture Indebtedness secured by the Lien of this Indenture remains Outstanding, unless the Master Trustee shall have initiated a remedial action with respect to its Lien on Gross Receipts or the Mortgaged Property, as applicable.”

(4) The following subsection is inserted immediately after subsection (xxiii): “(xxiv) any lien on the Mortgaged Property granted to the Master Trustee on the Mortgaged Property pursuant to a Related Supplement to secure a Mortgage-Secured Obligation, which lien shall secure such Mortgage-Secured Obligation on a parity basis with all other Mortgage-Secured Obligations, provided that a Mortgage-Secured Obligation shall not, without the consent of the Bond Insurer, include any Obligation relating to a termination payment on a Hedging Contract unless such termination payment is insured by a bond insurance policy.”

(f) Limitations on Incurrence of Additional Indebtedness (Section 5.05) is amended by deleting subsections (a) and (j) and inserting at the end of subsection (g): “(vi) So long as Obligation No. 1 is outstanding,

any Subordinated Indebtedness shall have the same payment dates as Obligation No. 1 and shall provide that such Subordinated Indebtedness may not be accelerated unless the Indenture Indebtedness has also been accelerated.”

(g) Debt Service on Balloon Indebtedness and Variable Rate Indebtedness: Treatment of Hedging Contracts (Section 5.07) is amended by deleting that portion of subsection (a)(ii) preceding the phrase “Balloon Indebtedness may be deemed to be Indebtedness payable” and inserting “(or the actual remaining term to maturity, whichever is less)” after the phrase “over a 20 year term” and inserting the following at the end of subsection (c): “The use of any Hedging Contract with respect to any Indebtedness insured by the Bond Insurer, including without limitation, the Bonds, shall be subject to the prior approval of the Bond Insurer.

(h) Sale, Lease or Other Disposition of Property (Section 5.10) is amended by deleting all text after “(ii)” in subsection (c) and replacing with “with the prior written consent of the Bond Insurer, an Officer’s Certificate of the Representative stating that the Maximum Annual Debt Service Ratio would be higher than it would have been if such transaction did not occur; (ii) an Officer’s Certificate stating that the Obligated Group or successor, as applicable, immediately following the transfer or disposition, the Obligated Group will have not less than 50 Days Cash on Hand; (iii) 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 Indebtedness in accordance with the “Limitations on Incurrence of Additional Indebtedness”. Subsection (g) is deleted.

(i) Consolidation, Merger, Sale or Conveyance (Section 5.11(a)(iii)) is amended by “(A)” after the phrase “to the effect that” and inserting at the end of such subsection: “, (B) (i) the Maximum Annual Debt Service Ratio after giving effect to the merger, consolidation or conveyance is at least 1.35 and not less than thirty percent (30%) less than the ratio would have been without the transaction; or (ii) with the consent of the Bond Insurer, the Maximum Annual Debt Service Ratio, taking into account such merger, consolidation or conveyance, would be greater than if such transaction did not occur; and (C) taking into account the merger, consolidation or conveyance on a consolidated basis for any surviving or resulting entity or entities, the Obligated Group’s Days Cash on Hand will be at least 50”.

(j) Insurance and Condemnation Proceeds (Section 5.13(b)(i)) is amended by inserting “(A)” after the phrase “to the effect that” and further inserting “(B) Projected Debt Service Coverage Ratio for the Fiscal Year immediately following such loss or condemnation will not be reduced by more than 15% from the Maximum Annual Debt Service Ratio for the most recent Fiscal Year for which audited financial statements are available;” after the first semicolon in such subsection.

(k) Events of Default (Section 6.01) is amended by inserting the following sentence at the end of subsection (b): “Notwithstanding anything herein to the contrary, such 30 day cure period may be extended beyond 30 days with the consent of the Bond Insurer.” Section 6.01 is further amended by inserting the following at the end of subsection (d): “or an “event of default” shall occur under the Agreement or the Mortgage, provided that only the Holder of Obligation No. 1 shall be entitled to declare such occurrence an Event of Default under the Master Indenture.

(Section 8)

Mortgage.

For so long as Obligation No. 1 remains Outstanding, the Mortgage-Secured Obligations of the Obligated Group under the Indenture shall be secured by the Mortgage on the Mortgaged Property. The Mortgage shall be discharged by the Master Trustee when there are no Mortgage-Secured Obligations Outstanding. (Section 9)

Default.

Upon the occurrence of certain “Events of Default” (as defined in the Indenture), the principal of all Outstanding Obligations may be declared, and thereupon shall become due and payable as provided in the Indenture.

The Holder of Obligation No. 1 shall have no right to enforce the provisions of the Indenture, institute any action to enforce the covenants of the Indenture, take any action with respect to any default under the Indenture, or institute, appear in or defend any other suit or proceeding with respect to the Indenture, except as provided in the Indenture. (Section 7)

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

SUMMARY OF THE LOAN AND TRUST AGREEMENT

The Note and Assignment and Pledge of Revenues; Funds

The Authority assigns and pledges to the Trustee in trust upon the terms of the Agreement (a) all Revenues to be received from the Members or derived from any security provided under the Agreement and (b) all rights to receive such Revenues and the proceeds of such rights. This assignment and pledge does not include: (i) the rights of the Authority pursuant to provisions for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority or (ii) the powers of the Authority as stated in the Agreement to enforce the provisions of the Agreement. As additional security for its obligations to make payments to the Debt Service Fund, the Redemption Fund, the Rebate Fund, the Debt Service Reserve Fund and the Project Fund, and for its other payment obligations under the Agreement, the Institution hereby grants to the Trustee a security interest in its interest in the moneys and other investments and any proceeds thereof held from time to time in such Funds and the Expense Fund established under the Agreement. (Section 201)

Establishment of Funds

The following funds shall be established and maintained with the Trustee for the account of the Institution, to be held in trust by the Trustee and applied subject to the provisions of the Agreement:

Debt Service Fund;
Debt Service Reserve Fund;
Redemption Fund; and
Rebate Fund

The Project and Expense Funds shall be established with the Authority to be held by the Authority in trust for the account of the Institution and applied subject to the provisions of the Agreement. (Definitions; Sections 303, 304, 305, 306, 307 and 401)

Debt Service Fund

The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided, shall be applied solely to the payment of the principal (including sinking fund installments), redemption premium, if any, and interest on the Bonds. The moneys and investments held in the Capitalized Interest Account shall be applied to pay interest on the Bonds. (Section 303)

Debt Service Reserve Fund

The moneys in the Debt Service Reserve Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the payment of the principal (including sinking fund installments) of and interest on the Bonds.

If on any date the amount in the Rebate Fund is less than the amount then required, the Trustee shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency, except that the Trustee shall not so apply any amount necessary to pay or redeem the Bonds in full pursuant to the section captioned "Defeasance." If on any date the amount in the Debt Service Fund is less than the amount then required to pay the principal (including sinking fund installments) and interest then due on the Bonds, the Trustee, after making all payments to the Rebate Fund required under this subsection, shall apply the amount in the Debt Service Reserve Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any required sums which

it has not paid to the Rebate Fund or Debt Service Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If and to the extent that the amount in the Debt Service Reserve Fund on August 15 or February 15 of any year is less than the Debt Service Reserve Fund Requirement as a result of a withdrawal from the Debt Service Reserve Fund, the Institution shall during the succeeding twelve (12) month period pay to the Trustee in twelve equal monthly installments for deposit in the Debt Service Reserve Fund the amount of the deficiency except to the extent that the deficiency is otherwise overcome (except by transfer from the Redemption Fund) on or before the date of the applicable installment. If and to the extent that the amount in the Debt Service Reserve Fund on August 15, November 15, February 15, or May 15 of any year is less than the Debt Service Reserve Fund Requirement as a result of a decline in the value of the investments in the Debt Service Reserve Fund, the Institution shall on or before the next November 15, February 15, May 15, or August 15, respectively, pay to the Trustee for deposit in the Debt Service Reserve Fund the amount of the deficiency, except to the extent the deficiency is otherwise overcome. (Section 304)

Redemption Fund

The moneys in the Redemption Fund and any investments held as a part of such Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Bonds. The Trustee may, and upon written direction of the Institution for specific purchases shall, apply moneys in the Redemption Fund to the purchase of Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within the forty-five (45) days preceding a redemption date. Accrued interest on the purchase of Bonds shall be paid from the Debt Service Fund.

If on any date the amount in the Debt Service Fund is less than the amount then required to be applied by the Trustee to pay the principal (including sinking fund installments) and interest then due on the Bonds or if on any date the amount in the Rebate Fund is less than the amount then required to be paid to the United States, in either case after any required transfer from the Debt Service Reserve Fund, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) first, to the Rebate Fund, and second, to the Debt Service Fund to the extent necessary to meet the deficiency. The Institution shall remain liable for any sums which it has not paid into the Debt Service Fund or Rebate Fund and any subsequent payment thereof shall be used to restore the funds so applied.

If the amount in the Debt Service Reserve Fund on August 15 or February 15 of any year is less than the Debt Service Reserve Fund Requirement, the Trustee shall transfer an amount from the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) to the extent necessary to meet the deficiency. The Institution shall remain liable, however, to meet the deficiency under any other provision of the Agreement and any payment for this purpose shall be used to restore the funds transferred from the Redemption Fund.

If any moneys in the Redemption Fund are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay the redemption price of Bonds called for redemption in accordance with the Agreement, then the Institution shall immediately supply the deficiency. (Section 305)

Rebate Fund

A Rebate Fund shall be established by the Trustee for the purpose of complying with IRC Section 148(f) and the regulations thereunder. Amounts in the Rebate Fund shall not be available to pay principal, interest, or redemption premium on the Bonds. (Section 306)

Expense Fund

The moneys in the Expense Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Authority at the written direction of the Institution solely to the payment or reimbursement of the costs of issuing the Bonds. The Authority shall pay from the Expense Fund the costs of issuing the Bonds, including the Authority's initial administrative fee, the reasonable fees and expenses of financial consultants and bond counsel, the reasonable fees and expenses of the Trustee incurred prior to the completion of the Project in accordance with the Agreement, any recording or similar fees and any expenses of the Institution in connection with the issuance of the Bonds which are approved by the Authority. Earnings on the Expense Fund shall not be applied to pay costs of issuance of the Bonds, but shall be transferred to the Project Fund. After all costs of issuing the Bonds have been paid any amounts remaining in the Expense Fund shall be transferred to the Project Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Institution shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 307)

Project Fund

The moneys in the Project Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the 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 or the Trustee, the Authority may use the Project Fund without requisition to make up the deficiency, and the Institution shall restore the funds so used.

Disbursements from the Project Fund shall be made by the Authority to pay directly or to reimburse the Institution for Project Costs or to make deposits to the Rebate Fund as directed by requisitions signed on behalf of the Institution by the Project Officer. (Section 401)

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 in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time) and second to the payment of principal (including sinking fund installments) and redemption premiums, if any, without regard to the order in which the same became due (in proportion to the amounts due). For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to this section, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 308)

Payments by the Institution

The Institution 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) the interest coming due on the Bonds on the immediately succeeding August 15 or February 15, as the case may be, and one-twelfth (1/12) of the principal (including any sinking fund installment) coming due on the Bonds on the immediately succeeding August 15.

The payments to be made under the foregoing paragraph shall be appropriately adjusted to reflect the date of issue of the 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), and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay the interest and principal or sinking fund installment due or coming due on the Bonds 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 Institution shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the installment payments required under this section shall not otherwise bear interest. Redemption premiums shall not bear interest.

Payments by the Institution to the Trustee for deposit in the Debt Service Fund under the Agreement shall discharge the obligation of the Institution to the extent of such payments; provided, that if any moneys are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay principal (including sinking fund installments) and interest on the Bonds when due, the Institution shall supply the deficiency. (Section 309)

Unconditional Obligation

To the extent permitted by law, the obligation of the Institution to make payments to the Authority and the Trustee under the Agreement shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to setoff, recoupment or counterclaim and shall be a general obligation of the Institution to which the full faith and credit of the Institution are pledged. (Section 310)

Investments

Pending their use under the Agreement, moneys in the Funds and Accounts established pursuant to the Agreement may be invested by the Trustee or the Authority, as the case may be, in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Institution if there is not then an Event of Default known to the Trustee or the Authority, as appropriate, provided that the Institution shall not request, authorize or permit any investment which would cause any Bonds to be classified as "arbitrage bonds" as defined in IRC §148. Notwithstanding the foregoing, (i) any amount of moneys deposited in the Project Fund which has not been expended within three (3) years of the date of closing shall be invested only in Permitted Investments with a yield not more than 1/8% higher than the yield on the Bonds, unless otherwise permitted by an Opinion of Bond Counsel and (ii) moneys in the Debt Service Reserve Fund may be invested only in Permitted Investments described in clauses (A), (B), (C) or (E) of such definition under this section. Any investments pursuant to this subsection shall be held by the Trustee or the Authority, as applicable, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund with respect to which they were earned and any loss shall be charged thereto. Earnings (which for this purpose include net profit and are after deduction of net loss) on 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 Project Fund not less often than quarterly. 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.

The term "Permitted Investments" means (A) 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; (B) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (1) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (2) debentures of the Federal Housing Administration, (3) guaranteed mortgage backed bonds of the Government National Mortgage Association, (4) certificates of beneficial interest of the Farmers Home Administration, (5) obligations of the Federal Financing Bank or (6) project notes and local authority bonds of the Department of Housing and Urban Development; (C) Investments rated, at all times, A or better by S&P or A2 or better by Moody's in (1) senior obligations of the Federal Home Loan Bank System, (2) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation, (3) 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 (4) senior debt obligations of the Student Loan Marketing Association; provided that, if investments with the required rating initially cease to have such required rating, the Trustee has a reasonable period in which to change such investments; (D) Repurchase agreements with primary dealers and/or banks rated, at all times, AA and AA2 or better by S&P and Moody's, respectively, collateralized with the obligations described in (A), (B) or (C) above, held by a third party custodian, at the levels set forth below, which repurchase agreements have been approved by the Bond Insurer; (E) 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 S&P and Moody's; and the Authority's STAR fund; (F) Certificates of deposit of any bank (including the Trustee and any of its affiliates), trust company or savings and loan association whose short term obligations are rated, at all times, A-1 or better by S&P and P-1 by Moody's provided that such certificates of deposit are fully secured by the obligations described in (A) or (B) 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; (G) Certificates of deposit of any bank (including the Trustee and any of its affiliates), trust company or savings and loan association which certificates are fully insured by the Federal Deposit Insurance Corporation; (H) Commercial paper rated, at all times, P-1 or better by Moody's and A-1+ by S&P; (I) 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 S&P and Moody's 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; (J) Guaranteed Investment Contracts approved by the Bond Insurer; (K) Such other investments, including without limitation investment agreements that are at the time of execution and delivery subject to the posting of collateral upon specified ratings events, that may be approved with the prior consent of the Bond Insurer. (Section 312)

Rights of the Bond Insurer

Notwithstanding anything in the Agreement to the contrary, for so long as no Bond Insurer Event has occurred and is continuing, (a) the Bond Insurer shall be deemed to be the sole Owner of all Bonds and the Note for all purposes of the provisions in the Agreement relating to default by the Institution and actions for protection of the Bondowners and (b) the Bond Insurer shall be deemed to be the sole Owner of all Bonds at all times for the purpose of giving consent and direction when consent of the Bondowners is required by the Agreement, other than for the purpose of making amendments which pursuant to the Agreement require the unanimous written consent of the affected Bondowners.

Provided that no Bond Insurer Event has occurred and is continuing, the following provisions shall apply with respect to the Bonds:

(a) Acceleration. Upon the occurrence of an Event of Default, the indebtedness evidenced by the Bonds shall not be accelerated without the Bond Insurer's prior written consent. At that time, the Bond Insurer may, in its discretion, either direct the accelerated payment of the Bonds or continue to pay the principal of and interest on February 15 and August 15 of each Bond Year until such Bonds are no longer Outstanding.

(b) Reporting Requirements. The Institution agrees to provide notification to the Bond Insurer in the event of any significant change in the financial condition of the Institution and agrees to deliver certain financial information as outlined in the Agreement.

(c) Notices of Amendment. The Institution shall provide or shall cause to be provided to any rating agency rating the Bonds notice of each amendment to the Agreement and a copy thereof at least fifteen (15) Business Days in advance of its execution or adoption. The Institution shall provide or shall cause to be provided to the Bond Insurer with a full transcript of all proceedings relating to the execution of any such amendment.

(d) Redemption. Redemption of the Bonds shall be permitted at any time without the Bond Insurer's prior written consent so long as funds for such redemption are irrevocably deposited with the Trustee prior to rendering notice of redemption to the Bondowners, or in the alternative, the notice expressly states that such redemption is subject to the deposit of funds by the Institution.

(e) Control. Anything in the Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondowners or any trustee appointed for the benefit of the Bondowners under the Agreement, including without limitation, the Trustee, as if the Bond Insurer were the owner of the Bonds insured by it.

(f) Removal of Trustee. Prior to an Event of Default the Bond Insurer shall have the right to remove the Trustee for cause, and after an Event of Default, the Bond Insurer shall have the right to remove the Trustee for any reason.

(g) Consent Requirements. The Bond Insurer's consent shall be required for the following purposes: (i) execution and delivery of any amendment or supplement to the Agreement (other than an amendment or supplement for the purpose of authorizing additional indebtedness in accordance with the terms of the Agreement) or any other instrument executed in connection with the issuance of the Bonds; (ii) removal of the Trustee; and (iii) initiation or approval of any action not described in (i) and (ii) above which requires Bondowner consent.

(h) Party in Interest. The Bond Insurer shall be 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 Bonds or the security therefor.

(i) Interpretation; Consideration of Rights without Regard to the Bond Insurance Policy. Notwithstanding any other provision of the Agreement, in determining whether the rights of the Bondowners will be adversely affected by any action taken pursuant to the terms and provisions of the Agreement, the Trustee shall consider the effect on the Bondowners without regard to the Bond Insurance Policy.

The Trustee shall not be permitted to resolve ambiguities herein in any manner that shall be deemed to be conclusively binding on Bondowners without the consent of the Bond Insurer. The Bond Insurer shall receive notice of any proposed meetings of Bondowners held under the Agreement and shall be given the opportunity to attend and participate in the same.

Any legal opinions rendered to any party to the Agreement (other than opinions of counsel to the Institution) as to compliance with or interpretation of, the provisions thereof, shall also be provided to the Bond Insurer. (Section 314)

Indemnification as to the Project

The Institution shall indemnify the Authority and the Trustee against (a) the claims of any person arising out of any condition of the Project, the construction, use, occupancy or management thereof, or any accident, injury or damage to any person occurring in or about the Project; and (b) any and 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 the Authority or the Trustee by reason of any such claim, the Institution upon notice from the affected party shall defend the same and the Authority and the Trustee shall cooperate with the Institution at the expense of the Institution in connection therewith. (Section 405)

Default by the Institution

(a) Events of Default; Default. “Event of Default” in the Agreement means any one of the events set forth below and “default” means any Event of Default without regard to any lapse of time or notice.

(i) Debt Service. The Institution shall fail to make the due and punctual payment of the due and punctual payment of amounts with respect to the principal of, interest on or redemption premium, if any, on any Bond under the Agreement after the same becomes due and payable, whether at maturity as expressed in such Bond, by acceleration or otherwise..

(ii) Other Obligations. The Institution shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Trustee or the Authority to the Institution, or the Institution shall fail to perform certain insurance obligations under the Indenture or with respect to the maintenance of its corporate existence, and such failure is not remedied within seven (7) days after written notice thereof is given by the Trustee or the Authority to the Institution; or the Institution shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement or the Tax Certificate and such failure is not remedied within thirty (30) days after written notice thereof is given by the Trustee or the Authority to the Institution.

(iii) Warranties. There shall be a material breach of warranty made in the Agreement or in the Tax Certificate by the Institution as of the date it was intended to be effective and the breach is not cured within thirty (30) days after written notice thereof is given by the Trustee or the Authority to the Institution.

(iv) Voluntary Bankruptcy. The Institution shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

(v) Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Institution or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

(vi) Involuntary Bankruptcy. The Institution shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

(vii) Indenture. An Event of Default shall occur under the Indenture.

(b) Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Institution and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds. (Section 601)

Remedies for Events of Default

Subject to Bond Insurer requirements, if an Event of Default occurs and is continuing:

Acceleration. The Trustee may by written notice to the Institution and the Authority declare immediately due and payable the principal amount of the Outstanding Bonds and the payments to be made by the Institution

therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

Rights as Note Holder. The Trustee may exercise all its rights and remedies under the Indenture as the holder of the Note, including but not limited to directing the Master Trustee as to the exercise of its remedies and the conduct of proceedings, the acceleration of Obligations (as defined in the Indenture), the annulment of any such acceleration and the waiver of Events of Default (as defined in the Indenture). If the Note is declared to be due and payable because of an Event of Default under the Indenture which does not arise from or cause (otherwise than by such declaration) an Event of Default under Subsections (a) (i), (ii) or (iii) above, and if the Trustee determines in good faith that such Event of Default under the Indenture is cured and certain conditions of the Indenture are satisfied, the Trustee shall refrain from directing the Master Trustee not to annul such declaration and its consequences.

Rights as a Secured Party. The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to the Note issued under the Indenture. The Trustee may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Debt Service Fund, Debt Service Reserve Fund and the Redemption Fund, and the Authority may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Project Fund and the Expense Fund, including the right to retain such securities in satisfaction of the obligations of the Institution under the Agreement. (Section 602)

Court Proceedings

The Trustee may enforce the obligations of the Authority under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained therein, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations under the Agreement. (Section 603)

Revenues after Default

If an Event of Default occurs and is continuing, the proceeds from the Note issued under the Indenture together with any other funds pledged as security under the Agreement, less all reasonable fees and expenses of the Trustee and the Authority in connection therewith (together with reserves for the foregoing to the extent deemed necessary by the Trustee) shall be applied, first to the obligations of the Institution under the Agreement (other than the Annual Administrative Fees), in such order as may be determined by the Trustee, and second, to any unpaid Annual Administrative Fees, and any surplus thereof shall be paid to the Institution. (Section 604)

Proceedings by Bondowners

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the obligations of the Authority under the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Trustee to act and furnished the Trustee indemnity and have afforded the Trustee reasonable opportunity to proceed, and the Trustee shall thereafter fail or refuse to take such action.

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of The Commonwealth of Massachusetts. (Section 902)

Tax Matters

The Institution shall not take or omit to take any action if such action or omission (i) would cause the Bonds to be “arbitrage bonds” under Section 148 of the IRC, (ii) would cause the Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Bonds to cease to be “qualified 501(c)(3) bonds” under Section 145 of the IRC. Without limiting the foregoing, the Institution shall not permit the \$150,000,000 nonhospital bond limitation of IRC §145(b) to be exceeded. The Institution, to the extent consistent with its status as a nonprofit hospital, agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Institution. (Section 1002)

Maintenance of Corporate Existence.

The Institution covenants to maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve or sell or convey all or substantially all of its assets to any Person, or merge or consolidate with another entity or entities, except as permitted under the Indenture. The Institution shall not sell, lease or otherwise dispose of any assets except to the extent permitted by the Indenture. (Section 1004)

Amendment

The Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject additional property to the lien of the Agreement, (b) to provide for the establishment or amendment of a book entry system of registration for the Bonds through a securities depository (which may or may not be DTC), (c) to add to the covenants and agreements of the Institution or to surrender or limit any right or power of the Institution, or (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds.

Except as provided in the foregoing paragraph, the Agreement may be amended only with the written consent of the owners of at least a majority 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 Bondowners for any of the following purposes: (i) to extend the maturity of any Bond, (ii) to reduce the principal amount or interest rate of any Bond, (iii) to make any Bond redeemable other than in accordance with its terms, (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment.

Any amendment of the Agreement shall be accompanied by an opinion of Bond Counsel to the effect that the amendment (i) is permitted by the Agreement and (ii) will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. (Section 1101)

Defeasance

When there are in the Debt Service Fund, Debt Service Reserve Fund and Redemption Fund sufficient funds, or Government or Equivalent Obligations described in clause (i) of the definition thereof in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds, in each case constituting (unless such requirement is waived in writing by the Bond Insurer) Available Monies, to pay or redeem the Bonds in full, and when all the rights under the Agreement of the Authority and the Trustee have been provided for, upon written notice from the Institution to the Authority and the Trustee, the Bondowners shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee. Upon such defeasance, the funds and investments

required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose, and moneys held for defeasance shall be invested only as provided above in this section. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority and the Trustee and after allowance for payment of rebate then due, be distributed to the Institution upon such indemnification, if any, as the Authority or the Trustee may reasonably require.

Notwithstanding anything in the Agreement to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds so paid shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Institution, and the assignment and pledge of the Agreement and all covenants, agreements and other obligations of the Institution to the registered owners of such Bonds shall continue to exist and shall run to the benefit of the Bond Insurer, and the Bond Insurer shall be subrogated to the rights of such registered owners. In the case of a defeasance pursuant to this Section the Bond Insurer and the Trustee shall also receive (a) a defeasance opinion from Bond Counsel to the effect that the parties hereto have complied with the terms and conditions in the Agreement for the defeasance of the Bonds and (b) unless waived by the Bond Insurer, a report of an independent accountant acceptable to the Bond Insurer with respect to the sufficiency of the amounts deposited to defease the Bonds. 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 Bonds without the prior written consent of the Bond Insurer. (Section 202)

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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PALMER & DODGE LLP

111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

PROPOSED FORM OF BOND COUNSEL OPINION

August 24, 2005

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

\$63,575,000
Revenue Bonds, Emerson Hospital Issue, Series E (2005)

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the above-referenced bonds (the "Bonds"). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Loan and Trust Agreement dated as of July 12, 2005 (the "Agreement"), among the Authority, Emerson Hospital (the "Institution") and J.P. Morgan Trust Company, National Association, as trustee (the "Trustee").

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Institution contained in the Agreement and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Institution and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreement. The Bonds are payable solely from funds to be provided therefor by the Institution pursuant to the Agreement. Under the Agreement, the Institution has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and redemption price of and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreement, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreement to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. The Bonds are payable solely from the Revenues.

We express no opinion with respect to compliance by the Institution with applicable legal requirements with respect to the Agreement or in connection with the construction or operation of the Project (as defined in the Agreement) being financed by the Bonds.

Reference is made to an opinion of even date of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., counsel to the Institution, with respect to, among other matters, the corporate existence of the Institution, the power of the Institution to carry out the Project, the power of the Institution to enter

into and perform its obligations under the Agreement, and the authorization, execution and delivery of the Agreement by the Institution. We have relied on such opinion with regard to such matters and to the other matters addressed therein, including, without limitation, the current qualification of the Institution as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to the limitations and conditions described therein. Failure of the Institution to maintain its status as an organization described in Section 501(c)(3) of the Code or to use the Project in activities of the Institution that do not constitute unrelated trades or businesses of the Institution within the meaning of Section 513 of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreement and to issue the Bonds.
2. The Agreement has been duly authorized, executed and delivered by the Authority and is a valid and binding obligation of the Authority enforceable against the Authority. As provided in Section 13 of Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, the Agreement creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under the Agreement (except certain rights to indemnification, reimbursements and fees).
3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues.
4. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority and the Institution with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Institution and, to the extent necessary, the Authority have covenanted in the Agreement to comply with all such requirements. Failure by the Authority or the Institution to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.
5. Interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Palmer & Dodge LLP

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by Emerson Hospital (the “Institution”) and J.P. Morgan Trust Company, National Association (in its capacity as trustee under the Agreement, as hereinafter defined, the “Bond Trustee”) in connection with the issuance of \$63,575,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Emerson Hospital Issue, Series E (the “Bonds”). The Bonds are being issued pursuant to a Loan and Trust Agreement, dated as of July 12, 2005 (the “Agreement”), each by and among the Authority, the Institution and the Bond Trustee. The proceeds from the sale of the Bonds are being loaned by the Authority to the Institution pursuant to the Agreement. The Institution and the Bond Trustee covenant and agree as follows:

SECTION 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Institution and the Bond Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriters (defined below) in complying with the Rule (defined below). The Institution and the Bond Trustee acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Bondowner of the Bonds, with respect to any such reports, notices or disclosures.

SECTION 3. Definitions. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Institution pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean, when used in reference to book-entry only bonds, the person who is considered the beneficial owner of the Bonds pursuant to the arrangements for book-entry determination of ownership.

“Bondowner” shall mean the registered owner of a Bond, and any beneficial owner thereof, as established to the reasonable satisfaction of the Bond Trustee or the Institution.

“Dissemination Agent” shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Institution and which has filed with the Institution, the Bond Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Bond Trustee and Dissemination Agent. In the absence of a third-party Dissemination Agent, the Institution shall serve as Dissemination Agent.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

Bloomberg Municipal Repositories
100 Business Park Drive
Skillman, NJ 08558
Phone: (609) 279-3225
Fax: (609) 279-5962
E-mail: Munis@Bloomberg.com

DPC Data Inc.
One Executive Drive
Fort Lee, NJ 07024
Phone: (201) 346-0701
Fax: (201) 947-0107
E-mail: nrmsir@dpcdata.com

FT Interactive Data
Attn: NRMSIR
100 William Street
New York, NY 10038
Phone: (212) 771-6999
Fax: (212) 771-7390
E-mail: NRMSIR@FTID.com

Standard & Poor's J. J. Kenny Repository
55 Water Street, 45th Floor
New York, NY 10041
Phone: (212) 438-4595
Fax: (212) 438-3975
E-mail: nrmsir_repository@sandp.com

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Quarterly Report” shall mean the Quarterly Report provided by the Institution pursuant to, and described in, Section 10 of this Disclosure Agreement.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by The Commonwealth of Massachusetts as a state repository for the purpose of the Rule.

SECTION 4. Provision of Annual Reports:

(a) The Dissemination Agent not later than 150 days after the end of the Institution's fiscal year, commencing with fiscal year ending September 30, 2005 (the “Filing Deadline”), shall provide to each Repository an Annual Report prepared and provided by the Institution which is consistent with the

requirements of Section 4 of this Disclosure Agreement. For such purpose, the Dissemination Agent shall be entitled to assume that the Institution's fiscal year ends on September 30 each year, unless and until it receives written notice of any change with respect thereto from the Institution. Not later than fifteen (15) Business Days prior to said date, the Institution (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Institution may be submitted separately from and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Institution submits its audited financial statements at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available.

(b) The Dissemination Agent shall:

(i) determine each year within five (5) Business Days before the date for providing the Annual Report to the Repositories the name and address of each National Repository and each State Repository, if any (insofar as determinations regarding Repositories are concerned, the Dissemination Agent, the Institution or the Bond Trustee, as applicable, may rely conclusively on the list of Repositories maintained by the United States Securities and Exchange Commission); and

(ii) on or before the Filing Deadline file a report with the Institution, the Authority and the Bond Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided (the "Compliance Certificate").

(c) If the Bond Trustee has not received a Compliance Certificate by the Filing Deadline, the Bond Trustee shall send a notice to the Municipal Securities Rulemaking Board and the State Repository in substantially the form attached hereto as Exhibit A.

(d) If the Dissemination Agent has not provided the Annual Report to the Repositories by the Filing Deadline, the Institution shall send a notice to the Municipal Securities Rulemaking Board and the State Repository in substantially the form attached hereto as Exhibit A.

Notwithstanding anything in this Disclosure Agreement, any obligation hereunder to file any notice, document or information with a Repository may be satisfied solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 5. Content of Annual Reports. The Institution's Annual Report shall contain or incorporate by reference the following information relating to the Institution for or as of the most recently completed fiscal year of the Institution:

1) Audited Financial Statements,

2) To the extent not included in the Audited Financial Statements, data comparable in form to the tables or data presented in Appendix A of the Official Statement dated August 11, 2005 with respect to the Bonds under the following captions:

- a) Utilization Statistics,
- b) Sources of Patient Revenue
- c) Three year comparative Summary of Revenues and Expenses,
- d) Three year coverage of Maximum Annual Debt Service,
- e) Liquidity Analysis, and
- f) Outstanding Long Term Indebtedness

The Institution agrees that the financial statements provided pursuant to Sections 4 and 10 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Institution is an “obligated person” (as defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Institution shall clearly identify each such other document so incorporated by reference. Notwithstanding anything herein to the contrary, neither the Bond Trustee nor Dissemination Agent shall be under any duty or obligation need to verify the content or correctness of said Annual Report, or to determine whether its contents are otherwise in compliance with the requirements of this Disclosure Agreement or the Rule.

SECTION 6. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

1. principal or interest payment delinquencies on the Bonds;
2. non-payment related defaults;
3. any unscheduled draw on debt service reserves reflecting financial difficulties;
4. any unscheduled draw on credit enhancement reflecting financial difficulties;
5. a substitution of credit or liquidity providers or its failure to perform;
6. adverse tax opinions, or the occurrence of any event adversely affecting the tax-exempt status of the Bonds;
7. modifications to the rights of the Bondowners;

8. giving of a notice of redemption of any Bonds (the giving of notice of regularly scheduled mandatory sinking fund redemption shall not be deemed material for this purpose under clause (b) of this Section 5);
9. defeasance of the Bonds or any portion thereof;
10. the release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

(b) Whenever the Institution obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material, the Institution shall, in a timely manner, file, or provide to or direct the Dissemination Agent to file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, with a copy to the Authority. Neither the Bond Trustee nor the Dissemination Agent shall be under any obligation to verify the content or correctness of any such notice or to determine whether it complies with the requirements of the Disclosure Agreement or the Rule.

SECTION 7. Termination of Reporting Obligation. The Institution's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, or upon delivery to the Bond Trustee of an opinion of counsel expert in federal securities laws selected by the Institution and reasonably acceptable to the Bond Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule. If the Institution's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were a member of the Institution as of the date hereof and such former member shall have no further responsibility hereunder.

SECTION 8. Dissemination Agent. The Institution may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Bond Trustee.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Institution and the Bond Trustee may amend this Disclosure Agreement (and the Bond Trustee shall agree to any amendment so requested by the Institution and which does not affect the rights, duties, liabilities or remedies of the Bond Trustee or Dissemination Agent) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the Institution and the Bond Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule. Without limiting the foregoing, the Institution and the Bond Trustee may amend this Disclosure Agreement if (a) such amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Institution or of the type of business conducted by the Institution, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c)(i) the Bond Trustee determines, or the Bond Trustee receives an opinion of counsel expert in federal securities laws and reasonably acceptable to the Bond Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as

though it were an amendment to the Agreement, pursuant to Section 1101 of the Agreement. The annual financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. If an amendment is made to an undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made should present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Institution from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Institution chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Institution shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. Quarterly Report. The Institution hereby agrees to furnish or cause the Dissemination Agent to furnish to (1) the Authority, (2) each Repository or MAC, and (3) each Bondowner who is the registered owner or Beneficial Owner of in excess of an aggregate \$1 million principal amount of the Bonds who has so requested in writing and whose status as a Beneficial Owner has been established to the satisfaction of the Institution or the Dissemination Agent, as the case may be, no later than 60 days subsequent to the last day of each of the first three calendar quarters, and no later than 90 days subsequent to the last day of the fourth calendar quarter, in each Fiscal Year, the information set forth in Section 4(1) and Section 4(2)(a), (b) and (e) with respect to Annual Reports except that the financial statements shall be the Institution's internal, unaudited statements, all statements and reports shall be for the year-to-date period then ended and all comparisons shall be for the comparable period of the prior year.

SECTION 12. Default. In the event of a failure of the Institution or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Bond Trustee may (and, at the request of Bondowners of at least 25% aggregate principal amount of Outstanding Bonds, subject to its rights of indemnification under the Agreement, shall) take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. Without regard to the foregoing, any Bondowner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Institution or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Institution or the Bond Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 13. Duties, Immunities and Liabilities of Bond Trustee and Dissemination Agent. Section 702 of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Bond Trustee in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure

Agreement, and the Institution agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Institution under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Institution, the Bond Trustee, the Dissemination Agent, the Participating Underwriters, the Authority and Bondowners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Disclaimer. No Annual Report or notice of a Listed Event filed by or on behalf of the Institution under this Disclosure Agreement shall obligate the Institution to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Institution or raise any inference that no other material events have occurred with respect to the Institution or the Bonds or that all material information regarding the Institution or the Bonds has been disclosed. The Institution shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: August 1, 2005

EMERSON HOSPITAL

By _____
Title:

J.P. MORGAN TRUST COMPANY, NATIONAL
ASSOCIATION,
as Bond Trustee

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: _____

Name of Bond Issue _____

Name of Institution _____

Date of Issuance _____

NOTICE IS HEREBY GIVEN that Emerson Hospital (the "Institution") has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated as of August 1, 2005, by and between the Institution and J.P. Morgan Trust Company, National Association, as Bond Trustee.

Dated:

J.P. MORGAN TRUST COMPANY, NATIONAL
ASSOCIATION

cc: Institution

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APPENDIX F

FORM OF BOND INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

Obligor:

Bonds:

Bond Trustee:

Insurance Trustee:

Policy Number:

Premium:

Radian Asset Assurance Inc. ("Insurer"), a corporation organized under the laws of the State of New York, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably guarantees the payment of the Obligation (hereinafter defined) to the Insurance Trustee for the benefit of the Holders (hereinafter defined) from time to time of the Bonds. This Policy does not insure against any risk other than nonpayment of the Obligation by or on behalf of the Obligor or any other obligor to the Bond Trustee. Nonpayment includes recovery from a Holder of Bonds or the Bond Trustee of any portion of the Obligation pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon receipt by the Insurer of telephonic or telegraphic notice, such notice subsequently confirmed to the Insurer in writing by registered or certified mail, from the Insurance Trustee that the Obligor (or other obligor responsible for payment of the Obligation) has failed to provide the Bond Trustee with sufficient funds for payment of the Obligation on the Due Date (hereinafter defined), the Insurer shall, not later than such Due Date or the first business day after receipt of such notice, whichever is later, pay to the Insurance Trustee for the benefit of the Holders of the Bonds an amount which shall be sufficient to pay the Obligation, but only upon receipt by the Insurer, in a form reasonably satisfactory to it, of (a) evidence of the Holder's right to receive such payment and (b) evidence, including any appropriate instruments of assignment, that all the Holder's rights with respect to such payment shall thereupon vest in the Insurer. "Due Date" means, when referring to the principal of the Obligation, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund prepayment and does not refer to any earlier date on which payment is due by reason of any other call for redemption, acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such redemption, acceleration or other advancement of maturity together with any accrued interest to the date of redemption, acceleration or other advancement of maturity. Tendering of payment, to the Bond Trustee, of such principal due upon such redemption, acceleration or other advancement of maturity, together with any accrued interest to the date of such redemption, acceleration or other advancement of maturity, shall satisfy the Insurer's obligations under this Policy, in full. When referring to interest on the Obligation, "Due Date" means the stated date for payment of interest.

The Insurer shall, to the extent of any payment made by it pursuant to this Policy, be deemed to have acquired and become the Holder of the Bonds or portions thereof or interest thereon paid from such payment and shall be fully subrogated to all rights to payment thereof.

As used herein, the term "Holder" or "Holders" means the registered owners of the Bonds as indicated in the registration books maintained by the Bond Trustee for such purpose at the time of nonpayment of the Obligation. The terms "Holder" or "Holders" shall not include the Obligor or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligation. As used herein, the term "Bond Trustee" means the Bond Trustee above named and any successor trustee duly appointed. As used herein, the term "Insurance Trustee" means the Insurance Trustee above named and any successor insurance trustee duly appointed. As used herein, the term "Obligation" means the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the Due Date, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity.

This Policy is non-cancelable for any reason. Premiums paid on this Policy are not refundable for any reason including without limitation the payment prior to maturity of the Bonds.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be issued to the Insurance Trustee for the benefit of the Holders from time to time of the Bonds and to be executed and delivered by its duly authorized officer to become effective and binding upon the Insurer by virtue of the execution and delivery thereof on this [DATE].

RADIAN ASSET ASSURANCE INC.

By: _____
Name: [ANALYST]
Title: [TITLE]

INSURANCE GUARANTY FUND NOTICES	
Connecticut	In the event the Company becomes insolvent, any claims arising under this Policy are excluded from coverage by the Connecticut Insurance Guaranty Association.
Florida	The insurance provided by this Policy is not covered by the Florida Insurance Guaranty Association created under part II of chapter 631 of the Florida Insurance Code.
New York	This Policy is not covered by the Property/Casualty Insurance Security Fund established by Article 76 of the New York Insurance Law.
Texas	In the event the insurer is unable to fulfill its contractual obligation under this Policy, the policyholder is not protected by the Texas Property and Casualty Insurance Guaranty Act.

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Emerson Hospital

