THREE NEW ISSUES-Book-Entry Only See "**RATINGS**" herein.

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations.

$70,650,000
Composite Issue
CATHOLIC HEALTH EAST
HEALTH SYSTEM REVENUE BONDS
SERIES 2002*

Dated: July 1, 2002 **Due:** November 15, as shown on inside pages

The Bonds are being issued as three separate Series, each in the amounts and with the maturity dates shown on the inside cover page and the immediately succeeding page hereof. Interest on the Bonds will be payable on May 15 and November 15 of each year, commencing November 15, 2002. The Bonds are issuable as fully registered bonds in the denomination of $5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (DTC), New York, New York. DTC will act as securities depository for each Series of the Bonds, and individual purchases of the Bonds will be made in book-entry form only, all as described herein. Principal of and interest on the Bonds will be payable by J.P. Morgan Trust Company, National Association, as Bond Trustee for each Series of Bonds, to the registered owners of the Bonds. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to DTC or such nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to optional, extraordinary and mandatory sinking fund redemption prior to maturity as described herein.

The Bonds of each Series are limited, special obligations of the Issuer thereof, secured under the provisions of the applicable Bond Indenture and Loan Agreement described herein, and will be payable from loan repayments made by Catholic Health East (CHE), a Pennsylvania nonprofit corporation, under the applicable Loan Agreement, and from certain funds held under the applicable Bond Indenture. The obligation of CHE to make such payments is evidenced and secured by a separate Series 2002 Obligation for each Series issued by CHE under and pursuant to the Master Trust Indenture described herein. Payments on each such Series 2002 Obligation are required to be in an amount sufficient to pay when due the principal of and premium, if any, and interest on the Bonds secured by such Series 2002 Obligation. Each Series of the Bonds is secured solely by the Bond Indenture pursuant to which such Series is issued and is payable solely from payments made under the applicable Loan Agreement and the Series 2002 Obligation relating to such Series.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF GEORGIA OR EITHER THE COMMONWEALTH OF MASSACHUSETTS OR PENNSYLVANIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR EITHER COMMONWEALTH OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE ISSUERS, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. THE ISSUERS SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE PREMIUM, IF ANY, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE APPLICABLE LOAN AGREEMENT, SERIES 2002 OBLIGATION AND BOND INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR EITHER COMMONWEALTH OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE ISSUERS, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR EITHER COMMONWEALTH OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.

MATURITIES, AMOUNTS, INTEREST RATES AND PRICES OR YIELDS
(See inside cover and immediately succeeding pages.)

The Bonds are offered when, as and if issued by the related Issuer and received by the Underwriter, subject to prior sale and to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 8, 2002.

Merrill Lynch & Co.

The date of this Official Statement is July 25, 2002.

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* See the inside cover page and the immediately succeeding page for a list of the Series of Bonds.

OFFICIAL STATEMENT

$70,650,000
Composite Issue
CATHOLIC HEALTH EAST
HEALTH SYSTEM REVENUE BONDS
SERIES 2002

Comprised of:

$22,450,000
Allegheny County Hospital Development Authority
(Pennsylvania)
Health System Revenue Bonds
Catholic Health East Issue
Series 2002

$6,020,000 Serial Bonds

Maturity (November 15)	Amount	Interest Rate	Yield	Maturity (November 15)	Amount	Interest Rate	Yield
2003	$370,000	3.500%	2.100%	2009	$455,000	4.000%	4.100%
2004	380,000	3.500	2.450	2010	470,000	4.200	4.330
2005	395,000	3.500	2.850	2011	490,000	4.300	4.440
2006	410,000	3.500	3.250	2012	515,000	4.400	4.540
2007	420,000	3.500	3.550	2013	535,000	4.500	4.660
2008	435,000	4.000	3.900	2014	560,000	4.625	4.780
				2015	585,000	4.750	4.880

$5,045,000 5.375% Term Bonds due November 15, 2022, priced to yield 5.450%
$11,385,000 5.500% Term Bonds due November 15, 2032, priced to yield 5.600%
(plus accrued interest to be added from July 1, 2002)

$25,495,000
Development Authority of the Unified
Government of Athens - Clarke County, Georgia
Health System Revenue Bonds
Catholic Health East Issue
Series 2002

$6,185,000 Serial Bonds

Maturity (November 15)	Amount	Interest Rate	Yield	Maturity (November 15)	Amount	Interest Rate	Yield
2005	$460,000	3.500%	2.850%	2010	$555,000	4.200%	4.330%
2006	480,000	3.500	3.250	2011	580,000	4.300	4.440
2007	495,000	3.500	3.550	2012	600,000	4.400	4.540
2008	510,000	4.000	3.900	2013	630,000	4.500	4.660
2009	535,000	4.000	4.100	2014	655,000	4.625	4.780
				2015	685,000	4.750	4.880

$5,935,000 5.375% Term Bonds due November 15, 2022, priced to yield 5.430%
$13,375,000 5.500% Term Bonds due November 15, 2032, priced to yield 5.580%
(plus accrued interest to be added from July 1, 2002)

$22,705,000
Massachusetts Health and Educational Facilities Authority
Health System Revenue Bonds
Catholic Health East Issue
Series 2002

$2,850,000 Serial Bonds

Maturity (November 15)	Amount	Interest Rate	Yield	Maturity (November 15)	Amount	Interest Rate	Yield
2003	$175,000	3.500%	2.100%	2009	$210,000	4.000%	4.100%
2004	180,000	3.500	2.450	2010	225,000	4.200	4.330
2005	185,000	3.500	2.850	2011	235,000	4.300	4.440
2006	190,000	3.500	3.250	2012	245,000	4.400	4.540
2007	200,000	3.500	3.550	2013	250,000	4.500	4.660
2008	210,000	4.000	3.900	2014	265,000	4.625	4.780
				2015	280,000	4.750	4.880

$2,400,000 5.375% Term Bonds due November 15, 2022, priced to yield 5.470%
$17,455,000 5.500% Term Bonds due November 15, 2032, priced to yield 5.640%
(plus accrued interest from July 1, 2002)

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REGARDING USE OF THIS OFFICIAL STATEMENT

This Official Statement does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer, solicitation or sale in such jurisdiction. No dealer, salesman or any other person has been authorized to give any information other than that contained in this Official Statement, or to make any representations and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuers, CHE, any System Affiliate (as defined herein), the Underwriter or any other person.

The information set forth herein under the caption "**THE ISSUERS**" and **"LITIGATION -– The Issuers"** has been furnished by the Issuers. The information set forth herein in **APPENDIX C** hereto has been furnished by DTC. The information set forth under the caption "**THE BOND TRUSTEE AND THE MASTER TRUSTEE**" has been furnished by the Bond Trustee and the Master Trustee. All other information set forth herein has been furnished by CHE. 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 an implication that there has been no change in the affairs of an Issuer, CHE, the System Affiliates or DTC or in other matters described in the Official Statement since the date hereof. This Official Statement is provided in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

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 responsibilities 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 Bonds and the Series 2002 Obligations have not been registered under the Securities Act of 1933, as amended, and the Master Trust Indenture and the Bond Indentures have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The Bonds have not been registered or qualified under the securities laws of any state (except as may be required in the home state of an Issuer) in reliance upon the state securities law preemption provisions under the Securities Act of 1933, as amended. In certain states, however, the filing of a notice with the state securities commission is required for the public sale of the Bonds in such states. The fact that a notice may have been filed in certain states or registration or qualification may have been obtained in the home state of an Issuer cannot be regarded as a recommendation thereof. Neither such state nor any of its agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY EFFECT CERTAIN TRANSACTIONS THAT STABILIZE THE PRICE OF THE BONDS. SUCH TRANSACTIONS MAY CONSIST OF BIDS OR PURCHASES FOR THE PURPOSES OF MAINTAINING THE PRICE OF THE BONDS. IN ADDITION, IF THE UNDERWRITER OVER-ALLOTS (THAT IS, SELLS MORE THAN THE AGGREGATE PRINCIPAL AMOUNT OF THE BONDS) AND THEREBY CREATES A SHORT POSITION IN THE BONDS IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY REDUCE THAT SHORT POSITION BY PURCHASING BONDS IN THE OPEN MARKET. IN GENERAL, PURCHASES OF A SECURITY FOR THE PURPOSE OF STABILIZATION OR TO REDUCE A SHORT POSITION COULD CAUSE THE PRICE OF A SECURITY TO BE HIGHER THAN IT MIGHT OTHERWISE BE IN THE ABSENCE OF SUCH PURCHASES. THE UNDERWRITER MAKES NO REPRESENTATION OR PREDICTION AS TO THE DIRECTION OR THE MAGNITUDE OF ANY EFFECT THAT THE TRANSACTIONS DESCRIBED ABOVE MAY HAVE ON THE PRICE OF THE BONDS. IN ADDITION, THE UNDERWRITER MAKES NO REPRESENTATION THAT IT WILL ENGAGE IN SUCH TRANSACTIONS OR THAT SUCH TRANSACTIONS, IF COMMENCED, WILL NOT BE DISCONTINUED WITHOUT NOTICE.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information in the forepart of this Official Statement under the caption **"BONDHOLDERS' RISKS"** and in Appendix A under the captions **"MANAGEMENT'S DISCUSSION – Liquidity"** and **"ANTICIPATED GROWTH OF THE CHE HEALTH SYSTEM."**

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. CHE does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based, occur.

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OFFICIAL STATEMENT

$70,650,000
Composite Issue
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Facilities Authority
Health System Revenue Bonds
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INTRODUCTION

General

This Official Statement, including the cover page and the pages immediately succeeding the cover page and the Appendices hereto, is provided to furnish information with respect to the sale and delivery of $70,650,000 aggregate principal amount of the following three Series of Bonds:

- $22,450,000 Allegheny County Hospital Development Authority (Pennsylvania), Health System Revenue Bonds, Catholic Health East Issue, Series 2002
- $25,495,000 Development Authority of the Unified Government of Athens - Clarke County, Georgia, Health System Revenue Bonds, Catholic Health East Issue, Series 2002
- $22,705,000 Massachusetts Health and Educational Facilities Authority, Health System Revenue Bonds, Catholic Health East Issue, Series 2002

There are no assurances and no requirement that all or any Series of the Bonds will be issued.

All capitalized terms used in this Official Statement and not otherwise defined herein are defined in **APPENDIX D — "DEFINITIONS AND SUMMARIES OF PRINCIPAL DOCUMENTS -- Definitions**."

Catholic Health East

Catholic Health East, or CHE, is a Pennsylvania nonprofit corporation that controls, directly or indirectly, various nonprofit and business corporations and other organizations that own and operate health care facilities and provide health care or related services in ten states. CHE and these corporations and organizations are referred to in this Official Statement as the CHE Health System. As of December 31, 2001, the CHE Health System owned and operated general acute care hospitals, long-term care facilities, skilled nursing facilities and

behavioral health facilities with an aggregate of approximately 9,180 beds, residential facilities for the elderly with an aggregate of approximately 3,802 living units, physician services, home health agencies, and numerous ambulatory and community-based health service providers. **APPENDIX A** includes more information describing CHE and the CHE Health System.

The Bond Indentures and Loan Agreements; Uses of Proceeds

The Bonds will be issued pursuant to separate Bond Indentures for each Series, each dated as of July 1, 2002, and each between the Issuer of that Series and J.P. Morgan Trust Company, National Association, as Bond Trustee. The proceeds of the Bonds will be loaned to CHE pursuant to separate Loan Agreements for each Series, each dated as of July 1, 2002, between the applicable Issuer and CHE. The proceeds of these loans will be used to finance various capital projects for the benefit of the CHE Health System in the State of Georgia and the Commonwealths of Massachusetts and Pennsylvania.

Security for the Bonds; Master Trust Indenture

To evidence and secure the loans to be made by the Issuers to CHE under the Loan Agreements, CHE shall issue and deliver to each Issuer a Series 2002 Obligation. Each Series 2002 Obligation will be issued in a principal amount equal to the aggregate principal amount of the Series of Bonds secured by that Series 2002 Obligation. The Series 2002 Obligations will be issued under and pursuant to the Master Trust Indenture dated as of January 1, 1998 between CHE, as the Obligated Group Agent and as the only current Member of the Obligated Group under the Master Trust Indenture, and J.P. Morgan Trust Company, National Association, as Master Trustee, and pursuant to a separate Supplemental Master Trust Indenture for each Series 2002 Obligation. The terms of the Series 2002 Obligations and the Loan Agreements will require payments by CHE which, together with other monies, if any, available for such purposes, will be sufficient to provide for the timely payment of the principal of and premium, if any, and interest on the Bonds.

CHE is, and on the date of delivery of the Bonds, will be the sole Member of the Obligated Group that was created under the Master Trust Indenture. CHE has designated its Affiliates contributing and owning, in the aggregate, a substantial portion of the revenues and assets of the CHE Health System, as Designated Affiliates. CHE has covenanted (and any future Member of the Obligated Group will be required to covenant) in the Master Trust Indenture to cause its Designated Affiliates and to use reasonable efforts to cause its Affiliates (subject to existing organizational and contractual limitations applicable to them) to comply with certain provisions in the Master Trust Indenture. CHE, any other Members of the Obligated Group, the Affiliates and the Designated Affiliates are each defined to be a System Affiliate under the Master Trust Indenture, and are collectively referred to herein as the System Affiliates. See the information herein under the captions "**CHE AND THE OTHER SYSTEM AFFILIATES**" and "**SECURITY FOR THE BONDS**." CHE may at any time declare that a Designated Affiliate is no longer a Designated Affiliate under the Master Trust Indenture.

The Series 2002 Obligations are the general unsecured obligations of CHE. The obligations of CHE and of any future Member of the Obligated Group under the Master Trust Indenture need not be secured by any property of CHE or the property of any other future Member of the Obligated Group or any other System Affiliate. A System Affiliate may grant a security interest in certain of its Property, which security interest need not extend to the holders of any Obligations issued under the Master Trust Indenture, including the Series 2002 Obligations.

As security for each Series of the Bonds, the Issuer of that Series will pledge and assign to the Bond Trustee substantially all of its rights and interest in, to or under the applicable Loan Agreement (except for that Issuer's rights to indemnification, fees and reimbursement of expenses), the Series 2002 Obligation for that Series and all funds held under the applicable Bond Indenture.

Each Series of the Bonds will be secured by a debt service reserve fund established for that Series under its Bond Indenture. The debt service reserve fund securing one Series of the Bonds will not secure any other Series of the Bonds.

See the information herein under the caption "**SECURITY FOR THE BONDS**."

Bondholders' Risks

An investment in any of the Bonds involves the assumption of certain risks which primarily relate to the ability of CHE to generate net revenues from the operations of CHE and the Designated Affiliates that will be sufficient to meet total debt service requirements in the future. The disclosure of risks contained herein and the statements of CHE management relating to their assessment of such risks is based upon an examination of the effect of such risks on CHE and the Designated Affiliates, taken as a whole. In the event that CHE changes the identity or composition of the Designated Affiliates or the Bonds become the obligation of only a portion of the System Affiliates, the effect of such risks on that smaller credit group may differ from CHE management's present perception of the effect of such risks on CHE and the Designated Affiliates, taken as a whole. See the information in this Official Statement under the caption "**BONDHOLDERS' RISKS**."

CHE AND THE OTHER SYSTEM AFFILIATES

See **APPENDIX A** hereto for a list of the System Affiliates and a description of the CHE Health System.

In addition to those entities that CHE controls or may in the future control, the Master Trust Indenture permits CHE (or other future Members of the Obligated Group) to designate an organization over which it exercises no corporate control as a Designated Affiliate if that organization enters into a written agreement with CHE (or such future Member of the Obligated Group) containing an undertaking by such organization to comply with the covenants in the Master Trust Indenture that are applicable to the Designated Affiliates.

The obligations of CHE and the other Members of the Obligated Group, if any, to make payments on any Obligations issued from time to time by CHE under the Master Trust Indenture, including the Series 2002 Obligations, are general unsecured obligations of CHE and any other Members of the Obligated Group. Obligations in addition to the Series 2002 Obligations may be issued from time to time in the future pursuant to the Master Trust Indenture, and such Obligations may be secured by security not extended to the Series 2002 Obligations.

The Designated Affiliates are not obligated to make any debt service payments on any Obligations, including the Series 2002 Obligations. However, the Master Trust Indenture imposes certain operational and financial restrictions and other contractual obligations upon CHE and any future Members of the Obligated Group for the benefit of the Issuers and the holders and owners of the Obligations, including the Series 2002 Obligations. CHE has covenanted in the Master Trust Indenture to cause each Designated Affiliate and to use reasonable efforts to cause each of its Affiliates (subject to existing organizational and contractual limitations) to pay, loan or otherwise transfer to CHE, subject to certain limitations described herein, such amounts as are necessary to enable CHE to pay the principal of and premium, if any, and interest on or other amounts due in payment of the Series 2002 Obligations and other Obligations, to the extent permitted by law. CHE has also covenanted in the Master Trust Indenture to cause the Designated Affiliates and Affiliates (subject to the same limitations described in the preceding sentence) to comply with certain restrictions and obligations regarding payment of taxes and governmental charges assessed, payment of claims for labor, materials and supplies, maintenance of insurance, restrictions on liens securing debt, and collection of fees and charges for services provided. CHE has covenanted that the System Affiliates, taken as a whole, will maintain an Historical Debt Service Coverage Ratio (as defined in the Master Trust Indenture) of at least 1.10. See the information herein under the caption "**SECURITY FOR THE BONDS**."

Notwithstanding the foregoing, CHE may not cause a Designated Affiliate to transfer any property to CHE if such transfer would be inconsistent with state law or would cause such Designated Affiliate to breach the terms of any existing contractual obligations or other commitments, including joint operating agreements and joint ventures. See also "**BONDHOLDERS' RISKS — Security and Enforceability -- Enforceability of the Master Trust Indenture and the Series 2002 Obligations**."

The Master Trust Indenture provides that after an organization is designated as a Designated Affiliate, the Member of the Obligated Group which has designated such Designated Affiliate may at any time declare that such organization is no longer a Designated Affiliate. Accordingly, there can be no assurance that the organizations described herein as Designated Affiliates and to be designated as Designated Affiliates on the date of delivery of the Bonds will continue to be such or that other organizations will be so designated.

Other organizations may become Members of the Obligated Group in accordance with procedures set forth in the Master Trust Indenture.

THE BOND TRUSTEE AND THE MASTER TRUSTEE

The obligations of the Bond Trustee and the Master Trustee are described in the Bond Indenture and the Master Trust Indenture, respectively. The Bond Trustee and the Master Trustee have undertaken only those obligations and duties which are expressly set out in the Bond Indenture and the Master Trust Indenture, respectively. Neither the Bond Trustee nor the Master Trustee has independently passed upon the validity of the Bonds or the Series 2002 Obligations, the security for the payment of the Bonds or the Series 2002 Obligations, the value or condition of any assets pledged to the payment of the Bonds or the Series 2002 Obligations, the adequacy of the provisions for such payment, the status for federal or state income tax purposes of the interest on the Bonds, or the benefits, risks or propriety of an investment in the Bonds. Except for the contents of this section, neither the Bond Trustee nor the Master Trustee has reviewed or participated in the preparation of this Official Statement and has assumed no responsibility for the nature, contents, accuracy or completeness of the information included in this Official Statement.

THE ISSUERS

NONE OF THE ISSUERS HAS PREPARED OR ASSISTED IN THE PREPARATION OF THIS OFFICIAL STATEMENT, EXCEPT FOR THE STATEMENTS UNDER THIS SECTION AND UNDER THE CAPTION "**LITIGATION — THE ISSUERS,**" AND EXCEPT AS AFORESAID, NONE OF THE ISSUERS IS RESPONSIBLE FOR ANY STATEMENTS MADE HEREIN. ACCORDINGLY, EXCEPT AS TO THESE MATTERS, EACH ISSUER DISCLAIMS RESPONSIBILITY FOR THE DISCLOSURE SET FORTH IN THIS OFFICIAL STATEMENT AND MADE IN CONNECTION WITH THE OFFER, SALE AND DISTRIBUTION OF THE BONDS.

CHE has agreed pursuant to each Loan Agreement to indemnify the Issuer that is a party to such Loan Agreement and to hold it harmless from and against any liabilities which may arise out of (i) the Issuer's participation in the transaction contemplated by its Loan Agreement and (ii) the issuance of the Bonds.

Massachusetts Health and Educational Facilities Authority

General

The Massachusetts Issuer is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts organized and existing under and by virtue of the provision of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time. The purpose of the Massachusetts Issuer, as stated in the Massachusetts Act, is essentially to provide assistance for nonprofit public and private 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.

Members of the Massachusetts Issuer

The Massachusetts Act provides that the Massachusetts Issuer shall consist of nine members who shall be appointed by the Governor and shall be residents of the Commonwealth of Massachusetts. 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 Massachusetts Issuer members serve without compensation, but are entitled to reimbursement for necessary expenses incurred in the performance of their duties as members of the Massachusetts Issuer. The Massachusetts Issuer elects annually one of its members to serve as Chairman, one to serve as Vice Chairman and one to serve as Secretary.

The members of the Massachusetts Issuer are as follows:

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

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

JOHN R. SMITH, Vice Chairman; term as member expired July 1, 2000. Mr. Smith will continue to serve until he is reappointed or his successor takes office.

Mr. Smith, a resident of Milford, is President of New England Fiduciary Company, a firm specializing in financial strategies and long-term planning for colleges and universities primarily in the areas of student financial aid and physical facilities. He is also Chairman of the Massachusetts Educational Financing Authority; an independent Director of ING Pilgrim Funds and a Trustee of Framingham State College. He had formerly been Vice President and Treasurer of Boston College and Director of the Massachusetts Higher Education Assistance Corporation (now American Student Assistance Corporation). Before coming to Boston College, Mr. Smith was employed by Bendix Corporation and Raytheon Company in executive financial analysis and management positions. He is a Certified Public Accountant.

EDWARD P. MARRAM, Ph.D., Secretary; term as member expired July 1, 2002. Dr. Marram will continue to serve until he is reappointed or his successor takes office.

Dr. Marram, a resident of Wayland, is Founder, CEO and Chairman of the Board of GEO-CENTERS, INC., a high-technology, professional services firm, and is currently the Entrepreneur-in-Residence at Babson College. From 1967 to 1975, Dr. Marram was a Manager at EG&G, Inc., from 1965 to 1967, he was a Senior Scientist at AVCO Corporation, and from 1961 to 1965 he was a scientist with ADL, Inc. Dr. Marram's experience included research and testing work for the Atomic Energy Commission and the Department of Energy's Nuclear Test Program. His honors and board memberships include Board of Directors, SBANE (Smaller Business Association of New England); Board of Directors, Professional Services Council; College Advisory Council, College of Natural Sciences and Mathematics, University of Massachusetts, Amherst; Chemistry Advisory Group, Tufts University; Steering Committee, Technology Transfer Society, New England Chapter; Massachusetts State Board of Women in Business; Small Business Technology Group of Massachusetts and the New England American Technion Society. Dr. Marram was nominated as a Price-Babson College Fellow and was awarded the Edwin M. Appel Prize for his academic accomplishments. Dr. Marram holds a B.S. in Chemistry and a M.S. degree in Physics from the University of Massachusetts; a Ph.D. in Physical Chemistry from Tufts; and attended the OPM Program at Harvard Business School.

ROBERT R. FANNING, JR.; term as member expired July 1, 2002. Mr. Fanning will continue to serve until he is reappointed or his successor takes office.

Mr. Fanning, a resident of Boxford, is President Emeritus of Northeast Health Systems, Inc. in Beverly, Massachusetts. He is a Fellow in the American College of Healthcare Executives and is a past Chairman of that organization. Mr. Fanning is also a past chairman of the Massachusetts Hospital Association Board of Trustees. He is an outside Director of Health Care Property Investors, Inc., an equity-oriented real estate investment trust specializing in health care related facilities. Mr. Fanning is also a Director of the Warren Five Cents Savings Bank. He also serves as a Trustee of Bridgton Academy in North Bridgton, Maine.

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

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

MARVIN A. GORDON; term as member expires July 1, 2003.

Mr. Gordon, a resident of Milton, is Chairman of the Board, Chief Executive Officer and Treasurer of Whitehall Companies 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, 2004.

Mr. Kavanagh, a resident of Ipswich, is President and Chairman of William A. Berry & Son, Inc., one of the oldest construction companies in the country. During his 16 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 Chairman of the Board of the North Shore Music Theater, Corporator of Brigham and Women's Hospital and Partners Healthcare, Corporator of Danvers Savings Bank and a former member of Tufts University Board of Overseers.

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

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

RINA K. SPENCE; term as member expired July 1, 2001. Ms. Spence will continue to serve until she is reappointed or her successor takes office.

Ms. Spence, a resident of Cambridge, is President and Chief Executive Officer of iEmily.com, Inc., a health and wellness website for teen girls. She was also founder of Spence Centers for Women's Health, a network of comprehensive outpatient health facilities. Prior to Spence Centers for Women's Health, Ms. Spence served as the president and chief executive of Emerson Hospital for ten years. She was also the founding executive director of the Commonwealth Health Care Corporation, a prepaid managed care plan for health care delivery to Medicaid recipients. Ms. Spence has been actively engaged in the civic life of Boston and its corporate affairs for more than 25 years. Her affiliations include The Partnership and the Wang Center. Ms. Spence is a trustee of Eastern Enterprises and a Director of Berkshire Mutual Life and a Trustee of the State Street Master Trust. Ms. Spence holds a degree from Boston University and Harvard University's John F. Kennedy School of Government.

Staff and Advisors

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

Public Financial Management is serving as financial consultant to the Massachusetts Issuer. The financial consultant advised the Massachusetts Issuer in connection with the issuance of its obligations and certain other financial matters.

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

Powers of the Massachusetts Issuer

Under the Massachusetts Act, the Massachusetts Issuer 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 is 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 an for the services furnished or to be furnished by a project or any portion thereof and to enter into contracts in respect thereof; to establish rules and regulations for the use of a project or any portion thereof; to receive and accept from any public agency loans or grants for or in the aid of the construction of a project or any portion thereof; to mortgage any project and the site thereof for the benefit of the holders of revenue bonds issued to finance such project; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant, for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Massachusetts Act. Additionally, the Massachusetts Issuer may undertake a joint project or projects for two or more participants.

Other Indebtedness of the Massachusetts Issuer

The Massachusetts Issuer 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. The Massachusetts Issuer expects to enter into separate agreements with other eligible institutions in the Commonwealth in the future

for the purpose of financing projects for such institutions. Each series of bonds issued by the Massachusetts Issuer constitutes a separate obligation of the borrowing institution for such series, and the general funds of the Massachusetts Issuer are not pledged to any bonds or notes.

Allegheny County Hospital Development Authority

The Pennsylvania Issuer is a body corporate and politic organized and existing under and pursuant to the laws of the Commonwealth of Pennsylvania, particularly the Municipality Authorities Act, as amended. Pursuant to the Pennsylvania Act, the Pennsylvania Issuer is empowered to issue bonds for, among other purposes, providing financing for the acquisition, construction, equipping and improvement of health centers.

The governing body of the Pennsylvania Issuer is a board consisting of seven members appointed by the Chief Executive of Allegheny County, subject to the consent of the County Council. Members of the Pennsylvania Issuer board are appointed for staggered terms and may be reappointed. As of the date of this Official Statement, there were five vacancies on the Pennsylvania Issuer board. The current members of the Pennsylvania Issuer board are as follows:

Member	Office
James M. Edwards	Chairman
John Brown, Jr.	Vice Chairman
Joseph J. Bendel	Secretary
Marilyn Liggett	Treasurer
Howard B. Slaughter, Jr.	Assistant Treasurer
Barney C. Guttman	Assistant Secretary
Glenn R. Flickinger	Member

The Pennsylvania Issuer has no taxing power and no source of funds for payment of the Pennsylvania Bonds, other than the underlying contractual obligations made by CHE.

The Pennsylvania Issuer does not and will not in the future monitor the financial condition of CHE, the operation of the Pennsylvania project, the payment of the Pennsylvania Bonds or compliance with the documents relating thereto. The responsibility for the operation of the Pennsylvania project will rest entirely with CHE and not with the Pennsylvania Issuer. The Pennsylvania Issuer will rely entirely upon the Bond Trustee and CHE to carry out their respective responsibilities under the Pennsylvania Bond Indenture and the Pennsylvania Loan Agreement and with respect to the Pennsylvania project. The Pennsylvania Issuer has assets and may attain additional assets in the future. However, such assets are not pledged to secure payment of the Pennsylvania Bonds, and the Pennsylvania Issuer has no obligation or expectation of making such assets subject to the lien of the Pennsylvania Bond Indenture.

The Pennsylvania Issuer has determined that no financial or operating data concerning the Pennsylvania Issuer is material to any decision to purchase, hold or sell the Pennsylvania Bonds, and the Pennsylvania Issuer will not provide any such information. The Pennsylvania Issuer has not, and will not, undertake any responsibilities to provide continuing disclosure with respect to the Pennsylvania Bonds or the security therefor, and the Pennsylvania Issuer will have no liability to holders of the Pennsylvania Bonds with respect to any such disclosure.

NEITHER THE PRINCIPAL OF THE PENNSYLVANIA BONDS NOR THE INTEREST ACCRUING THEREON SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE PENNSYLVANIA ISSUER OR AN INDEBTEDNESS OF THE COUNTY OF ALLEGHENY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COUNTY OF ALLEGHENY, THE

COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF, NOR WILL THE PENNSYLVANIA BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COUNTY OF ALLEGHENY, THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION THEREOF. THE PENNSYLVANIA ISSUER HAS NO TAXING POWER.

Development Authority of the Unified Government of Athens – Clarke County, Georgia

The Georgia Issuer is a public body corporate and politic created and existing under the laws of the State of Georgia pursuant to the provisions of the Development Authorities Law, O.C.G.A., Section 36-62-1 et seq., as amended. The Georgia Issuer is authorized to issue the Georgia Bonds, to finance the costs of the Georgia project and to secure the Georgia Bonds by the trust estate created and pledged under the Georgia Bond Indenture.

THE GEORGIA BONDS DO NOT CONSTITUTE A DEBT OR GENERAL OBLIGATION OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE UNIFIED GOVERNMENT OF ATHENS-CLARKE COUNTY, GEORGIA. THE GEORGIA BONDS ARE PAYABLE SOLELY FROM THE MONEYS PLEDGED TO THE PAYMENT THEREOF UNDER THE GEORGIA BOND INDENTURE. NO OWNER OF A GEORGIA BOND SHALL HAVE THE RIGHT TO COMPEL THE STATE OF GEORGIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR COLLECT ANY TAX TO MAKE ANY PAYMENT WITH RESPECT TO THE GEORGIA BONDS.

ADDITIONAL FINANCING PLANS

CHE expects that approximately $55 million of tax-exempt revenue bonds will be issued subsequent to the date of delivery of the Bonds, but prior to December 31, 2002, to finance capital projects in the State of New Jersey. These bonds are expected to be secured by an Additional Obligation issued under the Master Trust Indenture. In addition, CHE is considering the issuance of additional tax-exempt revenue bonds during 2003 for projects that are currently under review and have not been finally approved. If issued, these bonds would also be evidenced by one or more Additional Obligations issued under the Master Trust Indenture.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds (exclusive of accrued interest) related to the Bonds.

Sources of Funds:	
Proceeds of the Bonds	$70,650,000
Less Net Original Issue Discount	843,849
TOTAL	$69,806,151
Uses of Funds:	
Construction Fund Deposits	$59,443,376
Capitalized Interest	2,978,618
Debt Service Reserve Funds	6,252,824
Costs of Issuance[(1)]	1,131,333
TOTAL	$69,806,151

(1) Includes certain fees and expenses of various legal counsel, accountants, Bond Trustee, Master Trustee and rating agencies, underwriter's discount, and costs of printing.

ESTIMATED PRINCIPAL AND INTEREST REQUIREMENTS

The following table sets forth the estimated principal and interest requirements on the Bonds, the New Jersey bonds expected to be issued prior to December 31, 2002 (see **"ADDITIONAL FINANCING PLANS"** above) and the other long-term indebtedness of CHE and the current Designated Affiliates to be outstanding immediately following the issuance of the Bonds. The table assumes that the New Jersey bonds will be issued in the aggregate principal amount of $55 million and will bear interest at the rate of 5.90% per annum. All amounts are rounded to the nearest dollar.

Fiscal Year Ending December 31	The Bonds		Other Long-Term Debt	Aggregate Debt Service
	Principal	Interest		
2002	$ --	$ 2,573,561	$ 77,117,388	$ 79,690,949
2003	550,000	6,914,044	80,578,429	88,042,473
2004	570,000	6,894,794	80,407,365	87,872,159
2005	1,060,000	6,874,844	80,481,380	88,416,224
2006	1,090,000	6,837,744	80,225,349	88,153,093
2007	1,130,000	6,799,594	80,035,316	87,964,910
2008	1,175,000	6,760,044	80,699,148	88,634,192
2009	1,215,000	6,713,044	79,820,201	87,748,245
2010	1,265,000	6,664,444	80,301,904	88,231,348
2011	1,320,000	6,611,314	80,120,369	88,051,683
2012	1,380,000	6,554,554	80,824,119	88,758,673
2013	1,435,000	6,493,834	80,041,285	87,970,119
2014	1,500,000	6,429,259	79,973,812	87,903,071
2015	1,570,000	6,359,884	79,643,793	87,573,677
2016	1,655,000	6,285,309	78,003,171	85,943,480
2017	1,740,000	6,196,353	75,632,777	83,569,130
2018	1,830,000	6,102,828	75,278,494	83,211,322
2019	1,930,000	6,004,465	74,849,571	82,784,036
2020	2,035,000	5,900,728	74,810,608	82,746,336
2021	2,135,000	5,791,346	69,682,683	77,609,029
2022	2,260,000	5,676,590	67,439,200	75,375,790
2023	2,375,000	5,555,115	67,425,806	75,355,921
2024	2,510,000	5,424,490	67,424,125	75,358,615
2025	2,645,000	5,286,440	67,400,244	75,331,684
2026	2,790,000	5,140,965	67,400,481	75,331,446
2027	2,945,000	4,987,515	52,181,950	60,114,465
2028	7,970,000	4,825,540	50,265,775	63,061,315
2029	10,400,000	4,367,750	14,815,075	29,582,825
2030	20,595,000	3,767,250	4,590,025	28,952,275
2031	21,780,000	2,581,165	3,435,725	27,796,890
2032	23,035,000	1,326,765	3,436,200	27,797,965
	$125,890,000	$174,701,567	$2,034,341,769	$2,334,933,336

As discussed in **APPENDIX A** to this Official Statement under the caption **"DEVELOPMENT OF CATHOLIC HEALTH EAST – Anticipated Growth of the CHE Health System"** CHE and Eastern Mercy Health System have signed a non-binding letter of intent whereby Eastern Mercy would merge into CHE. Upon completion of the merger, which is expected to occur by December 31, 2002, Eastern Mercy's affiliates would become CHE Affiliates. Such affiliates may or may not become Designated Affiliates. At December 31. 2001, the aggregate principal amount of long-term indebtedness of Eastern Mercy and its affiliates was $77,719,000.

For information regarding the impact of the merger on the CHE Health System's pro forma maximum annual debt service coverage ratio, see the caption **"MANAGEMENT'S DISCUSSION – Historical and Pro Forma Debt Service Coverage"** in **APPENDIX A** hereto.

THE BONDS

General

The Bonds will be issued only in fully registered form in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest (based on a 360-day year of twelve 30-day months) at the respective rates per annum and mature, subject to mandatory, optional and extraordinary optional redemption as described below, in the amounts and on the dates set forth on the inside front cover page and the immediately succeeding page of this Official Statement. The Bonds shall bear interest from their date, except Bonds authenticated and delivered on and after the Record Date for the first Bond Payment Date, which shall bear interest as of and from the Bond Payment Date next preceding their date of authentication, unless authenticated on a Bond Payment Date, in which case from such Bond Payment Date or, unless authenticated during the period after a Record Date to the next Bond Payment Date, in which case from such next ensuing Bond Payment Date. If at the time of authentication of any Bond, interest thereon is in default, such Bond shall bear interest from the date to which interest has been paid. The Bonds, as initially issued, will be dated July 1, 2002.

The Bonds initially shall be registered in the name of a securities depository. The Depository Trust Company, New York, New York, or DTC, will act as initial securities depository for the Bonds, and the Bonds shall be registered in the name of Cede & Co., DTC's nominee. Individual purchases of interests in the Bonds will be made in book-entry form only, and Beneficial Owners of such interests will not receive certificates representing their beneficial interest in the Bonds. So long as Cede & Co. is the registered owner, the Bond Trustee will pay such principal of and premium, if any, and interest on the Bonds to DTC, and DTC (or DTC Participants) will remit such principal, premium, if any, and interest to the Beneficial Owners of such Bonds. For a description of the method of payment of principal of, premium, if any, and interest on the Bonds and matters pertaining to transfers and exchanges while in the book-entry system, see the information herein under the caption "**BOOK-ENTRY ONLY SYSTEM**" and in **APPENDIX C** hereto.

In the event the book-entry system for a Series of the Bonds is discontinued, principal of and premium, if any, on all Bonds of that Series shall be payable at the designated corporate trust offices of the Bond Trustee, upon presentation and surrender of such Bonds as the same shall become due and payable. Payment of the interest on each Bond of that Series shall be made by the Bond Trustee on each Bond Payment Date, which is May 15 and November 15, commencing November 15, 2002 to the person appearing on the registration books of the Bond Registrar as the registered owner thereof as of the immediately preceding Record Date, which is May 1 and November 1, respectively. Such payment will be made by check ailed to such owner at his or her address as it appears on such registration books. At the option of any owner of not less than $1,000,000 aggregate principal amount of the Bonds of a Series, interest on such Bonds shall be paid by wire transfer to any address designated by such owner to the Bond Trustee at or prior to the close of business on the Record Date for such payment. Notwithstanding the aforesaid, interest due and payable upon a payment or redemption of any Bonds on a date other than a Bond Payment Date shall be payable at the designated corporate trust office of the Bond Trustee, upon presentation and surrender of such Bonds.

Redemption of Bonds

The Bonds will be subject to mandatory sinking fund, optional and extraordinary optional redemption.

Optional Redemption

The Bonds maturing after November 15, 2012, are subject to redemption prior to their respective stated maturities, at the option of CHE, as the Obligated Group Agent, on any date on or after November 15, 2012, in

whole or in part at any time, by payment of a Redemption Price equal to 100% of the principal amount of each Bond called for redemption plus interest accrued to the date fixed for redemption.

Mandatory Redemption

The Allegheny County Bonds maturing on November 15, 2022, and on November 15, 2032, are subject to mandatory redemption and shall be redeemed on November 15 in the years set forth below, in the amount of the unsatisfied portion of the corresponding Sinking Fund Account Requirement for the Bonds of the same maturity, by payment of a Redemption Price equal to the principal amount of such Bonds called for redemption, plus payment of interest accrued to the date fixed for redemption, but without premium:

Term Bonds Maturing in 2022		**Term Bonds Maturing in 2032**	
Mandatory Sinking Fund Account Retirement Dates (November 15)	**Mandatory Sinking Account Payments**	**Mandatory Sinking Fund Account Retirement Dates (November 15)**	**Mandatory Sinking Account Payments**
2016	$615,000	2023	$ 885,000
2017	645,000	2024	935,000
2018	680,000	2025	985,000
2019	715,000	2026	1,040,000
2020	755,000	2027	1,095,000
2021	795,000	2028	1,155,000
2022*	840,000	2029	1,220,000
		2030	1,285,000
		2031	1,355,000
		2032*	1,430,000

*Maturity

The Georgia Bonds maturing on November 15, 2022, and on November 15, 2032, are subject to mandatory redemption and shall be redeemed on November 15 in the years set forth below, in the amount of the unsatisfied portion of the corresponding Sinking Fund Account Requirement for the Bonds of the same maturity, by payment of a Redemption Price equal to the principal amount of such Bonds called for redemption, plus payment of interest accrued to the date fixed for redemption, but without premium:

Term Bonds Maturing in 2022		Term Bonds Maturing in 2032	
Mandatory Sinking Fund Account Retirement Dates (November 15)	**Mandatory Sinking Account Payments**	**Mandatory Sinking Fund Account Retirement Dates (November 15)**	**Mandatory Sinking Account Payments**
2016	$720,000	2023	$1,040,000
2017	760,000	2024	1,095,000
2018	800,000	2025	1,155,000
2019	845,000	2026	1,220,000
2020	890,000	2027	1,285,000
2021	935,000	2028	1,360,000
2022*	985,000	2029	1,435,000
		2030	1,510,000
		2031	1,595,000
		2032*	1,680,000

*Maturity

The Massachusetts Bonds maturing on November 15, 2022, and on November 15, 2032, are subject to mandatory redemption and shall be redeemed on November 15 in the years set forth below, in the amount of the unsatisfied portion of the corresponding Sinking Fund Account Requirement for the Bonds of the same maturity, by payment of a Redemption Price equal to the principal amount of such Bonds called for redemption, plus payment of interest accrued to the date fixed for redemption, but without premium:

Term Bonds Maturing in 2022		Term Bonds Maturing in 2032	
Mandatory Sinking Fund Account Retirement Dates (November 15)	**Mandatory Sinking Account Payments**	**Mandatory Sinking Fund Account Retirement Dates (November 15)**	**Mandatory Sinking Account Payments**
2016	$295,000	2023	$ 420,000
2017	305,000	2024	445,000
2018	325,000	2025	470,000
2019	340,000	2026	495,000
2020	360,000	2027	520,000
2021	375,000	2028	550,000
2022*	400,000	2029	580,000
		2030	4,410,000
		2031	4,655,000
		2032*	4,910,000

*Maturity

Extraordinary Optional Redemption

The Bonds of a Series may be redeemed in whole or in part at the option and written direction of CHE, as the Obligated Group Agent, at any time, at par plus accrued interest, after the occurrence of any of the following events, from proceeds of prepayments under the Loan Agreement for that Series if: (a) as a result of any changes in the Constitution of the United States of America or of state or federal legislative or administrative action or other governmental action, such Loan Agreement shall have become void or unenforceable or performance of the obligations of the Loan Agreement shall have become impossible in accordance with the intent and purposes of the parties as expressed in such Loan Agreement, or unreasonable burdens or excessive liabilities shall have been imposed on CHE, the System Affiliates or their property, including, without limitation, taxes not being imposed on the date of such Loan Agreement or, because CHE is a party to such Loan Agreement, CHE or any System Affiliate is required or ordered by governmental action to operate its facilities in a manner inconsistent with the stated goals, purposes and policies of CHE, including medical treatment and surgical procedures, and such governmental action is applicable to CHE or any of its System Affiliates; or (b) as a result of (i) a final determination by a court of competent jurisdiction affecting CHE; or (ii) CHE or any System Affiliate being required or in good faith believing that there is a substantial likelihood that they will be required, by reason of CHE being a party to such Loan Agreement, to allow the performance of any medical or surgical procedure, or otherwise to operate any health care facilities of any System Affiliate, in a manner which it in good faith believes to be contrary to the principles and beliefs of the Roman Catholic Church. As a condition precedent to the exercise of such right of redemption, CHE shall be required to file with the Bond Trustee a written direction electing to exercise such right of redemption.

Selection of Bonds to be Redeemed. In the event of any redemption of less than all Outstanding Bonds of a Series, any maturity or maturities and amounts within maturities of the Bonds to be redeemed shall be selected by the Bond Trustee at the direction of the Obligated Group Agent. If less than all of such Bonds of the same maturity are to be redeemed, the Bond Trustee shall select the Bonds to be redeemed by lot in such manner as the Bond Trustee may determine, provided that for so long as the book-entry only system is being used, the particular Bonds or portions thereof to be redeemed within a maturity shall be selected by lot by DTC in such manner as DTC and the DTC Participants may determine. In making such selection, the Bond Trustee (or DTC) shall treat each Bond as representing that number of Bonds of the lowest authorized denomination ($5,000) as is obtained by dividing the principal amount of such Bond by such denomination.

Partial Redemption of Bonds. Upon the selection and call for redemption of, and the surrender of, any Bond for redemption in part only, the Issuer of the affected Series shall cause to be executed and the Authenticating Agent shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of CHE, a new Bond or Bonds in Authorized Denominations in an aggregate face amount equal to the unredeemed portion of the Bond surrendered, which new Bond or Bonds shall be a fully registered Bond or Bonds without coupons, in Authorized Denominations.

The Bond Trustee may agree with any Holder of any such Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on such Bond a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the redemption date, the principal amount redeemed and the principal amount remaining unpaid; provided, however, for so long as the book-entry system is being used, partial redemption of a Bond shall be recorded or evidenced as directed by DTC. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of any such Bond, and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Bond by the owner thereof and irrespective of any error or omission in such endorsement.

Notice of Redemption; Effect. For a description of the giving of notices while the Bonds are in the book-entry system, see **APPENDIX C** hereto. In the event the book-entry system is discontinued with respect to the Bonds, notice of the redemption of such Bonds pursuant to the provisions summarized above will be given as follows.

If less than all the Bonds of a Series are to be redeemed, the Bonds to be redeemed shall be identified by reference to the issue and Series designation, date of issue, serial numbers, CUSIP numbers and maturity dates. Notice of redemption of any Bonds shall be mailed by the Bond Registrar by first class mail, postage prepaid, not less than thirty (30) nor more than forty-five (45) days prior to the date set for redemption, to each registered Holder of a Bond to be so redeemed at the address shown on the books of the Bond Registrar but failure to so mail or any defect in any such notice with respect to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond with respect to which notice was so mailed or with respect to which no such defect occurred, respectively.

On the date designated for redemption by notice given as described above, the Bonds so called for redemption will become and be due and payable at the Redemption Price provided for redemption of such Bonds on such redemption date. If on the redemption date moneys for payment of the Redemption Price and accrued interest are held by the Bond Trustee or Paying Agent, interest on such Bonds so called for redemption will cease to accrue, such Bonds will cease to be entitled to any benefit or security under its Bond Indenture, except the right to receive payment from the moneys held by the Bond Trustee or the Paying Agent, and the amount of such Bonds so called for redemption shall be deemed paid and no longer Outstanding.

Exchange and Transfer

For a description of the procedure to transfer ownership of a Bond while in the book-entry system, see **APPENDIX C** hereto. In the event the book-entry only system is discontinued for a Series of the Bonds, such Bonds shall be subject to transfer and exchange as follows. The Bonds, upon presentation and surrender thereof to the Bond Registrar together with written instructions satisfactory to the Bond Registrar, duly executed by the registered Holder or his attorney duly authorized in writing, may be exchanged for an equal aggregate face amount of fully registered Bonds with the same interest rate and maturity of any other Authorized Denominations.

So long as any Bonds of that Series are Outstanding, the Issuer shall cause to be maintained at the offices of the Bond Registrar books for the registration and transfer of Bonds, and shall provide for the registration and transfer of any such Bond under such reasonable regulations as the Issuer or the Bond Registrar may prescribe. The Bond Registrar shall act as bond registrar for purposes of exchanging and registering Bonds in accordance with the provisions of the Bond Indenture.

Each Bond shall be transferable only upon the registration books maintained by the Bond Registrar, by the Holder thereof in person or by his attorney duly authorized in writing, upon presentation and surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered Holder or his duly authorized attorney. Upon surrender for transfer of any Bond, the Issuer shall cause to be executed and the Authenticating Agent shall authenticate and deliver, in the name of the transferee, one or more new Bonds of the same aggregate face amount, maturity and rate of interest as the surrendered Bond, as fully registered Bonds only.

In connection with any such exchange or transfer of Bonds the Holder requesting such exchange or transfer shall as a condition precedent to the exercise of the privilege of making such exchange or transfer remit to the Bond Registrar an amount sufficient to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Issuer nor the Bond Registrar shall be obligated to (i) issue, exchange or transfer any Bond during the period from a Record Date to the next succeeding Bond Payment Date, or (ii) transfer or exchange any Bond which has been or is being called for redemption in whole or in part.

As to any Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal or interest on any such Bond shall be made only to or upon the written order of the registered Holder thereof. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the amount so paid.

BOOK-ENTRY ONLY SYSTEM

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The 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 Bond certificate will be issued for each maturity of each Series of Bonds set forth on the inside front cover page of this Official Statement, each in the aggregate principal amount of such maturity, and will be deposited with DTC. For additional information regarding DTC and its book-entry only system, see **APPENDIX C** hereto.

Limitation

For so long as the Bonds of a Series are registered in the name of DTC or its nominee, Cede & Co., the Issuer of that Series and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of such Bonds for all purposes, including payments, notices and voting.

Because DTC is treated as the owner of each Series of the Bonds for substantially all purposes under the Bond Indenture for each Series, Beneficial Owners may have a restricted ability to influence in a timely fashion remedial action or the giving or withholding of requested consents or other directions. In addition, because the identity of Beneficial Owners is unknown to the Issuer, DTC and the Bond Trustee, it may be difficult to transmit information of potential interest to Beneficial Owners in an effective and timely manner. Beneficial Owners should make appropriate arrangements with their broker or dealer for distributing information to them regarding the Bonds that may be transmitted by or through DTC.

Under each Bond Indenture, payments made by the Bond Trustee to DTC or its nominee shall satisfy the Issuer's obligations under each Bond Indenture, CHE's obligations under each Loan Agreement and the Obligated Group's obligations on each Series 2002 Obligation, to the extent of the payments so made.

Neither the Issuers, CHE, the System Affiliates nor the Bond Trustee shall have any responsibility or obligation with respect to:

- the accuracy of the records of DTC, its nominee or any of DTC's Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Bonds;
- the delivery to any of DTC's Direct Participant or Indirect Participant or any other Person, other than an Owner, as shown in the Bond Register, of any notice with respect to any Bond including, without limitation, any notice of redemption with respect to any Bond;
- the payment to any of DTC's Direct Participant or Indirect Participant or any other Person, other than an Owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, any Bond;
- the selection of Beneficial Owners to receive payment in the event of any partial redemption of the Bonds; or
- any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system for any Series of the Bonds, the Issuer of that Series and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute Owner of the Bonds for all purposes whatsoever, including, without limitation:

- the payment of principal, premium, if any, and interest on the Bonds;
- giving notices of redemption and other matters with respect to the Bonds;
- registering transfers with respect to the Bonds; and
- the selection of Bonds for redemption.

An Issuer may decide to discontinue the use of DTC or any successor as depository for its Bonds. Under such circumstances, in the event that a successor depository is not required under the applicable Bond Indenture or not obtained, Bond certificates are required to be printed and delivered in accordance with such Bond Indenture.

SECURITY FOR THE BONDS

The Bonds are not and shall not be deemed to constitute a debt or liability or a pledge of the faith and credit of the State of Georgia or the Commonwealths of Massachusetts or Pennsylvania or any political subdivision or instrumentality of any of them, but shall be payable solely from amounts on deposit in the funds and accounts under its respective Bond Indenture, the revenues derived by each Issuer under its respective Loan Agreement and the Series 2002 Obligation securing its Series of Bonds. Neither the faith and credit nor the taxing power of the State of Georgia or the Commonwealths of Massachusetts or Pennsylvania, or any political subdivision or instrumentality of any of them, is pledged to the payment of the principal of, redemption price, if any, or interest on the Bonds. None of the Issuers has any taxing power.

Each Bond Indenture provides that the Series of Bonds issued under that Bond Indenture is secured by a pledge and assignment to the Bond Trustee by the Issuer of that Series of Bonds of substantially all of the Issuer's rights, title and interest in, to and under (i) its Loan Agreement (excluding such Issuer's rights to indemnification, fees and reimbursement of expenses) and the Series 2002 Obligation securing that Series of the Bonds, (ii) all deposits in or held for the account of the funds and accounts established with the Bond Trustee under its Bond Indenture, and (iii) any and all other real and personal property that may from time to time be conveyed, pledged, assigned or transferred to the Bond Trustee as additional security for the Series of Bonds issued under its Bond Indenture.

Each Bond Indenture establishes a debt service reserve fund for its Series of Bonds. (See **"ESTIMATED SOURCES AND USES OF FUNDS"** below.) The debt service reserve fund for one Series does not secure any other Series of the Bonds.

The obligation of CHE to repay the loans made to CHE by an Issuer under its Loan Agreement is secured by a Series 2002 Obligation issued under the Master Trust Indenture. Each Series 2002 Obligation will be the general unsecured obligation of CHE and any future Members of the Obligated Group. Upon issuance of the Bonds, CHE will be the only Member of the Obligated Group. Pursuant to the Master Trust Indenture, CHE covenants to subject itself and the Designated Affiliates to operational and financial restrictions including, among others, restrictions on Liens securing Debt, maintenance of certain rates and charges for services provided by the Designated Affiliates, compliance with certain restrictions and obligations regarding payment of taxes and governmental charges assessed, payment of claims, for labor, materials and supplies, maintenance of insurance and maintenance by the System Affiliates, taken as a whole, of an Historical Debt Service Coverage Ratio of at least 1.10.

CHE has covenanted in the Master Trust Indenture to cause each Designated Affiliate, and to use reasonable efforts to cause each Affiliate (subject to existing organizational and contractual limitations) to pay, loan or otherwise transfer to CHE such amounts as are necessary to enable CHE to pay the principal of and premium, if any, and interest or other amounts due on the Series 2002 Obligations and the Bonds.

Notwithstanding the foregoing, CHE may not cause a Designated Affiliate to transfer any property to CHE if such transfer would be inconsistent with state law or would cause such Designated Affiliate to breach the terms of any existing contractual obligations or other commitments, including joint operating agreements and joint ventures such as those described in **APPENDIX A** hereto. See also "**BONDHOLDERS' RISKS — Security and Enforceability -- Enforceability of the Master Trust Indenture and the Series 2002 Obligations**."

Each Series 2002 Obligation will be the general unsecured obligation of only CHE and any future Member of the Obligated Group and will not be secured by any pledge, grant or mortgage of any of the real or personal property of any System Affiliate.

The Master Trust Indenture includes a covenant that no Member of the Obligated Group will consolidate or merge with another entity or transfer its property substantially as an entirety unless the transferee is or becomes a Member of the Obligated Group or assumes the obligations and covenants of the Master Trust Indenture, no default of any covenant or condition in the Master Trust Indenture or the related Loan Agreement has occurred and is continuing, and certain opinions of nationally recognized municipal bond counsel shall have been delivered. The Master Trust Indenture includes a covenant that no Member of the Obligated Group will take any action that would cause it to cease to be a Member of the Obligated Group (except for mergers described in the preceding sentence) unless (i) such Member of the Obligated Group is not a party to any loan or credit agreement entered into in connection with the issuance of any Obligations if the bonds secured thereby remain outstanding; (ii) no Obligations issued by or for the benefit of such Member of the Obligated Group remain outstanding unless another Member of the Obligated Group issues an Obligation evidencing its assumption of the related indebtedness; (iii) prior to withdrawal of such Member of the Obligated Group, an opinion from nationally recognized bond counsel is delivered to the Master Trustee to the effect that (a) such withdrawal will not adversely affect the tax-exempt status of any other Member of the Obligated Group otherwise having such status, and (b) such withdrawal will not adversely affect the validity of any bonds or the exemption from federal or state income taxation of interest payable on any bonds otherwise entitled to such exemption; and (iv) immediately after such act, no Event of Default (as defined in the Master Trust Indenture) would exist and no event shall have occurred that with the passage of time or giving of notice or both would become an Event of Default.

Other than as described above, the Master Trust Indenture does not restrict the ability of any System Affiliate to transfer property, including cash, marketable securities or receivables, to anyone, including entities that are not System Affiliates. The Master Trust Indenture does not limit the amount of Debt which may be incurred by any System Affiliate. Other than as described above, the Master Trust Indenture does not restrict the ability of the Members of the Obligated Group to withdraw from the Obligated Group, and it does not restrict the ability of any Member of the Obligated Group which has designated an organization as a Designated Affiliate to remove such designation. See the information under the caption "**THE MASTER TRUST INDENTURE—General Covenants**" in **APPENDIX D** attached hereto.

Obligations other than the Series 2002 Obligations may be issued from time to time in the future pursuant to the Master Trust Indenture, and such Obligations may be secured by security not extended to the Series 2002 Obligations. The Master Trust Indenture provides that no Designated Affiliate shall create or incur or permit to be created or incurred any Lien on any property of a Material Designated Affiliate securing Debt other than Liens permitted under the Master Trust Indenture. Such Liens may secure such Additional Obligations. See the information under the caption "**THE MASTER TRUST INDENTURE—General Covenants**" in **APPENDIX D** attached hereto.

The Designated Affiliates are not obligated to the holders of the Bonds or the Series 2002 Obligations, or to the holders of any Additional Obligations, or to the Master Trustee, to make debt service payments on such Obligations.

To be a Designated Affiliate, an organization must be controlled by CHE or another Member of the Obligated Group or have entered into a written contract or undertaking with a Member of the Obligated Group that is, in the judgment of such Member of the Obligated Group, sufficient to allow such Member of the Obligated

Group to enforce compliance with the obligations of the Master Trust Indenture, and such organization must be designated as a Designated Affiliate by a resolution of the Member of the Obligated Group designating such Designated Affiliate.

The Master Trust Indenture provides that after an organization is designated as a Designated Affiliate, the Member of the Obligated Group which has designated such Designated Affiliate may at any time declare that such organization is no longer a Designated Affiliate. Accordingly, there can be no assurance that the organizations described herein as Designated Affiliates and to be designated as Designated Affiliates on the date of delivery of the Bonds will continue to be such or that other organizations will be so designated.

Release of Series 2002 Obligations and Substitution of Security

Each Bond Indenture and Loan Agreement may be amended with the consent of not less than a majority of the holders of the Series of Bonds issued and outstanding under that Bond Indenture. Additionally, the Master Trust Indenture may be amended with the consent of not less than a majority of the holders of the Obligations outstanding under the Master Trust Indenture. In certain circumstances, a credit enhancer may be deemed the holder of an Obligation for purposes of obtaining such consent. Such amendments may result in material changes in the security for the Bonds (or a Series of the Bonds), and may result in the release of CHE from any of its obligations relating to the Bonds (or a Series of the Bonds). In such event, the repayment obligations with respect to the Bonds would thereafter be supported by a single obligor or by a credit group which could be comprised of a smaller number of or none of the System Affiliates.

See "**THE MASTER TRUST INDENTURE -- Note and Document Substitution**" and "**THE BOND INDENTURE -- Note and Document Substitution**" in **APPENDIX D** hereto for a description of the amendatory provisions of the Master Trust Indenture, the Bond Indentures and the Loan Agreements.

BONDHOLDERS' RISKS

General

The purchase and ownership of the Bonds involve certain investment risks that are discussed throughout this Official Statement. Each prospective purchaser of the Bonds (or a beneficial ownership interest therein) should make an independent evaluation of the information presented in this Official Statement.

Some of the risks that could affect the Bonds and the future financial condition of the System Affiliates are described below. This description of various risks is not, and is not intended to be, exhaustive.

Any of the risk factors described herein may affect the System Affiliates' revenues and impair the ability of CHE and any future Member of the Obligated Group to make required payments on the Loan Agreements and the Series 2002 Obligations when due. Any such impairment may adversely affect the ability of the respective Issuers to pay the principal of and premium, if any, and interest on the Series of Bonds of that Issuer when those payments are due. There can be no assurance that the financial condition of the System Affiliates and/or the utilization of the System Affiliates facilities will not be adversely affected by any of these factors.

Security and Enforceability

Enforceability of the Master Trust Indenture and the Series 2002 Obligations

In calculating the Historical Debt Service Coverage Ratio, the accounts of the System Affiliates will be combined, notwithstanding uncertainties as to the enforceability of the obligations of the Designated Affiliates and other System Affiliates to provide funds to CHE and other Members of the Obligated Group to be used for payment of debt service on the Obligations, including the Series 2002 Obligations.

The joint and several obligation described herein of each Member of the Obligated Group to make payments of debt service on an Obligation, and the obligation of each Member of the Obligated Group to cause Designated Affiliates to transfer funds to such Member for the purpose of making debt service payments on an Obligation, the proceeds of which Obligation were not loaned or otherwise made available to or used for the benefit of such Member of the Obligated Group or Designated Affiliate, may not be enforceable to the extent that (i) such payments will be made on an Obligation issued for a purpose that is not consistent with the charitable purposes of the organization from which such payment or transfer is requested; (ii) the transfer of funds from a Designated Affiliate to provide for such payment, or the payment on such Obligation by another Member of the Obligated Group, may contradict charitable trust principles, which vary from jurisdiction to jurisdiction, applicable to such Designated Affiliate or Member of the Obligated Group; (iii) such payments will be made from any property that is donor restricted or that is subject to a direct or express trust that does not permit the use of such property for such payments or transfers; (iv) such payments would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the organization from which such payment or transfer is requested; or (v) such payments would be made pursuant to any loan violating applicable usury laws. Due to the absence of clear legal precedent in this area, the extent to which the property of any Member of the Obligated Group or any Designated Affiliate or other Affiliate may be transferred (as described above) cannot be determined.

A Member of the Obligated Group may not be required to make payments on an Obligation and neither a Designated Affiliate nor an Affiliate may be required to transfer funds to a Member of the Obligated Group for the purpose of making debt service payments on an Obligation, in either case if such Obligation is issued by or for the benefit of another organization, to the extent that any such payment or transfer would render such paying or transferring organization insolvent or would conflict with, not be permitted by or be subject to recovery for the benefit of other creditors of such organization under applicable fraudulent conveyance, bankruptcy, insolvency, moratorium or other similar laws affecting the enforcement of creditors' rights. There is no clear precedent in the law as to whether such payments or transfers may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Member, Designated Affiliate or Affiliate or by third party creditors in an action brought pursuant to fraudulent conveyances statutes of the states in which such Member, Designated Affiliate or Affiliate is incorporated or doing business. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under fraudulent conveyance statutes of the states in which the Members of the Obligated Group, Designated Affiliates and Affiliates are incorporated or doing business, a creditor of a guarantor may avoid any obligation incurred by a guarantor, if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty, and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or fraudulent conveyances statutes of such states, or the guarantor is undercapitalized. Additionally, a claim for payment of the principal of or interest on the bonds could be made subject to any statutes that may be constitutionally enacted by the United States Congress or the state legislatures affecting the time and manner of payment of debt or imposing other constraints upon enforcement of debt obligations.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to compel any Member of the Obligated Group to pay debt service on an Obligation issued by or for the benefit of another organization or to compel a Designated Affiliate or Affiliate to transfer funds for such purposes, a court might not enforce such obligation in the event it is determined that such paying or transferring organization is analogous to a guarantor and that fair consideration or reasonably equivalent value for such guaranty was not received and that the incurrence of such obligation has rendered and will render the paying or transferring organization insolvent or the paying or transferring organization is or will thereby become undercapitalized.

In addition, statutes and the common law of different states, which vary from jurisdiction to jurisdiction, may authorize a state court to terminate the existence of a not-for-profit or nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that the not-for-profit or nonprofit corporation has insufficient assets to carry out its stated charitable purposes, has taken some action which renders it unable to carry out such purposes or has taken action contrary to such purposes. Depending on the jurisdiction, such action

may arise on the court's own motion or pursuant to a petition of the state attorney general or other persons who have interests different from those of the general public, pursuant to the common law and state statutes.

Unsecured Creditors; Facilities

None of the System Affiliates have pledged their revenues or other property, including facilities, as security for the Bonds or the Series 2002 Obligations. Therefore, in the event of a default and acceleration of any Series of the Bonds, the Bond Trustee or Master Trustee, as applicable, would be an unsecured creditor with no rights to any revenues or other property of the System Affiliates, including facilities. In addition, a substantial portion of such facilities do not comprise 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 such facilities, and, upon a default, the Bond Trustee or the Master Trustee may not obtain an amount equal to the aggregate liabilities of the System Affiliates (including liabilities in respect of the defaulted Bonds then outstanding) from the sale or lease of such facilities, whether pursuant to a judgment against any System Affiliates or otherwise.

The obligations of CHE, any future Members of the Obligated Group and the Designated Affiliates under the Master Trust Indenture may be affected by various matters, including (i) federal bankruptcy laws and other creditors' rights laws, (ii) rights of third parties in cash, securities and instruments not in possession of the Master Trustee, including accounts and general intangibles converted to cash, (iii) rights arising in favor of the United States of America or any agency thereof, (iv) present or future prohibitions against assignment in any federal statutes or regulations, (v) constructive trusts, equitable liens, charitable trusts or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (vi) claims that might obtain priority if a security interest or lien is not granted or continuation statements are not filed in accordance with applicable laws, (vii) the rights of holders of prior perfected security interests in equipment and other goods owned by CHE, any such future Members of the Obligated Group or the Designated Affiliates and in the proceeds from the sale of such property, (viii) statutory liens and (ix) the rights of parties secured by Permitted Encumbrances.

Amendments to Master Trust Indenture, Bond Indentures and Loan Agreements

Certain amendments to the Master Trust Indenture may be made with the consent of the owners of not less than a majority of the aggregate principal amount of the outstanding Obligations. Such amendments may adversely affect the security of the Owners of the Bonds, and such percentage may be composed wholly or partially of the owners of Obligations other than the Series 2002 Obligations. Certain amendments to a Bond Indenture and Loan Agreements may be made with the consent of the holders of not less than a majority of the outstanding principal amount of the Series of Bonds issued under that Bond Indenture. Such amendments may adversely affect the security of the Owners of the Bonds of such Series.

The rights of the Beneficial Owners of the Bonds to consent to these amendments and the process of soliciting consents are determined pursuant to the book-entry procedures of the Custodian.

Availability of Remedies

The remedies available to the Bond Trustee, the Master Trustee, the Issuers and the Owners and Beneficial Owners of the Bonds upon an event of default under the Bond Indentures, the Master Trust Indenture, the Loan Agreements and the Series 2002 Obligations are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including, specifically, the United States Bankruptcy Code, the remedies provided in the Bond Indentures, the Master Trust Indenture, the Loan Agreements and the Series 2002 Obligations may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and laws relating to fraudulent conveyances.

Bankruptcy

In the event CHE or a future Member of the Obligated Group files for protection from creditors under the United States Bankruptcy Code, the rights and remedies of the Owners of the Bonds would be subject to various provisions of the United States Bankruptcy Code. If CHE or such future Member were to commence a proceeding in bankruptcy, payments made by CHE or that future Member during the 90-day period immediately preceding such commencement (or, under certain circumstances, during the preceding one-year period) may be voided as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the liquidation of CHE or such future Member. Security interests and other liens granted by such CHE or such future Member to the Bond Trustee or the Master Trustee and perfected during such preference period may also be voided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such grant or perfection.

A bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against CHE or such future Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of CHE or such future Member, including its accounts receivable and the proceeds thereof, could be used for the financial rehabilitation of CHE or such future Member despite any security interest of the Bond Trustee or the Master Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

CHE or such future Member could also file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. Any such plan could adversely affect the Owners and Beneficial Owners of the Bonds.

In the event of bankruptcy of a System Affiliate, there is no assurance that certain covenants, including tax covenants, contained in the Bond Indentures, the Loan Agreements or the Master Trust Indenture and certain other documents would survive. Accordingly, such System Affiliate, as debtor in possession, or a bankruptcy trustee could take action which might adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

The bankruptcy of a Designated Affiliate would not trigger an event of default under the Master Trust Indenture, the Bond Indentures or the Loan Agreements, but the bankruptcy of a Designated Affiliate could have a material adverse effect on the Obligated Group and its ability to make debt service payments on an Obligation. If a Designated Affiliate were to file for bankruptcy and had no contractual obligation to make payments to CHE or another Member of the Obligated Group, neither CHE, such other Member nor the Master Trustee would be able to file a claim in a bankruptcy proceeding involving such Designated Affiliate for the payment of any amounts due on the Series 2002 Obligations. In addition, in the event CHE or another Member of the Obligated Group were to file for bankruptcy protection, CHE or such other Member, as debtor-in-possession, or a trustee in bankruptcy, may not be able to cause the Designated Affiliate to transfer funds to CHE, such other Member or such trustee.

In addition, the bankruptcy of a health plan or physician group that is a party to a significant managed care arrangement with one or more of the System Affiliates, or that of any significant contract payor obligated to any one or more System Affiliates, could have material adverse effects on the System Affiliates.

Patient Service Revenues

Net patient revenues realized by the System Affiliates are derived from a variety of sources and will vary among the individual facilities owned and operated by the System Affiliates and also among the various market areas and regions in which such facilities are located. Certain facilities and regions may realize substantially more revenues from private payment programs, such as managed care organizations, than do others.

A substantial portion of the net patient service revenues of the System Affiliates is derived from third-party payors which pay for the services provided to patients covered by such third parties for such services. These third-party payors include the federal Medicare program, state Medicaid programs and private health plans and insurers, including health maintenance organizations and preferred provider organizations. Many of those programs make payments to System Affiliates in amounts that may not reflect the direct and indirect costs of the System Affiliates of providing services to patients.

The financial performance of the System Affiliates has been and could be in the future adversely affected by the financial position or the insolvency or bankruptcy of or other delay in receipt of payments from third-party payors that provide coverage for services to their patients.

Medicare and Medicaid Programs

Approximately 39% and 7% of the net patient service revenue of the System Affiliates for the fiscal year ended December 31, 2001 were derived from the Medicare program and Medicaid programs, respectively. See the information in **APPENDIX A** under the caption "**MANAGEMENT'S DISCUSSION –- Sources of Revenue**." Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program, and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services, skilled nursing care and some home health care, and Medicare Part B covers physician services and some supplies. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states.

Medicare

Medicare is a federal governmental health insurance system under which physicians, hospitals and other health care providers are reimbursed or paid directly for services provided to eligible elderly and disabled persons. Medicare is administered by the Centers for Medicare and Medicaid Services, or CMS, of the federal Department of Health and Human Services. In order to achieve and maintain Medicare certification, a health care provider must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which such provider is located and/or the Joint Commission for Accreditation of Healthcare Organizations, JCAHO.

The System Affiliates have a significant dependence on Medicare as a source of revenue. Because of this dependence, changes in the Medicare program may have a material effect on the System Affiliates. For example, Medicare program changes resulting from the Balanced Budget Act of 1997, as subsequently amended and modified, have limited increases in Medicare payments that were otherwise provided by law, and/or reduced Medicare payment or reimbursement for certain health care services provided to Medicare beneficiaries. The Balanced Budget Act of 1997 has had and will continue to have a significant negative effect on acute care hospitals and other Medicare providers. Future reductions in Medicare reimbursement, or increases in Medicare reimbursement in amounts less than increases in the costs of providing care, may have a material adverse financial effect on the System Affiliates.

A substantial portion of the Medicare revenues of the System Affiliates are derived from payments made for services rendered to Medicare beneficiaries under a prospective payment system, or PPS. Under a prospective payment system, the amount paid to the provider for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of a prospective payment system. Under inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group, or DRG. DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. All services paid under the new PPS for hospital outpatient services are classified into groups called ambulatory payment classifications, or APCs. Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. The capital component of care is paid on a fully prospective basis.

PPS-exempt hospitals and units (which are inpatient psychiatric, rehabilitation and long-term hospital services) are currently reimbursed for their reasonable costs, subject to a cost per discharge target. These limits are updated annually by an index generally based upon inflationary increases in costs of providing health care services. The phasing of a prospective payment system for rehabilitation services commenced October 1, 2001. The phasing of a prospective payment system for psychiatric services is scheduled to commence October 1, 2002.

From time to time, the factors used in calculating the prospective payments for units of service are modified by CMS, which may reduce revenues for particular services. Additionally, as part of the federal budgetary process, Congress has regularly amended the Medicare law to reduce increases in payments that are otherwise scheduled to occur, or to provide for reductions in payments for particular services. Such actions have adversely affected the revenues of the System Affiliates.

Additional payments may be made to individual providers. Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payments in the form of disproportionate share payments. Additional payments are made to hospitals that treat patients who are costlier to treat than the average patient; these additional payments are referred to as "outlier payments." Hospitals are paid for a portion of their direct and indirect medical education costs. These additional payments are also subject to reductions and modifications in otherwise scheduled increases as a result of amendments to relevant statutory provisions.

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

Certain Medicare beneficiaries may choose to obtain their benefits through a variety of risk-based plans under the Medicare+ Choice Program. Medicare+ Choice generally allows Medicare beneficiaries to participate in coordinated care plans, including health maintenance organizations and provider networks sponsored by hospitals, physicians or other providers, fee-for-service plans that accept full capitation from the Medicare program, and medical savings account plans that allow certain seniors to enroll in a high deductible medical benefit plan. A health care provider may contract with CMS to provide Medicare+ Choice services, either as a state-licensed health maintenance organization, or HMO, or as a provider-sponsored organization for which CMS has waived state-licensure requirements. All Medicare+ Choice organizations must assume full financial risk on a prospective basis for the provision of health services.

Medicaid

Medicaid is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. Pursuant to broad federal guidelines, each state establishes its own eligibility standards; determines the type, amount, duration, and scope of services; sets the

payment rates for such services; and administers its own programs. As an alternative to Medicaid, some states operate under a waiver of some basic Medicaid requirements.

Under the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to providers in amounts determined in accordance with procedures and standards established by state law under federal guidelines. Fiscal considerations of both federal and state governments in establishing their budgets will directly affect the funds available to the providers for payment of services rendered to Medicaid beneficiaries.

Private Health Plans and Managed Care

Managed care plans generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Payments to the System Affiliates from managed care plans typically are lower than those received from traditional indemnity/commercial insurers. Defined broadly, for the fiscal year ended December 31, 2001, managed care payments (excluding capitated Medicare and Medicaid contracts) constituted approximately 28% of the net patient service revenues of the System Affiliates. There is no assurance that the System Affiliates will maintain managed care contracts or obtain other similar contracts in the future. Failure to maintain contracts could have the effect of reducing the market share of a System Affiliate and the System Affiliates' net patient services revenues. Conversely, participation may maintain or increase the patient base but could result in lower net income or operating losses to the System Affiliates if the System Affiliates are unable to adequately contain their costs.

Many preferred provider organizations, or PPOs, and health maintenance organizations, or HMOs, currently pay providers on a negotiated fee-for-service basis or on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. The discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a hospital may vary significantly from projections, and/or changes in the utilization of certain services offered by the provider may be dramatic and unexpected, thus further jeopardizing the provider's ability to contain costs.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. In a capitation payment system, the hospital assumes a financial risk for the cost and scope of care given to such HMO's enrollees. In some cases, the capitated payment covers total hospital patient care provided. However, if payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

As a consequence of the above factors, the effect of managed care on the System Affiliates' financial condition is difficult to predict and may be different in the future than the financial statements for the current periods reflect.

Regulatory Environment

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the System Affiliates, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare Conditions of Participation, requirements for participation in Medicaid, state licensing agencies, private payors and the accreditation standards of JCAHO. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require affirmative actions by a System Affiliate.

Management of the System Affiliates currently anticipates no difficulty renewing or continuing currently held licenses, certifications or accreditations, nor does management anticipate a reduction in third-party payments from such events that would materially adversely affect the operations or financial condition of the System Affiliates. Nevertheless, actions in any of these areas could result in the loss of utilization or revenues, or the ability of a System Affiliate to operate all or a portion of its health care facilities, and consequently, could have a material and adverse effect on the System Affiliates.

Civil and Criminal Fraud and Abuse Laws and Enforcement

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

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

Laws governing fraud and abuse apply to all individuals and healthcare enterprises with which a hospital does business, including other hospitals, home health agencies, long term care entities, infusion providers, pharmaceutical providers, insurers, health maintenance organizations, preferred provider organizations, third party administrators, physicians, physician groups, and physician practice management companies. Fraud and abuse prosecutions can have a catastrophic effect on a provider and potentially a material adverse impact on the financial condition of other entities in the health care delivery system of which that entity is a part.

Based upon the prohibited activity in which the provider has engaged, governmental agencies and officials may bring actions against providers under civil or criminal False Claims Acts, statutes prohibiting referrals for compensation or fee-splitting, or the "Stark law," which prohibits certain referrals by a physician to certain organizations in which such physician has a financial relationship. The civil and criminal monetary assessments and penalties may be substantial. Additionally, the provider may be denied participation in the Medicare and/or Medicaid programs. If and to the extent any System Affiliate engaged in a prohibited activity and judicial or administrative proceedings concluded adversely to such System Affiliate, such outcome could materially affect the System Affiliates.

The System Affiliates have internal policies and procedures and have developed and implemented a compliance program that management of the System Affiliates believes will effectively reduce exposure for violations of these laws. However, because the government's enforcement efforts presently are widespread within the industry and may vary from region to region, there can be no assurance that the compliance program will significantly reduce or eliminate the exposure of the System Affiliates to civil or criminal sanctions or adverse administrative determinations.

Patient Records and Patient Confidentiality

The Health Insurance Portability and Accountability Act of 1996, or HIPAA, imposes upon providers certain privacy restrictions and standards for electronic transactions of patient information. During the two-year phase-in period (concluding October 2003) for the electronic transaction standards, providers will be required to make significant changes in hardware and software. The cost of such changes is expected to be significant, but it is also expected that providers will recognize certain cost savings after making these modifications to their hardware and software systems. Rules implementing the privacy portion of HIPAA became effective in April

2001. The System Affiliates will have until April 2003 to prepare for and comply with the privacy rules. Penalties for noncompliance with these patient privacy rules include substantial civil monetary penalties and imprisonment and substantial criminal penalties for wrongful disclosure with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain, or malicious harm.

Management of the System Affiliates is evaluating the impact of the HIPAA requirements and has initiated a plan designed to allow the System Affiliates to comply with the HIPAA regulations. At this time, management anticipates that the System Affiliates will be able to substantially comply with the HIPAA requirements. Since the HIPAA regulations are relatively new, however, management cannot at this time estimate the cost of such compliance. Based on its current knowledge, management believes that the cost of its compliance will not have a material adverse effect on the business, financial condition or results of operation of the System Affiliates.

Patient Transfers

A federal "anti-dumping" statute imposes certain requirements which must be met before transferring a patient to another facility. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs as well as civil and criminal penalties. Failure of any System Affiliate to meet its responsibilities under the law could adversely affect the financial conditions of such System Affiliate.

Certificates of Need and Other State Regulatory Matters

Certain states administer a certificate of need program which applies to the incurrence of capital expenditures, the offering of certain new institutional health services, the cessation of certain services and the acquisition of major medical equipment. Such legislation also stipulates requirements for such programs, including the requirements that each program both be consistent with the respective state health plan in effect pursuant to such legislation and provide for penalties to enforce program requirements.

Environmental Laws and Regulations

The System Affiliates' health care operations generate medical waste that must be disposed of in compliance with federal, state and local environmental laws, rules and regulations. The System Affiliates' operations, as well as the System Affiliates' purchases and sales of facilities, also are subject to compliance with various other environmental laws, rules and regulations. The System Affiliates anticipate that such compliance will not materially affect the System Affiliates' business, financial condition or results of operations.

Management of the System Affiliates is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues or any instance of contamination that, if determined adversely to a System Affiliate, would have material adverse consequences to the System Affiliates.

Certain Business Transactions

Physician Relations

The primary relationship between a hospital and physicians who practice in it is through the hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may have his or her privileges or membership curtailed, denied or revoked. Physicians who are denied medical staff membership or certain clinical privileges, or who have such membership or privileges curtailed, denied or revoked often file legal actions against hospitals. Such actions may include a wide variety of claims, some of which could result in substantial uninsured damages to a hospital. In addition, failure of the hospital governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties. All hospitals, including those owned and operated by the System Affiliates, are subject to such risk.

Physician Contracting

The System Affiliates may contract with physician organizations (such as independent physician associations and physician-hospital organizations) to arrange for the provision of physician and ancillary services. Because physician organizations are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the physician organizations.

The success of the System Affiliates will be partially dependent upon their ability to attract physicians to join the physician organizations and to attract physician organizations to participate in their networks, and upon the ability of the physicians, including the employed physicians, to perform their obligations and deliver high quality patient care in a cost-effective manner. There can be no assurance that the System Affiliates will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. Without impaneling a sufficient number and type of providers, the System Affiliates could fail to be competitive, could fail to keep or attract payor contracts, or could be prohibited from operating until its panel provided adequate access to patients. Such occurrences could have a material adverse effect on the business or operations of the System Affiliates.

Affiliations, Merger, Acquisition and Divestiture

The System Affiliates evaluate and pursue potential acquisition, merger and affiliation candidates as part of the overall strategic planning and development process. As part of its ongoing planning and property management functions, the System Affiliates review the use, compatibility and business viability of many of the operations of the System Affiliates, and from time to time the members may pursue changes in the use of, or disposition of, their facilities. Likewise, System Affiliates occasionally receive offers from, or conduct discussions with, third parties about the potential acquisition of operations and properties which may become subsidiaries or Affiliates of System Affiliates in the future, or about the potential sale of some of the operations or property which are currently conducted or owned by the System Affiliates. Discussion with respect to affiliation, merger, acquisition, disposition or change of use of facilities, including those which may affect such System Affiliates, are held from time to time with other parties. These may be conducted with acute care hospital facilities and may be related to potential affiliation with a System Affiliate. As a result, it is possible that the current organization and assets of the System Affiliates may change from time to time.

In addition to relationships with other hospitals and physicians, the System Affiliates may consider investments, ventures, affiliations, development and acquisition of other health care-related entities. These may include home health care, long-term care entities or operations, infusion providers, pharmaceutical providers, and other health care enterprises which support the overall operations of the System Affiliates. In addition, the System Affiliates may pursue such transactions with health insurers, HMOs, preferred provider organizations, third-party administrators and other health insurance-related businesses. Because of the integration occurring throughout the health care field, management will consider such arrangements if there is a perceived strategic or operational benefit for the System Affiliates. Any such initiative may involve significant capital commitments and/or capital or operating risk (including, potentially, insurance risk) in a business in which the System Affiliates may have less expertise than in hospital operations. There can be no assurance that these projects, if pursued, will not lead to material adverse consequences to the System Affiliates.

Antitrust

Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. While the application of federal and state antitrust laws to health care is still evolving, enforcement activities by federal and state agencies appear to be increasing. Violators of antitrust laws could be subject to criminal and civil liability by both federal and state agencies, as well as by private litigants.

Tax Matters

Tax Exempt Status of the Bonds

The tax-exempt status of the Bonds is based on the continued compliance by the Issuers and CHE with certain covenants relating generally to restriction on use of the facilities financed with the Bonds and the use and investment of the proceeds of the Bonds. Failure to comply with such covenants could cause interest on the Bonds to become subject to federal income taxation retroactive to the date of the issue of the Bonds. The Bonds are not subject to mandatory redemption or acceleration in such case, nor is any provision made for stepped-up interest.

Bond Audits

The Bonds may be, from time to time, subject to audits by the IRS. The System Affiliates believe that the Bonds properly comply with the tax laws. In addition, bond counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption "**TAX EXEMPTION**." No ruling with respect to the tax-exempt status of the Bonds has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an audit of the Bonds will not adversely affect the Bonds.

IRS Bond Examination

On June 19, 2000, the City of Tampa, Florida received notice from the IRS that its Health System Revenue Bonds, Catholic Health East Issue, Series 1998A-1, became one of several bond issues subject to IRS examination of bonds of several different nonprofit health systems issued in connection with certain hospital acquisition transactions. CHE has submitted requested information and has engaged in discussions with the IRS. While the ultimate resolution of the audit cannot be assured, management of CHE believes that the bonds properly comply with applicable tax laws and that the audit will be favorable concluded without any material adverse effect on the financial condition of the CHE Health System and without any change to the tax-exempt status of such bonds.

Tax-Exempt Status of the System Affiliates

The tax-exempt status of the Bonds presently depends upon maintenance by the System Affiliates that are organizations described in Section 501(c)(3) of the Internal Revenue Code of their status as Section 501(c)(3) organizations. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals.

Tax-exempt organizations that own and operate hospitals are subject to a high degree of scrutiny from and potential for sanction and monetary penalties imposed by the IRS. The primary penalty available to the IRS under the Internal Revenue Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of tax-exempt organizations that own and operate hospitals, it could do so in the future. Loss of tax-exempt status by the System Affiliates potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of the System Affiliates, and defaults in covenants regarding the Bonds and other related tax-exempt debt and other obligations would likely be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the System Affiliates. For these reasons, loss of tax-exempt status of the System Affiliates could have material adverse consequences on the financial condition of the System Affiliates.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations that own and operate hospitals in lieu of revoking tax-

exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement." Given the exemption risks involved in certain transactions of the System Affiliates, the System Affiliates may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

Less onerous sanctions have been enacted, which sanctions focus enforcement on private persons who transact business with an exempt organization rather than the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS, as mentioned above.

In 1990 the former Employee Plans and Exempt Organizations Division of the IRS expanded the Coordinated Examination Program (or CEP) of the IRS to tax-exempt health care organizations. CEP audits are conducted by teams of revenue agents. The CEP audit teams consider a wide range of possible issues, including the community benefit standard, private inurement and private benefit, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, tax-exempt bond financing, political contributions and unrelated business income.

State and Local Tax Exemption

In recent years, state, county, and local taxing authorities have been undertaking audits and review of the operations of tax-exempt health care providers and the property tax exemption these providers have from both real and personal property. Most of the real and personal property of the System Affiliates is currently exempt from property taxes. Investigations or audits have led and could lead to challenges of the property tax exemption of facilities of the System Affiliates that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities or property of the System Affiliates.

Unrelated Business Income

The IRS and state, county and local taxing authorities may undertake audits and reviews of the operations of tax-exempt hospitals with respect to the generation of unrelated business taxable income. The System Affiliates engage in activities that may generate unrelated business taxable income. Management of the System Affiliates believes it properly has accounted for and reported unrelated business taxable income generally; nevertheless, an investigation or audit could lead to a challenge that could result in taxes, interest and penalties with respect to such income and, in some cases, ultimately could affect the tax-exempt status of the affected System Affiliate, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

Indigent Care

Tax-exempt corporations that own and operate hospitals often treat large numbers of indigent patients who, for various reasons, are unable to pay for their medical care. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or the hospitals' responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid), may increase the frequency and severity of indigent treatment in such hospitals. It also is possible that future legislation could require that tax-exempt organizations that own and operate hospitals maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes. Therefore, the System Affiliates' indigent care commitments could constitute a material and adverse risk in the future.

Other Risks

Bond Ratings

There is no assurance that the ratings assigned to the Bonds will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Bonds. See the information herein under the caption "**RATINGS**."

Other Risk Factors Generally Affecting Health Care Facilities

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

- Hospitals are major employers, combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the System Affiliates bear a wide variety of risks in connection with their employees. These risks include strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts (such as between employees, between physicians or management and employees, or between employees and patients), and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The System Affiliates are subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of one or more System Affiliates.

- Competition from other hospitals and other competitive facilities now or hereafter located in the respective service areas of the facilities operated by the System Affiliates may adversely affect revenues of the System Affiliates. Development of health maintenance and other alternative health delivery programs could result in decreased usage of inpatient hospital facilities and other facilities operated by the System Affiliates.

- Cost and availability of any insurance, including self-insurance, such as malpractice, fire, automobile, and general comprehensive liability, that hospitals and other health care facilities of similar size and type as the System Affiliates generally carry may adversely affect revenues.

- The occurrences of natural disasters may damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the System Affiliates or the generation of revenues from some or all of such facilities.

- Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, occupational health and safety and outpatient health care delivery may reduce utilization and revenues of the facilities. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services for diagnosis and treatment. The acquisition and operation of certain equipment or services may continue to be a significant factor in hospital utilization, but the ability of the System Affiliates to offer such equipment or services may be subject to the availability of equipment or specialists, governmental approval or the ability to finance such acquisitions or operations.

- Reduced demand for the services of the System Affiliates that might result from decreases in population in their respective service areas.

- Increased unemployment or other adverse economic conditions in the service areas of the System Affiliates which would increase the proportion of patients who are unable to pay fully for the cost of their care.

- Any increase in the quantity of indigent care provided which is mandated by law or required due to increase needs of the community in order to maintain the charitable status of the System Affiliates.

- Regulatory actions which might limit the ability of the System Affiliates to undertake capital improvements to their respective facilities or to develop new institutional health services.

- The occurrence of a large scale terrorist attack that increases the proportion of patients who are unable to pay fully for the cost of their care and that disrupts the operation of certain health care facilities by resulting in an abnormally high demand for health care services.

LITIGATION

The Issuers

There is not now pending or, to the knowledge of any Issuer, threatened any litigation restraining or enjoining the issuance or delivery of the Series of Bonds of the Issuer or questioning or affecting the validity of the Bonds of the Issuer or the proceedings or authority under which such Series of Bonds is to be issued. Neither the creation, organization or existence of any Issuer nor the title of any of the present directors or officers of any Issuer to their respective offices is being contested. There is no litigation pending or, to the knowledge of any Issuer, threatened, which in any manner questions the right of the Issuer to enter into its Bond Indenture or Loan Agreement or to secure its Series of Bonds in the manner provided in its Bond Indenture.

An Issuer may from time to time be involved in litigation relating to other bonds or obligations of such Issuer. Such bonds or obligations are payable from separate and distinct sources of revenues than the Series of Bonds of such Issuer and disclosure of any such litigation is therefore not considered to be a material fact with respect to the Bonds.

CHE, the Designated Affiliates and the System Affiliates

CHE has advised that there is no litigation or proceedings to its knowledge pending or threatened against it or any Designated Affiliate except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of management of CHE, (i) will be entirely within applicable commercial insurance policy limits (subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs, or (ii) will not have a material adverse effect on the operations or financial condition of the System Affiliates, taken as a whole. In addition, no litigation or proceedings are pending or, to the knowledge of CHE, threatened against any of the System Affiliates which in any manner question the right of any System Affiliate to enter into the transactions described herein.

As with many health care providers, the Designated Affiliates and CHE are subject to certain legal actions which, in whole or in part, are not or may not be covered by insurance or self-insurance because of the type of action or damages requested (such as punitive damages), because of a reservation of rights by an insurance carrier or self-insurance program or because the action has not proceeded to a stage which permits full evaluation. Since these legal actions may claim punitive damages which could become a liability of the Designated Affiliates or CHE and/or state or threaten causes of action which may not be covered by insurance or self-insurance,

insurers for the Designated Affiliates and CHE and the self-insurance programs have not provided assurance of coverage, and to the extent any cases have not been served, counsel has not been retained to evaluate them.

CONTINUING DISCLOSURE

No financial or operating data concerning any Issuer is material to any decision to purchase, hold or sell the Series of Bonds of any Issuer, and none of the Issuers will provide any such information. CHE has undertaken all responsibility for any continuing disclosure to owners of the Bonds as described below, and none of the Issuers shall have any liability to the owners or any other person with respect to such disclosures.

General

In a Continuing Disclosure Agreement, CHE has agreed for the benefit of the holders and beneficial owners of each Series of the Bonds, to be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors. CHE is required to observe the Continuing Disclosure Agreement for so long as it or any Member of the Obligated Group remains obligated to advance funds to pay such Series of the Bonds.

Annual Reports

CHE will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to CHE and the other System Affiliates of the general type included in **APPENDIX A** to this Official Statement under the following captions and sub-captions: **"MANAGEMENT'S DISCUSSION -- Balance Sheet," "-- Statement of Operations," "— Sources of Revenue," "— Historical and Pro Forma Debt Service Coverage," "— Liquidity"** and **"— Utilization Statistics – CHE Health System."** In addition to the consolidated utilization statistics to be provided by CHE, CHE will provide consolidating utilization statistics. CHE will provide this information within 180 days after the end of each fiscal year of CHE, commencing with the fiscal year ending December 31, 2002. CHE will provide the updated information to each nationally recognized municipal securities information repository, or NRMSIR, and to any state information depository, or SID, that is designated by each jurisdiction and approved by the staff of the United States Securities and Exchange Commission.

CHE may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Securities and Exchange Commission Rule 15c2-12. The updated information will include the audited financial statements required to be delivered by CHE and the other Members of the Obligated Group, if any, if CHE commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, CHE will provide audited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in the notes to the financial statements included in **APPENDIX B** or such other accounting principles as CHE may be required to employ from time to time pursuant to state law or regulation.

CHE's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless CHE changes its fiscal year. If CHE changes its fiscal year, it will notify each NRMSIR and any SID of the change.

Quarterly Reports

CHE has undertaken to provide to the NRMSIRs and any SIDs unaudited consolidated and consolidating financial and utilization information for each fiscal quarter (beginning with the quarter ending September 30, 2002) not later than 45 days after the end of each such quarter. CHE will also provide such quarterly financial and utilization information, at the same time as the filing with the NRMSIRs and any SIDs, to any beneficial

owner of the Bonds that requests such information at least 30 days after the end of any such quarter (such request to remain in effect for subsequent filings until changed or revoked by such owners). CHE will convey such quarterly information to such beneficial owners via mail, facsimile, electronic transfer or such other alternate means of communication as is acceptable to CHE.

The unaudited quarterly financial information will include consolidated and consolidating balance sheets and consolidated and consolidating statements of operations, presented on a basis substantially consistent with the format of the financial statements included in **APPENDIX A** to this Official Statement. The quarterly consolidated and consolidating utilization information will be presented on a basis substantially consistent with the format of the table set forth under the caption **"MANAGEMENT'S DISCUSSSION – Utilization Statistics – CHE Health System"** in **APPENDIX A** to this Official Statement.

Beneficial owners of the Bonds should direct their requests for such quarterly financial information to the Vice President, Financial Services, Catholic Health East, 14 Campus Boulevard, Suite 300, Newtown Square, Pennsylvania, telephone: (610) 355-2000; fax: (610) 355-2050; or e-mail: info@che.org.

Material Event Notices

CHE will also provide timely notices of certain events to certain information vendors. CHE, on behalf of itself and any other Member of the Obligated Group, will provide notice of any of the following events with respect to each Series of the Bonds, if such event is material to a decision to purchase or sell such Series of the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of such Series of the Bonds; (7) modifications to rights of holders of such Series of the Bonds; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of such Series of the Bonds; and (11) rating changes. In addition, CHE will provide timely notice of any failure by CHE to provide information, data, or financial statements in accordance with the Continuing Disclosure. CHE will provide each notice described in this paragraph to the Bond Trustee, any SID and either to each NRMSIR or the Municipal Securities Rulemaking Board.

Availability of Information from NRMSIRs and SIDs

CHE has agreed to provide the foregoing information to the Bond Trustee, NRMSIRs and any SID. The information will be available to holders of the Bonds only if the holders comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

Limitations and Amendments

CHE has agreed to provide annual and quarterly reports and notices of material events only as described above. CHE has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. CHE makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. CHE disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Continuing Disclosure Agreement or from any statement made pursuant to it, although holders of the Bonds may seek a writ of mandamus to compel CHE to comply with the Continuing Disclosure Agreement.

CHE may amend the Continuing Disclosure Agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the System Affiliates, if (1) the Disclosure Agreement, as amended, would have permitted an underwriter to purchase or sell a Series of Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such

amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds of such Series consent to the amendment or (b) any person unaffiliated with CHE or any System Affiliate (such as nationally recognized bond counsel or the Bond Trustee) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds of that Series. If CHE so amends the Continuing Disclosure Agreement, it has agreed to include with the next financial information and operating data provided in accordance with the Continuing Disclosure Agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Prior Undertakings

CHE has previously entered into undertakings regarding compliance with Rule 15c2-12 with respect to certain outstanding tax-exempt revenue bonds.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuers, CHE, and others in connection with the Bonds, and Bond Counsel has assumed compliance by the Issuers and CHE with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

The forms of the opinions of Bond Counsel are attached hereto as **APPENDIX E**.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Bonds in order that interest on the Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become included in gross income for Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Issuers and CHE have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Bonds. It does not purport to deal with all aspects of Federal taxation that may be relevant to a particular owner of a Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Bonds.

Prospective owners of the Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is not included in gross income for Federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Legislation affecting municipal bonds is regularly under consideration by the United States Congress. In addition, the Internal Revenue Service has established an expanded audit program for tax-exempt bonds. There can be no assurance that legislation enacted or proposed or an audit initiated by the Internal Revenue Service after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status or market price of the Bonds or that an audit initiated by the Internal Revenue Service involving other tax exempt bonds will not have an adverse affect on the market price of the Bonds.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the inside cover page and the immediately succeeding page of this Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates),

that premium constitutes "bond premium" on that Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles. An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

State Tax Matters

In the opinion of Bond Counsel, under existing laws of the Commonwealth of Massachusetts, the Massachusetts Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from taxation imposed by The Commonwealth of Massachusetts, although the Massachusetts Bonds and the interest thereon may be included in the measure of Massachusetts estate and inheritance taxes and of certain Massachusetts corporate excise and franchise taxes.

In the opinion of Bond Counsel under existing laws of the Commonwealth of Pennsylvania, the Pennsylvania Bonds are exempt from personal property taxes in Pennsylvania and interest on the Pennsylvania Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. Pursuant to the provisions of the Act 68 of 1993 of the Commonwealth of Pennsylvania ("Act 68"), gain from the sale of obligations of the Commonwealth of Pennsylvania or any agency or governmental unit or political subdivision thereof or authority created thereby issued after February 1, 1994, shall be subject to Pennsylvania personal income tax. No opinion is expressed as to the treatment of original issue discount in the computation of gain from the sale of the Pennsylvania Bonds pursuant to Act 68.

In the opinion of Bond Counsel, under existing laws of the State of Georgia, interest on the Georgia Bonds is exempt from all present state income taxation within the State of Georgia.

UNDERWRITING

Merrill Lynch & Co., as the Underwriter, has agreed to purchase the Bonds at an aggregate underwriting discount of $455,693 and an aggregate net original issue discount of $843,849, plus aggregate accrued interest of $376,301, pursuant to a separate bond purchase agreement for each Series of the Bonds between the Issuer of that Series and the Underwriter. The bond purchase agreements provide that the Underwriter will purchase all of the Bonds of the Issuer if any are purchased. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. Pursuant to a Letter of Representations for each bond purchase agreement, CHE has agreed to indemnify the Underwriters and each Issuer against certain liabilities. The obligation of the Underwriter to accept delivery of each Series of the Bonds is subject to various conditions contained in the bond purchase agreement for that Series.

RATINGS

Moody's Investors Service, Inc., Standard & Poor's, a division of The McGraw Hill Companies, Inc. and Fitch, Inc. have assigned the Bonds ratings of "A2," "A" and "A+ ", respectively. Such ratings reflect only the view of Moody's, S&P and Fitch at the time such ratings are given, and the Issuer make no representations as to the appropriateness of such ratings. Any explanation of the significance of such ratings may only be obtained

from the rating agency furnishing the same. Certain information and materials not included in this Official Statement were furnished to the rating agencies concerning the Bonds. Generally, rating agencies base their ratings on such information and materials and on investigation, studies and assumptions by the rating agencies. There is no assurance that the ratings mentioned above will remain for any given period of time or that any or all of them might not be lowered or withdrawn entirely by any rating agency, if in the judgment of any or all rating agencies, circumstances so warrant. Any such downward change in or withdrawal of such ratings might have an adverse effect on the market price for and marketability of the Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the issuance of the Bonds are subject to the unqualified approving opinion of Hawkins, Delafield & Wood, New York, New York, bond counsel to each Issuer. Certain legal matters will be passed upon for the Georgia Issuer by its counsel, Fortson, Bentley and Griffin, A Professional Association, Athens, Georgia; for the Massachusetts Issuer by its counsel, Palmer & Dodge LLP, Boston, Massachusetts; and for the Pennsylvania Issuer by its counsel, Thorp, Reed & Armstrong, LLP, Pittsburgh, Pennsylvania. Certain legal matters will be passed upon for CHE and the System Affiliates by their special counsel, Buchanan Ingersoll Professional Corporation, Pittsburgh, Pennsylvania, and for the Underwriter by its counsel, Foley & Lardner, Chicago, Illinois.

INDEPENDENT AUDITORS

The consolidated financial statements of CHE as of and for the years ended December 31, 2001 and 2000, included in **APPENDIX B** to this Official Statement, have been audited by Ernst & Young, LLP, independent auditors, as stated in their report appearing therein.

OTHER MATTERS

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof. In particular, no opinion or representation is rendered as to whether any forecast will approximate actual results and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

The distribution of this Official Statement has been approved by CHE. None of the Issuers is responsible for any information set forth herein except that contained under the captions "**THE ISSUERS**" and "**LITIGATION -- The Issuers**."

MISCELLANEOUS

The references in this Official Statement to the Master Trust Indenture, the Bond Indentures, the Loan Agreements, the Tax Regulatory Agreements and the Series 2002 Obligations are brief summaries of certain provisions thereof. Such summaries do not purport to be complete and reference is made to the Master Trust Indenture, the Bond Indentures, the Loan Agreements, the Tax Regulatory Agreements and the Series 2002 Obligations for full and complete statements of such and all provisions contained therein. The agreements of each Issuer with the holders of its Series of the Bonds are fully set forth in its Bond Indenture, and neither any advertisement of the Bonds of such Series nor this Official Statement are to be construed as constituting an agreement with the holders of the Bonds of such Series. So far as any statements are made in this Official Statement involving matters of opinion or forecast, 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 Issuers.

Attached hereto as **APPENDIX A** is information relating to CHE and the System Affiliates which information has been prepared by CHE for inclusion in this Official Statement. Attached hereto as **APPENDIX B** are the financial statements of CHE. With respect to **APPENDICES A** and **B** and any other information herein pertaining to CHE and its financial condition, neither any of the Issuers nor the Underwriter makes any representations or warranties whatsoever with respect to the information contained herein or therein. The Issuers and the Underwriter have relied entirely on CHE for the information contained in **APPENDICES A** and **B** and the other information pertaining to CHE and its financial condition. **APPENDICES A** and **B** are incorporated herein as an integral part of the Official Statement.

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

The Issuers and CHE have authorized the execution and delivery of this Official Statement.

CATHOLIC HEALTH EAST

By: /s/ C. Kent Russell
Its: Executive Vice President and Chief Financial Officer

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

By: /s/ James M. Edwards
Its: Chairman

DEVELOPMENT AUTHORITY OF THE UNIFIED GOVERNMENT OF ATHENS - CLARKE COUNTY, GEORGIA

By: /s/ Talmadge C. DuVall
Its: Chairman

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Benson T. Caswell
Its: Executive Director

APPENDIX A

Information Concerning Catholic Health East and the Other System Affiliates

The information contained herein as Appendix A to this Official Statement has been obtained from Catholic Health East.

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DEVELOPMENT OF CATHOLIC HEALTH EAST

General

Catholic Health East, or CHE, was incorporated as a Pennsylvania nonprofit corporation in 1997. CHE controls, directly or indirectly, or manages, various Affiliates that together with CHE constitute the CHE Health System. These Affiliates own and operate or manage health care facilities and provide health care and related services in ten states: Alabama, Connecticut, Delaware, Florida, Georgia, Maine, Massachusetts, New Jersey, North Carolina and Pennsylvania. The health care facilities include general acute care hospitals, long-term care facilities, skilled nursing facilities and behavior health facilities with an aggregate of approximately 8,428 beds and residential facilities for the elderly with an aggregate of approximately 3,126 living units (both figures are as of December 31, 2001). Additional health care services include physician services, home health, outpatient surgery, dental clinics, occupational health, mobile health care services, school-based health clinics and others. See **"The System Affiliates"** below for a listing of CHE's health care facilities.

The System Affiliates

As described in the forepart of this Official Statement, Affiliates that own a substantial portion of the revenues and assets of the CHE Health System are Designated Affiliates under the Master Trust Indenture. CHE and certain of the other System Affiliates are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended, as organizations described in Section 501(c)(3) of the Code, and are not private foundations within the meaning of Section 509(a) of the Code.

The following list includes substantially all System Affiliates on the date of issuance of the Bonds, including certain System Affiliates that operate facilities and the cities in which their principal facilities or primary operations are located.

State	System Affiliates	Description of Facility/Activity	Location
Alabama	Mercy Medical, A Corporation	Sub-Acute and Long-Term Care	Daphne
Connecticut	McAuley Center, Incorporated	Residential	West Hartford
	Mercy Community Health, Inc.		
	Mercy Community Home Care Services, Inc.		
	Mercyknoll, Incorporated	Long-Term Care	West Hartford
	Mercy Services, Inc.		
	Saint Mary Home, Incorporated	Long-Term Care	West Hartford
	Saint Mary Home II, Incorporated	Long-Term Care	West Hartford
Delaware	Franciscan Eldercare Corporation	Long-Term Care	Wilmington
	St. Francis Foundation		
	St. Francis Hospital, Inc.	Acute Care	Wilmington
Florida			
	Allegany Franciscan Foundation, Dade County, Inc.		
	Allegany Franciscan Foundation, Palm Beach County, Inc.*		
	Allegany Franciscan Foundation, Tampa Bay, Inc.		
	Allegany Franciscan Ministries, Inc.		
	Holy Cross Health Ministries, Inc.		
	Holy Cross Hospital, Inc.	Acute Care	Ft. Lauderdale
	Holy Cross Long Term Care, Inc.	Long-Term Care	Ft. Lauderdale
	Intracoastal Health Systems, Inc.		
	John Knox Village of Tampa Bay, Inc.*	Long-Term Care	Tampa
	Mercy Home Care Inc.*		

State	System Affiliates	Description of Facility/Activity	Location
	Mercy Hospital Foundation, Inc.		
	Mercy Hospital, Inc.	Acute Care	Miami
	Mercy Medical Development, Inc.		
	Mercy Medical Group, Inc.*		
	Mercy Mission Services, Inc.*		
	Mercy West, Inc.*		
	St. Anthony's Health Care Foundation, Inc.*		
	St. Anthony's Hospital, Inc.*	Acute Care	St. Petersburg
	St. Joseph's Health Care Center, Inc.*		
	St. Joseph's Hospital, Inc. *	Acute Care	Tampa
	St. Joseph's Hospital of Tampa Foundation, Inc.*		
	St. Joseph Child Development Center, Inc.*		
Georgia	Mercy Senior Care, Inc.		
	Saint Joseph's Health System, Inc.		
	Saint Joseph's Hospital of Atlanta, Inc.	Acute Care	Atlanta
	Saint Joseph's Mercy Care Services, Inc.		
	Saint Joseph's Mercy Foundation, Inc.		
	Saint Joseph's Primary Care Network, Inc.†		
	Saint Joseph's Service Corporation†		
	St. Mary's Foundation, Inc.		
	St. Mary's Health Care System, Inc.	Acute Care	Athens
Maine	McAuley Residence, Inc.		
	Mercy Health Care Services, Inc.†		
	Mercy Health System of Maine		
	Mercy Hospital	Acute Care	Portland
	Mercy Primary Care Center†		
Massachusetts	Brightside, Inc.	Behavioral Health	Holyoke
	Farren Care Center, Inc.	Long-Term Care	Turners Falls
	The Mercy Hospital, Inc.	Acute Care	Springfield
	Providence HomeCare, Inc.†		
	Sisters of Providence Care Centers, Inc.	Long-Term Care	Holyoke
	Sisters of Providence Health System, Inc.		
	System Coordinated Services, Inc.†		
New Jersey	Lourdes Ancillary Services, Inc.		
	Lourdes Home Health Services, Inc.		
	Osborn Family Health Center, Our Lady of Lourdes Medical Center		
	Our Lady of Lourdes Health Care Services, Inc.		
	Our Lady of Lourdes Medical Center, Inc.	Acute Care	Camden
	Our Lady of Lourdes School of Nursing, Inc.		
	Rancocas Hospital	Acute Care	Willingboro
	St. Francis Medical Center	Acute Care	Trenton
	St. Francis Medical Center Foundation, Inc.		
North Carolina	Saint Joseph of the Pines, Inc.	Long-Term Care	Southern Pines
Pennsylvania	Catholic Health East		
	Coolock Enterprises, Inc.†		
	Family Service Corps, Inc.		
	Mercy Adult Services		
	Mercy Catholic Medical Center Apothecary, Inc.†		

State	System Affiliates	Description of Facility/Activity	Location
	Mercy Catholic Medical Center of Southeastern Pennsylvania	Acute Care	Philadelphia and Darby
	Mercy Eastwick, Inc.†		
	Mercy Family Support		
	Mercy Haverford Hospital d/b/a Mercy Community Hospital	Acute Care	Havertown
	Mercy Health Care		
	Mercy Health Foundation of Southeastern Pennsylvania		
	Mercy Health Network		
	Mercy Health Plan		
	Mercy Health System of Southeastern Pennsylvania		
	The Mercy Hospital of Pittsburgh	Acute Care	Pittsburgh
	Mercy Home Care Equipment		
	Mercy Home Health		
	Mercy Home Health Services		
	Mercy Management of Southeastern Pennsylvania		
	Mercy Primary Care, Inc.		
	Mercy Providence Hospital	Acute Care	Pittsburgh
	Mercy Suburban Hospital	Acute Care	Norristown
	Nazareth Health Care Foundation		
	Nazareth Hospital	Acute Care	Philadelphia
	Pittsburgh Mercy Foundation		
	Pittsburgh Mercy Health System, Inc.		
	St. Agnes Medical Center	Acute Care	Philadelphia
	St. Agnes Medical Center Foundation		
	St. Joseph Nursing and Health Care Center	Long-Term Care	Pittsburgh
	St. Mary Medical Center	Acute Care	Langhorne
	St. Mary Medical Center Foundation		
	St. Pius X Residence	Long-Term Care	Pittsburgh
Cayman Islands, British West Indies	Stella Maris Insurance Company, Limited Biscayne Insurance Co. Ltd.		

† For profit entities.
* Not "Designated Affiliates" under the Master Trust Indenture.

Recent Developments Affecting the CHE Health System

Saint Joseph of the Pines, Inc. Effective February 1, 2000, the corporate membership rights in Saint Joseph of the Pines, Inc. were transferred from SPHS Corporation, formerly known as Sisters of Providence Health System, Inc., to CHE. Saint Joseph of the Pines, Inc. has been a Designated Affiliate since 1998.

Acquisitions from Catholic Health Initiatives. Effective June 30, 2001, Catholic Health Initiatives (CHI) sold four hospitals and their affiliated organizations to CHE under an asset acquisition agreement. The acquired entities included St. Agnes Medical Center in Philadelphia, Nazareth Hospital in Philadelphia, St. Mary Medical Center in Langhorne, Pennsylvania and St. Francis Hospital in Wilmington, Delaware. The acquisition of a fifth CHI hospital, St. Francis Medical Center in Trenton, New Jersey, and its affiliates occurred effective December 31, 2001. The five hospitals and most of the affiliated organizations became Designated Affiliates effective as of their respective acquisition dates.

BayCare Health System. CHE Affiliates St. Joseph's Hospital, Inc., St. Joseph's Health Care Center, Inc., St. Anthony's Hospital, Inc. and John Knox Village of Tampa Bay, Inc. are participants in the BayCare Health System pursuant to a Joint Operating Agreement ("JOA") among such corporations and other provider corporations, including Morton Plant Mease HealthCare, Inc., South Florida Baptist Hospital, Inc. and BayCare Health System, Inc. Pursuant

to the BayCare JOA, BayCare Health System is responsible for the operations of all of the BayCare JOA participants, including these CHE Affiliates, subject to certain powers reserved to the members of BayCare Health System. The members of BayCare Health System are CHE, Morton Plant Mease HealthCare Inc. and South Florida Baptist Hospital, Inc. CHE and Morton Plant Mease HealthCare Inc. each appoint nine of the twenty trustees; the remaining two trustees are appointed by South Florida Baptist Hospital, Inc. The operating results of BayCare Health System are shared by the members by way of an agreed upon formula whereby CHE receives 60.02%, Morton Plant Mease 35.71% and South Florida Baptist Hospital, Inc. 4.27%.

On February 1, 2001, BayCare Health System replaced CHE as sole obligor of the $362,250,000 City of Tampa, Florida, Health System Revenue Bonds, Catholic Health East Issue, Series 1998A-1 under an obligated group consisting of the BayCare affiliates. As a result of this transaction, CHE was released from liability on the Series 1998A-1 Bonds, and the CHE Affiliates that have been participants in the BayCare JOA were removed as Designated Affiliates, but remain as Affiliates of CHE. CHE continues to be a member of BayCare Health System pursuant to the BayCare JOA. The transaction had no effect on CHE's investment in BayCare Health System or CHE's interest in the operating results of BayCare Health System.

Intracoastal Health Systems, Inc. Effective July 1, 2001, Intracoastal Health Systems, Inc. sold substantially all of the operating assets of St. Mary's Hospital, Inc. and Good Samaritan Hospital, Inc. to subsidiaries of Tenet Healthcare Corporation. With a portion of the proceeds received from the sale of these assets, Intracoastal repaid CHE the amount outstanding on the notes receivable of CHE relating to the $155,210,000 original aggregate principal amount of the City of Tampa, Florida Health System Revenue Bonds, Catholic Health East Issue, Series 1998A-3. The Series 1998A-3 Bonds remain outstanding and secured by an Obligation issued by CHE. Intracoastal is a Designated Affiliate and is controlled by CHE. Intracoastal, St. Mary's Hospital, Inc. and Good Samaritan Hospital, Inc. are in the process of winding down their affairs.

Allegany Franciscan Ministries Inc. Effective September 19, 2001, Allegany Franciscan Ministries, Inc. (formerly known as Franciscan Sisters of Allegany Health System, Inc.) and its affiliates became part of the CHE Health System and Allegany Franciscan Ministries, Inc. and its affiliate, Allegany Franciscan Foundation of Dade County, Inc., became Designated Affiliates.

Mercy Hospital, Inc.(Florida). On June 30, 2002, Mercy Hospital, Inc. (Florida) became a Designated Affiliate.

Anticipated Growth of the CHE Health System

On March 12, 2002, CHE and Eastern Mercy Health System, one of the predecessor organizations to CHE, signed a non-binding letter of intent whereby Eastern Mercy would merge into CHE. This transaction is expected to be completed by December 31, 2002, and management of CHE anticipates that it will be accounted for by CHE in a manner similar to a pooling of interests. Upon completion of this transaction, Eastern Mercy's affiliates would become CHE Affiliates, and such affiliates may or may not become Designated Affiliates.

On April 29, 2002, CHE and Jeannette HealthPace Corporation, a Pennsylvania nonprofit corporation that operates a hospital in Jeannette, Pennsylvania, signed a non-binding letter of intent evidencing the intent of the Jeannette HealthPace Corporation to pursue a business relationship with CHE or Pittsburgh Mercy Health System, Inc., a Designated Affiliate.

These possible business relationships are subject to due diligence and a variety of corporate and regulatory approvals. There is no certainty, therefore, that these discussions will result in the execution of a definitive agreement or completion of a transaction.

CHE is currently in discussions with health systems and providers concerning membership in the CHE Health System and/or their designation as a Designated Affiliate. CHE is in the process of adopting strategies encouraging its members to develop locally integrated networks with other providers and physicians in their service areas, including joint operating arrangements. CHE discusses opportunities for merger, affiliation or other collaboration from time to

time. These discussions could result in the addition of corporations to the CHE Health System and/or the addition of Designated Affiliates, the withdrawal of Affiliates from the CHE Health System or as Designated Affiliates or the purchase or sale of property or facilities. These discussions are preliminary in nature and do not necessarily indicate an intention to expand or contract the CHE Health System or the addition or withdrawal of Designated Affiliates. Management of CHE cannot conclude whether affiliation, purchase, sale, addition or withdrawal will result from such discussions. The consummation of any such transaction will result from individual circumstances and conditions and the effect of such on the CHE Health System and the System Affiliates cannot be predicted.

FINANCIAL AND OPERATING INFORMATION

General

The summary financial information under this caption reflects the financial condition and operating results of the CHE Health System, including all System Affiliates, for the periods described below. This information should be read in conjunction with the audited consolidated financial statements of CHE for the two fiscal years ended December 31, 2001 included as **APPENDIX B** to this Official Statement, the related notes and the other financial information included herein.

The financial information as of and for the two fiscal years ended December 31, 2001 has been derived from the consolidated financial statements of CHE for those years, which have been audited by Ernst & Young LLP, independent auditors. In the opinion of CHE management, there has been no material adverse change in the financial condition of CHE since December 31, 2001, the date of the last audited consolidated financial statements.

The financial information for the five-month periods ended May 31, 2001 and 2002 has been derived from the unaudited consolidated financial statements of CHE and includes all adjustments, consisting of normal recurring accruals, which CHE considers necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the five months ended May 31, 2002 are not necessarily indicative of the results that may be expected for the entire fiscal year ending December 31, 2002.

Operating results relating to Saint Joseph of the Pines, Inc. are included for periods beginning January 1, 2000. Operating results relating to St. Agnes (Philadelphia), Nazareth (Philadelphia), St. Mary's (Langhorne, Pennsylvania) and St. Francis (Wilmington, Delaware) are included for periods beginning July 1, 2001, and operating results relating to St. Francis (Trenton, New Jersey) are included solely for the period beginning January 1, 2002.

Entities whose accounts are consolidated into the financial statements of CHE pursuant to generally accepted accounting principles are System Affiliates. The financial information included in **APPENDIX B** hereto, and which is summarized in the following tables, includes the financial information of the CHE Affiliates that are participants in the BayCare JOA and the CHE Affiliates that had been affiliates of Intracoastal in accordance with generally accepted accounting principles ("GAAP"). Because such Affiliates are, or had been, participants in joint ventures, GAAP requires that their financial condition be recorded and disclosed in the financial statements of CHE pursuant to the "equity" method. Therefore, the financial information relating to the CHE Affiliates that are participants in the BayCare JOA and the CHE Affiliates that had been affiliates of Intracoastal (until July 1, 2001) is reflected as "Investments in Unconsolidated Organizations" on the consolidated balance sheets of CHE included in **APPENDIX B** to this Official Statement. Income from these unconsolidated organizations is included in total operating revenue in the Statement of Operations. Such presentation does not consolidate the assets (including cash and investments) or liabilities (including long-term indebtedness) of the CHE Affiliates that are participants in the BayCare JOA and (prior to July 1, 2001) the CHE Affiliates that were Intracoastal affiliates, and does not consolidate their revenue and expenses, but rather presents CHE's investment in the net assets of these Affiliates (for periods prior to July 1, 2001 with respect to the Intracoastal affiliates) and its equity interest in the change in such net assets.

On February 1, 2000, the membership rights in Saint Joseph of the Pines, Inc. were transferred to CHE. For financial reporting purposes, the transfer was recorded as of January 1, 2000.

On June 30, 2001, CHE or one of its Designated Affiliates acquired the membership rights in the following hospitals: St. Agnes (Philadelphia), Nazareth (Philadelphia), St. Mary (Langhorne, Pennsylvania), and St. Francis (Wilmington, Delaware). On December 31, 2001, CHE acquired the membership rights to St. Francis (Trenton, New Jersey). The financial and statistical information for the CHE Health System included in **APPENDIX B** and summarized in the following tables includes the financial and statistical information of the acquired facilities from their respective dates of acquisition.

Consolidated Summary Statement of Operations and Changes in Unrestricted Net Assets - CHE Health System

The following table presents the consolidated summary statement of operations and changes in the unrestricted net assets of the CHE Health System for each of the years ended December 31, 2000 and 2001 and for the five months ended May 31, 2001 and 2002.

Consolidated Summary Statement of Operations and Changes in Unrestricted Net Assets

(Numbers in Thousands)

	Fiscal Year Ended December 31,		Five Months Ended May 31,	
	2000	2001	2001	2002
Revenue:				
Net patient service revenue	$1,891,377	$2,245,618	$853,985	$1,145,790
Income from unconsolidated organizations, net	4,508	36,771	7,540	13,510
Other operating revenues	224,637	209,702	78,342	74,133
	2,120,522	2,492,091	939,867	1,233,433
Expenses:				
Salaries, wages and benefits	1,044,031	1,261,646	471,528	633,591
Supplies	314,885	363,884	137,920	178,802
Purchased services, professional fees and other expenses	492,662	554,550	194,963	252,726
Depreciation and amortization	124,906	126,116	52,911	58,196
Interest	71,906	44,389	18,156	21,496
Provision for bad debts	106,050	144,058	47,093	68,505
	2,154,440	2,494,643	922,571	1,213,316
Operating Income (Loss) before Restructuring Expenses, Write-offs of Investments in and Advances to Unconsolidated Organizations, and Accrual Reversal:	(33,918)	(2,552)	17,296	20,117
Restructuring expenses, impairment losses	(9,598)	(30,354)	(790)	(239)
Write-off of investments in and advances to unconsolidated organizations	-	(47,444)	-	-
Public medical assistance trust fund accrual reversal	5,317		-	-
Operating Income (Loss)	(38,199)	(80,350)	16,506	19,878
Nonoperating Gains (Losses)[(1)]				
Investment Income (Loss)	55,281	32,294	27,323	(9,363)
Excess (Deficiency) of Revenue over Expenses	17,082	(48,056)	43,829	10,515
Transfers from affiliates, net	-	14,941	-	-
Net unrealized losses on investments	(47,201)	(88,991)	(41,660)	(18,051)
Other Changes	9,752	3,317	2,893	3,838
(Decrease) Increase in Unrestricted Net Assets	$(20,367)	$(118,789)	$5,062	$(3,697)

(1) The above summary statement of operations and changes in unrestricted net assets presents investment income (loss) as nonoperating gains (losses). This presentation is not consistent with the audited consolidated financial statements of CHE included in **APPENDIX B**, which include investment income (loss) in operating income.

Consolidated Summary Balance Sheets - CHE Health System

The following table presents the consolidated summary balance sheets of the CHE Health System at December 31, 2000 and 2001 and at May 31, 2002.

Consolidated Summary Balance Sheets

BALANCE SHEET	(Numbers in Thousands) December 31, 2000	December 31, 2001	May 31, 2002
ASSETS			
Current Assets:			
Cash & Short-term Investments	$159,438	$234,754	$182,159
Patient Accounts Receivables, net	375,024	454,455	454,779
Other Accounts Receivable	47,386	50,741	55,333
Prepaid Expenses and Other	54,948	73,732	72,261
Total Current Assets	636,796	813,682	764,532
Marketable Securities Whose Use is Limited	763,554	683,977	703,718
Property, Plant & Equipment, net	1,051,746	1,157,155	1,169,235
Investments in Unconsolidated Organizations	515,378	482,425	496,455
Notes Receivable from Unconsolidated Organizations	478,180	-	-
Investments	286,385	289,552	286,421
Other Assets	53,951	99,247	99,856
Total Assets	$3,785,990	$3,526,038	3,520,217
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Current Portion of Long-Term Debt	$27,976	$27,892	$26,613
Short-Term Borrowing	32,819		-
Accounts Payable and Accrued Expenses	208,627	276,967	250,140
Other	92,890	158,097	156,157
Total Current Liabilities	362,312	462,956	432,910
Long-Term Debt, net	1,378,324	1,076,485	1,114,536
Deferred Revenue from Entrance Fees	46,505	49,335	51,351
Other Liabilities	158,945	221,418	217,938
Total Liabilities	1,945,631	1,810,194	1,816,735
Net Assets:			
Unrestricted	1,754,191	1,635,402	1,631,704
Temporarily Restricted	56,119	50,240	44,375
Permanently Restricted	30,049	30,202	27,403
Total Net Assets	1,840,359	1,715,844	1,703,482
Total Liabilities and Net Assets	$3,785,990	$3,526,038	$3,520,217

Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management of CHE to make assumptions, estimates and judgments that affect the amounts reported in the financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any.

CHE considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of its financial statements, including the following: recognition of net operating revenues, which includes contractual allowances; impairment of long-lived assets; accounting for expenses in connection with restructuring activities; provisions for bad debt; and reserves for losses and expenses related to health care professional and general liability risks. Management relies on historical experience and on other assumptions believed to be reasonable under the circumstances in making its judgment and estimates. Actual results could differ materially from those estimates.

Outstanding Debt and Derivative Financial Instruments

As of May 31, 2002, the aggregate principal balance of outstanding Obligations evidencing debt of CHE was $902,006,000. Additional debt totaling $239,143,000 are direct obligations of various Designated Affiliates. Such Obligations evidence $845,606,000 in fixed rate debt, $30 million in variable rate debt, and a $50 million line of credit (of which $32.3 million was outstanding as of May 31, 2002). Other Obligations guarantee indebtedness with an aggregate principal balance, as of May 31, 2002, of $154,953,000. Of this amount, $91,403,000 is debt of System Affiliates that were Designated Affiliates as of May 31, 2002. The balance of this amount is debt of Mercy Hospital, Inc. (Florida), which became a Designated Affiliate as of June 30, 2002. An additional Obligation secures a liquidity facility relating to the $30 million variable rate debt. CHE has also executed a guarantee in the amount of $14,000,000 to secure a line of credit benefiting Eastern Mercy Health System. Such guarantee is not secured by an Obligation.

At May 31, 2002, CHE had a total of six interest rate swap transactions with notional amounts totaling $270 million, which have been entered into for the purpose of reducing total interest expense. At May 31, 2002, the fair value of these interest rate swap transactions represents a liability of $1,155,000, which is included in the consolidated CHE balance sheet as other liabilities.

In addition to the issuance of the Bonds, from time to time CHE may incur or guarantee debt for capital improvements or equipment acquisitions within the CHE Health System, or to refinance outstanding debt of System Affiliates. In addition, if other health care providers become part of the CHE Health System, CHE may from time to time incur or guarantee debt in connection with such transactions. Also, CHE may in the future enter into other financial arrangements, including additional interest rate swaps or similar hedging arrangements.

MANAGEMENT'S DISCUSSION

As described elsewhere herein, the financial information concerning the CHE Health System included in this **APPENDIX A** and in **APPENDIX B** to this Official Statement, unless otherwise expressly stated, reflects the inclusion of the CHE Affiliates that are participants in BayCare and the CHE Affiliates that were affiliates of Intracoastal in accordance with GAAP under the "equity" method. Such presentation does not consolidate the assets (including cash and investments) or liabilities (including long-term indebtedness) of these CHE Affiliates, and does not consolidate their revenue and expenses, but rather presents CHE's investment in the net assets of these CHE Affiliates, and its equity interest in the change in such net assets. CHE's share of the earnings from these Unconsolidated Organizations is included in Operating Revenue in the Statement of Operations included in Appendix A and Appendix B.

Balance Sheet

At May 31, 2002, the entities now comprising the CHE Health System had liquid assets in the form of cash and investments of $1.05 billion, which is a decrease of 5.6% from December 31, 2001 levels. The total represents 146.7 days of cash on hand, a decrease of 16.3 days from 163 days at December 31, 2001. The decline over the five-month period is attributable to a reduction in accounts payable and the decline in the market value of investments. Net patient accounts receivable rose 0.1% from December 31, 2001 to May 31, 2002. When measured in days in accounts receivable, there was a decrease of 4.9 days to 59.9 days of net patient service revenue due to strong revenue growth and improved collection efforts.

On February 1, 2001, BayCare Health System replaced CHE as the sole obligor of the Catholic Health East Issue, Series 1998A-1. As a result of this transaction, Notes Receivable from Unconsolidated Organizations and Long Term Debt were each reduced by $340.5 million.

On July 1, 2001, Intracoastal repaid CHE the amount outstanding on the note receivable relating to the Catholic Health East Issue, Series 1998A-3, as described earlier in this Appendix A under the caption **"DEVELOPMENT OF CATHOLIC HEALTH EAST – Recent Developments Affecting the CHE Health System."**

Statement of Operations

Net patient service revenue in 2001 grew by 8.5% on a same facility basis and 18.7% overall. For the five months ending May 31, 2002, net patient service revenue has increased 8.4% on a same facility basis and 34.2% overall, compared to the same period in the prior year. A 28.5% increase in discharges for the comparative five-month period along with improved managed care payment rates have contributed to the overall increase in revenue.

Operating expenses in 2001 grew by 6.5% on a same facility basis and 15.8% overall. For the five months ending May 31, 2002, expenses are 31.5% higher than the same period in 2001 and 7.9% higher on a same facility basis.

Operating income before restructuring and other charges improved by $31.4 million from 2000 to 2001 and by $2.8 million for the comparative five month periods in 2001 and 2002. Management has undertaken several initiatives toward improving operating income from its core operations, many of which are ongoing. These initiatives include revenue enhancement, expense control and reduction, and improvement in cash flow and liquidity.

Increases in revenue during 2001 and 2002 were attributable to the CHI facility acquisitions in 2001 and also achieved by increasing volume and payment levels, particularly from managed care payors. New initiatives in revenue improvement are geared toward the implementation of regional business offices and standardization of patient accounting and information management systems. Expense control and reduction efforts are focused on personnel and supply costs. Management is implementing recommendations from a Blue Ribbon Task Force, whose efforts focused on reducing temporary agency costs and turnover of nursing staff. Supply chain management process standardization efforts are targeting better control of supply expense.

Other efforts to improve operating income were initiated during 2001, when significant restructuring expenses and write-offs of joint venture investments were incurred to exit unprofitable operations. Such efforts allow management to focus on core operations.

Sources of Revenue

The System Affiliates derive their net patient revenue from Medicare, state Medicaid programs, managed care providers, commercial insurers, self-paying patients and other sources. The following table presents the sources of patient service revenue for the CHE Health System (excluding the CHE Affiliates that are participants in BayCare and that were affiliates of Intracoastal) for the periods indicated. The sources of revenue of the CHE Health System can be expected to change from time to time. For further information respecting the sources of revenue, see the forepart of this Official Statement under the caption "**BONDHOLDERS' RISKS--Payment and Reimbursement**."

Sources of Revenue

	December 31, 2000	December 31, 2001	May 31, 2002
Medicare	42%	39%	38%
Medicaid	9	7	6
Self Pay	7	5	4
Managed Care	23	28	31
Commercial	3	5	6
Other	16	16	15
Total	100%	100%	100%

Historical and Pro Forma Debt Service Coverage

The following table sets forth both the historical and pro forma maximum annual debt service coverage ratio of the CHE Health System, assuming for purposes of calculation that certain revenue bonds issued for the benefit of CHE and the Designated Affiliates in 2000 and 2001, the Bonds and the New Jersey bonds described under the caption **"ADDITIONAL FINANCING PLANS"** in the forepart of this Official Statement were issued and the proceeds thereof were applied on the first day of each fiscal year, and that the New Jersey bonds were issued in the aggregate principal amount of $55 million, bearing interest at the rate of 5.90% per annum. For purposes of this debt service coverage table, the Income Available for Debt Service includes the results of operations of the CHE Affiliates that were affiliates of Intracoastal prior to July 1, 2001 and the results of operations of the CHE Affiliates that are participants in the BayCare JOA, and the Maximum Annual Debt Service Requirements includes the long-term indebtedness of Intracoastal and its former affiliates for which CHE is also obligated. (See **"Anticipated Growth of the CHE Health System –** ***Intracoastal Coastal Health Systems, Inc.*****"** above.) As described above under the caption **"FINANCIAL AND OPERATING INFORMATION,"** the results of operations and financial position of these CHE Affiliates are not consolidated with CHE in the same manner as other System Affiliates.

	CHE Health System *(Numbers in Thousands)*	
	2000	**2001**
Excess of Revenue Over Expenses[1]	$21,363	$29,742
Plus: Interest on Long-Term Debt	71,906	44,389
Depreciation and Amortization	124,906	126,116
Income Available for Debt Service	$218,175	$200,247
Historical Maximum Annual Debt Service Requirements	$80,824	$80,824
Historical Maximum Annual Debt Service Coverage Ratio	2.70x	2.48x
Pro Forma Maximum Annual Debt Service Requirements	$88,759	$88,759
Pro Forma Maximum Annual Debt Service Coverage Ratio	2.46x	2.26x

[1] This amount does not include one-time charges attributable to restructuring expenses, impairment losses, write-offs of investments in unconsolidated organizations, unrealized investment gains and losses or extraordinary items.

As discussed in above under the caption **"Anticipated Growth of the CHE Health System,"** Eastern Mercy Health System is expected to merge into CHE on or before December 31, 2002. If the Income Available for Debt Service of Eastern Mercy and its affiliates and their annual long-term debt service requirements are taken into account in calculating the Historical Maximum Annual Debt Service Coverage Ratios for CHE's 2000 and 2001 fiscal years, such ratios

would be 2.73x and 2.57x, respectively, and the Pro Forma Maximum Annual Debt Service Coverage Ratios for such fiscal years would be 2.52x and 2.37x, respectively.

Liquidity

As of May 31, 2002, the entities now comprising the CHE Health System (other than the CHE Affiliates that had been affiliates of Intracoastal and the CHE Affiliates that are participants in BayCare, as described above) had consolidated cash and investments and board designated investments of approximately $1 billion. CHE has a Consolidated Investment Program and a Cash Management Program, which represents the majority of all cash and investments of the System Affiliates. The Consolidated Investment Program is managed by CHE corporate finance management with direct oversight from the CHE Investment Committee. CHE has retained various investment managers to oversee its investments in different classes of securities according to asset allocation targets that it sets in conjunction with each facilities overall strategic and financial plan.

The Cash Management Program aggregates the operating cash of all System Affiliates into a single concentration account that is used to cover all disbursements. Initial program benefits are control of funds flow, reduced banking costs, enhanced short-term investment results and efficiencies through the use of the latest banking technology and systems.

In addition to the above referenced liquid balances, CHE maintains a $50,000,000 revolving line of credit with a group of three commercial banks to provide readily available funding for short-term working capital and/or permanent capital purchases in anticipation of external borrowing or for other temporary capital requirements. As of May 31, 2002, usage on the line of credit totals $32.3 million, of which $5.9 million applies to letters of credit.

Utilization Statistics - CHE Health System

The following table shows selected summary utilization statistics for the health care facilities operated by the System Affiliates (other than the CHE Affiliates that are participants in BayCare) for the fiscal years ended December 31, 2000 and 2001 and for the five month periods ended May 31, 2001 and 2002.

	Fiscal Year Ended December 31,		Five Months Ended May 31,	
	2000	2001	2001	2002
Acute Care:				
Beds in Operation	3,577	4,482	3,591	4,617
Total Discharges	169,829	194,311	73,101	93,908
Total Patient Days	969,213	1,090,778	411,329	531,145
Average Length of Stay	5.7	5.6	5.6	5.7
Outpatient, Primary Care and Emergency Room Visits	1,928,103	2,232,434	885,328	1,213,512
Long-Term Care:				
Beds in Operation Long-Term Care/Skilled Nursing Facility Patient Days	567,232	554,685	218,460	235,697
Other:				
Home Health Visits	151,867	147,520	60,092	61,260

CORPORATE ORGANIZATION, GOVERNANCE AND MANAGEMENT

Sponsoring Organizations and Sponsors Council

CHE is sponsored by fourteen "Sponsoring Organizations." Thirteen of the sponsors are either Regional Communities of the Institute of the Sisters of Mercy of the Americas or Religious Congregations of the Roman Catholic Church, and the fourteenth is Hope Ministries, a Public Juridic Person of the Pontifical Right. The leader of each Sponsoring Organization is the designated representative to the Sponsors Council. The Sponsors Council is vested with certain powers over the organization and development of CHE and the CHE Health System.

The initial Sponsoring Organizations were the Franciscan Sisters of Allegany, New York; the Franciscan Sisters of St. Joseph of Hamburg, New York; the Sisters of Providence, Massachusetts; and the Regional Communities of Albany, Baltimore, Buffalo, Connecticut, Merion, New York, Pittsburgh, Portland and Rochester of the Sisters of Mercy. In February, 1999, The Sisters of St. Joseph of St. Augustine, Florida became the thirteenth sponsor of CHE, and in 2001, Hope Ministries, Newtown Square, Pennsylvania, became the fourteenth sponsor.

Board of Directors

The Board of Directors of CHE consists of 19 individuals, 17 of whom are elected by the Sponsors Council plus the President of CHE and the Sponsors Council Coordinator of CHE, each of whom serves as a voting ex-officio Director. There are currently two vacant board members, which are actively being recruited. The following are the current members of the Board of Directors:

Name	Professional Affiliation	Term Expires
Regina M. Benjamin, MD	Physician	2004
Earle L. Bradford	Consultant, formerly Chief Administrative Officer Barnes Foundation	2004
Edward J. Conners	Retired President and Chief Executive Officer Mercy Health Services	2004
Mary Croghan, OSF	Assistant Administrator TriState Memorial Hospital	2002
Mary Caritas Geary, SP	Sisters of Providence and Retired Health Care Executive	2003
Thomas E. Getzen, Ph.D.	Professor and Director, Health Care Finance Temple University	2003
Thomas Harvey, M.A., M.S.	Senior Vice President Alliance for Children and Families	2002
William H. Izlar, Jr., Esq.	Lawyer and Banker	2003
Margaret Mary Kimmins, OSF	General Minister, Franciscan Sisters of Allegany	N/A
Jacquelyn S. Kinder, Ed.D.	Director, University Health Center, University of Georgia	2004

Name	Professional Affiliation	Term Expires
Kathleen Maire, OSF	Lead Organizer, Upper Manhattan Together New York, New York	2002
Christine McCann, RSM	President Sisters of Mercy, Merion Regional Community	2002
Laurence O'Connell, Ph.D., S.T.D.	President, CEO, The Park Ridge Center for the Study of Health, Faith and Ethics	2004
Marshall Ruffin, Jr., J.D.	President and Chief Executive Officer Ruffin Informatics, Inc.	2003
Daniel F. Russell	President and Chief Executive Officer Catholic Health East	N/A
Gladys T. Sharkey, OSF	Health Care Coordinator Franciscan Sisters of Allegany	2003
Rev. Mr. Joel M. Ziff	Retired CPA; Treasurer, Sisters of Mercy, Merion Regional Community	2002

Management

The management of CHE is vested in the President of CHE who is appointed by the Board of Directors. Biographical information regarding the President and the other members of CHE's senior management is set forth below.

Daniel F. Russell, President and Chief Executive Officer. Prior to assuming his position with CHE in 1997, Mr. Russell served as President and Chief Executive Officer of Eastern Mercy Health System since its founding in 1986. Mr. Russell is also President of Stella Maris Insurance Company, Ltd., CHE's wholly owned insurance company, and NewCap Ltd., an insurance company jointly owned with other Catholic health care systems. Mr. Russell has over 34 years experience in hospital and health care administration and is a member of numerous health care boards and task forces. Mr. Russell received his bachelor's degree from the University of Miami and an M.B.A. degree from Washington University.

Richard F. Afable, M.D., M.P.H., Executive Vice President and Chief Medical Officer. Prior to assuming his position with CHE in 1999, Dr. Afable served as Vice President, Physician Integration of Catholic Healthcare Partners (CHP) and the Dean Health System of Wisconsin since 1997. Previously, Dr. Afable was Medical Director and Vice President, Managed Care with QualChoice of North Carolina, from 1994 to 1997. Dr. Afable is Board Certified in Internal Medicine with a Certificate of Added Qualification in Geriatric Medicine. He worked as a private practicing internist and geriatrician for ten years after receiving his M.D. from Loyola University of Chicago-Stritch School of Medicine.

Sr. Juliana Casey, IHM, Executive Vice President, Mission Integration. Prior to assuming her position with CHE in 1998, Sr. Casey served as Vice President of Mission Services of the Sisters of Mercy Health System, St. Louis, Missouri, since 1994. With more than 15 years of experience in health care ministry, Sr. Casey has served as Associate Vice President, Division of Theology, Mission and Ethics with the Catholic Health Association of the United States and has widely lectured and written on the Health Care Ministry. Sr. Casey received her bachelor's and masters degrees from Marygrove College, Detroit, Michigan and a Ph.D. from Catholic University of Louvain, Louvain, Belgium in Theology as well as a S.T.B., S.T.L. and S.T.D. Theology from Catholic University of Louvain.

Robert H. Morrow, Executive Vice President, Continuing Care Division. Prior to assuming his position with CHE in 1999, Mr. Morrow served as President and CEO of Presbytery Homes and Services for Aging since 1992. Mr. Morrow has over 28 years of experience in long-term/continuing care, including serving as Chairman of the Pennsylvania State Board of Nursing Home Administrators and as a Commissioner of the Continuing Care Accreditation Commission. Mr. Morrow received his bachelor's degree from The Pennsylvania State University and a master's degree from Gannon University.

Mark T. O'Neil, Jr., Executive Vice President, Mid-Atlantic Division. Prior to assuming his position with CHE in 2001, Mr. O'Neil served as President and Chief Executive Officer of Mercy Health System of Southeastern Pennsylvania since 1999. With more than 22 years of experience in health care, Mr. O'Neil has served as President and Chief Executive Office of United Health Service, Inc. He earned a B.S. in Business Administration and an M.B.A. from the Rochester Institute of Technology in Rochester, New York. He is a diplomat of the American College of Healthcare Executives, a former Board member of Healthcare Association of New York State Board of Trustees, and former Chairman of the Board of Directors, VHA-Update New York Regional Health Care System.

Kathleen Popko, S.P., Ph.D., Executive Vice President, Northeast Division. Prior to assuming her position with CHE in 1997, Sr. Popko served as President and Chief Executive Officer of the Sisters of Providence Health System since 1995, and as Chair of the Board of Trustees since 1985. Sr. Popko serves on numerous national, regional and local boards and committees. Her career in health care spans more than 23 years, including nursing, research, planning and development and administration. Sr. Popko received her bachelor's degree from Marillac College in St. Louis, Missouri and a M.S.W. degree and a Ph.D. degree from Brandeis University Florence Heller Graduate School for Advanced Studies in Social Welfare in Waltham, Massachusetts.

C. Kent Russell, Executive Vice President and Chief Financial Officer. Prior to assuming his position with CHE in 1997, Mr. Russell served as Executive Vice President and Chief Financial Officer of Eastern Mercy Health System since its founding in 1986. Mr. Russell is Treasurer of Stella Maris Insurance Company, Ltd., and has been a member of various health care boards and task forces. Mr. Russell has approximately 33 years of experience in public accounting, for profit and not for profit health care financial administration. Mr. Russell received his bachelor's degree from Weber State University in Utah and is a Certified Public Accountant.

Robert V. Stanek, Executive Vice President and Chief Operating Officer. Prior to assuming his position with CHE in 2000, Mr. Stanek was the Executive Vice President in charge of CHE's Mid-Atlantic Division. Mr. Stanek previously served as President and Chief Executive Officer of Mercy Health System of Western New York, and chairs the Implementation Committee in the development of the Catholic Health System of Western New York, which consists of seven acute care facilities sponsored by four religious congregations and the Diocese of Buffalo. Mr. Stanek received his bachelor's degree in Chemistry from East Stroudsburg University, a B.S. degree in Pharmacy from the Philadelphia College of Pharmacy and Science, and his M.B.A. degree from St. Joseph's University in Philadelphia.

Stanley T. Urban, Executive Vice President and Chief Administrative Officer. Prior to assuming his position with CHE in 1997, Mr. Urban served as President and Chief Executive Officer of the Sisters of Charity of the Incarnate Word Health Care System, Houston, Texas. In his 22 years in health care leadership, Mr. Urban has also served in various capacities for other organizations including positions of Executive Vice President, President of National Programs and Vice President of Development for Franciscan Health System. Mr. Urban received his bachelor's degree from Boston College and an M.B.A. degree from Xavier University in Cincinnati, Ohio.

Howard W. Watts, Executive Vice President, Southeast Division. Prior to assuming his position with CHE in 1997, Mr. Watts served as President and Chief Executive Officer of Franciscan Sisters of Allegany Health System, Inc. In his twenty year health care career Mr. Watts has served as Vice President of Franciscan Sisters of Allegany Health System, Inc. as well as CEO of other health care organizations. Mr. Watts received his bachelor's degree from the University of South Carolina in Columbia and a master's degree from Duke University in Durham, North Carolina.

Regional Corporate Structure and Management

The organizational structure of the CHE Health System consists of CHE and a number of regional health corporations that exercise governance and oversight responsibility over CHE-affiliated health care facilities and their ancillary operations, all of which operate as constituent corporations of CHE. CHE serves as the sole corporate member of each of the regional health corporations and, in most cases, each of the regional health corporations serves as the sole corporate member of those CHE component corporations operating within a defined geographic region.

Each CHE regional health corporation has a president/chief executive officer that has primary management responsibility for CHE-affiliated activities within each respective region. Each such president/chief executive officer is appointed to office upon the concurring approval of both the responsible CHE executive vice president and the Board of Trustees of the regional health corporation.

CHE has four operating divisions, being the Southeast Division, headquartered in Tampa, Florida, which includes the States of Florida, Georgia, and Alabama; the Mid-Atlantic Division, headquartered in Newtown Square, Pennsylvania, which includes the States of Pennsylvania, New Jersey and Delaware; the Northeast Division, headquartered in Holyoke, Massachusetts, which includes the States of Maine and Massachusetts; and the Continuing Care Division, headquartered in Newtown Square, Pennsylvania, which oversees all free-standing long-term care facilities within CHE.

Governance of Certain Designated Affiliates

Certain powers over the organization and development of each of the CHE regional health corporations and component corporations are reserved to CHE. Among the powers generally reserved to CHE relative to the regional health corporations and component corporations in most cases are the authority to amend articles of incorporation and key corporate bylaws provisions; to authorize significant financial transactions; and to approve the establishment or dissolution of organizational relationships including matters such as partnerships, joint ventures and mergers. CHE generally possesses additional powers in most cases over the regional health corporations, including the authority to appoint and remove Trustees, with or without cause; to adopt the interpretation of philosophy and mission; and to adopt the consolidated strategic plans and consolidated operating plans and budgets of the regional health corporations and their associated component corporations.

Agreements with Certain Designated Affiliates

CHE may in the future enter into contractual arrangements with entities pursuant to which such entities will become Designated Affiliates and agree to comply with the terms and conditions of the Master Trust Indenture applicable to it. CHE may release any Designated Affiliate from its contractual obligations at any time in its sole discretion.

Employees

As of May 31, 2002, the System Affiliates employed approximately 43,000 full-time equivalent employees. Of this number less than 5.5% are represented by collective bargaining groups. Management of CHE believes that the salary levels and benefits packages for its employees are competitive. Management of CHE believes that the Designated Affiliates generally have good relationships with their employees.

Accreditations and Memberships

Each of the hospital facilities of the System Affiliates is accredited and/or licensed by the Joint Commission on Accreditation of Healthcare Organizations or the appropriate state or regional body, unless such accreditation and/or license is not deemed appropriate by CHE. All of these hospital facilities are licensed, as required, by applicable state licensing agencies and are certified for Medicare and Medicaid reimbursement. The skilled nursing and long-term care facilities of the CHE Health System are licensed, as required, by applicable state licensing agencies and are certified, where applicable, for Medicare and Medicaid reimbursement.

Insurance

As of May 31, 2002, certain Affiliates of CHE are insured for health care professional and general liability by Stella Maris Insurance Company, Limited (SMICL), a Cayman Island, British West Indies, captive insurance company. CHE is the sole shareholder of Stella Maris Insurance Company, Limited. SMICL was established in 1986. SMICL provides primary health care professional liability coverage of $6 million per medical incident without aggregate, and general liability coverage of $1 million per occurrence and $8 million aggregate. Primary coverage is underwritten either on an occurrence or claims made basis. SMICL provides excess health care professional liability coverage of $100 million per medical incident and $100 million aggregate. Coverage is underwritten on a claims made basis and is 100% reinsured by commercial reinsurance and insurance companies. SMICL provides umbrella coverage of $100 million per occurrence and $100 million aggregate for risks and other risks traditionally included in an umbrella insurance program. This coverage is 100% reinsured by commercial insurance and reinsurance companies. Umbrella coverage for the general liability risk and other risks is underwritten on an occurrence basis except for the upper layer of coverage which is underwritten on a claims made basis.

Certain Affiliates of CHE are insured for health care professional liability and general liability risks through commercial insurance carriers, self-insured trusts or captive insurance companies. Primary limits of health care professional liability coverage for these member health care organizations range from $1 million per claim and $1 million aggregate to $3 million per claim and $9 million aggregate. Primary limits of general liability coverage are $1 million per claim and $1 million aggregate. These member health care organizations maintain umbrella liability coverage through commercial insurers. Umbrella limits of liability range from $2 million per claim and $7 million aggregate to $25 million per claim and $25 million aggregate.

Certain member health care organizations of CHE maintain commercial insurance coverage for other property and casualty risks such as property; directors' and officers' liability; automobile; workers' compensation and other traditional property and casualty type coverages. Certain of these coverages have reasonable deductibles.

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APPENDIX B

Audited Consolidated Financial Statements of Catholic Health East for the Years Ended December 31, 2001 and 2000

Catholic Health East

Consolidated Financial Statements

Years ended December 31, 2001 and 2000

Contents

Report of Independent Auditors

Board of Directors
Catholic Health East

We have audited the accompanying consolidated balance sheets of Catholic Health East (CHE) as of December 31, 2001 and 2000, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of CHE's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Health East at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

April 19, 2002

Catholic Health East

Consolidated Balance Sheets

	December 31	
	2001	2000
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 186,140	$ 77,026
Investments	38,434	67,626
Marketable securities whose use is limited	10,180	14,786
Patient accounts receivable, net of estimated uncollectibles of $187,000 and $121,000 for 2001 and 2000, respectively	454,455	375,024
Other accounts receivable	50,741	47,386
Notes receivable from unconsolidated organizations	–	10,565
Prepaid expenses and inventories	73,732	44,383
Total current assets	813,682	636,796
Marketable securities whose use is limited:		
Board-designated funds	593,127	653,285
Trustee-held funds	48,822	68,549
Donor-restricted funds	42,028	41,720
	683,977	763,554
Property and equipment, net	1,157,155	1,051,746
Investments in unconsolidated organizations	482,425	515,378
Notes receivable from unconsolidated organizations	–	478,180
Investments	289,552	286,385
Other assets	99,247	53,951
Total assets	$ 3,526,038	$ 3,785,990

	December 31	
	2001	2000
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	$ –	$ 32,819
Current portion of long-term debt	27,892	27,976
Accounts payable and accrued expenses	276,967	208,627
Other	158,097	92,890
Total current liabilities	462,956	362,312
Long-term debt, net	1,076,485	1,378,324
Deferred revenue from entrance fees	49,335	46,050
Other liabilities	221,418	158,945
Total liabilities	1,810,194	1,945,631
Net assets:		
Unrestricted	1,635,402	1,754,191
Temporarily restricted	50,240	56,119
Permanently restricted	30,202	30,049
Total net assets	1,715,844	1,840,359
Total liabilities and net assets	$ 3,526,038	$ 3,785,990

See accompanying notes.

Catholic Health East

Consolidated Statements of Operations
and Changes in Net Assets

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Unrestricted net assets		
Revenues, gains, and other support:		
Net patient service revenues	$ 2,245,618	$ 1,891,377
Investment income	32,294	55,281
Equity in earnings of unconsolidated organizations	36,771	4,508
Other operating revenues	209,702	224,637
	2,524,385	2,175,803
Expenses:		
Salaries, wages, and benefits	1,261,646	1,044,031
Supplies	363,884	314,885
Purchased services, professional fees and other expenses	518,793	467,119
Depreciation and amortization	126,116	124,906
Interest	44,389	71,906
Insurance	35,757	25,543
Provision for bad debts	144,058	106,050
	2,494,643	2,154,440
Income from operations before restructuring expenses and impairment losses, write-off of investments in and advances to unconsolidated organizations, and accrual reversal	29,742	21,363
Restructuring expenses and impairment losses	(30,354)	(9,598)
Write-off of investments in and advances to unconsolidated organizations	(47,444)	–
Public medical assistance trust fund accrual reversal	–	5,317
(Loss) income from operations	(48,056)	17,082

(continued on next page)

Catholic Health East

Consolidated Statements of Operations
and Changes in Net Assets (continued)

	Year ended December 31	
	2001	2000
	(In Thousands)	
Unrestricted net assets (continued)		
Transfers from affiliates, net	$ 14,941	$ –
Net unrealized losses on investments	(88,991)	(47,201)
Other changes	3,317	9,752
Decrease in unrestricted net assets	(118,789)	(20,367)
Temporarily restricted net assets		
Contributions	21,721	11,119
Investment income	210	3,565
Net unrealized losses on investments	(111)	(2,066)
Net assets released from restrictions	(19,063)	(7,460)
Write-off of investment in unconsolidated organization	(15,513)	–
Net assets of acquired corporations	4,804	–
Other changes	2,073	(7,628)
Decrease in temporarily restricted net assets	(5,879)	(2,470)
Permanently restricted net assets		
Contributions	–	404
Net realized and unrealized losses on investments	(1,967)	(1,071)
Net assets of acquired corporations	2,095	–
Other changes	25	2,110
Increase in permanently restricted net assets	153	1,443
Decrease in net assets	(124,515)	(21,394)
Net assets at beginning of year	1,840,359	1,861,753
Net assets at end of year	$ 1,715,844	$ 1,840,359

See accompanying notes.

Catholic Health East

Consolidated Statements of Cash Flows

	Year ended December 31 2001	2000
	(In Thousands)	
Operating activities		
Decrease in net assets	$ (124,515)	$ (21,394)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Reversal of public medical assistance trust fund accrual	–	(5,317)
Write-off of investments in and advances to unconsolidated organizations	62,957	–
Depreciation and amortization	126,116	124,906
Amortization of deferred entrance fees	(5,846)	(5,689)
Transfers to (from) affiliates, net	(14,941)	–
Net realized and unrealized losses on investments	81,925	20,233
Equity in earnings of unconsolidated organizations	(36,771)	(4,508)
Provision for bad debts	144,058	106,050
Restricted net assets of acquired corporations	(6,899)	–
Gain on sale of property and equipment	(4,431)	(10,743)
Loss on impairment of long-lived assets	3,812	870
Restricted contributions and investment income received	(21,931)	(11,789)
Entrance fees received, net of refunds	9,131	9,629
Other changes	(3,010)	(10,720)
(Increase) decrease in certain assets and liabilities:		
Accounts receivable	(159,127)	(97,622)
Prepaid expenses, inventories, other accounts receivable and other assets	(17,515)	(17,574)
Accounts payable and accrued expenses	(2,066)	(20,091)
Other liabilities	48,424	7,353
Net cash provided by operating activities	79,371	63,594
Investing activities		
Additions to property and equipment	(160,838)	(137,128)
Net decrease (increase) in investments	58,464	(13,707)
Distribution from unconsolidated organization	10,700	8,445
Repayments on notes receivable from unconsolidated organizations	148,200	11,082
Increase in investment in unconsolidated organizations	(3,618)	(183)
Cash acquired in business combinations	32,509	8,453
Purchase of acquired corporations, net of cash acquired	(100,926)	–
Proceeds from sale of long-lived assets	22,954	61,442
Net cash provided by (used in) investing activities	7,445	(61,596)
Financing activities		
Proceeds from restricted contributions and investment income received	21,931	11,789
Proceeds from issuance of long-term debt	209,786	27,437
Net (decrease) increase in short-term borrowings	(32,819)	2,728
Repayments of long-term debt	(176,600)	(52,838)
Deferred expenses	–	(312)
Net cash provided by (used in) financing activities	22,298	(11,196)
Increase (decrease) in cash and cash equivalents	109,114	(9,198)
Cash and cash equivalents at beginning of year	77,026	86,224
Cash and equivalents at end of year	$ 186,140	$ 77,026
Supplemental disclosures of cash flow information		
Interest paid	$ 49,996	$ 75,560

See accompanying notes.

Catholic Health East

Notes to Consolidated Financial Statements

December 31, 2001

1. Organization and Mission

CHE is a Catholic, multi-institutional health system with fourteen religious sponsors, each of which appoints a representative to the Sponsors Council. The Sponsors Council has certain reserved powers over CHE including the election of its Board of Directors. CHE serves as the vehicle through which the religious communities sponsor their health care ministries. CHE is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The mission of CHE is to be a community of persons committed to being a transforming, healing presence within the communities it serves.

CHE is separately incorporated and is the sole member of various health care organizations known as Regional Health Corporations (RHCs) operating in ten states. The RHCs include general acute care hospitals, long-term care facilities, skilled nursing facilities, behavioral health facilities and residential facilities for the elderly. Physician, home health, outpatient surgery, dental, occupational health and other services are also provided.

The RHCs are:

Holy Cross Health Ministries, Inc.
Fort Lauderdale, Florida

Mercy Health System of Southeastern Pennsylvania
Conshohocken, Pennsylvania

Saint Joseph's Health System, Inc.
Atlanta, Georgia

Our Lady of Lourdes Health Care Services, Inc.
Camden, New Jersey

Mercy Community Health, Inc.
West Hartford, Connecticut

Mercy Health System of Maine
Portland, Maine

St. Francis Medical Center and Subsidiaries
Trenton, New Jersey (Effective December 31, 2001)

St. Francis Hospital and Affiliates
Wilmington, DE (Effective June 30, 2001)

Pittsburgh Mercy Health System, Inc.
Pittsburgh, Pennsylvania

Mercy Medical, A Corporation
Daphne, Alabama

Sisters of Providence Health System, Inc.
Springfield, Massachusetts

Mercy Hospital and Subsidiaries, Inc.
Miami, Florida

St. Mary's Health Care System, Inc.
Athens, Georgia

Saint Joseph Health Systems
Southern Pines, North Carolina

1. Organization and Mission (continued)

Effective February 1, 2000, the corporate membership in Saint Joseph Health Systems, formerly St. Joseph of the Pines, Inc., was transferred from Sisters of Providence Corporation to CHE. All assets, liabilities, net assets and operating results of St. Joseph Health Systems, a health care organization which provides primarily long-term care and senior housing services, as of December 31, 2000 and the year then ended are included in the accompanying consolidated financial statements.

For financial reporting purposes, the transfer was recorded as of January 1, 2000. The net asset transfer of $16,723,596 at January 1, 2000 is included in other changes in net assets in the Consolidated Statement of Operations and Changes in Net Assets for the year ended December 31, 2000.

Effective June 30, 2001, Catholic Health Initiatives (CHI), a Denver-based organization, sold four hospitals and their affiliated organizations (collectively, the Acquired Corporations) to CHE under an asset purchase agreement. The sale of a fifth CHI hospital and its affiliated organization occurred on December 31, 2001. The total purchase price was approximately $130 million consisting of $128 million in cash, $10 million of which was held in escrow at December 31, 2001, and $2 million in acquisition-related costs. Simultaneously, CHE transferred ownership of three of these hospitals and affiliates, St. Agnes Medical Center and Subsidiary, Nazareth Hospital and Subsidiaries, and St. Mary Medical Center and Subsidiaries, to Mercy Health System of Southeastern, Pennsylvania (a CHE RHC). The two remaining hospitals and their affiliated organizations became separate RHCs.

CHE used the purchase method of accounting and the assets acquired and liabilities assumed were recorded at their estimated fair values at the acquisition dates. The Consolidated Statement of Operations and Changes in Net Assets reflects the operations of the acquired hospitals and their affiliated organizations since the date of acquisition. Since the purchase of St. Francis Medical Center, Trenton, New Jersey occurred on December 31, 2001, its operations will be included in CHE's Statement of Operations and Changes in Net Assets beginning in 2002. The allocation of purchase price is tentative and subject to change if estimates and other information materially change.

1. Organization and Mission (continued)

Results of operations for the four hospitals acquired on June 30, for the six months ended December 31, 2001 are as follows *(in thousands)*:

Total revenues, gains, and other support	$ 199,378
Total expenses	199,146
Operating income	$ 232

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition dates *(in thousands)*:

Current assets	$ 116,698
Property and equipment	90,786
Assets limited as to use	10,469
Other long-term assets	7,546
Total assets acquired	225,499
Current liabilities	70,406
Long-term debt	133,565
Other long-term liabilities	14,629
Total liabilities acquired	218,600
Restricted net assets acquired	$ 6,899

CHE and its RHCs also participate in joint ventures and joint operating agreements, which provides the ability to participate in larger healthcare organizations and for the purpose of improving healthcare to additional communities.

CHE has entered into administrative services agreements under which CHE provides, for a fee, programs and services to organizations located in New York, which are not controlled by CHE.

The consolidated financial statements of CHE include the accounts of its wholly-owned captive insurance company, the RHCs, a controlled healthcare organization that is not an RHC, various controlled foundations and the consolidated subsidiaries of the RHCs.

All significant intercompany balances and transactions have been eliminated.

2. Significant Accounting Policies

A summary of significant accounting policies follows:

Use of Estimates

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions which affect the amounts reported in the consolidated financial statements. Actual results could differ from the estimates.

Cash and Cash Equivalents

Cash and cash equivalents include investments in liquid debt instruments with a maturity of three months or less. The carrying value of cash and cash equivalents approximates market value.

Investments and Investment Income

Investments in marketable equities with readily determinable fair values and investments in debt securities are recorded at fair value. Investment income or loss (including realized gains and losses on investments, interest income and dividends) is included in operating income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are not included in operating income.

Marketable Securities Whose Use Is Limited

Marketable securities whose use is limited principally include marketable securities designated by the governing boards for future capital improvements; in accordance with agreements with outside parties; by trustees under bond indenture agreements and self-insurance trust arrangements; and by restrictions.

Property and Equipment

Property and equipment are stated at historical cost or, if donated, at fair market value at the date of receipt. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets and includes amortization of assets under capital leases.

2. Significant Accounting Policies (continued)

Long-Lived Assets

Statement of Financial Accounting Standards (SFAS) No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of*, requires impairment losses to be recognized for long-lived assets when indicators of impairment are present and the undiscounted cash flows are not sufficient to recover the assets' carrying amount. The impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, estimates of market value, or valuation techniques including discounted cash flow. Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* was issued in August 2001 and is effective for fiscal years beginning after December 15, 2001. SFAS No. 144 supersedes SFAS No. 121 and will be adopted by CHE in 2002. CHE does not believe the adoption of SFAS No. 144 will have a material impact on its consolidated financial statements.

Investments in Unconsolidated Organizations

Investments in unconsolidated organizations represent investments in which CHE has entered into joint operating agreements, joint ventures, or partnerships. The equity method is used to account for these investments.

Deferred Revenue from Advance Fees

Fees paid by residents upon entering into continuing care contracts, net of the portion that is refundable to the resident, are recorded as deferred revenue and amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Net Assets

Unrestricted net assets are those which have no external restrictions. Temporarily restricted net assets are those for which use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

2. Significant Accounting Policies (continued)

Net Patient Service Revenues

Third-party payors (Medicare, Medicaid, and commercial insurance payors) provide payments to the hospitals at amounts different from their 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 for services rendered, including estimated retroactive adjustments.

Estimated settlements related to Medicare and Medicaid of $40,489,000 and $27,054,000 in 2001 and 2000, respectively, are included in the accompanying Consolidated Balance Sheets in other current and noncurrent liabilities. Retroactive adjustments are accrued on an estimated basis in the period the related services are provided and adjusted in future periods upon final settlements. There is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that adequate provision has been made for adjustments that may result from reviews by third-party payors. Net patient service revenues included approximately $14,500,000 and $36,000,000 in 2001 and 2000, respectively, for favorable settlements of prior years' cost reports, and other favorable revisions to prior years' estimated provisions.

Net patient service revenues from the Medicare and Medicaid programs accounted for approximately 49% and 50% of total net patient service revenues in 2001 and 2000, respectively. Compliance with laws and regulations governing the Medicare and Medicaid programs are complex and can be subject to future government interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily restricted if they are received with donor stipulations that limit the use of the donated assets or permanently restricted.

2. Significant Accounting Policies (continued)

Debt Issuance Costs

Debt issuance costs are being amortized using the straight-line method over the life of the related debt, which approximates the effective interest method.

Reclassifications

Certain amounts for 2000 have been reclassified to conform to the 2001 presentation.

Accounting Changes

Effective January 1, 2001, CHE adopted the provisions of Statement of Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended. SFAS 133 requires CHE to recognize all derivative instruments in the balance sheet at fair value. SFAS 133 requires the transition adjustment resulting from adoption to be reported as a cumulative effect of a change in accounting principle. Since the cumulative effect of the adoption of SFAS No. 133 was not material, CHE has included this amount in other changes in unrestricted net assets in the 2001 Consolidated Statement of Operations and Changes in Net Assets.

In 2000, two RHCs changed their method of accounting for the State of Florida's Public Medical Assistance Trust Fund Assessments to a more acceptable method. The effect of this change was to increase unrestricted net assets in 2000 by approximately $5,317,000.

3. Social Accountability Costs (Unaudited)

One of the fundamental reasons for the creation of CHE was for its sponsors to ensure the continued ability of their health care institutions to meet the needs of the communities they serve, especially the needs of the poor. The services provided by each RHC are in response to identified community needs and reflect the RHC's commitment to meeting these needs. Each RHC strives to collaborate with other organizations to maximize the provision of services in their communities. A reporting and accountability process is utilized throughout CHE that quantifies the cost of these services (referred to as Social Accountability Costs) and which provides a basis of accountability to communities for the way in which resources are utilized. Social accountability costs are as follows:

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Cost of care of the poor	$ 83,181	$ 53,492
Cost of community benefit programs	19,402	4,121
Volunteer service provided	11,574	2,738
Unpaid cost of Medicaid programs	41,088	29,002
Unpaid cost of Medicare programs	59,574	41,336
Social accountability costs	$ 214,819	$ 130,689
Percentage of operating expenses	8.4%	6.1%
Multiple of operating (loss) income	4.5 times	7.7 times

The cost of care of the poor is based on each RHC's estimate of the actual cost of providing services to those unable to pay. Programs that are developed and provided to meet special community needs, that would not otherwise be available, are reflected as community benefit programs. Volunteer service reflects service provided both internally and externally that supports patient care activities and community programs. The difference between amounts reimbursed to the RHC and the actual cost of providing care for Medicare and Medicaid patients is reflected as unpaid cost of the respective program.

4. Property and Equipment

The following summarizes property and equipment:

	December 31	
	2001	**2000**
	(In Thousands)	
Land and improvements	$ 83,088	$ 80,322
Buildings and improvements	1,233,812	1,106,718
Equipment	1,039,143	968,368
	2,356,043	2,155,408
Less accumulated depreciation and amortization	(1,293,186)	(1,182,080)
	1,062,857	973,328
Construction in progress	94,298	78,418
	$1,157,155	$1,051,746

At December 31, 2001, approximately $119,300,000 of property and equipment, net, is pledged as collateral under various loan agreements. Interest cost, net of related interest income, totaling approximately $5,191,000 and $2,056,000 was capitalized to construction in progress during 2001 and 2000, respectively.

5. Marketable Securities Whose Use is Limited and Investments

Substantially all long-term investment assets are held in the CHE Consolidated Investment Program (the Program). The Program is structured under a Program Participation Agreement (the Agreement) between each participant or RHC and CHE. All investments in the Program are professionally managed under the administration of CHE.

5. Marketable Securities Whose Use is Limited and Investments (continued)

Participants' investments held in the Program are assigned a weighted value for the time funds are in the Program. Investment income from the Program, including interest income, dividends, and realized gains or losses from the sale of securities, and unrealized gains and losses is distributed to participants based on their weighted value of investment. The underlying fair value of investments in the Program, which are traded on national exchanges, is based on the last reported sales price on the last business day of the year. The fair value of investments traded in over-the-counter markets is based on the average of the last recorded bid and asked prices.

The following summarizes marketable securities whose use is limited and investments:

	December 31	
	2001	**2000**
	(In Thousands)	
Marketable securities whose use is limited:		
Cash and cash equivalents	$ 77,522	$ 88,212
Marketable equity securities	330,239	393,722
Marketable debt securities	286,396	296,406
Total	$ 694,157	$ 778,340
Investments:		
Cash and cash equivalents	$ 17,635	$ 24,131
Marketable equity securities	222,356	228,796
Marketable debt securities	87,995	101,084
Total	$ 327,986	$ 354,011

5. Marketable Securities Whose Use is Limited and Investments (continued)

Investment income and gains for marketable securities whose use is limited, investments and cash and cash equivalents are comprised of the following:

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Unrestricted net assets		
Investment income:		
Interest and dividends	$ 24,475	$ 31,819
Net realized gains on investments	7,819	23,462
Total	$ 32,294	$ 55,281
Other operating revenues:		
Interest and dividends	$ 6,914	$ 10,950
Net realized gains on investments	1,511	5,622
Total	$ 8,425	$ 16,572
Other changes in unrestricted net assets:		
Net unrealized losses on investments	$ (88,991)	$ (47,201)
Temporarily restricted net assets		
Other changes in temporarily restricted net assets:		
Investment income:		
Interest and dividends	$ 396	$ 2,544
Net realized (losses) gains	(186)	1,021
Total investment income	$ 210	$ 3,565
Net unrealized losses on investments	$ (111)	$ (2,066)
Permanently restricted net assets		
Other changes in permanently restricted net assets:		
Net realized and unrealized losses on investments	$ (1,967)	$ (1,071)

6. Derivative Financial Instruments

Catholic Health East uses interest rate swap agreements to reduce the impact of fluctuations in interest rates. At December 31, 2001, CHE has a total of four off-balance sheet derivative transactions with notional amounts totaling $180 million which have been entered into for the purpose of reducing total interest expense. These four swap transactions (known as basis swaps) each have a notional amount of $45 million. In the basis swap transactions, CHE receives a floating taxable rate and pays a floating tax-exempt rate. The effect of the basis swap is to reduce CHE's exposure in a rising interest rate environment. The four agreements were each for a period of ten years maturing between August 2009 and January 2010; one was extended to a twenty-year term maturing in November 2021. Management has elected not to designate these interest rate swap agreements as hedges for financial reporting purposes. At December 31, 2001, the fair value of these interest rate swap agreements represents a liability of approximately $1,890,000, which is included in other liabilities in the accompanying Consolidated Balance Sheet. The change in value of these interest rate swap agreements during 2001 was $1,287,000, which is included in other changes in unrestricted net assets in the 2001 Consolidated Statement of Operations and Changes in Net Assets.

CHE also had an additional six interest rate swap agreements (known as fixed-to-floating rate swaps), each with a notional amount of $30 million, whereby CHE received a fixed rate amount in return for paying a variable rate amount over the life of the agreement without an exchange of the underlying notional amount. These fixed-to-floating interest rate swap agreements effectively converted a portion of CHE's fixed rate debt to a floating rate basis and were not designated as hedges for financial reporting purposes. Due to the favorable interest environment, CHE decided to reverse its fixed-to-floating rate swaps in October 2001 and received $9,450,000 upon reversal. The increase in the fair value of the swaps during 2001 and prior to the reversal was $6,407,000 and this has been recognized as a reduction to interest expense in the accompanying Consolidated Statement of Operations and Changes in Net Assets.

7. Long-Term Debt

Long-term debt consisted of:

	December 31	
	2001	2000
	(In Thousands)	
Revenue Bonds:		
Catholic Health East Health System Revenue Bonds:		
Series 1998A (4.00% – 5.50%), payable through 2028	$ 601,608	$ 952,005
Series 1998B (3.90% – 5.25%), payable through 2028	112,184	114,790
Series 1998C (3.70% – 5.22%), payable through 2028	39,745	41,340
Series 1998D, variable rate, payable from 2008 through 2028	30,000	30,000
Series 1998E (4.00% – 5.25%), payable through 2029	64,234	66,440
Series 1999F Term Bonds (5.625% - 5.75%), payable in 2020 and 2029	18,610	18,610
Series 1999G (7.62%), payable in 2017	9,225	9,540
Mercy Health System Revenue Bonds:		
Series 2001 Term Bonds (7.00%) payable through 2016	32,000	–
City of Daphne – Special Care Facilities Financing Authority:		
Series 1997 with an adjustable rate (1.4% at December 31, 2001), payable through 2027	26,900	27,300
Series 2000 with an adjustable rate (1.4% at December 31, 2001), payable annually between 2003 and 2030.	18,000	18,000
City of Miami, Florida Health Facilities Authority Revenue Bonds:		
Series 1998A Serial Bonds (variable interest rate)	23,150	24,345
Series 1994A Serial Bonds (4.00% – 5.25%)	46,050	46,650
Series 1991A Serial Bonds (6.45%)	–	330
Maine Health & Higher Educational Facilities Authority:		
Revenue Refunding Bonds:		
Series 1998A Serial Bonds (4.1% – 5.25%), payable through 2012	5,895	6,305
Series 1998A Term Bonds (5.0%), payable in 2023	8,608	8,608
Series 2001A Serial Bonds (3.45% – 4.7%), payable through 2008	2,128	–
Other issues under $10 million	3,125	3,375
Less unamortized discount	(6,383)	(7,687)
	1,035,079	1,359,951
Mortgages payable through 2018 with various rates	18,268	19,941
Notes payable due at various dates through 2027, with various rates	17,894	21,362
Revolving credit agreement, due in 2004	28,638	–
Capital lease obligations payable in various monthly amounts	4,498	5,046
Total long-term debt and obligations under capital leases	1,104,377	1,406,300
Less current installments	(27,892)	(27,976)
	$ 1,076,485	$ 1,378,324

7. Long-Term Debt (continued)

Aggregate maturities of long-term debt and capital lease obligations as of December 31, 2001 are as follows *(in thousands)*:

2002	$ 27,892
2003	24,589
2004	51,375
2005	30,021
2006	52,427
Thereafter	924,456
	1,110,760
Less unamortized discount and imputed interest	(6,383)
	$1,104,377

On May 31, 2001, Mercy Health System of Southeastern Pennsylvania issued $32 million of Series 2001 Revenue Bonds (2001 Bonds) through the Delaware County Authority. The proceeds of the Series 2001 Revenue Bonds were used to finance certain capital projects and to establish debt service reserve funds. The holder of the 2001 Bonds will have the option to tender them for purchase at certain specified dates as described in a put option agreement between CHE and Merrill Lynch Portfolio Management. The 2001 Bonds are also guaranteed by CHE.

On May 1, 2000, the Special Care Facilities Financing Authority of the City of Daphne issued $18,000,000 of Villa Mercy Revenue Bonds (Mercy Medical Project) Series 2000. The proceeds of the bonds were used to finance construction and renovation projects at Mercy Medical, one of CHE's RHCs.

Pursuant to loan agreements between CHE and various RHCs, promissory notes have been executed by each RHC in amounts equal to the amount of proceeds necessary to defease previously existing debt and provide for capital projects. Loan agreements for similar purposes were executed for two of CHE's unconsolidated affiliates, Intracoastal Health Systems, Inc. (IHS) and Baycare Health System (Baycare) (see Note 9). On February 1, 2001, the note receivable from Baycare was canceled upon the transfer of the corresponding debt totaling $340,545,000 from the CHE Master Trust Indenture to the Baycare Obligated Group. The transfer of debt had no impact on CHE's investment in Baycare.

7. Long-Term Debt (continued)

Under the Master trust indenture dated January 1, 1998, CHE is required to comply with various covenants, and only one financial covenant which requires CHE to maintain a debt service coverage ratio of at least 1.10 to 1.00. CHE is in compliance with this and all other indenture covenants at December 31, 2001 and 2000.

On November 30, 2001, CHE entered into a $50,000,000 revolving credit loan facility with three banks (the Agreement) to provide working capital. Borrowings under the Agreement may be repaid at any time, and are payable upon termination of the Agreement, which is November 30, 2004. Management has classified $4,375,000 of the outstanding borrowings as current debt in the accompanying 2001 Consolidated Balance Sheet which represents management's estimate of the amount of the revolver expected to be repaid in 2002.

CHE was informed by the City of Tampa, Florida (Issuer) on June 27, 2000, that the Issuer received notice from the Internal Revenue Service (IRS) that, as part of its expanded compliance program, the IRS has selected the Series 1998A-1 Revenue Bonds for examination. The examination is ongoing and the ultimate resolution of this matter cannot be determined at this time. On April 5, 2002, the IRS announced a procedure for resolution of pending audits. Management and its advisors are in the process of reviewing this proposal resolution and management continues to believe that the resolution will not have a material adverse impact on the consolidated financial statements of CHE. Management is fully cooperating with the IRS examination in providing information and responding to requests.

The City of Daphne Series 2000 and 1997 Bonds and the City of Miami 1998A Bonds are supported by irrevocable letters of credit which expire between 2003 and 2005. CHE is the guarantor for these letters of credit.

8. Fair Values of Financial Instruments

The following methods and assumptions were used by CHE in estimating the fair value of its financial instruments:

Cash and Cash Equivalents: The carrying amount reported in the Consolidated Balance Sheets for cash and cash equivalents approximates fair value due to the short-term nature of these instruments.

Marketable Securities Whose Use is Limited and Investments: Fair values are based on quoted market prices.

Long-Term Debt Obligations: Quoted market prices or estimates using discounted cash flow analyses, based on the participating institution's incremental borrowing rates for similar types of borrowing arrangements.

Derivative Financial Instruments: Quoted market price of these or similar instruments.

At December 31, 2001, the carrying amount approximates the fair values of financial instruments recorded as assets. Long-term debt, exclusive of capital leases, notes payable and mortgage notes, recorded at $1,041,462,000 had a fair value of $1,018,150,000.

9. Investments in and Notes Receivable from Unconsolidated Organizations

Prior to July 2, 2001, CHE had a 50% interest in Intracoastal Health Systems, Inc. (IHS). IHS consisted of several organizations, the most significant of which were two acute care hospitals located in West Palm Beach, Florida; St. Mary's Hospital and Good Samaritan Hospital, with an aggregate of approximately 700 licensed acute care beds. CHE and Good Samaritan Health Systems, Inc. (the other member of IHS) each had the right to appoint 50% of the members of the Board of Trustees of IHS. In addition, the chief executive officer of IHS was an ex-officio member of the IHS Board.

9. Investments in and Notes Receivable from Unconsolidated Organizations (continued)

On July 2, 2001, IHS sold the assets of St. Mary's Hospital and Good Samaritan Hospital to a subsidiary of Tenet Healthcare Corporation. CHE received payment in full on its note receivable from IHS and all other amounts owed. Since it is expected that all proceeds remaining from the sale after satisfaction of all liabilities will remain in the West Palm Beach community, CHE has reduced its remaining investment in IHS to zero. This charge is included in Write-off of Investments in and Advances to Unconsolidated Organizations in the Consolidated Statement of Operations in the amount of $30,450,000. CHE also reduced its temporary restricted net assets by $15,513,000, which represented its investment in IHS's restricted net assets. Concurrent with the sale, Good Samaritan Health System, the other 50% owner of IHS, transferred its ownership interest to CHE. CHE is in the process of liquidating the remaining assets of IHS and satisfying all remaining liabilities. The December 31, 2001 Consolidated Balance Sheet of CHE includes approximately $65 million of IHS assets and $65 million of IHS liabilities.

CHE has a 60.0% interest in the operating results of Baycare Health System (Baycare) and has the right to appoint eight of twenty-two members of the Board of Trustees of Baycare. Baycare consists of five hospitals located in the Tampa, Florida area; St. Joseph's Hospital and St. Anthony's Hospital (which are owned by CHE but controlled by Baycare), Bayfront Medical Center, Morton Plant Hospital, and South Florida Baptist Hospital, with an aggregate of approximately 2,300 acute care beds. Effective December 31, 2000, Bayfront Health System withdrew from Baycare. As a result, CHE's share in the operating results of Baycare increased from 50.6% to 60.0%. CHE's investment in Baycare amounted to $400,527,000 as of December 31, 2001. Since it does not control Baycare, CHE accounts for its interest in Baycare under the equity method.

A condensed consolidated balance sheet of Baycare as of December 31, 2001 is as follows:

	Baycare
	(In Thousands)
Assets	$1,500,692
Liabilities	691,527
Net assets	809,165

9. Investments in and Notes Receivable from Unconsolidated Organizations (continued)

CHE has recognized the following amounts in the accompanying Consolidated Statements of Operations and Changes in Net Assets related to its investments in IHS and Baycare for the years ended December 31, 2001 and 2000:

	IHS		Baycare	
	2001	**2000**	**2001**	**2000**
	(In Thousands)			
Equity in (losses) earnings of unconsolidated organizations	$ (8,953)	$ (35,093)	$ 26,848	$ 17,537
Write-off of investment in unconsolidated organization	(45,963)	–	–	–
Net unrealized losses on investments	(205)	(7,946)	(12,602)	(7,144)
Other changes in unrestricted and restricted net assets	(311)	(8,061)	13,701	1,316
	$ (55,432)	$ (51,100)	$ 27,947	$ 11,709

Additionally, certain other RHCs have investments in unconsolidated organizations, the most significant of which are investments in Medicaid HMO joint ventures. At December 31, 2001 and 2000, these investments amounted to $81,898,000 and $75,515,000, respectively. CHE's proportionate share of the income of these investments was $18,876,000 and $22,064,000 for the years ended December 31, 2001 and 2000, respectively.

During 2001, two RHCs wrote down their investments in and advances to unconsolidated organizations based upon their consideration of the financial condition of the organizations. The total amount written down was $16,994,000, which is included in write-off of investments in and advances to unconsolidated organizations in the Consolidated Statements of Operations and Changes in Net Assets.

9. Investments in and Notes Receivable from Unconsolidated Organizations (continued)

Notes receivable from Baycare and IHS were executed during 1998 pursuant to loan agreements between CHE and the unconsolidated organizations. CHE recognized $4,371,000 and $24,602,000 of interest income on the notes receivable during 2001 and 2000, respectively, which is equivalent to the interest expense on the related CHE revenue bonds (see Note 7). Notes receivable from unconsolidated organizations were as follows:

	2001	2000
	(In Thousands)	
Notes receivable from Baycare	$ –	$ 340,545
Notes receivable from IHS	–	148,200
Total	–	488,745
Less current portion	–	(10,565)
Notes receivable from unconsolidated organizations, noncurrent portion	$ –	$ 478,180

On February 1, 2001, Baycare replaced CHE as sole obligor on $340,545,000 of Series 1998A-1 Bonds. As a result of this transaction, CHE's note receivable from Baycare and long-term debt were reduced by $340,545,000. The transaction had no effect on CHE's investment in Baycare or CHE's interest in the operating results of Baycare.

As discussed above, IHS repaid CHE the outstanding note receivable of $146,935,000 relating to the Series 1998A-3 Bonds (see Note 7).

10. Pension Plans

The majority of RHCs provide pension benefits to substantially all of their employees under separate noncontributory, defined benefit pension plans (the Plans).

Defined benefit expense, together with contributions made to defined contribution plans resulted in net pension expense of $20,806,000 and $12,046,000 in 2001 and 2000, respectively.

10. Pension Plans (continued)

The components of net periodic pension expense for the defined benefit pension plans follows:

	Year ended December 31	
	2001	**2000**
	(In Thousands)	
Service cost	$ 18,060	$ 15,159
Interest cost on the projected benefit obligation	20,635	16,685
Expected return on plan assets	(25,610)	(22,382)
Amortization of prior service cost	(847)	(1,999)
Recognized net actuarial loss	(2,002)	(2,234)
Net periodic pension expense	$ 10,236	$ 5,229

The range of assumptions used in accounting for the defined benefit pension plans as of December 31 is as follows:

	2001		**2000**	
	From	**To**	**From**	**To**
Discount rates	7.00%	8.50%	7.25%	8.50%
Rates of increase in future compensation levels	3.50	5.50	3.25	5.50
Expected long-term rate of return on plan assets	7.50	9.50	8.00	10.00

10. Pension Plans (continued)

The following table presents a reconciliation of the beginning and ending balances of the various plans' projected benefit obligations and the fair value of plan assets, and funded status of the plans:

	2001	2000
	(In Thousands)	
Changes in benefit obligations		
Projected benefit obligations at beginning of year	$ 238,699	$ 217,137
Benefit obligations assumed from acquired corporations	65,784	–
Reduction in benefit obligations due to transfers	(4,840)	–
Service cost	18,060	15,159
Interest cost	20,635	16,685
Benefits paid	(12,042)	(12,770)
Change in assumptions	3,952	2,547
Actuarial loss (gain)	6,845	(59)
Projected benefit obligations, end of year	$ 337,093	$ 238,699
Changes in plan assets		
Fair value of plan assets at beginning of year	$ 259,093	$ 260,507
Plan assets transferred from acquired corporations	60,748	–
Transfer of assets	(4,500)	–
Actual return on plan assets	(9,738)	7,888
Contributions by plan sponsor	3,830	3,468
Benefits paid	(12,042)	(12,770)
Fair value of plan assets at end of year	$ 297,391	$ 259,093
Funded status of the plans	$ (39,702)	$ 20,394
Unrecognized prior service cost	(510)	(5,563)
Unrecognized net gain	7,124	(39,273)
Unamortized net asset existing at transition	1,845	718
(Accrued) pension costs	$ (31,243)	$ (23,724)

10. Pension Plans (continued)

The aggregate projected benefit obligations and aggregate fair value of plan assets for plans with projected benefit obligations in excess of plan assets (underfunded plans) are as follows:

	December 31	
	2001	**2000**
	(In Thousands)	
Underfunded plans		
Aggregate fair value of plan assets	$231,017	$ 50,212
Aggregate projected benefit obligations	$275,441	$ 59,113

11. Insurance

Professional and general liability exposures are insured through a wholly owned, captive insurance company, commercial insurance and reinsurance companies, and self-insured programs. Excess insurance over self-insured amounts and coverage provided by the captive has been purchased from the commercial insurance and reinsurance markets. The excess professional liability coverage is provided on a claims-made basis. Known and potential unknown losses are accrued utilizing historical and actuarial data.

Bank-administered trust and other accounts have been established for the purpose of segregating assets. These trusts are funded based on actuarial estimates and can only be used for payment of malpractice losses, related expenses, and administrative costs of the trusts. Assets of the trusts are included in marketable securities whose use is limited.

The total (program and nonprogram) amount charged to expense for insurance was $35,757,000 and $25,533,000 in 2001 and 2000, respectively.

12. Commitments and Contingencies

The RHCs are defendants in various lawsuits relating primarily to rendering of health care services. In each instance, management of the respective RHCs is of the opinion that the liability, if any, resulting therefrom will be covered by insurance or will not have a material adverse impact on the consolidated financial statements of CHE. In addition, certain CHE entities have been contacted by governmental agencies regarding alleged violations of Medicare practices for certain services. Management of the respective RHCs has performed, with the advice and assistance of outside legal counsel, an evaluation of billing practices and compliance with related laws and regulations. In the opinion of management, after consultation with outside legal counsel, the ultimate outcome of these matters will not have a material adverse impact on the consolidated financial statements of CHE.

13. Leases

The RHCs lease office space and certain equipment under noncancelable operating leases. Rent expense was approximately $31,100,000 and $28,500,000 in 2001 and 2000, respectively.

Future minimum lease payments for all noncancelable leases as of December 31, 2001 are as follows *(in thousands)*:

2002	$ 20,561
2003	18,041
2004	14,955
2005	11,740
2006	9,535
Thereafter	71,591
	$ 146,423

14. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by CHE has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by CHE in perpetuity. Temporarily restricted net assets are available for the following purposes:

	December 31	
	2001	2000
	(In Thousands)	
Education and research	$ 3,317	$ 2,239
Building and equipment	14,774	3,490
Patient care	9,867	6,082
Cancer Center/research	553	4,731
Education and Research grants	5,338	6,455
Other	16,391	33,122
	$ 50,240	$ 56,119

15. Functional Expenses

CHE provides general health care services to residents within their geographic location including acute care, home care, long-term care, psychiatric care, pediatric care, cardiac catheterization and outpatient surgery. Expenses related to providing these services are as follows:

	Year ended December 31	
	2001	2000
	(In Thousands)	
Health care services	$ 1,988,616	$ 1,706,679
General and administrative	506,027	447,761
	$ 2,494,643	$ 2,154,440

16. Concentrations of Credit Risk

CHE grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	December 31	
	2001	**2000**
Managed care	32%	35%
Medicare	26	27
Medicaid	11	13
Self-pay	12	9
Other third-party payors	9	7
Commercial	10	9
	100%	100%

In addition, CHE invests its cash and cash equivalents primarily with banks and financial institutions. These deposits may be in excess of federally insured limits. Management believes that the credit risk related to these deposits is minimal.

17. Restructuring Expenses and Impairment Losses

During 2001 and 2000, several RHCs approved restructuring plans designed to reduce ongoing operating costs. The plans primarily involve the reduction of workforce, the elimination of small unprofitable business lines, and the divestiture/closure of certain physician practices and ambulatory care clinics. Total restructuring costs and impairment losses associated with carrying out the above plans were $30,354,000 and $9,598,000 in 2001 and 2000, respectively.

18. Subsequent Event

On March 12, 2002, CHE and Eastern Mercy Health System (EMHS) signed a non-binding letter of intent whereby EMHS would merge into CHE. This transaction is expected to be completed by December 31, 2002 and will be accounted for by CHE in a manner similar to a pooling of interests. The unaudited condensed financial information and results of operations of EMHS at December 31, 2001 and for the year then ended are as follows *(in thousands)*:

	December 31, 2001
Total assets	$ 327,560
Liabilities	$ 132,828
Net assets	194,732
Total liabilities and net assets	$ 327,560

	Year ended December 31, 2001
Revenues	$ 338,292
Expenses	333,658
Excess of revenues over expenses	$ 4,634

APPENDIX C

Book-Entry Only System

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BOOK-ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED IN THIS APPENDIX C HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUERS, CHE, THE SYSTEM AFFILIATES OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

The Depository Trust Company ("DTC") New York, New York, will act as securities depository for the Bonds. The 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 Bond certificate will be issued for each maturity of each Series of Bonds set forth on the inside front cover page of this Official Statement, 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, as amended. DTC holds and provides asset servicing for over two million 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 in 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 ("DTC"). DTC 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 DTC), 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.org.

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

To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose

accounts such 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the bond documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Trustee and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Bonds of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds of such series to be redeemed.

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

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

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

APPENDIX D

Definitions and Summaries of Principal Documents

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APPENDIX D

DEFINITIONS AND SUMMARIES OF PRINCIPAL DOCUMENTS

The following are summaries of certain provisions of the Master Indenture, the Bond Indenture and the Loan Agreement. These summaries should not be regarded as full statements of the documents themselves or of the portions summarized. Reference is made to the documents in their entireties for the complete statements of the provisions thereof, copies of which are on file at the principal corporate trust office of the bond trustee.

THE MASTER INDENTURE

DEFINITIONS

The following words and terms as used in the summary of the Master Indenture shall have the following meanings:

"Accelerable Instrument" means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of an event of default under such Obligation or instrument, the holder thereof (or a credit enhancer exercising the rights of such holder) may request that the Master Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

"Adjusted Expenses" means, for any period, the aggregate of all expenses calculated under generally accepted accounting principles, including without limitation any taxes, incurred by the Person or group of Persons involved during such period, minus (a) interest on Long-Term Indebtedness, (b) depreciation and amortization, (c) any unrealized loss resulting from changes in the value of investment securities, (d) extraordinary expenses (including without limitation losses on the sale of assets other than in the ordinary course of business and losses on the extinguishment of debt), (e) any expenses resulting from a forgiveness of or the establishment of reserves against Indebtedness of an Affiliate which does not constitute an extraordinary expense and, if such calculation is being made with respect to the System, excluding any such expenses attributable to transactions between any System Affiliate and any other System Affiliate, (f) losses resulting from any reappraisal, revaluation or write-down of asset, and (g) any items which would be considered by the Obligated Group Agent to be non-cash items of the Person or group of Persons involved in accordance with generally accepted accounting principles.

"Affiliate" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity (a) which is controlled directly or indirectly by a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control 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(1) 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 the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) 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 Directing Body, by contract or otherwise. For the purposes of this definition, *"Directing Body"* means with respect to: (a) a corporation having stock, such corporation's board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) 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 the corporation's directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having stock, such corporation's members if the members have complete discretion to elect the corporation's directors, or the corporation's directors if the corporation's members do not have such discretion; and (c) any other entity, its governing board or body. For the

purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of a Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification, and delivered to the Master Trustee.

"Bondholder," "holder" or ***"owner of the Bonds"*** means the registered owner of any Related Bond.

"Book Value," when used with respect to Property, means the value of such Property, net of accumulated depreciation and amortization, as reflected in the most recent consolidated audited financial statements of the System which have been prepared in accordance with generally accepted accounting principles, provided that such aggregate shall be calculated in such a manner that no portion of the value of any Property of any System Affiliate is included more than once.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State in which the Master Trustee is located, the Commonwealth of Pennsylvania or the State of New York are authorized by law to close or (b) a day on which the New York Stock Exchange is closed.

"Capitalized Interest" means amounts irrevocably deposited in escrow to pay interest on Long-Term Indebtedness or Related Bonds and interest earned on amounts irrevocably deposited in escrow to the extent such interest earned is required to be applied to pay interest on Long-Term Indebtedness or Related Bonds.

"Capitalized Lease" means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee.

"Capitalized Rentals" means, as of the date of determination, the amount at which the aggregate Net Rentals due and to become due under a Capitalized Lease under which a Person is a lessee would be reflected as a liability on a balance sheet of such Person.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such section which are applicable to the Related Bonds or the use of the proceeds thereof.

"Consultant" means a professional consulting, financial advisory, accounting, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable and nationally recognized reputation for such skill and experience, which firm does not control any Member of the Obligated Group or any Affiliate thereof and is not controlled by or under common control with any Member of the Obligated Group or an Affiliate thereof.

"Controlling Member" means the Member designated by the Obligated Group Agent to establish and maintain control over a Designated Affiliate as provided by Section 401(C) of the Master Indenture.

"Corporation" means Catholic Health East, a Pennsylvania nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Counsel" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include legal counsel for the Corporation, any other Member or the Master Trustee.

"Current Assets" means cash and cash equivalent deposits, marketable securities, accounts receivable, accrued interest receivable and any other assets of a Person ordinarily considered current assets under generally accepted accounting principles.

"Current Value" means the estimated fair market value of Property, which fair market value shall be evidenced by an Officer's Certificate of the Obligated Group Agent delivered to the Master Trustee.

"Debt Service Requirements" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity, as a result of mandatory sinking fund redemption, mandatory prepayment or otherwise) and interest on outstanding Long-Term Indebtedness of each Person or a group of Persons with respect to which calculated; provided that: (a) interest shall be excluded from the determination of the Debt Service Requirements to the extent that Capitalized Interest is available to pay such interest; (b) principal of Indebtedness shall be excluded from the determination of Debt Service Requirements to the extent that amounts are on deposit in an irrevocable escrow and such amounts (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay such principal and such amounts so required to be applied are sufficient to pay such principal; and (c) in the case of any Guaranty, the principal of (and premium, if any) and interest and other debt service charges on the debt that is Guaranteed for the period of time for which Debt Service Requirements are calculated shall not be included in the calculation of Debt Service Requirements unless the Person that gave such Guaranty was actually required to make, or transfer funds to enable the Primary Obligor to make, any payment with respect to such debt during such period, in which case the total amount paid by such Person with respect to such Guaranty in such period shall be included in the calculation of the Debt Service Requirements of such Person for such period.

"Designated Affiliate" means any Person which has been designated as such in accordance with Section 401(C) of the Master Indenture so long as such Person's status as a Designated Affiliate has not been terminated as provided in Section 401(C) of the Master Indenture. The Designated Affiliates, as of the date of the Master Indenture, are listed on *Exhibit B* to the Master Indenture. The Obligated Group Agent may from time to time deliver a revised *Exhibit B* to the Master Trustee, indicating additions or deletions of Designated Affiliates.

"Escrow Obligations" means, (i) with respect to any Obligation which secures a series of Related Bonds, the obligations permitted to be used to refund or advance refund such series of Related Bonds under the Related Bond Indenture, or (ii) with respect to any other Obligation, those securities identified in the Supplemental Master Indenture pursuant to which such Obligations were issued.

"Facilities" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) of a Person.

"Fiscal Year" means any twelve-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive twelve-month period selected by the Obligated Group Agent as the fiscal year for the System and designated from time to time in writing by the Obligated Group Agent to the Master Trustee; for purposes of making historical calculations or determinations set forth in the Master Indenture on a Fiscal Year basis, or for purposes of combinations or consolidation of accounting information, with respect to those entities whose actual fiscal year is different from that designated above, the actual fiscal year of such entities 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 Master Indenture, the Obligated Group Agent may designate in writing to the Master Trustee as the "Fiscal Year" any twelve-month period. Whenever the Master Indenture refers to a Fiscal Year of a specific entity, such reference shall be to the actual fiscal year adopted by such entity.

"Fitch" means Fitch Investors Service, L.P., a limited partnership organized and existing under the laws of the State of New York, its successors and assigns.

"Governing Body" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"Guaranty" means all obligations of a Person guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any Primary Obligor in any manner, whether directly or indirectly including but not limited to obligations incurred through an agreement, contingent or otherwise, by such Person: (l) to purchase such Indebtedness or obligation or any Property constituting security therefor; (2) to advance or supply funds: (i) for the purchase or payment of such Indebtedness or obligation, or (ii) to maintain working capital or other balance sheet condition; (3) to purchase securities or other Property or services primarily for the purpose of assuring the owner of such Indebtedness or obligation of the ability of the Primary Obligor to make payment of the Indebtedness or obligation; or (4) otherwise to assure the owner of such Indebtedness or obligation against loss in respect thereof.

"Hedging Obligation" means an obligation, expressly identified in an Officer's Certificate of the Obligated Group Agent delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (*e.g.*, a call, put, cap, floor or collar) and which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Historical Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing (i) Income Available for Debt Service for that period by (ii) the Debt Service Requirements on Long-Term Indebtedness for such period; provided that, when such calculation is being made with respect to the System, Income Available for Debt Service and Debt Service Requirements shall be determined only with respect to those Persons who are System Affiliates at the close of such period.

"Income Available for Debt Service" means, for any period, the excess of Revenues over Adjusted Expenses of the Person or group of Persons involved.

"Indebtedness" means, for any Person, (a) indebtedness incurred or assumed by such Person for borrowed money or for the acquisition, construction or improvement of Property other than goods that are acquired in the ordinary course of business of such Person; (b) Capitalized Rentals or Capitalized Lease obligations of such Person; and (c) all Guaranties by such Person, and shall include Non-Recourse Indebtedness; provided that Indebtedness shall not include Indebtedness of one System Affiliate to another System Affiliate, any Guaranty by any System Affiliate of Indebtedness of any other System Affiliate, the joint and several liability of any System Affiliate on Indebtedness issued by another System Affiliate, any Hedging Obligations or any obligation to repay moneys deposited by patients or others with a System Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

"Lien" means any mortgage, lease or pledge of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved which secures Indebtedness (other than from one System Affiliate or Member to another System Affiliate or Member).

"Long-Term Indebtedness" means, with respect to any Person, (a) all Indebtedness of such Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of such Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) the Person's Guaranties of Indebtedness which are not Short-Term; and (d) Capitalized Rentals under Capitalized Leases entered into by the Person; provided, however, that Indebtedness that could be described by more than one of the foregoing categories shall not in any case be considered more than once for the purpose of any calculation made pursuant to the Master Indenture.

"Master Indenture" means the Master Trust Indenture dated as of January 1, 1998 between the Corporation and the Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms of the Master Indenture.

"Master Trustee" means J.P. Morgan Trust Company, National Association (successor by merger to Chase Manhattan Trust Company, National Association), or any successor trustee under the Master Indenture.

"Material Designated Affiliate" means any Designated Affiliate whose total revenues as set forth on its financial statements for the most recently completed Fiscal Year for such Designated Affiliate exceed 5% of the combined total revenues of the Obligated Group and the System Affiliates as set forth on the combined financial statements for the most recently completed Fiscal Year of the System.

"Member" or ***"Member of the Obligated Group"*** means the Corporation and any Person who is listed on *Exhibit A* to the Master Indenture after designation as a Member of the Obligated Group pursuant to the terms of the Master Indenture. The Obligated Group Agent may from time to time deliver a revised *Exhibit A* to the Master Trustee, indicating additions or deletions of Members of the Obligated Group.

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

"Net Proceeds" means, when used with respect to any insurance or condemnation award or sale consummated under threat of condemnation, the gross proceeds from the insurance or condemnation award or sale with respect to which that term is used less all expenses (including attorney's fees, adjuster's fees and any expenses of the Master Trustee) incurred in the collection of such gross proceeds.

"Net Rentals" means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessee (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net Rentals for any future period under any so-called "percentage lease" shall be computed on the basis of the amount reasonably estimated to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

"Non-Recourse Indebtedness" means any Indebtedness the liability for which is effectively limited to Property, Plant and Equipment and the income therefrom, the cost of which Property, Plant and Equipment shall have been financed solely with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of any Member or to the general credit of any Member.

"Obligated Group" means the Corporation and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in Section 403 of the Master Indenture and which has not ceased such status pursuant to Section 404 of the Master Indenture.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee, executed by an authorized officer of the Corporation or, if the Corporation is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

"Obligations" means any evidence of Indebtedness authorized to be issued by a Member pursuant to the Master Indenture which has been authenticated by the Master Trustee pursuant to Section 204 of the Master Indenture.

"Obligation holder," "holder" or ***"owner of the Obligation"*** means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

"Officer's Certificate" means a certificate signed, in the case of a certificate delivered by a corporation, by the President or any Vice-President or any other officer authorized to sign by resolution of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person.

"Outstanding" means, in the case of Indebtedness of a Person other than Related Bonds or Obligations, all such Indebtedness of such Person which has been issued except any such portion thereof canceled after purchase on the open market or surrendered for cancellation or because of payment at or redemption prior to maturity, any such Indebtedness in lieu of which other Indebtedness has been duly issued and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

"Outstanding Obligations" or ***"Obligations outstanding"*** means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations canceled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) (i) Obligations for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Master Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee and (ii) Obligations securing Related Bonds for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Obligations); provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated under the Master Indenture; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member of the Obligated Group or by a System Affiliate.

Notwithstanding the foregoing, any Obligation securing Related Bonds shall be deemed outstanding if such Related Bonds are Outstanding.

"Outstanding Related Bonds" or ***"Related Bonds outstanding"*** means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture and are deemed outstanding under the terms of such Related Bond Indenture or, if such Related Bond Indenture does not specify when Related Bonds are deemed outstanding thereunder, all such Related Bonds which have been so authenticated and delivered, except:

(a) Related Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Related Bonds for the payment or redemption of which cash or Escrow Obligations of the type described in clause (ii)(a) of the definition thereof shall have been theretofore deposited with the Related Bond Trustee (whether upon or prior to the maturity or redemption date of any such Bonds) in accordance with the Related Bond Indenture; provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Related Bonds in lieu of which others have been authenticated under the Related Bond Indenture; and

(d) For the purposes of all covenants, approvals, waivers and notices required to be obtained or given under the Related Bond Indenture, Related Bonds held or owned by a Member or by a System Affiliate.

"Paying Agent" means the bank or banks, if any, designated pursuant to a Related Bond Indenture to receive and disburse the principal of and interest on any Related Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on any Obligations.

"Permitted Encumbrances" means the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

(a) any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the Indebtedness secured thereby (whether or not assumed by the System Affiliate) does not exceed the fair market value or (if such Property has been purchased) the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined in good faith by the Obligated Group Agent;

(b) any Lien on any Property of any System Affiliate granted in favor of or securing Indebtedness to any other System Affiliate;

(c) any Lien on Property if such Lien equally and ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness of any System Affiliate;

(d) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, provided that such Liens secure Indebtedness which is not assumed by any System Affiliate and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(e) Liens on proceeds of Indebtedness (or on income from the investment of such proceeds) that secure payment of such Indebtedness and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the holder of the Indebtedness issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document or the provider of any liquidity or credit support for such Related Bond or Indebtedness;

(f) Liens on Escrow Obligations;

(g) any Lien on any Related Bond or any evidence of Indebtedness of any System Affiliate acquired by or on behalf of any System Affiliate by the provider of liquidity or credit support for such Related Bond or Indebtedness;

(h) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member or Designated Affiliate selling the same by more than twenty percent (20%);

(i) Liens on any Property of a System Affiliate in effect on the effective date of the Master Indenture, including but not limited to those listed on ***Exhibit D*** to the Master Indenture, or existing at the time any Person becomes a System Affiliate; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of such System Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(j) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a System Affiliate, or at the time of a sale, lease or other disposition of the properties of a Person as an entirety or substantially as an entirety to a System Affiliate which becomes part of a Property that secures Indebtedness that is assumed by a System Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a System Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(k) Liens which secure Non-Recourse Indebtedness;

(l) Liens arising out of Capitalized Leases;

(m) Liens on Property of a System Affiliate securing Indebtedness, in addition to those Liens permitted as defined elsewhere in the definition of Permitted Encumbrances, if the total aggregate Book Value (or at the option of the Obligated Group Agent, Current Value) of the Property subject to a Lien of the type described in this subsection (m) does not exceed twenty percent (20%) of the combined value of the total assets of the System Affiliates (calculated on the same basis as the value of Property subject to such Lien); and

(n) Liens on any Property of a System Affiliate given (by mortgage, security interest, conveyance in trust, deed, sale, or lease) in order to satisfy the legal or policy requirements of any Related Issuer with respect to their issuance of any Related Bonds.

"Permitted Investments" shall mean (i) with respect to any Obligation which secures a series of Related Bonds, the obligations in which the Related Bond Trustee may invest funds under the Related Bond Indenture, (ii) with respect to any Obligations for which a Supplemental Master Indenture specifies certain permitted investments, the investments so specified and (iii) in all other cases such legal and prudent investments as are agreed upon by the Obligated Group Agent and the Master Trustee.

"Person" means any natural person, firm, joint venture, joint operating agreement, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Primary Obligor" means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired.

"Property, Plant and Equipment" means all Property of each Member which is classified as property, plant and equipment under generally accepted accounting principles.

"Rating Agency" means Moody's, Fitch or Standard & Poor's and their respective successors and assigns.

"Related Bonds" means (a) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or System Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to or upon the order of such governmental issuer and (b) any revenue or general obligation bonds issued by the Corporation, any Member, any System Affiliate or any other Person in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to the holder of such bonds or the Related Bond Trustee.

"Related Bond Indenture" means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

"Related Bond Trustee" means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

"Related Issuer" means any issuer of a series of Related Bonds.

"Related Loan Document" means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are loaned to, advanced to or made available to or for the benefit of any Member or System Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or System Affiliate).

"Revenues" means, for any period, (a) in the case of any Person providing health care services, the sum of (i) net patient service revenues plus (ii) other operating revenues, plus (iii) non-operating revenues (other than income derived from the sale of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute Capitalized Interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness); and (b) in the case of any other Person, gross revenues less sale discounts and sale returns and allowances, as determined in accordance with generally accepted accounting principles; but excluding in any event in both clause (a) and clause (b): (i) any unrealized gain or loss resulting from changes in the value of investment securities, (ii) any gains on the sale or other disposition of fixed or capital assets not in the ordinary course, (iii) earnings resulting from any reappraisal, revaluation or write-up of fixed or capital assets or (iv) any revenues constituting deferred revenues related to entrance fees; provided, however, that if such calculation is being made with respect to the System, such calculation shall be made in such a manner so as to exclude any revenues attributable to transactions between any System Affiliate and any other System Affiliate.

"Short-Term," when used in connection with Indebtedness, means Indebtedness of a Person for money borrowed or credit extended having an original maturity less than or equal to one year and not renewable at the option of the debtor for, or subject to any binding commitment to refinance or otherwise provide for such Indebtedness having, a term greater than one year beyond the date of original issuance.

"Standard & Poor's" means Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., its successors and assigns.

"Supplemental Master Indenture" means an indenture amending or supplementing the Master Indenture entered into pursuant to Article VII of the Master Indenture after the date of the Master Indenture.

"System" means the affiliated group of Persons comprised of all the System Affiliates.

"System Affiliate" means each Member of the Obligated Group, each Affiliate of the Corporation or of any other Member of the Obligated Group, each Designated Affiliate and each other Person with whom a Member or Designated Affiliate has in place a contract or other agreement whereby such Person is obligated to make payments in respect of Obligations as described in Section 401(B) of the Master Indenture.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxation under Section 501(a) of the Code, and which is not a "private foundation" within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

All accounting terms not specifically defined in the Master Indenture shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated in the Master Indenture. If any change in accounting principles from those used in the preparation of the financial statements of the System as of June 30, 1997 results from the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board, American Institute of Certified Public Accountants or other authoritative bodies that determine generally accepted accounting principles (or successors thereto or agencies with similar functions) and such change results in a change in the accounting terms used in the Master Indenture, the accounting terms used in the Master Indenture shall be modified to reflect such change in accounting principles so that the criteria for evaluating the Obligated Group's financial condition shall be the same after such change as if such change had not been made. Any such modification shall be described in an Officer's Certificate filed with the Master Trustee, which shall contain a certification to the effect that (i) such modifications are occasioned by such a change in accounting principles and (ii) such modifications will not have a materially adverse effect on the Obligation holders or result in materially different criteria for evaluating the Obligated Group's financial condition.

THE OBLIGATIONS

Series, Designation and Amount of Obligations. No Obligations may be issued under the provisions of the Master Indenture except in accordance with the Master Indenture. No authorization or approval of any Designated Affiliate or System Affiliate is required under the Master Indenture for the issuance of Obligations. The total principal amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited and shall be as set forth in the Supplemental Master Indenture providing for the issuance thereof. Each series of Obligations shall be issued pursuant to a Supplemental Master Indenture. Each series of Obligations shall be designated so as to differentiate the Obligations of such series from the Obligations of any other series. Unless provided to the contrary in a Supplemental Master Indenture, Obligations shall be issued as fully registered Obligations. (Section 201)

Payment of Obligations. The principal of, premium, if any, and interest on the Obligations shall be payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable at the principal corporate trust office of the Master Trustee or at the office of any alternate Paying Agent or Agents named in any such Obligations or in a Related Bond Indenture. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued or the election referred to in the next sentence is made, payment of the interest on the Obligations shall be made to the person appearing on the registration books of the Obligated Group (kept in the principal corporate trust office of the Master Trustee as Obligation registrar) as the registered owner thereof and shall be paid by check or draft mailed to the registered owner at its address as it appears on such registration books or at such other address as is furnished to the Master Trustee in writing by such holder; provided, however, that any Supplemental Master Indenture creating any Obligation may provide that interest on such Obligation may be paid, upon the request of the holder of such Obligation, by wire transfer or by such other means as are then commercially reasonable and acceptable to the holder thereof. The foregoing notwithstanding, if a Member so elects, payments on such Obligation shall be made directly by such Member, by check or draft hand delivered to the holder thereof or its designee or shall be made by such Member by wire transfer to such holder, or by such other means as are then commercially reasonable and acceptable to the holder thereof, in any case delivered on or prior to the date on which such payment is due. Upon the reasonable written request of the Master Trustee, each Member shall provide information identifying the Obligation or Obligations with respect to which such payment, specifying the amount, was made, by series, designation, number and registered holder. Except with respect to Obligations directly paid to or upon the order of the holder thereof, the Members agree to deposit with the Master Trustee prior to each due date of the principal of, premium, if any, or interest on any of the Obligations a sum sufficient to pay such principal, premium, if any, or interest so becoming due. Any such moneys shall upon written request and direction of the Obligated Group Agent be invested in Permitted Investments. The foregoing notwithstanding, amounts deposited with the Master Trustee to provide for the payment of Obligations pledged to the payment of Related Bonds shall be invested in accordance with the provisions of the Related Bond Indenture and Related Loan Document. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments made in accordance with the terms of the Master Indenture. Supplemental Master Indentures may create such security including debt service reserve funds and other funds as are necessary to provide for payment or to hold moneys deposited for payment or as security for a related series of Obligations. (Section 202)

Security for Obligations. All Obligations issued and outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise as permitted under the Master Indenture. Any one or more series of Obligations issued under the Master Indenture may, so long as any Liens created in connection therewith constitute Permitted Encumbrances, be secured by security (including without limitation letters or lines of credit, insurance or Liens on Property, including health care Facilities or Property of the Obligated Group, Designated Affiliates or System Affiliates, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Obligations or series of Obligations). Consequently, the Supplemental Master Indenture pursuant

to which any one or more series of Obligations is issued may provide for such supplements or amendments to the provisions of the Master Indenture, including without limitation Articles II and V of the Master Indenture, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto. (Section 208)

Substitute Obligations Upon Withdrawal of a Member. In the event any Member ceases to be a Member of the Obligated Group in accordance with Section 404 of the Master Indenture and, in compliance with Section 404(a) of the Master Indenture, another Member issues an Obligation under the Master Indenture pursuant to a Supplemental Master Indenture evidencing or assuming the Obligated Group's obligation in respect of Related Bonds, if so provided for in such Obligation originally issued by such withdrawing Member, such Obligation shall be surrendered to the Master Trustee in exchange for a substitute Obligation without notice to or consent of any Related Bondholder, provided that such substitute Obligation provides for payments of principal, interest, premium and other amounts identical to the surrendered Obligation and sufficient to provide all payments on the Related Bonds. (Section 210)

Appointment of Obligated Group Agent. Each Member, by becoming a Member of the Obligated Group, irrevocably appoints the Obligated Group Agent as its agent and true and lawful attorney in fact and grants to the Obligated Group Agent (a) full and exclusive power to execute Obligations and Supplemental Master Indentures and (b) full power to prepare, or authorize the preparation of, any and all documents, certificates or disclosure materials reasonably and ordinarily prepared in connection with the issuance of Obligations under the Master Indenture, or Related Bonds associated therewith, and to execute and deliver such items to the appropriate parties in connection therewith. (Section 211)

GENERAL COVENANTS

Payment of Principal, Premium, if any, and Interest; Designated Affiliates. (A) Each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of Section 404 of the Master Indenture), jointly and severally covenants that it will promptly pay the principal of, premium, if any, and interest on every Obligation issued under the Master Indenture and any other payments, including the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document required by the terms of such Obligations, at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Obligations set forth in the Master Indenture or in the Obligations, each Member unconditionally and irrevocably (subject to the right of such Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of Section 404 of the Master Indenture), jointly and severally agrees to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, if any, upon any Related Bonds from time to time outstanding. If any Member does not tender payment of any installment of principal, premium or interest on any Obligation when due and payable, the Master Trustee shall provide prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

(B) Each Controlling Member shall cause each of its Designated Affiliates and shall use reasonable efforts to cause each of its other System Affiliates (subject to contractual and organizational limitations) to pay, loan or otherwise transfer to the Obligated Group Agent or other Member such amounts as are necessary to duly and punctually pay the principal of, premium, if any, and interest on all Outstanding Obligations and any other payments, including the purchase price of Related Bonds tendered for purchase pursuant to the terms of a Related Bond Indenture or Related Loan Document, required by the terms of such Obligations, on the dates, at the times and at the places and in the manner provided in such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise.

(C) The Obligated Group Agent shall at all times maintain an accurate and complete list of all Persons that are Obligated Group Members, Designated Affiliates and System Affiliates. Under the Master Indenture, the Corporation is designated as the Controlling Member for the Designated Affiliates initially listed on ***Exhibit B*** to the Master Indenture. Any Person may be designated by the Obligated Group Agent as a Designated Affiliate under the Master Indenture in addition to those Designated Affiliates initially designated on ***Exhibit B***, by the delivery to the Master Trustee of an Officer's Certificate of the Obligated Group Agent, attaching thereto a substitute ***Exhibit B*** to be appended to the Master Indenture. The Obligated Group Agent by an Officer's Certificate delivered to the Master Trustee shall designate the Corporation or any other Member as the Controlling Member of any such additional Designated Affiliate. With respect to each such Person, and so long as such Person is designated as a Designated Affiliate, the Obligated Group Agent, or any Member designated by the Obligated Group Agent as the Controlling Member, shall either (a) maintain, directly or indirectly, control of each Designated Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent required to cause such Designated Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (b) execute and have in effect such contracts or other agreements that the Obligated Group Agent or Controlling Member, in its sole judgment, deems sufficient for it to cause such Designated Affiliate to comply with the terms and conditions of the Master Indenture. Any Person will cease to be a Designated Affiliate upon the declaration of the Obligated Group Agent in an Officer's Certificate delivered to the Master Trustee, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to a Designated Affiliate under the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no Person shall cease to be a Designated Affiliate or a System Affiliate if any Outstanding Related Bonds have been issued for the benefit of such Person until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by such Person of its status as a Designated Affiliate or System Affiliate will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled.

(D) Each Controlling Member covenants that it will cause, pursuant to Section 401(C) of the Master Indenture, each of its Designated Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Designated Affiliate, and of the Related Loan Document, if any, to which such Designated Affiliate is a party. The Corporation covenants that it will take such action as it deems reasonably necessary to ensure that the System Affiliates comply with the terms or conditions of the Master Indenture applicable to the System Affiliates. (Section 401)

Performance of Covenants. Each Member covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation executed, authenticated and delivered under the Master Indenture and will perform all covenants and requirements imposed on the Corporation, the Obligated Group Agent or any Member under the terms of any Related Bond Indenture. (Section 402)

Entrance into the Obligated Group. Any Person may become a Member of the Obligated Group if:

(a) Such Person is a corporation;

(b) Such Person shall execute and deliver to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which shall be executed by the Master Trustee and the Obligated Group Agent on behalf of each then current Member of the Obligated Group, containing the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of Section 404 of the Master Indenture) to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation;

(c) The Obligated Group Agent shall have approved the admission of such Person into the Obligated Group;

(d) The Master Trustee shall have received (1) an Officer's Certificate of the Obligated Group Agent which demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the Master Indenture, (2) an opinion of Counsel to the effect that (x) the instrument described in paragraph (b) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity and (y) the addition of such Person to the Obligated Group will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status, and (3) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the consummation of such transaction will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Bond would otherwise be entitled; and

(e) *Exhibit A* to the Master Indenture shall be amended or replaced to add such Person as a Member.

Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the above-described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status. (Section 403)

Cessation of Status as a Member of the Obligated Group. Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless:

(a) if the Member proposing to withdraw from the Obligated Group is a party to any Related Loan Documents with respect to Related Bonds which remain outstanding, another Member of the Obligated Group has issued an Obligation under the Master Indenture evidencing or assuming the obligation of the Obligated Group in respect of such Related Bonds;

(b) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Bond would otherwise be entitled;

(c) immediately after such cessation, no event of default exists under the Master Indenture and no event shall have occurred which with the passage of time or the giving of notice, or both, would become such an event of default;

(d) prior to such cessation there is delivered to the Master Trustee an opinion of Counsel to the effect that the cessation by such Member of its status as a Member will not adversely affect the status as a Tax-Exempt Organization of any Member which otherwise has such status;

(e) prior to the cessation of such status, the Obligated Group Agent consents in writing to the withdrawal of such Member; and

(f) *Exhibit A* to the Master Indenture shall be amended or replaced to delete such Person as a Member. (Section 404)

General Covenants; Right of Contest. Each Member covenants in the Master Indenture to, and each Controlling Member covenants to cause each of its Designated Affiliates to:

(a) Except as otherwise expressly provided in the Master Indenture (i) preserve its corporate or other separate legal existence, (ii) preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted and (iii) 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 qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate such Member or Designated Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or useful in the conduct of its business.

(b) In the case of the Corporation and any Person which is a Tax-Exempt Organization at the time it becomes a Member or Designated Affiliate, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal or state income taxation, becoming subject to such taxation.

(c) At its sole cost and expense, promptly comply with all present and future laws, ordinances, orders, decrees, decisions, rules, regulations and requirements of every duly constituted governmental authority, commission and court and the officers thereof which may be applicable to it or any of its affairs, business, operations and Property, any part thereof, any of the streets, alleys, passageways, sidewalks, curbs, gutters, vaults and vault spaces adjoining any of its Property or any part thereof or to the use or manner of use, occupancy or condition of any of its Property or any part thereof, if the failure to so comply would have a materially adverse affect on the operations or financial affairs of the Obligated Group, taken as a whole.

The foregoing notwithstanding, any Member, Designated Affiliate or System Affiliate may (i) cease to be a not for profit corporation or (ii) take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that such actions would not adversely affect the validity of any Related Bond, the exemption from federal or state income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Person.

No Member, Designated Affiliate or System Affiliate shall be required to remove any Lien required to be removed under Section 412 of the Master Indenture, pay or otherwise satisfy and discharge its obligations, Indebtedness (other than any Obligations), demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement referred to in Section 412 of the Master Indenture, so long as such Member, Designated Affiliate or System Affiliate shall contest, in good faith and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation, Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture, or loss of its Property or any part thereof, provided, that no such contest shall subject any Related Issuer, any Obligation holder or the Master Trustee to the risk of any liability. While any such matters are pending, such Member, Designated Affiliate or System Affiliate shall not be required to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless such Member, Designated Affiliate or System Affiliate agrees to settle such contest. Each such contest shall be promptly prosecuted to final conclusion (subject to the right of such Member, Designated Affiliate

or System Affiliate engaging in such a contest to settle such contest), and in any event the Member, Designated Affiliate or System Affiliate will save all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys' fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith. (Section 405)

Insurance. Each Member shall and each Controlling Member covenants to cause each of its Designated Affiliates to, maintain or cause to be maintained at its sole cost and expense, insurance with respect to its Property, the operation thereof and its business against such casualties, contingencies and risks (including but not limited to public liability and employee dishonesty) and in amounts not less than is customary in the case of corporations engaged in the same or similar activities and similarly situated and as is adequate to protect its Property and operations. (Section 406)

Historical Debt Service Coverage Ratio. Each Member covenants and agrees to, and each Controlling Member covenants to cause each of its Designated Affiliates to, conduct its business on a revenue producing basis and to charge such fees and rates and to exercise such skill and diligence as to provide income from its Property together with other available funds sufficient to pay promptly all payments of principal and interest on its Indebtedness, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Designated Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of the Master Indenture.

The Obligated Group Agent shall calculate the Income Available for Debt Service of the System for each Fiscal Year and the Historical Debt Service Coverage Ratio of the System for such Fiscal Year and deliver a copy of such calculations to the Persons to whom financial statements are required to be delivered under Section 409 of the Master Indenture.

If in any Fiscal Year the Historical Debt Service Coverage Ratio of the System is less than 1.10 to 1, the Master Trustee shall require the Obligated Group Agent at its expense to retain a Consultant to make recommendations with respect to the rates, fees and charges of the System Affiliates and the System's methods of operation and other factors affecting their financial condition in order to increase such Historical Debt Service Coverage Ratio to at least 1.10 to 1.

A copy of the Consultant's report and recommendations, if any, shall be filed with the Obligated Group Agent and the Master Trustee. Each Member shall follow and each Controlling Member shall cause each Designated Affiliate to follow each recommendation of the Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. The Corporation shall take such steps as it considers feasible to cause System Affiliates that are not Members or Designated Affiliates to follow each recommendation of the Consultant applicable to such System Affiliate. Section 407 of the Master Indenture shall not be construed to prohibit any Person from serving indigent patients to the extent required for such Person to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the System from satisfying the other requirements of Section 407 of the Master Indenture.

The foregoing provisions notwithstanding, if in any Fiscal Year the Historical Debt Service Coverage Ratio of the System is less than 1.10 to 1, the Master Trustee shall not be obligated to require the Obligated Group Agent to retain a Consultant to make such recommendations if: (a) there is filed with the Master Trustee a written report addressed to them of a Consultant which contains an opinion of such Consultant to the effect that applicable laws or regulations have prevented the System from generating Income Available for Debt Service during such Fiscal Year in an amount sufficient to produce a Historical Debt Service Coverage Ratio of the System of 1.10 to 1 or higher; (b) the report of such Consultant indicates that the fees and rates charged by the System Affiliates are such that, in

the opinion of the Consultant, the System Affiliates have generated the maximum amount of Revenues reasonably practicable given such laws or regulations; and (c) the Historical Debt Service Coverage Ratio of the System was at least 1.00 to 1 for such Fiscal Year. The Obligated Group Agent shall not be required to cause the Consultant's report referred to in the preceding sentence to be prepared more frequently than once every two Fiscal Years if at the end of the first of such two Fiscal Years the Obligated Group Agent provides to the Master Trustee an Officer's Certificate or an opinion of Counsel to the effect that the applicable laws and regulations underlying the Consultant's report delivered in respect of the previous Fiscal Year have not changed in any material way. (Section 407)

Merger, Consolidation, Sale or Conveyance. (a) Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor corporation to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture; and

(iii) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds.

(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 Master Indenture as such Member and the Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Member as the predecessor or non-surviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

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

(d) The Master Trustee may rely upon an opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of Section 408 of the Master Indenture and that it is proper for the Master Trustee under the provisions of Article VII of the Master

Indenture and of Section 408 of the Master Indenture to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Except as may be expressly provided in any Supplemental Master Indenture, the ability of any Designated Affiliate or any System Affiliate to merge into, or consolidate with, one or more corporations, or allow one or more corporations to merge into it, or sell or convey all or substantively all of its Property to any Person is not limited by the provisions of the Master Indenture. Notwithstanding anything to the contrary in the Master Indenture, no System Affiliate shall engage in any merger or consolidation or disposition of substantially all of its assets if any Outstanding Related Bonds have been issued for the benefit of such System Affiliate until there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, such action will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable thereon to which such Related Bond would otherwise be entitled. (Section 408)

Financial Statements, Etc. The Corporation and each Member covenant that they will, and will cause each System Affiliate controlled by the Corporation or such Member to, keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Corporation and the System Affiliates in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the audited financial statements referred to in subparagraph (A) below, and will furnish to the Master Trustee:

(A) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, a financial report of the System for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by the Obligated Group Agent prepared on a combined or consolidated, or combining or consolidating, basis in accordance with generally accepted accounting principles covering the operations of the System for such Fiscal Year and containing an audited consolidated statement of financial position of the System as of the end of such Fiscal Year and an audited consolidated and an unaudited consolidating statement of changes in net assets and statement of cash flows of the System for such Fiscal Year and an audited consolidated and an unaudited consolidating statement of operations of the System for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year.

(B) If the statements referred to in subsection (A) above do not include the results of operations of any Material Designated Affiliate, as soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year for such Material Designated Affiliate, a financial statement for such Material Designated Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants selected by such Material Designated Affiliate prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Material Designated Affiliate in accordance with generally accepted accounting principles and containing at least the results of operations of such Material Designated Affiliate for the Fiscal Year and a statement for financial position as of the end of such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year for such Material Designated Affiliate.

(C) If financial statements have been delivered to the Master Trustee pursuant to the provisions of subsection (B) above, then, as soon as practicable, but in no event more than 180 days after the last day of each Fiscal Year of the Corporation, the result of operations and statement of financial position including the Obligated Group prepared by or at the direction of the chief financial officer of the Corporation based upon the audited financial statements described in subsections (A) and (B) above (such result of operations and statement of financial position being referred to in the Master Indenture as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Corporation stating that the Obligated Group Financial Statements were

prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members of the Obligated Group and that all Members of the Obligated Group are included.

(D) At the time of delivery of the financial report referred to in subsection (A) above, an Officer's Certificate of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of each Member, Designated Affiliate and System Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members, Designated Affiliates and System Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member, Designated Affiliate and System Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions of the Master Indenture, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof. (Section 409)

Indebtedness. Except as may be expressly provided in any Supplemental Master Indenture, the ability of the Members of the Obligated Group, any Designated Affiliate or any System Affiliate to incur Indebtedness including, with respect to Members, Indebtedness evidenced by Obligations and the amount and terms of such Indebtedness, is not limited by the provisions of the Master Indenture. (Section 410)

Sale, Lease or Other Disposition of Property. Except as may be expressly provided in any Supplemental Master Indenture, the ability of the Members of the Obligated Group, any Designated Affiliate or any System Affiliate to sell, lease or otherwise dispose of (including without limitation any involuntary disposition) any Property is not limited by the provisions of the Master Indenture. (Section 411)

Liens on Property. No Member shall create or incur or permit to be created or incurred or to exist any Lien on any Property of such Member, and no Controlling Member shall permit to be created or incurred or to exist any Lien on any Property of any Material Designated Affiliate controlled by it except, in each instance, Permitted Encumbrances. (Section 412)

Right to Consent, Etc. Each Member shall have the right to agree in any Related Bond Indenture, Related Loan Document or Supplemental Master Indenture pursuant to which an Obligation is issued that, so long as any Related Bonds remain outstanding under such Related Bond Indenture or such Obligation remains outstanding, any or all provisions of the Master Indenture which provide for approval, consent, direction or appointment by the Master Trustee, provide that anything must be satisfactory or acceptable to the Master Trustee or not unacceptable to the Master Trustee, allow the Master Trustee to request anything or contain similar provisions granting discretion to the Master Trustee may also require or allow, as the case may be, the approval, consent, appointment, satisfaction, acceptance, request or like exercise of discretion by the Related Issuer, the Related Bond Trustee or the holders of some specified percentage of such Obligations as provided for in such Obligations, or any one thereof, and that all items required to be delivered or addressed to the Master Trustee under the Master Indenture may also be delivered or addressed to the Related Issuer, such Obligation holders and the Related Bond Trustee, or any one thereof, unless waived thereby. (Section 413)

REMEDIES

Extension of Payment. In case the time for the payment of principal of or the interest on any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, such principal or such interest so extended shall not be entitled in case of default under the Master Indenture to the benefit or security

of the Master Indenture except subject to the prior payment in full of the principal of all Obligations then outstanding and of all interest thereon, the time for the payment of which shall not have been extended. (Section 501)

Events of Default. Each of the following events is pursuant to the Master Indenture declared an "event of default":

(a) failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise and the continuance of such failure for ten days (or any shorter grace period required in the Supplemental Master Indenture pursuant to which such Obligation was issued); or

(b) failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(c) any representation or warranty made by any Member in the Master Indenture or in any Supplemental Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation or Related Bond in connection with the delivery of any Obligation or sale of any Related Bond or furnished by any Member pursuant hereto or any Supplemental Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 60 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the outstanding Obligations; or

(d) default in the payment of the principal of, premium, if any, or interest on any Indebtedness for borrowed money (other than Non-Recourse Indebtedness) of any Member, including without limitation any Indebtedness created by any Related Loan Document, as and when the same shall become due, or an event of default as defined in any mortgage, indenture, loan agreement or other instrument under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or event of default entitles the holder thereof (or any credit enhancer exercising the rights of such holder) to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation or issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an "event of default" under the Master Indenture unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(e) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 60 days; provided, however, that none of the foregoing shall constitute an event of default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all

other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Current Assets of the System as shown on or derived from the then latest available audited consolidated financial statements of the System; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 60 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution. (Section 502)

Acceleration. If an event of default has occurred and is continuing, the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument an event of default exists (which event of default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then outstanding under the Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject, however, to the provisions of Section 511 of the Master Indenture with respect to waivers of events of default. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation or Obligations includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation or Obligations, the Master Trustee may not accelerate such Obligation or Obligations without the consent of such Person. (Section 503)

Remedies; Rights of Obligation Holders. Upon the occurrence of any event of default under the Master Indenture, the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations outstanding under the Master Indenture and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an event of default shall have occurred, and if it shall have been requested so to do by either the holders of 25% or more in aggregate principal amount of Obligations outstanding or the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations, the Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by Section 504 of the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee (or to the holders of Obligations) is intended to be exclusive of any other remedy, but each and every such remedy shall be

cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Obligations under the Master Indenture now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or event of default shall impair any such right or power or shall be construed to be a waiver of any such default or event of default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or event of default under the Master Indenture, whether by the Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or event of default or shall impair any rights or remedies consequent thereon. (Section 504)

Direction of Proceedings by Holders. The holders of a majority in aggregate principal amount of the Obligations then outstanding which have become due and payable in accordance with their terms or have been declared due and payable pursuant to Section 503 of the Master Indenture and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Obligations then outstanding in the case of any other remedy, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture and that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by Counsel (who may be its own Counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of the Obligations not parties to such direction. Pending such direction from the holders of a majority in aggregate principal amount of the Obligations outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture. (Section 505)

Application of Moneys. All moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of Article V of the Master Indenture (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, expenses, liabilities and advances incurred or made by the Master Trustee, any Related Issuers and any Related Bond Trustees, be applied as follows:

(a) Unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To the payment to the persons entitled thereto of all installments of interest then due on the Obligations, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according

to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

Second: To the payment to the persons entitled thereto of the unpaid principal and premium, if any, on the Obligations which shall have become due (other than Obligations called for redemption or payment for payment of which moneys are held pursuant to the provisions of the Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the persons entitled thereto without any discrimination or privilege; and

Third: To the payment to the persons entitled thereto of all unpaid principal and interest on Obligations, payment of which was extended by such persons as described in Section 501 of the Master Indenture.

(b) If the principal of all the Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Obligations without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium, if any, and interest to the persons entitled thereto without any discrimination or privilege; provided that no amount shall be paid to any Obligation holder who has extended the time for payment of either principal or interest as described in Section 501 of the Master Indenture until all other principal, premium, if any, and interest owing on Obligations has been paid; and

(c) If the principal of all the Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Article V of the Master Indenture, then, subject to the provisions of paragraph (b) of Section 507 of the Master Indenture in the event that the principal of all the Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of Section 507 of the Master Indenture.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of Section 507 of the Master Indenture, 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 (which shall be an interest payment date unless it shall deem another date more suitable) 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 Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of Section 507 of the Master Indenture and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the person entitled to receive the same; if no other person shall be entitled thereto, then the balance shall be paid to the Obligated Group Agent on behalf of the Members. (Section 507)

Rights and Remedies of Obligation Holders. No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust of the Master Indenture or for the appointment of a receiver or any other remedy under the Master

Indenture, unless a default shall have become an event of default and (a) the holders of 25% or more in aggregate principal amount (i) of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable pursuant to Section 503 of the Master Indenture and have not been paid in full in the case of powers exercised to enforce such payment or (ii) the Obligations then outstanding in the case of any other exercise of power or (b) the holder of an Accelerable Instrument upon whose request pursuant to Section 503 of the Master Indenture the Master Trustee has accelerated the Obligations, shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Master Indenture or to institute such action, suit or proceeding in its own name, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers granted under the Master Indenture, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are pursuant to the Master Indenture declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy under the Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner provided in the Master Indenture, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Master Indenture and for the equal benefit of the holders of all Obligations outstanding. Nothing in the Master Indenture contained shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed. (Section 509)

Termination of Proceedings. In case the Master Trustee shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Master Trustee, then and in every case the Members and the Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Master Indenture with respect to the Property pledged and assigned under the Master Indenture, and all rights, remedies and powers of the Master Trustee shall continue as if no such proceedings had been taken. (Section 510)

Waiver of Events of Default. If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as provided in the Master Indenture and before the acceleration of any Related Bond, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all events of default under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then outstanding and the holder of each Accelerable Instrument who requested the giving of notice of acceleration, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all events of default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent event of default, or shall impair any right consequent thereon. (Section 511)

THE MASTER TRUSTEE

Successor Master Trustee. Any corporation or association into which the Master Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Master Trustee

under the Master Indenture and vested with all of the title to the whole property or trust estate and all the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of and of the parties hereto, anything in the Master Indenture to the contrary notwithstanding. (Section 605)

Corporate Master Trustee Required; Eligibility. There shall at all times be a Master Trustee under the Master Indenture which shall be a bank or trust company organized under the laws of the United States of America or any state thereof, authorized to exercise corporate trust powers, subject to supervision or examination by federal or state authorities, and (except for the Master Trustee initially appointed under the Master Indenture and its successors under Section 605 of the Master Indenture) having a reported combined capital and surplus of at least $50,000,000. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of Section 606 of the Master Indenture, it shall resign immediately in the manner provided in Section 607 of the Master Indenture. No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee shall become effective until the successor Master Trustee has accepted its appointment under Section 610 of the Master Indenture. (Section 606)

Resignation by the Master Trustee. The Master Trustee and any successor Master Trustee may at any time resign from the trusts created under the Master Indenture by giving thirty days' written notice to the Obligated Group Agent and by registered or certified mail to each registered owner of Obligations then outstanding and to each holder of Obligations as shown by the list of Obligation holders required by the Master Indenture to be kept at the office of the Master Trustee. Such resignation shall take effect at the end of such thirty days or when a successor Master Trustee has been appointed and has assumed the trusts created under the Master Indenture, whichever is later, or upon the earlier appointment of a successor Master Trustee by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail. (Section 607)

Removal of the Master Trustee. The Master Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Master Trustee and to the Obligated Group Agent, and signed by the owners of a majority in aggregate principal amount of Obligations then outstanding. So long as no event of default or event which with the passage of time or giving of notice or both would become such an event of default has occurred and is continuing under the Master Indenture, the Master Trustee may be removed with or without cause at any time by an instrument or concurrent instruments in writing signed by the Obligated Group Agent, delivered to the Master Trustee. (Section 608)

Appointment of Successor Master Trustee by the Obligation Holders; Temporary Master Trustee. In case the Master Trustee under the Master Indenture shall resign or be removed, or be dissolved, or shall be in the process of dissolution or liquidation, or otherwise becomes incapable of acting under the Master Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the owners of 51% in aggregate principal amount of Obligations then outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys in fact, duly authorized. The foregoing notwithstanding, so long as the Obligated Group is not in default under the Master Indenture, the Obligated Group shall have the right to approve any such successor trustee and to appoint any such successor trustee in lieu of the owners of 51% of the aggregate principal amount of the Obligations then Outstanding. Every such successor Master Trustee appointed pursuant to the provisions of Section 609 of the Master Indenture shall be a trust company or bank in good standing under the law of the jurisdiction in which it was created and by which it exists, having corporate trust powers and subject to examination by federal or state authorities, and having a reported capital and surplus of not less than $50,000,000. (Section 609)

Concerning Any Successor Master Trustee. Every successor Master Trustee appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to the Obligated Group Agent an instrument in writing accepting such appointment under the Master Indenture, and thereupon such successor, without any further act, deed or conveyance, shall become fully vested with all the estates, properties, rights, powers, trusts, duties and obligations of its predecessor; but such predecessor shall, nevertheless, on the written request of the

Obligated Group Agent, or of its successor, execute and deliver an instrument transferring to such successor Master Trustee all the estates, properties, rights, powers and trusts of such predecessor under the Master Indenture; and every predecessor Master Trustee shall deliver all securities and moneys held by it as Master Trustee under the Master Indenture to its successor. Should any instrument in writing from any Member be required by any successor Master Trustee for more fully and certainly vesting in such successor the estate, rights, powers and duties under the Master Indenture vested or intended to be vested in the predecessor, any and all such instruments in writing shall, on request, be executed, acknowledged and delivered by such Member. The resignation of any Master Trustee and the instrument or instruments removing any Master Trustee and appointing a successor under the Master Indenture, together with all other instruments provided for in Article VI of the Master Indenture shall be filed and/or recorded by the successor Master Trustee in each recording office, if any, where the Master Indenture shall have been filed and/or recorded. (Section 610)

SUPPLEMENTAL MASTER INDENTURES

Supplemental Master Indentures Not Requiring Consent of Obligation Holders. Subject to the limitations set forth in Section 702 of the Master Indenture with respect to Section 701 of the Master Indenture, the Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member;

(c) To assign and pledge under the Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another corporation to the agreements of a Member or the Master Trustee, or the successor of any thereof under the Master Indenture;

(e) To permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States;

(f) To provide for the refunding or advance refunding of any Obligation;

(g) To provide for the issuance of Obligations;

(h) To reflect the addition to or withdrawal of a Member from the Obligated Group or the addition or deletion of any Designated Affiliate, including the necessary changes to *Exhibit A* and *Exhibit B* to the Master Indenture;

(i) To provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations;

(j) To permit an Obligation to be secured by security which is not extended to all Obligation holders;

(k) To permit the issuance of Obligations which are not in the form of a promissory note;

(l) To modify or eliminate any of the terms of the Master Indenture; provided, however, that such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture;

(m) To modify, eliminate or add to the provisions of the Master Indenture if the Master Trustee shall have received (i) written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Obligations or Related Bonds, as the case may be, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards, and (ii) an Officer's Certificate of the Obligated Group Agent to the effect that, in the judgment of the Obligated Group Agent, such change is necessary to permit any Member of the Obligated Group to affiliate or merge with, on acceptable terms, one or more corporations that provide health care services and such modification is in the best interests of the holders of the Outstanding Obligations; and

(n) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the Master Indenture or any indenture supplemental hereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Any Supplemental Master Indenture providing for the issuance of Obligations shall set forth the date thereof, the date or dates upon which principal of, premium, if any, and interest on such Obligations shall be payable, the other terms and conditions of such Obligations, the form of such Obligations and the conditions precedent to the delivery of such Obligations which shall include, among other things:

(a) delivery to the Master Trustee of an opinion of Counsel acceptable to the Master Trustee to the effect that all requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and in the Supplemental Master Indenture have been complied with and satisfied; and

(b) delivery to the Master Trustee of an opinion of Counsel acceptable to the Master Trustee to the effect that registration of such Obligations under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Obligated Group has complied with all applicable provisions of said Act.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any Supplemental Master Indenture pursuant to subsection (m) above, the Master Trustee shall cause notice of the proposed execution of such Supplemental Master Indenture to be given to each Rating Agency then maintaining a rating on any Obligations or Related Bonds, in the manner provided in Section 1004 of the Master Indenture at least 15 days prior to the execution of such Supplemental Master Indenture, which notice shall include a copy of the proposed Supplemental Master Indenture. (Section 701)

Supplemental Master Indentures Requiring Consent of Obligation Holders. In addition to Supplemental Master Indentures covered by Section 701 of the Master Indenture and subject to the terms and provisions contained in Section 702 of the Master Indenture, and not otherwise, the holders of not less than 51% in aggregate principal amount of the Obligations which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the

holders of not less than 51% in aggregate principal amount of the Obligations of each series affected thereby which are outstanding under the Master Indenture at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing contained in Section 702 of the Master Indenture or in Section 701 of the Master Indenture shall permit, or be construed as permitting, (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, (c) the creation of any lien ranking prior to or on a parity with the lien of the Master Indenture with respect to the trust estate, if any, subject hereto or terminate the lien of the Master Indenture on any Property at any time subject hereto or deprive the holder of any Obligation of the security afforded by the lien of the Master Indenture except as otherwise provided in the Master Indenture, or (d) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any such Supplemental Master Indenture for any of the purposes of Section 702 of the Master Indenture, the Master Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplemental Master Indenture to be mailed by first class mail postage prepaid to each holder of an Obligation or, in case less than all of the series of Obligations are affected thereby, of an Obligation of the series affected thereby. Such notice shall briefly set forth the nature of the proposed Supplemental Master Indenture and shall state that copies thereof are on file at the principal corporate trust office of the Master Trustee for inspection by all Obligation holders. The Master Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Master Indenture when consented to and approved as provided in Section 702 of the Master Indenture. If the holders of not less than 51% in aggregate principal amount of the Obligations or the Obligations of each series affected thereby, as the case may be, which are outstanding under the Master Indenture at the time of the execution of any such Supplemental Master Indenture shall have consented to and approved the execution thereof as provided in the Master Indenture, no holder of any Obligation shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Members from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such Supplemental Master Indenture as in Section 702 of the Master Indenture permitted and provided, the Master Indenture shall be and be deemed to be modified and amended in accordance therewith.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation held by a Related Bond Trustee shall be made in the manner provided in Section 513 of the Master Indenture. (Section 702)

Note and Document Substitution. (a) The Master Indenture may be amended or supplemented as provided in Sections 701 and 702 of the Master Indenture.

(b) In addition, the Obligated Group and the Master Trustee, may, without the consent of any of the Holders of any Obligations or any Related Bonds, but only with the prior written consent of the credit enhancers of the Related Bonds of the affected series of Related Bonds, enter into one or more supplements, amendments, restatements, replacements or substitutions to the Master Indenture, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of the Master Indenture, in whole or in part, including, but not limited to, an amendment, restatement or substitution of the Master Indenture, in whole to relate to all Related Bonds, or in part to relate to a portion of the Related Bonds, including but not limited to a series or subseries of the Related Bonds secured by payment obligations of the health care facilities

on whose behalf the allocable portion of the proceeds of the Related Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Corporation, the Obligated Group, any Members of the Obligated Group, any System Affiliates or any Designated Affiliates with any of the foregoing or with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Corporation, the Obligated Group, any Members of the Obligated Group, any System Affiliates or any Designated Affiliates in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Related Bonds, including, but not limited to, the release or discharge of (A) any or all Obligations, in whole or in part, issued pursuant to the Master Indenture to secure the Related Bonds and (B) the Corporation, the Obligated Group, any Members of the Obligated Group, any System Affiliates or any Designated Affiliates from any or all liability (whether direct or indirect) with respect to the Related Bonds or a portion thereof, any Related Loan Document, any Related Bond Indenture, the Obligations, or the Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Related Bonds or portion of the Related Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in the Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture, and (iv) the termination of the status of any Designated Affiliates as Designated Affiliates (the "Undesignated Affiliates"), concurrently with (A) the substitution of the underlying credit source for any Related Bonds the proceeds of which are allocable to the facilities of such Undesignated Affiliates, from being the Corporation under any Related Loan Document and the Corporation and the Obligated Group under the Obligations and the Master Indenture to being such Undesignated Affiliates or any affiliate of such Undesignated Affiliates, under a replacement or substitute loan agreement, bond indenture, note or notes and master indenture, and (B) the release and discharge of (I) any or all Obligations, in whole or in part, issued pursuant to the Master Indenture to secure such Related Bonds allocable to such Undesignated Affiliates and (II) the Corporation, the Obligated Group, any Members of the Obligated Group, any System Affiliates or any Designated Affiliates from any or all liability (whether direct or indirect) with respect to the Related Bonds allocable to the Undesignated Affiliates, any Related Loan Document, any Related Bond Indenture, the Obligations, or the Master Indenture or any portion of any thereof allocable to the Undesignated Affiliates (such transaction is referred to collectively in the Master Indenture as the "Substitution Transaction").

(c) If all amounts due or to become due on the Related Bonds have not been fully paid to the Holder thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Master Trustee: (i) an opinion of bond counsel to the effect that under then existing law the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions contemplated in Section 703 of the Master Indenture, in and of themselves, would not adversely affect the validity of the Related Bonds or the exclusion from federal income taxation of interest payable on the Related Bonds, and (ii) an opinion of counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes of the new affiliated entities or the new obligated group, combined group or other unified credit group to be delivered to secure the Related Bonds allocable to the Undesignated Affiliates constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors' rights, and (2) the issuance of the note or notes will not cause the Related Bonds or such note or notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

(d) In addition, upon the implementation of the Substitution Transaction, the Corporation shall direct the Master Trustee to give written notice thereof, by first-class mail, to the Holders of the Obligations then Outstanding. (Section 703)

SATISFACTION OF THE MASTER INDENTURE

Defeasance. If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations (including, for the purposes of Section 801 of the Master Indenture, any Obligations owned by a Member) outstanding in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations outstanding, as and when the same become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations, in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations outstanding; or

(d) by depositing with the Master Trustee, in trust, before maturity, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then and in that case (but subject to the provisions of Section 803 of the Master Indenture) the Master Indenture and the estate and rights granted under the Master Indenture shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon written request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate from the Obligated Group Agent and an opinion of Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien of the Master Indenture. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Any moneys, funds, securities, or other property remaining on deposit under the Master Indenture (other than said Escrow Obligations or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Master Indenture, forthwith be transferred, paid over and distributed to the Obligated Group Agent.

The Obligated Group may at any time surrender to the Master Trustee for cancellation by it any Obligations previously authenticated and delivered which the Obligated Group may have acquired in any manner whatsoever, and such Obligations, upon such surrender and cancellation, shall be deemed to be paid and retired. (Section 801)

Provision for Payment of a Particular Series of Obligations or Portion Thereof. If the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series (including, for the purpose of Section 802 of the Master Indenture, any such Obligations owned by a Member) in one of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable;

(b) by depositing with the Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law;

(c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or

(d) by depositing with the Master Trustee, in trust, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity of the Master Indenture, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then in that case (but subject to the provisions of Section 803 of the Master Indenture) such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture. The liability of the Obligated Group in respect of such Obligations shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Obligation holders) only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid. (Section 802)

Satisfaction of Related Bonds. The provisions of Section 801 and Section 802 of the Master Indenture notwithstanding, any Obligation which secures a Related Bond (i) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (b)(ii) of the definition of "Outstanding Obligations" contained in the Master Indenture; and (ii) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof. (Section 8.03)

THE BOND INDENTURES AND THE LOAN AGREEMENTS

Except for minor, non-substantive differences relating to State law or regulations or Issuer policies, each of the Bond Indentures and the Agreements are substantially identical.

DEFINITIONS

The following words and terms as used in the summary of the Bond Indentures and the Agreements shall have the following meanings:

"Act" shall mean the particular enabling statute of each Issuer.

"Advance - Refunded Municipal Bonds" shall mean obligations that are exempt from Federal income taxation that have been advance-refunded prior to their maturity, that are fully and irrevocably secured as to principal and interest by Government Obligations held in trust for the payment thereof, that are serial bonds or term bonds not callable prior to maturity except at the option of the holder thereof, and that are rated in the highest rating category by each rating agency then rating such obligations.

"Agreement" shall mean each Loan Agreement, by and between an Issuer and the Institution, and when amended or supplemented, the Agreement, as amended or supplemented.

"Agreement Event of Default" shall mean any one or more of those events set forth in Section 6.01 of the Agreement.

"Authenticating Agent" shall mean the Bond Trustee, and any successor to its duties under the Bond Indenture.

"Beneficial Owner" shall mean whenever used with respect to a Bond, the Person in whose name such Bond is recorded as the beneficial owner of such Bond by a participant on the records of such participant or such Person's subrogee.

"Board" shall mean the governing board of the Issuer.

"Bond" or "Bonds" shall mean the particular Issuer's series of Bonds described in the front portion of this Official Statement issued under the related Bond Indenture.

"Bond Counsel" shall mean an attorney or firm of attorneys of national recognition experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds selected or employed by the Institution.

"Bond Fund" shall mean the fund created pursuant to Section 5.01(a) of the Bond Indenture.

"Bond Indenture" shall mean each Bond Indenture, by and between an Issuer and the Bond Trustee, and when amended or supplemented, such Bond Indenture, as amended or supplemented.

"Bond Indenture Event of Default" shall mean any one or more of those events set forth in Section 7.01 of the Bond Indenture.

"Bond Payment Date" shall mean each date on which interest or both principal and interest shall be payable on any of the Bonds according to their respective terms so long as any Bonds are Outstanding.

"Bond Purchase Contract" shall mean each agreement between an Issuer and the Original Purchaser pertaining to the sale of the related series of Bonds.

"Bond Trustee" shall mean J.P. Morgan Trust Company, National Association, having its Corporate Trust Office in Pittsburgh, Pennsylvania, and any successor to its duties under the related Bond Indenture.

"Bond Year" shall mean the period commencing November sixteenth of each year and ending November fifteenth of the next year.

"Book-Entry Bonds" shall mean the Bonds held by DTC as the registered owner thereof pursuant to the terms and provisions of Section 2.13 of the Bond Indenture.

"Business Day" shall mean any day of the week other than Saturday, Sunday or a day which shall be in the State or Commonwealth of the Issuer or in the jurisdiction of the Bond Trustee, the Paying Agent, the Authenticating Agent or the or Massachusetts Registrar a legal holiday or a day on which banking corporations are authorized or obligated by law or executive order to close.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Construction Fund" shall mean the fund created pursuant to Section 5.01(b) of the Bond Indenture.

"Corporate Trust Office" shall mean the office of the Bond Trustee at which its corporate trust business relating to the bonds is conducted.

"DTC" shall mean The Depository Trust Company, a limited purpose trust company organized under the laws of the State of New York, and its successors and assigns.

"Facilities" shall mean the hospital and other health care and related facilities described in each Agreement.

"Governing Body" shall mean the Institution's board of trustees.

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

"Holder" or "Bondholder" shall mean the registered owner of any Bond, including DTC as the sole registered owner of Book-Entry Bonds.

"Institution" shall mean the private, not-for-profit and charitable corporation organized and existing under the laws of the Commonwealth of Pennsylvania, the corporate name of which is Catholic Health East, and its successors.

"Institution Representative" shall mean the Person at the time designated to act on behalf of the Institution by written certificate furnished to the Bond Trustee, containing the specimen signature of such Person and signed on behalf of the Institution by its chairman, its president or chief executive officer, or its chief financial officer. Such certificate may designate an alternate or alternates who shall have the same authority, duties and powers as such Institution Representative.

"Interest Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(i) of the Bond Indenture.

"Issuer" shall mean each Issuer of a series of Bonds as described in the front portion of this Official Statement.

"Master Indenture" shall mean the Master Trust Indenture, dated as of January 1, 1998, by and between the Institution (and any other members of the Obligated Group) and the Master Trustee, and when amended or supplemented, such Master Indenture, as amended or supplemented.

"Master Indenture Event of Default" shall mean any one or more of those events defined as an Event of Default in the Master Indenture.

"Master Trustee" shall mean J.P. Morgan Trust Company, National Association, and its successor to its duties under the Master Indenture.

"Note" shall mean each Series 2002 Note created and issued pursuant to each Agreement, the Master Indenture and the related Supplemental Master Indenture, issued to the Bond Trustee as assignee of the Issuer by the Institution on behalf of the members of the Obligated Group to evidence the loan to the Institution from the Issuer of the proceeds of the Bonds.

"Note Payments" shall mean all payments to be made by the Institution under the Note issued to or for the account of the Issuer.

"Opinion of Bond Counsel" shall mean an opinion in writing signed by Bond Counsel.

"Opinion of Counsel" shall mean a written opinion of an attorney or firm of attorneys selected by the Institution, and who (except as otherwise expressly provided in the Agreement or in the Bond Indenture) may be either counsel for the Institution or for the Bond Trustee.

"Original Purchaser" shall mean the Person designated in the Bond Purchase Contract as the initial purchaser or purchasers of the Bonds or, if so designated in such Bond Purchase Contract, the representatives or lead or managing underwriters of such initial purchasers.

"Outstanding," when used with reference to the Bonds, shall mean, as of any date of determination, all Bonds theretofore authenticated and delivered except: (i) Bonds theretofore cancelled by the Bond Trustee or delivered to the Bond Trustee for cancellation; (ii) Bonds which are deemed paid and no longer Outstanding as provided in the Bond Indenture; (iii) Bonds in lieu of which other Bonds have been issued pursuant to the provisions of the Bond Indenture relating to Bonds destroyed, stolen or lost; and (iv) for purposes of any consent or other action to be taken under the Agreement or under the Bond Indenture by the Holders of a specified percentage of principal amount of Bonds, Bonds held by or for the account of the Issuer, the Institution, or any Person controlling, controlled by, or under common control with, either of them.

"Paying Agent" shall mean the Bond Trustee and any other banks or trust companies and their successors designated as the paying agencies or places of payment for the Bonds.

"Payment Office" shall mean the agency office of the Bond Trustee located at JP Morgan Chase Bank, Institutional Trust Services, 2001 Bryan Street, 9th Floor, Dallas, Texas, 75201.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal for the investment of the Issuer's money:

(a) Government Obligations;

(b) Government Obligations which have been stripped of their unmatured interest coupons and interest coupons stripped from Government Obligations and receipts, certificates or other similar documents evidencing ownership of future principal or interest payments due on Government Obligations which are held

in a custody or trust account by a commercial bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $20,000,000;

(c) Bonds, debentures, notes or other evidences of indebtedness issued by any of the following: Federal Home Loan Banks; Federal Home Loan Mortgage Corporation (including participation certificates); Federal National Mortgage Association; Government National Mortgage Association; Bank for Cooperatives; Federal Intermediate Credit Banks; Federal Financing Bank; Export-Import Bank of the United States; or Federal Land Banks;

(d) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States government pursuant to authority granted by Congress;

(e) (i) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or (ii) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Bond Trustee or any affiliate thereof), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose (or whose parent's) long-term unsecured debt is rated in either of the two highest long term rating categories by Moody's Investors Service and Standard & Poor's Ratings Group, and provided further that with respect to (i) and (ii) any such obligations are held by, or in the name of, the Bond Trustee or a bank, trust company or national banking association (other than the issuer of such obligations);

(f) Repurchase agreements collateralized by securities described in subparagraphs (a), (b), (c) or (d) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation which has an uninsured, unsecured and unguaranteed obligation rated in one of the three highest rating categories by Moody's Investors Service and by Standard & Poor's Ratings Group, or with any commercial bank (including the Bond Trustee or any affiliate thereof) with such ratings, provided that (1) a specific written repurchase agreement governs the transaction, (2) the securities are held, free and clear of any lien, by the Bond Trustee or an independent third party acting solely as agent for the Bond Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million, and the Bond Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Bond Trustee, (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq. in such securities is created for the benefit of the Bond Trustee, (4) the repurchase agreement has a term of thirty days or less, or the Bond Trustee or its agent will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation, (5) the repurchase agreement matures at least ten days prior to a debt service payment date, and (6) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(g) Money market accounts rated in one of the three highest long term rating categories by Standard & Poor's Ratings Group and Moody's Investors Service or an investment agreement with a financial institution (including the Bond Trustee or any affiliate thereof) whose long term debt (or the long-term debt of such institution's parent company) is rated in either of the two highest long term rating categories by Standard & Poor's Ratings Group and Moody's Investors Service; provided that investments otherwise described in this clause (g) that are not rated by Moody's Investors Service may be made so long

as the amount so invested shall not initially exceed ten percent (10%) of the funds held under the Bond Indenture;

(h) Commercial paper rated in the highest rating category by Moody's Investors Service and Standard & Poor's Ratings Group;

(i) Shares of investment companies rated in one of the three highest long term rating categories by Standard & Poor's Ratings Group and Moody's Investors Service (including, without limitation, the JPMorgan Money Market Mutual Funds or any other mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Bond Trustee or an affiliate of the Bond Trustee receives fees from such funds for services rendered, (ii) the Bond Trustee charges and collects fees for services rendered pursuant to the Bond Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or its affiliates), or cash equivalent investments which are authorized to invest only in assets or securities described in subparagraphs (a), (b), (c), (d) and (f) above; provided, however, that investments in obligations described in this clause (i) shall not initially exceed ten percent (10%) of the funds held under the Bond Indenture;

(j) Advance - Refunded Municipal Bonds rated in the highest rating category by Moody's Investors Service or Standard & Poor's Ratings Group; and

(k) Obligations that are exempt from Federal income taxation that are rated in one of the three highest rating categories by Moody's Investors Service and Standard & Poor's Ratings Group.

"Person" shall include an individual, association, unincorporated organization, corporation, partnership, joint venture, or government or agency or political subdivision thereof.

"Pledged Revenues" shall mean all revenues, proceeds and receipts derived from the Note Payments, and the proceeds of the Bonds pending their application in accordance with the Bond Indenture.

"Principal Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(ii) of the Bond Indenture.

"Project" shall mean the acquisition, renovation, installation, improvement and equipping of the Project Users' facilities described in the related Agreement, to be financed and refinanced from the proceeds of the Bonds.

"Project Users" shall mean those entities identified as such in each Loan Agreement.

"Record Date" shall mean, with respect to the Bonds, each May 1 and November 1 (whether or not such days are Business Days).

"Redemption Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(iv) of the Bond Indenture.

"Redemption Price" shall mean, when used with respect to a Bond or portion thereof to be redeemed, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof.

"Registrar" shall mean the Bond Trustee, and any successor to its duties under the Bond Indenture.

"Representation Letter" shall mean the Representation Letter from each Issuer to DTC with respect to the Bonds.

"Reserve Fund" shall mean the fund created pursuant to Section 5.01(c) of the Bond Indenture.

"Reserve Fund Requirement" shall mean, $2,256,415.44 with respect to the Georgia Bonds, $1,986,920.05 with respect to the Pennsylvania Bonds and $2,009,488.63 with respect to the Massachusetts Bonds.

"Reserve Fund Value" shall mean the current market value of moneys and investments credited to the Reserve Fund (taking into account straight line amortizations and accretions of premiums and discounts).

"Serial Bonds" shall mean the Bonds which are so designated in the Bond Indenture and are stated to mature in annual installments.

"Sinking Fund Account" shall mean the account of the Bond Fund created pursuant to Section 5.01(a)(iii) of the Bond Indenture.

"Sinking Fund Account Requirement" shall mean, as to Term Bonds having the same stated maturity date, the aggregate principal amount of such Bonds required to be retired on or before the corresponding Sinking Fund Account Retirement Date.

"Sinking Fund Account Retirement Date" shall mean, as to Term Bonds having the same stated maturity date, the date on or before which such Term Bonds are required to be retired in an amount equal to the Sinking Fund Account Requirement for such date.

"State" shall mean the State of the Issuer.

"Supplement" shall mean an indenture supplementing or modifying the provisions of the Bond Indenture entered into by the Issuer and the Bond Trustee in accordance with Article IX of the Bond Indenture.

"Supplemental Master Indenture" shall mean the applicable Supplemental Master Trust Indenture to the Master Indenture, each by and between the Institution (and the other members of the Obligated Group) and the Master Trustee, relating to the Notes, and when amended or supplemented, such Supplemental Master Indentures, as amended or supplemented.

"Tax-Exempt Organization" shall mean a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) and exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

"Tax Regulatory Agreement" shall mean the Tax Regulatory Agreement, dated the date of delivery of the Bonds, by and among the Issuer, the Project Users and the Institution.

"Term Bonds" shall mean the Bonds designated as Term Bonds in the Bond Indenture.

THE BOND INDENTURES

Medium and Place of Payment. (a) Principal of, premium, if any, and interest on the Bonds shall be payable in any coin or currency of the United States of America which, on the respective dates of payment of principal and interest, is legal tender for the payment of public and private debts.

(b) Except for Book-Entry Bonds held by DTC in accordance with the terms and provisions of Section 2.13 of the Bond Indenture, interest on the Bonds shall be payable by check drawn upon the Paying Agent and mailed to the registered Holders of such Bonds at the addresses of such Holders as they appear on the books of the Registrar on the Record Date, provided, however, that interest may be paid by wire transfer to the Holder of at

least $1,000,000 aggregate principal amount of Bonds to the address designated by such Holder to the Paying Agent at or prior to the close of business on the Record Date for such payment. Principal of and premium, if any, on the Bonds shall be paid when due upon presentation and surrender of such Bonds at the Payment Office or other designated office of the Paying Agent.

(c) In the event of a default by the Issuer in the payment of interest due on a Bond on a Bond Payment Date, such defaulted interest will be payable to the Person in whose name such Bond is registered at the close of business on a special record date for the payment of such defaulted interest established by notice mailed by the Registrar to the registered owners of Bonds not less than ten (10) days preceding such special record date. (Section 2.03)

Mutilated, Destroyed, Lost and Stolen Bonds. If (i) any mutilated Bond is surrendered to the Bond Trustee or if the Issuer, the Registrar, the Paying Agent or the Bond Trustee receives evidence to their satisfaction of the destruction, loss or theft of any Bond, and (ii) there is delivered to the Issuer, the Registrar, the Paying Agent and the Bond Trustee such security or indemnity as may be required by them to hold them harmless, then, upon the Holder paying the reasonable expenses of the Issuer, the Registrar, the Paying Agent and the Bond Trustee, the Issuer shall cause to be executed and the Authenticating Agent shall authenticate and deliver, in exchange for such mutilated Bond or in lieu of such destroyed, lost or stolen Bond, a new Bond of like principal amount, date and tenor. If any such destroyed, lost or stolen Bond has become or is about to become due and payable, then the Bond Trustee and any Paying Agent may, in their discretion, pay such Bond when due instead of delivering a new Bond. (Section 2.04)

Exchange of Bonds. Bonds, upon presentation and surrender thereof to the Registrar together with written instructions satisfactory to the Registrar, duly executed by the registered Holder or his attorney duly authorized in writing, may be exchanged for an equal aggregate face amount of fully registered Bonds with the same interest rate and maturity of any other authorized denominations. (Section 2.06)

Negotiability and Transfer of Bonds. (a) All Bonds issued under the Bond Indenture shall be negotiable, subject to the provisions for registration and transfer thereof contained in the Bond Indenture or in the Bonds.

(b) So long as any Bonds are Outstanding, the Issuer shall cause to be maintained at the offices of the Registrar books for the registration and transfer of Bonds, and shall provide for the registration and transfer of any Bond under such reasonable regulations as the Issuer or the Registrar may prescribe. The Registrar shall act as bond registrar for purposes of exchanging and registering Bonds in accordance with the provisions of the Bond Indenture.

(c) Each Bond shall be transferable only upon the registration books maintained by the Registrar, by the Holder thereof in person or by his attorney duly authorized in writing, upon presentation and surrender thereof together with a written instrument of transfer satisfactory to the Registrar duly executed by the registered Holder or his duly authorized attorney. Upon surrender for transfer of any such Bond, the Issuer shall cause to be executed and the Authenticating Agent shall authenticate and deliver, in the name of the transferee, one or more new Bonds of the same aggregate face amount, maturity and rate of interest as the surrendered Bond, as fully registered Bonds only. (Section 2.07)

Persons Deemed Owners. As to any Bond, the Person in whose name such Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of principal or interest on any Bond shall be made only to or upon the written order of the registered Holder thereof. Such payment shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the amount so paid. (Section 2.08)

Provisions with Respect to Transfers and Exchanges. (a) All Bonds surrendered in any exchange or transfer of Bonds shall forthwith be cancelled by the Registrar.

(b) In connection with any such exchange or transfer of Bonds the Holder requesting such exchange or transfer shall as a condition precedent to the exercise of the privilege of making such exchange or transfer remit

to the Registrar an amount sufficient to pay any tax, or other governmental charge required to be paid with respect to such exchange or transfer.

(c) Neither the Issuer nor the Registrar shall be obligated to (i) issue, exchange or transfer any Bond during the period from a Record Date to the next succeeding Bond Payment Date, or (ii) transfer or exchange any Bond which has been or is being called for redemption in whole or in part. (Section 2.09)

Book-Entry Bonds. (a) Except as provided in subparagraph (c) of Section 2.13 of the Bond Indenture, the registered owner of all of the Bonds shall be DTC and the Bonds shall be registered in the name of Cede & Co., as nominee for DTC. Payment of semiannual interest for any Bond registered as of each Record Date in the name of Cede & Co. shall be made by payment of wire transfer of immediately available funds to the account of Cede & Co. on the Bond Payment Date for the Bonds at the address indicated on the regular Record Date or special record date for Cede & Co. in the registry books of the Issuer kept by the Registrar.

(b) The Bonds shall be initially issued in the form of separate single fully registered Bonds, authenticated by the Authenticating Agent, in the amount of each separate stated maturity of the Bonds. Upon initial issuance, the ownership of such Bonds shall be registered in the registry books of the Issuer kept by the Registrar in the name of Cede & Co., as nominee of DTC. The Bond Trustee, the Registrar, the Paying Agent and the Issuer shall treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Bond Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever, and neither the Bond Trustee, the Registrar, the Paying Agent nor the Issuer shall be affected by any notice to the contrary. Neither the Bond Trustee, the Registrar, the Paying Agent nor the Issuer shall have any responsibility or obligation to any DTC participant, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any DTC participant, or any other Person which is not shown on the registration books of the Registrar as being a Bondholder, with respect to the accuracy of any records maintained by DTC or any DTC participant; the payment of DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest on the Bonds; any notice which is permitted or required to be given to Bondholders under the Bond Indenture; the selection by DTC or any DTC participant of any Person to receive payment in the event of a partial redemption of the Bonds; or any consent given or other action taken by DTC as Bondholder. The Paying Agent shall pay all principal of and premium, if any, and interest on the Bonds only to or "upon the order of" DTC (as that term is used in the Uniform Commercial Code as adopted in the State or Commonwealth of the applicable Issuer), and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No Person other than DTC shall receive an authenticated Bond for each separate stated maturity evidencing the obligation of the Issuer to make payments of principal of and premium, if any, and interest pursuant to the Bond Indenture. Upon delivery by DTC to the Bond Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in the Bond Indenture with respect to Record Dates, the word "Cede & Co." in the Bond Indenture shall be redeemed to be changed to reflect such new nominee of DTC.

(c) In the event the Issuer (at the direction of the Obligated Group Agent) determines that it is in the best interest of the Beneficial Owners that they be able to obtain Bond certificates, the Issuer may notify DTC and the Bond Trustee, whereupon DTC will notify the DTC participants, of the availability through DTC of Bond certificates. In such event, the Bond Trustee shall deliver, transfer and exchange Bond certificates as directed by DTC as the Bondholder in appropriate amounts. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving notice to the Issuer and the Bond Trustee and discharging its responsibilities with respect thereto under applicable law. Under such circumstances (if there is no successor securities depository), the Issuer and the Bond Trustee shall be obligated to deliver Bond certificates as directed by DTC. In the event Bond certificates are issued, the provisions of the Bond Indenture shall apply to, among other things, the transfer and exchange of such certificates and the method of payment of principal of and interest on such certificates. Whenever DTC requests the Issuer and the Bond Trustee to do so, the Bond Trustee and the Issuer will cooperate with DTC in taking appropriate action after reasonable notice (a) to make available one or more separate certificates evidencing the Bonds to any DTC

participant having Bonds credited to its DTC account (subject to clause (d) below) or (b) to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

(d) Notwithstanding any other provision of the Bond Indenture to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) In connection with any notice or other communication to be provided to Bondholders pursuant to the Bond Indenture by the Issuer or the Bond Trustee with respect to any consent or other action to be taken by Bondholders, the Issuer or the Bond Trustee, as the case may be, shall establish a record date for such consent or other action and give DTC as sole Bondholder notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible. Notice to DTC shall be given only when DTC is the sole Bondholder. (Section 2.13)

REDEMPTION OF BONDS

Selection of Bonds to be Redeemed. In the event of any redemption of less than all Outstanding Bonds, any maturity or maturities and amounts within maturities of Bonds to be redeemed shall be selected by the Bond Trustee at the direction of the Obligated Group Agent. If less than all of the Bonds of the same maturity are to be redeemed upon any redemption of Bonds under the Bond Indenture, the Bond Trustee shall select the Bonds to be redeemed by lot in such manner as the Bond Trustee may determine, provided that for so long as the Book - Entry only system is being used, the particular Bonds or portions thereof to be redeemed within a maturity shall be selected by lot by DTC in such manner as DTC and the participants may determine. In making such selection, the Bond Trustee (or DTC) shall treat each Bond as representing that number of Bonds of the lowest authorized denomination ($5,000) as is obtained by dividing the principal amount of such Bond by such denomination. (Section 3.05)

Partial Redemption of Bonds. Upon the selection and call for redemption of, and the surrender of, any Bond for redemption in part only, the Issuer shall cause to be executed and the Authenticating Agent shall authenticate and deliver to or upon the written order of the Holder thereof, at the expense of the Institution, a new Bond or Bonds of authorized denominations in an aggregate face amount equal to the unredeemed portion of the Bond surrendered, which new Bond or Bonds shall be a fully registered Bond or Bonds without coupons, in authorized denominations.

The Bond Trustee may agree with any Holder of any such Bond that such Holder may, in lieu of surrendering the same for a new Bond, endorse on the reverse of such Bond a notice of such partial redemption, which notice shall set forth, over the signature of such Holder, the redemption date, the principal amount redeemed and the principal amount remaining unpaid; provided, however, for so long as the Book-Entry only system is being used, partial redemption of a Bond shall be recorded or evidenced as directed by DTC. Such partial redemption shall be valid upon payment of the amount thereof to the registered owner of any such Bond and the Bond Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Bond by the owner thereof and irrespective of any error or omission in such endorsement. (Section 3.06)

Effect of Call for Redemption. On the date designated for redemption by notice given as provided in the Bond Indenture, the Bonds so called for redemption shall become and be due and payable at the Redemption Price provided for redemption of such Bonds on such date. If on the date fixed for redemption moneys for payment of the Redemption Price and accrued interest are held by the Bond Trustee or the Paying Agent as provided in the Bond Indenture, interest on such Bonds so called for redemption shall cease to accrue, such Bonds shall cease to be entitled to any benefit or security under the Bond Indenture except the right to receive payment from the moneys held by the Bond Trustee or the Paying Agent and the amount of such Bonds so called for redemption shall be deemed paid and no longer Outstanding. (Section 3.07)

Notice of Redemption. If less than all the Bonds are to be redeemed, the Bonds to be redeemed shall be identified by reference to the issue and series designation, date of issue, serial numbers and maturity dates. Notice of redemption of any Bonds shall be mailed by the Registrar, by first-class mail, postage prepaid, not less than thirty (30) nor more than forty-five (45) days prior to the date set for redemption, to each registered Holder of a Bond to be so redeemed at the address shown on the books of the Registrar but failure to so mail or any defect in any such notice with respect to any Bond shall not affect the validity of the proceedings for the redemption of any other Bond with respect to which notice was so mailed or with respect to which no such defect occurred, respectively. Each such notice shall set forth the date fixed for redemption, official name of the issue (including series), date of notice, date of issue, dated date, the redemption price to be paid and, if less than all of the Bonds of any one maturity then Outstanding shall be called for redemption, the distinctive numbers and letters, including CUSIP identification numbers, if any, and certificate numbers of such Bonds to be redeemed, the maturity date and interest rates of such Bonds to be redeemed, the name of the Paying Agent with address, telephone number, and contact person, and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. Failure to give notice by mailing to any Bondholder, or any defect therein, shall not affect the validity of any proceedings for the redemption of any other Bonds.

The Bond Trustee also shall mail a copy of such notice by registered or certified mail (return receipt requested) or overnight delivery service (or by telecopy where permitted) for receipt not less than thirty-two (32) days before such redemption date to the following: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530; Midwest Securities Trust Company, Capital Structures Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605. The Bond Trustee shall provide notices to the following information services at the time notice is provided to the Bondholders: Kenny Information Systems Notification Service, 65 Broadway, 16th Floor, New York, New York 10006; and Standard and Poor's Called Bond Record, 25 Broadway, New York, New York 10004 (and to such other services as the Bond Trustee deems appropriate); provided, however, that such mailing shall not be a condition precedent to such redemption and failure so to mail any such notice shall not affect the validity of any proceedings for the redemption of Bonds. Sixty (60) days after the redemption date, the Bond Trustee shall also mail a second copy of the notice of redemption to any Bondholder who has not presented his Bonds for payment on or before such date, by the same means as the first notice. (Section 3.08)

REVENUES AND FUNDS

Creation of Funds and Accounts. Upon the issuance of the Bonds, the Bond Trustee shall create (a) the Bond Fund which shall contain the following accounts: (i) the Interest Account; (ii) the Principal Account; (iii) the Sinking Fund Account; and (iv) the Redemption Account; (b) the Construction Fund; and (c) the Reserve Fund. (Section 5.01)

Flow of Funds. So long as any Bonds are Outstanding, in each Bond Year, Note Payments or repayments under the Agreement received by the Bond Trustee shall be applied in the following manner and order of priority:

(a) Interest Account. The Bond Trustee shall deposit to the Interest Account on or before the last day of each semiannual period (being the fourteenth day of each May and November), commencing on the fourteenth day of November, 2002, the amount, if any, necessary to cause the amount then being credited to the Interest Account, together with investment earnings on investments then on deposit in the Interest Account, if such earnings will be received before the next Bond Payment Date (but only to the extent that (i) such amount or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than the amount of interest to be paid on Outstanding Bonds on such Bond Payment Date, subject to appropriate adjustment for the initial Bond Payment Date if the period prior to such Bond Payment Date is other than six full months. Moneys in the Interest Account shall be used to pay interest on Bonds as it becomes due.

(b) Principal Account. The Bond Trustee shall deposit to the Principal Account on or before the day of each semiannual period, commencing on the fourteenth day of May during each Bond Year ending on a date on which Serial Bonds mature, the amount necessary to cause the amount then being credited to the Principal Account, together with the investment earnings on investments then on deposit in the Principal Account, if such earnings will be received before the last day of the Bond Year (but only to the extent that (i) such amount or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than one-half of the principal amount of Serial Bonds Outstanding which will mature on the last day of such Bond Year, subject to appropriate adjustment for the initial Serial Bond maturity if the period prior to such date is other than twelve full months. Moneys in the Principal Account shall be used to retire Serial Bonds by payment at their scheduled maturity.

(c) Sinking Fund Account. The Bond Trustee shall deposit to the Sinking Fund Account on or before the last day of each semiannual period, commencing on the fourteenth day of May during each Bond Year ending on a date which is a Sinking Fund Account Retirement Date, the amount necessary to cause the amount credited to the Sinking Fund Account, together with investment earnings on investments then on deposit in the Sinking Fund Account, if such earnings will be received before the last day of the Bond Year (but only to the extent that (i) such amount or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than one-half of the unsatisfied Sinking Fund Account Requirements to be satisfied on or before the last day of such Bond Year, subject to appropriate adjustment for the initial Sinking Fund Account Retirement Date if the period prior to such date is other than twelve full months. Moneys in the Sinking Fund Account shall be used to retire Term Bonds by purchase, by mandatory redemption or by payment at their scheduled maturity.

The Bond Trustee may, and upon direction of the Institution shall (for a reasonable period following such direction) use its best efforts to, apply moneys credited to the Sinking Fund Account to purchase Term Bonds in satisfaction of Sinking Fund Account Requirements for such Term Bonds for a Sinking Fund Account Retirement Date. The Bond Trustee shall not so purchase any Bond at a price or cost (including any brokerage fees or commissions or other charges) which exceeds the principal amount thereof plus interest accrued to the date of purchase. Such accrued interest shall be paid from the Interest Account. The principal amount of Term Bonds of each maturity so purchased shall be credited against the unsatisfied balance of Sinking Fund Account Requirements for such maturity in order of Sinking Fund Account Retirement Dates. All Bonds so purchased shall be cancelled.

(d) Reserve Fund. When moneys in the Bond Fund are insufficient to pay principal of or interest on Bonds when due, moneys in the Reserve Fund shall be used to augment payments due for principal or interest on the Bonds. When moneys in the Reserve Fund are so used, the Bond Trustee shall forthwith give notice to the Institution and to the Issuer. If at any time the Reserve Fund Value exceeds one hundred percent (100%) of the Reserve Fund Requirement, such excess may be transferred, at the direction of the Institution, to the Institution for application to any purpose permitted by law. The Bond Trustee is directed to make such deposits into the Reserve Fund as are required to be made under the Bond Indenture or under the Agreement, including, but not limited to any payments received by the Bond Trustee from the Institution pursuant to Section 4.02(e) or (f) of the Agreement.

(e) Redemption Account. If the Institution makes an optional prepayment of any installment on the Note, the amount so paid shall be credited to the Redemption Account and applied promptly by the Bond Trustee, first, to cause the amounts credited to the Interest Account, the Principal Account or the Sinking Fund Account of the Bond Fund, in that order, to be not less than the amounts then required to be credited thereto and, then to retire Bonds by purchase, redemption or both purchase and redemption in accordance with the Institution's directions. Any such purchase shall be made at the best price obtainable with reasonable diligence and no Bond shall be so purchased at a cost or price (including brokerage fees or commissions or other charges) which exceeds the Redemption Price at which such Bond could be redeemed

on the date of purchase or on the next succeeding date upon which such Bond is subject to optional redemption plus accrued interest to the date or purchase. Any such redemption shall be of Bonds then subject to optional redemption at the Redemption Price then applicable for optional redemption of such Bonds.

The principal amount of any Term Bonds so purchased or redeemed shall be credited against the unsatisfied balance of Sinking Fund Account Requirements for such maturity in order of Sinking Fund Account Retirement Dates.

Any balance remaining in the Redemption Account after the purchase or redemption of Bonds in accordance with the Institution's directions, or in any event on the day following the Bond Payment Date next succeeding the prepayment by the Institution, shall be transferred to the Interest Account. (Section 5.03)

Investment of Moneys Held by the Bond Trustee. (a) (i) Moneys in all Funds and Accounts held by the Bond Trustee shall be invested by the Bond Trustee, as soon as possible upon receipt in Permitted Investments as directed, in writing or by telephonic or other means, promptly confirmed in writing, by the Institution, subject to the following. The maturity date or the date on which such Permitted Investments may be redeemed at the option of the holder thereof shall coincide as nearly as practicable with (but in no event shall be later than) the date or dates in which moneys in the Funds or Accounts for which the investments were made will be required for the purposes thereof. Moneys in the Reserve Fund may be invested only in obligations described in paragraphs (a), (b), (f) and (i) of the definition of Permitted Investments that mature no later than five years from the date of the purchase thereof by the Bond Trustee; provided however, that such Permitted Investments described in paragraphs (a), (b) and (i) of the definition of Permitted Investments may have a maturity which is later than five years from the date of the purchase thereof by the Bond Trustee if such Permitted Investments are valued by the Bond Trustee no less frequently than quarterly in the manner described in paragraph (d) of Section 5.05 of the Bond Indenture, and provided further that Permitted Investments described in paragraph (f) of the definition of Permitted Investments may have a maturity which is later than five years from the date of purchase thereof by the Bond Trustee if such Permitted Investments have downgrade and liquidation provisions satisfactory to the Issuer and the Institution, and the Issuer and the Institution provide the Bond Trustee with a written certification to such effect. In the absence of direction from the Institution, the Bond Trustee shall invest the principal and interest of maturing investments in Permitted Investments described in paragraph (i) of the definition of Permitted Investments.

(ii) For purposes of paragraph (i) above, moneys in the Funds or Accounts held by the Bond Trustee shall be invested in Permitted Investments maturing or redeemable at the option of the Bond Trustee not later or no less frequently than the respective following dates or periods of time: (A) Reserve Fund, the day preceding the last stated maturity date of the Bonds; (B) Principal Account and Sinking Fund Account, the day preceding the last day of each Bond Year; (C) Interest Account, the day preceding the next Bond Payment Date; and (D) Redemption Account, the day preceding the next date on which Bonds are to be redeemed or purchased.

(b) Amounts credited to a Fund or Account may be invested, together with amounts credited to one or more other Funds or Accounts, in the same Permitted Investment, provided that (i) each such investment complies in all respects with the provisions of subsection (a) of Section 5.05 of the Bond Indenture as they apply to each Fund or Account for which the joint investment is made and (ii) the Bond Trustee maintains separate records for each Fund and Account and such investments are accurately reflected therein.

(c) The Bond Trustee may make any investment permitted by Section 5.05 of the Bond Indenture, through or with its own commercial banking or investment departments unless otherwise directed by the Institution.

(d) Except as otherwise specifically provided in the Bond Indenture, in computing the amount in any Fund or Account, Permitted Investments purchased as an investment of moneys therein shall be valued at the face value or the current market value thereof, whichever is the lower, or at the redemption price thereof, if then redeemable at the option of the holder, in either event inclusive of accrued interest. If an investment agreement is

ever a Permitted Investment, it shall be valued at the unpaid amount thereof. The Reserve Fund Value, however, shall be valued at the current market value of moneys and investments credited to the Reserve Fund.

(e) The Bond Trustee shall use its best efforts to sell at the best price obtainable, or present for redemption, any Permitted Investment purchased by it as an investment whenever it shall be necessary in order to provide moneys to meet any payment or transfer from the Fund or Account for which such investment was made.

(f) Neither the Institution nor the Issuer shall knowingly use or direct or permit the use of any moneys of the Issuer in its possession or control in any manner which would cause any Bond to be an "arbitrage bond" within the meaning ascribed to such term in Section 148 of the Code, or any successor section of the Code.

(g) Notwithstanding any provision of the Bond Indenture, the Issuer and the Bond Trustee shall observe their covenants and agreements contained in the Tax Regulatory Agreement, to the extent that and for so long as such covenants and agreements are required by law. (Section 5.05)

Investment Income. Except as otherwise provided in the Bond Indenture, interest income and gain received, or loss realized, from investments of moneys in any Fund or Account shall be credited, or charged, as the case may be, to such respective Fund or Account. All income and gain from investment of the Reserve Fund, so long as the Reserve Fund Value equals or exceeds the Reserve Fund Requirement, shall be transferred to the Construction Fund prior to the completion of the Project, and thereafter, to the Interest Account. The Bond Trustee shall compute the Reserve Fund Value at least semiannually, on or prior to each Record Date, and more often as may be reasonably requested by the Institution. All income and gain from investment of the Interest Account shall be retained in the Interest Account and credited against the interest component of the next forthcoming Note Payment. Income and gain from Redemption Account investments may be transferred to any other Fund or Account upon direction of the Institution. Investment income credited to either the Interest Account, the Principal Account or the Sinking Fund Account shall be retained in such Account and shall be a credit against the next forthcoming Note Payment to be deposited to such respective Account. (Section 5.07)

GENERAL COVENANTS OF THE ISSUER

Payment of Principal and Interest. Subject to the limited sources of payment specified in the Bond Indenture, the Issuer covenants that it will promptly pay or cause to be paid the principal of, premium, if any, and interest on each Bond issued under the Bond Indenture at the place, on the dates and in the manner provided in the Bond Indenture and in said Bonds according to the terms of the Bond Indenture and the Bonds. The principal of, premium, if any, and interest on the Bonds are payable solely from the Pledged Revenues held by the Bond Trustee under the Bond Indenture, all of which are pursuant to the Bond Indenture specifically assigned and pledged to such payment in the manner and to the extent specified in the Bond Indenture and nothing in the Bond Indenture or in the Bonds shall be construed as assigning or pledging any other funds or assets of the Issuer. (Section 6.01)

Performance of Covenants. The Issuer pursuant to the Bond Indenture covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions on its part to be performed as provided in the Bond Indenture in each and every bond executed, authenticated and delivered under the Bond Indenture and in all proceedings of the Issuer pertaining thereto. (Section 6.02)

Protection of Lien. The Issuer pursuant to the Bond Indenture agrees not to make or create or suffer to be made or created any assignment or lien having priority or preference over the assignment and lien of the Bond Indenture upon the interests granted pursuant to the Bond Indenture or any part thereof except as otherwise specifically provided in the Bond Indenture. The Issuer pursuant to the Bond Indenture agrees that no obligations the payment of which is secured by Pledged Revenues will be issued by it except Bonds in lieu of, or upon transfer of registration or exchange of, any Bond as provided in the Bond Indenture. (Section 6.04)

DEFAULT AND REMEDIES

Bond Indenture Events of Default. Each of the following pursuant to the Bond Indenture is declared a "Bond Indenture Event of Default" under the Bond Indenture:

(a) If payment by the Issuer in respect of any installment of interest on any Bond shall not be made in full when the same becomes due and payable;

(b) If payment by the Issuer in respect of the principal of or redemption premium, if any, on any Bond shall not be made in full when the same becomes due and payable, whether at maturity or by proceedings for redemption or by declaration of acceleration or otherwise;

(c) The Issuer shall fail duly to observe or perform any other covenant or agreement on its part under the Bond Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Issuer and the Institution by the Bond Trustee, or to the Issuer, the Institution, and the Bond Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding. If the breach of covenant or agreement is one which cannot be completely remedied within the thirty (30) days after written notice has been given, it shall not be a Bond Indenture Event of Default as long as the Issuer has taken active steps within the thirty (30) days after written notice has been given to remedy the failure and is diligently pursuing such remedy;

(d) If there occurs an Agreement Event of Default pursuant to Section 6.01(a) of the Agreement and such Agreement Event of Default shall continue for two (2) days or if there occurs any other Agreement Event of Default. (Section 7.01)

Acceleration; Annulment of Acceleration. (a) Upon the occurrence of a Bond Indenture Event of Default, and if the Note has been declared by the Master Trustee to be immediately due and payable, then, without any further action, the Bond Trustee may, and upon the direction of the holders of not less than a majority in principal amount of the Bonds then Outstanding, shall, declare an acceleration of the Bonds, and thereupon, all Bonds Outstanding shall become and be immediately due and payable, anything in the Bonds or in the Bond Indenture to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds an amount equal to the total principal amount of all such Bonds, plus all interest accrued thereon and which accrues to the date of payment. The Bond Trustee shall give written notice of such acceleration to the Issuer, the Registrar, the Master Trustee, and the Institution, and the Registrar shall give notice to the Bondholders in the same manner as for a notice of redemption under Article III of the Bond Indenture stating the accelerated date on which the Note and the Bonds shall be due and payable.

(b) At any time after the principal of the Note and the Bonds shall have been so declared to be due and payable, if the declaration that the Note is immediately due and payable is annulled in accordance with the provisions of the Master Indenture, the declaration that the Bonds are immediately due and payable shall also, without further action, be annulled and the Registrar shall promptly give notice of such annulment in the same manner as provided in subsection (a) of Section 7.02 of the Bond Indenture for giving notice of acceleration. No such annulment shall extend to or affect any subsequent Bond Indenture Event of Default or impair any right consequent thereon. (Section 7.02)

Rights of Bond Trustee Concerning the Note. The Bond Trustee, as pledgee and assignee for security purposes of all the right, title and interest of the Issuer in and to the Agreement, the Master Indenture, the Supplemental Master Indenture and the Note delivered thereunder, shall, upon compliance with applicable requirements of law and except as otherwise set forth in Article VII of the Bond Indenture, be the sole real party in interest in respect of, and shall have standing to enforce each and every right granted to the Issuer under the Agreement, the Master Indenture, the Supplemental Master Indenture and under the Note delivered thereunder. The Issuer and the Bond Trustee pursuant to the Master Indenture agree without in any way limiting the effect and scope

thereof, that the pledge and assignment under the Bond Indenture to the Bond Trustee of any and all rights of the Issuer in and to the Note, the Master Indenture, the Supplemental Master Indenture and the Agreement shall constitute an agency appointment coupled with an interest on the part of the Bond Trustee which, for all purposes of the Bond Indenture, shall be irrevocable and shall survive and continue in full force and effect notwithstanding the bankruptcy or insolvency of the Issuer or its default under the Bond Indenture or on the Bonds. In exercising such rights and the rights given the Bond Trustee under Article VII of the Bond Indenture, the Bond Trustee shall take such action as, in the judgment of the Bond Trustee, would best serve the interests of the Bondholders, taking into account the provisions of the Agreement, the Master Indenture, the Supplemental Master Indenture and the Note, together with the security and remedies afforded to the holder of the Note thereunder. (Section 7.03)

Additional Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Bond Indenture Event of Default, the Bond Trustee may or upon the written request of the Holders of not less than twenty-five percent (25%) in an aggregate principal amount of the Bonds Outstanding, together with indemnification of the Bond Trustee to its satisfaction therefor, shall proceed forthwith to protect and enforce its rights and the rights of the Bondholders under the Bond Indenture and under the Act and the Bonds by such suits, actions or proceedings as the Bond Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Civil action to recover money or damages due and owing;

(ii) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Bonds;

(iii) Enforcement of any other right of the Bondholders conferred by law or pursuant to the Bond Indenture; and

(iv) Enforcement of any other right conferred by the Agreement.

(b) Regardless of the happening of a Bond Indenture Event of Default, the Bond Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding, shall upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Bond Indenture by any acts which may be unlawful or in violation of the Bond Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions of the Bond Indenture and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of the Holders of Bonds not making such request. (Section 7.04)

Application of Revenues and Other Moneys After Default. During the continuance of a Bond Indenture Event of Default all moneys received by the Bond Trustee pursuant to any right given or action taken under the provisions of Article VII of the Bond Indenture shall, after payment of the costs and expenses of the proceedings which result in the collection of such moneys and of the fees, expenses and advances incurred or made by the Bond Trustee and the Issuer with respect thereto, be deposited in the Bond Fund, and all amounts held by the Bond Trustee under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all Outstanding Bonds shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds in the order of 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 amounts or Redemption Price of any Bonds which shall have become due (other than Bonds previously called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the principal amounts or Redemption Price due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal amounts of all Outstanding Bonds shall have become or have been declared due and payable, to the payment of the principal amounts and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amounts and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal amounts of all Outstanding Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of Article VII of the Bond Indenture, then, subject to the provisions of paragraph (b) of Section 7.05 of the Bond Indenture in the event that the principal amounts of all Outstanding Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of Section 7.05 of the Bond Indenture.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of Section 7.05 of the Bond Indenture, such moneys shall be applied by it at such times, and from time to time, as the Bond 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 Bond Trustee shall apply such moneys, it shall fix the date (which shall be a Bond Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the principal amounts to be paid on such dates shall cease to accrue. The Bond 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 Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of Section 7.05 of the Bond Indenture and all expenses and charges of the Bond 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 Institution or as a court of competent jurisdiction may direct. (Section 7.05)

Remedies Not Exclusive. No remedy by the terms of the Bond Indenture conferred upon or reserved to the Bond Trustee or the Bondholders is intended to be exclusive of any other remedy but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Bond Indenture or existing at law or in equity or by statute (including the Act) on or after the date of the Bond Indenture. (Section 7.06)

Remedies Vested in the Bond Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Bonds may be enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Bond Trustee may be brought in its name as the Bond Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of Section 7.05 of the Bond Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds. (Section 7.07)

Bondholders' Control of Proceedings. If a Bond Indenture Event of Default shall have occurred and be continuing, notwithstanding anything in the Bond Indenture to the contrary, the Holders of a majority in aggregate

principal amount of Bonds then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Bond 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 Bond Indenture, provided that such direction is in accordance with law and the provisions of the Bond Indenture (including indemnity to the Bond Trustee as provided in the Bond Indenture) and, provided further that nothing in this Section shall impair the right of the Bond Trustee in its discretion to take any other action under the Bond Indenture which it may deem proper and which is not inconsistent with such direction by Bondholders. (Section 7.08)

Individual Bondholder Action Restricted. (a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement hereof or for the execution of any trust hereunder or for any remedy hereunder unless:

(i) a Bond Indenture Event of Default has occurred and is continuing (A) under subsection (a) or (b) of Section 7.01 of the Bond Indenture of which the Bond Trustee is deemed to have notice, or (B) under subsection (c) or (d) of Section 7.01 of the Bond Indenture as to which the Bond Trustee has actual knowledge or as to which the Bond Trustee has been notified in writing;

(ii) the Holders of at least twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Bond Trustee to proceed to exercise the powers granted in the Bond Indenture or to institute such action, suit or proceeding in its own name;

(iii) such Bondholders shall have offered the Bond Trustee indemnity as provided in Section 8.02 of the Bond Indenture;

(iv) the Bond Trustee shall have failed or refused to exercise the powers in the Bond Indenture granted or to institute such action, suit or proceedings in its own name for a period of sixty (60) days after receipt by it of such request and offer of indemnity; and

(v) during such sixty (60) day period no direction inconsistent with such written request has been delivered to the Bond Trustee by the Holders of a majority in aggregate principal amount of Bonds then Outstanding in accordance with Section 7.08 of the Bond Indenture.

(b) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Bond Indenture or to enforce any right under the Bond Indenture except in the manner provided in the Bond Indenture and for the equal benefit of the Holders of all Bonds Outstanding.

(c) Nothing contained in the Bond Indenture shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the institution or prosecution of such suit or the entry of judgment therein would, under applicable law, result in the surrender, impairment, waiver or loss of the lien of the Bond Indenture on the moneys, funds and properties pledged under the Bond Indenture for the equal and ratable benefit of all Holders of Bonds. (Section 7.09)

Termination of Proceedings. In case any proceeding taken by the Bond Trustee on account of a Bond Indenture Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or to the Bondholders, then the Issuer, the Bond Trustee and the Bondholders shall be restored to their former positions and rights under the Bond Indenture, and all rights, remedies and powers of the Bond Trustee and the Bondholders with respect to subsequent Bond Indenture Events of Default shall continue as if no such proceeding had been taken. (Section 7.10)

Waiver of Bond Indenture Event of Default. (a) No delay or omission of the Bond Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Bond Indenture Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Bond Indenture Event of Default or an acquiescence therein. Every power and remedy given by Article VII of the Bond Indenture to the Bond Trustee and the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Bond Trustee may waive any Bond Indenture 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 Bond Indenture, or before the completion of the enforcement of any other remedy under the Bond Indenture.

(c) Notwithstanding anything contained in the Bond Indenture to the contrary, the Bond Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Bonds then Outstanding, shall waive any Bond Indenture Event of Default under the Bond Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 7.02 of the Bond Indenture, a default in the payment of the principal amount of, premium, if any, or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

(d) In case of any waiver by the Bond Trustee of a Bond Indenture Event of Default under the Bond Indenture, the Issuer, the Bond Trustee and the Bondholders shall be restored to their former positions and rights under the Bond Indenture, respectively, but no such waiver shall extend to any subsequent or other Bond Indenture Event of Default or impair any right consequent thereon. The Bond Trustee shall not be responsible to any one for waiving or refraining from waiving any Bond Indenture Event of Default in accordance with Section 7.11 of the Bond Indenture. (Section 7.11)

Notice of Default. (a) Promptly, but in any event within thirty (30) days after (i) the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) of the Bond Indenture, of which the Bond Trustee is deemed to have notice, or (ii) receipt, in writing, by the Bond Trustee at its Corporate Trust Office from the Issuer or the Institution or the holders of 25% or more in aggregate principal amount of the Bonds then Outstanding of actual knowledge by a corporate trust officer of notice of a Bond Indenture Event of Default under Section 7.01 (c) or (d) of the Bond Indenture, the Bond Trustee shall, unless such Bond Indenture Event of Default shall have theretofore been cured, give written notice thereof by first class mail to each Holder of a Bond then Outstanding, provided that, except in the case of a default in the payment of principal amounts, Sinking Fund Account installments, or the Redemption Price of or interest on any of the Bonds, the Bond Trustee may withhold such notice to such Holders if, in its sole judgment, it determines that the withholding of such notice is in the best interests of the Bondholders.

(b) The Bond Trustee shall promptly notify the Master Trustee, the Issuer and the Institution of (i) the occurrence of a Bond Indenture Event of Default under Section 7.01(a) or (b) of the Bond Indenture and (ii) when the Bond Trustee has received actual knowledge or notice, in writing or otherwise, of a Bond Indenture Event of Default under Section 7.01(c) or (d) of the Bond Indenture. (Section 7.12)

Limitation of the Issuer's Liability. No agreements or provisions contained in the Bond Indenture nor any agreement, covenant or undertaking by the Issuer contained in any document executed by the Issuer in connection with the Project or the issuance, sale and delivery of the Bonds shall give rise to any pecuniary liability of the Issuer or a charge against its general credit, or shall obligate the Issuer financially in any way, except with respect to the Pledged Revenues and their application as provided in the Bond Indenture. No failure of the Issuer to comply with any term, covenant or agreement in the Bond Indenture or in any document executed by the Issuer in connection with the Project, shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the Pledged Revenues. Nothing in the Bond Indenture shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, and

subject to Section 7.09 of the Bond Indenture, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement in the Bond Indenture; provided, that no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the Pledged Revenues. (Section 7.13)

Limitations on Remedies. It is the purpose and intention of Article VII of the Bond Indenture to provide rights and remedies to the Bond Trustee and Bondholders which may be lawfully granted under the provisions of the Act, but should any right or remedy granted in the Bond Indenture be held to be unlawful, the Bond Trustee and the Bondholders shall be entitled as above set forth, to every other right and remedy provided in the Bond Indenture and by law. (Section 7.14)

THE BOND TRUSTEE

The Bond Trustee Not Required to Take Action Unless Indemnified. Except as expressly required in the Bond Indenture or in the Agreement, the Bond Trustee shall neither be required to institute any suit or action or other proceeding under the Bond Indenture or appear in any suit or action or other proceeding in which it may be a defendant or plaintiff, at the direction of the Issuer or the Holders, or to take any steps to enforce its rights and expose it to liability, nor shall the Bond Trustee be deemed liable for failure to take any such action, unless and until it shall have been indemnified, to its satisfaction, against any and all reasonable costs, expenses, outlays, counsel and other fees, other disbursements including its own reasonable fees and against all liability and damages. The Bond Trustee may, nevertheless, begin suit, or appear in and defend suit, or do anything else which in its judgment is proper to be done by it as the Bond Trustee, without prior assurance of indemnity, and in such case the Institution shall reimburse the Bond Trustee for all reasonable costs, expenses, outlays, counsel and other fees, and other reasonable disbursements including its own fees, and for all liability and damages suffered by the Bond Trustee in connection therewith, except for liability or damages directly caused by the Bond Trustee's negligence or willful misconduct. If the Bond Trustee begins, appears in or defends such a suit, the Bond Trustee shall give reasonably prompt notice of such action to the Issuer and the Institution, and shall give such notice prior to taking such action if possible. If the Institution shall fail to make such reimbursement, the Bond Trustee may reimburse itself from any surplus money created pursuant to the Bond Indenture; provided, however, that if the Bond Trustee shall collect any amounts or obtain a judgment, decree or recovery, by exercising the remedies available to it under the Bond Indenture, the Bond Trustee shall have a first claim upon the amount recovered for payment of its reasonable costs, expenses and fees incurred. (Section 8.02)

Employment of Experts. The Bond Trustee is pursuant to the Bond Indenture authorized to employ as its agents such attorneys at law, certified public accountants and recognized authorities in their fields (who are not employees of the Bond Trustee), as it may deem necessary to carry out any of its obligations under the Bond Indenture, and shall be reimbursed by the Institution for all reasonable expenses and charges in so doing. The Bond Trustee shall not be responsible for any misconduct or negligence of any such agent appointed with due care by the Bond Trustee.

The Bond Trustee may consult with counsel, and the written advice of such counsel with respect to any Opinion of Counsel shall be full and complete authorization and protection in respect to any action taken or not taken by the Bond Trustee under the Bond Indenture in good faith and in reliance thereon. (Section 8.03)

Removal and Resignation of the Bond Trustee. The Bond Trustee may resign or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Bonds then Outstanding (for purposes of this sentence, DTC shall not be deemed a Holder of the Bonds, but rather the Beneficial Owner shall be deemed to be such Holder(s) of the Bonds). Written notice of such resignation or removal shall be given to the Issuer, and the Institution and such resignation or removal shall take effect upon the appointment and qualification of a successor Bond Trustee. In the event a successor Bond Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation is given, the Bond Trustee, the

Issuer or the Institution may apply to any court of competent jurisdiction for the appointment of a successor Bond Trustee to act until such time as a successor is appointed as provided in Section 8.06 of the Bond Indenture.

If the Bond Trustee has or shall acquire any conflicting interest, it shall, within ninety (90) days after ascertaining that it has such conflicting interest, either eliminate such conflicting interest or resign in the manner and with the effect specified in this Section. Notwithstanding the preceding sentence, the Bond Trustee shall not be required to eliminate any such conflicting interest or to resign in the event that the duty of the Bond Trustee and its interest as trustee of another trust (including, without limitation, the trust created by the Master Indenture) conflict in the exercise of any trust power under the Bond Indenture as Bond Trustee, if the Bond Trustee obtains prior court authorization pursuant to State law to exercise such power. A conflicting interest shall not be deemed to have arisen by virtue of a commercial banking relationship between the Institution and the Bond Trustee or any of its affiliates.

In the event of the resignation or removal of the Bond Trustee or in the event the Bond Trustee is dissolved or otherwise becomes incapable to act as the Bond Trustee, the Issuer shall be entitled to appoint a successor Bond Trustee after consultation with the Institution. In such event, the successor Bond Trustee shall cause notice to be mailed to the Holders of all Bonds then Outstanding in such manner deemed appropriate by the Issuer. If the Bond Trustee resigns, the resigning Bond Trustee shall pay for such notice. If the Bond Trustee is removed, is dissolved, or otherwise becomes incapable of acting as Bond Trustee, the Institution shall pay for such notice.

If the Holders of a majority of the principal amount of Bonds then Outstanding object to the successor Bond Trustee so appointed by the Issuer and if such Holders designate another Person qualified to act as the Bond Trustee, the Issuer shall then appoint as the Bond Trustee the Person so designated by the Holders.

In addition, the Bond Trustee may be removed at any time with or without cause, at the direction of the Institution, by a Supplement hereto, so long as no Agreement Event of Default or Bond Indenture Event of Default or event which, but for any applicable grace period, would constitute an Agreement Event of Default or Bond Indenture Event of Default, shall have occurred and be continuing.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Bond Trustee shall be a national banking association, trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in the State and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $25,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Bond Trustee howsoever appointed under the Bond Indenture shall execute, acknowledge and deliver to its predecessor and also to the Issuer and the Institution an instrument in writing, accepting such appointment under the Bond Indenture, and thereupon such successor Bond Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Bond Trustee all the rights, powers and trusts of such predecessor. The predecessor Bond Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Bond Trustee. The predecessor Bond Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Bond Trustee.

Each successor Bond Trustee, not later than ten (10) days after its assumption of the duties under the Bond Indenture, shall mail a notice of such assumption to each Holder of a registered Bond. (Section 8.06)

SUPPLEMENTS

Supplements Not Requiring Consent of Bondholders. The Issuer and the Bond Trustee may, without the consent of or notice to any of the Holders, but only with the consent of the Institution, enter into one or more Supplements for one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Bond Indenture;

(b) to correct or supplement any provision in the Bond Indenture which may be inconsistent with any other provision in the Bond Indenture, or to make any other provisions with respect to matters or questions arising under the Bond Indenture which shall not materially adversely affect the interests of the Holders or the Institution;

(c) To grant or confer upon the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them;

(d) To secure additional revenues or provide additional security or reserves for payment of the Bonds;

(e) To preserve the exemption of the interest income borne on the Bonds from federal income taxes;

(f) To implement any amendments or supplements necessary or appropriate to conform to amendments or supplements to the Master Indenture permitted by the Master Indenture;

(g) To qualify the Bond Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; and

(h) To discontinue the Book-Entry only system of registration of the Bonds. (Section 9.01)

Supplements Requiring Consent of Bondholders. (a) Other than Supplements referred to in Section 9.01 of the Bond Indenture and subject to the terms and provisions and limitations contained in Article IX of the Bond Indenture and not otherwise, the Institution and the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Issuer and the Bond Trustee of such Supplements as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture; provided, however, nothing in Section 9.02 of the Bond Indenture shall permit or be construed as permitting a Supplement which would:

(i) extend the stated maturity of or time for paying interest on any Bond or reduce the principal amount of or the redemption premium or rate of interest payable on any Bond without the consent of the Holder of such Bond;

(ii) prefer or give a priority to any Bond over any other Bond without the consent of the Holder of each Bond then Outstanding not receiving such preference or priority; or

(iii) reduce the aggregate principal amount of Bonds then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Issuer shall request the Bond Trustee to enter into a Supplement pursuant to this Section, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such Supplement to be mailed by first class mail, postage prepaid, to all Holders of Bonds then Outstanding at their addresses as they appear on the registration books in the Bond Indenture provided for. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail, or the failure of such Bondholder to receive, the notice required by Section 9.02 of the Bond Indenture, and any such failure shall not affect the validity of such Supplement when consented to and approved as provided in Section 9.02 of the Bond Indenture. Such notice shall briefly set forth the nature of the proposed Supplement and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If within such period, as shall be prescribed by the Institution, following the mailing of such notice, the Bond Trustee shall receive an instrument or instruments purporting to be executed by the Holders of not less than the aggregate principal amount or number of Bonds specified in subsection 9.02(a) of the Bond Indenture for the Supplement in question which instrument or instruments shall refer to the proposed Supplement described in such notice and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof referred to in such notice as on file with the Bond Trustee, thereupon, but not otherwise, the Bond Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder of any Bond, whether or not such Holder shall have consented thereto.

(d) Any such consent shall be binding upon the Holder of the Bond giving such consent and upon any subsequent Holder of such Bond and of any Bond issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bond giving such consent or by a subsequent Holder thereof by filing with the Bond Trustee, prior to the execution by the Bond Trustee of such Supplement, such revocation. At any time after the Holders of the required principal amount or number of Bonds shall have filed their consents to the Supplement, the Bond Trustee shall make and file with the Issuer a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(e) If the Holders of the required principal amount or number of the Bonds Outstanding shall have consented to and approved the execution of such Supplement as in the Bond Indenture provided, no Holder of any Bond shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. (Section 9.02)

Execution and Effect of Supplements. (a) In executing any Supplement permitted by Article IX of the Bond Indenture, the Bond Trustee shall be entitled to receive and to rely upon an Opinion of Counsel stating that the execution of such Supplement is authorized or permitted by the Bond Indenture. The Bond Trustee may but shall not be obligated to enter into any such Supplement which affects the Bond Trustee's own rights, duties or immunities.

(b) So long as no Bond Indenture Event of Default exists and the Institution is not in default under the Agreement, the Master Indenture, the Supplemental Master Indenture or the Note, any Supplement under Article IX of the Bond Indenture which adversely affects the rights of the Institution under the Agreement shall not become effective unless and until the Institution shall have consented in writing to the execution and delivery of such Supplement. In this regard the Bond Trustee shall cause notice of the proposed execution and delivery of any such Supplement together with a copy of the proposed Supplement to be delivered to the Institution at least ten (10) days prior to the date of its proposed execution and delivery in the case of a Supplement referred to in Section 9.01 of the Bond Indenture and not later than the date of mailing of the notice of the proposed execution and delivery in the case of a Supplement referred to in Section 9.02 of the Bond Indenture. Failure by the Institution to object to such Supplement by the execution date shall constitute consent of the Institution to such Supplement.

(c) Upon the execution and delivery of any Supplement in accordance with Article IX of the Bond Indenture, the provisions of the Bond Indenture and in the Bonds relating thereto shall be modified in

accordance therewith and such Supplement shall form a part of the Bond Indenture for all purposes and every Holder of a Bond theretofore or thereafter authenticated and delivered under the Bond Indenture shall be bound thereby.

(d) Any Bond authenticated and delivered after the execution and delivery of any Supplement in accordance with Article IX of the Bond Indenture may, and if required by the Issuer or the Bond Trustee shall, bear a notation in form approved by the Issuer and Bond Trustee as to any matter provided for in such Supplement. If the Issuer shall so determine, new bonds so modified as to conform in the Opinion of Bond Counsel to any such Supplement may be prepared and executed by the Issuer and authenticated and delivered by the Authenticating Agent in exchange for and upon surrender of Bonds then Outstanding. (Section 9.03)

Amendments to Agreement not Requiring Consent of Bondholders. The Issuer and the Bond Trustee may without the consent of or notice to any of the Holders, consent to and join in the execution and delivery of any amendment, change or modification of the Agreement as may be required (i) by the provisions of the Bond Indenture or of the Agreement; (ii) to cure any ambiguity or formal defect or omission therein; (iii) to preserve the exemption of the interest borne on the Bonds from federal income taxes; or (iv) in connection with any other change therein as to which there is filed with the Bond Trustee and the Issuer an Opinion of Counsel stating that the proposed change will not adversely affect the interests of the Holders. (Section 9.04)

Amendments to Agreement Requiring Consent of Bondholders. (a) Except for amendments, changes or modifications to the Agreement referred to in Section 9.04 of the Bond Indenture, the Issuer and the Bond Trustee may consent to and join in the execution and delivery of any amendment, change or modification to the Agreement only upon the consent of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding given as provided in Section 9.05 of the Bond Indenture, provided, however, no such amendment, change or modification may affect the obligation of the Institution to make payments under the Notes or reduce the amount of or extend the time for making such payments without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Issuer and the Institution shall request the consent of the Bond Trustee and the Bondholders to any such amendment, change or modification to the Agreement the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided in Section 9.02 of the Bond Indenture with respect to Supplements hereto. Such notice shall briefly set forth the nature of the proposed amendment, change or modification and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If the consent to and approval of the execution of such amendment, change or modification is given by the Holders of not less than the aggregate principal amount of Bonds specified in subsection (a) in the manner as provided by Section 9.02 of the Bond Indenture with respect to Supplements hereto, but not otherwise, such amendment, change or modification may be consented to, executed and delivered upon the terms and conditions and with like binding effect upon the Holders as provided in Sections 9.02 and 9.03 of the Bond Indenture with respect to Supplements hereto. (Section 9.05)

Note and Document Substitution. (a) The Agreement and the Bond Indenture may be amended or supplemented as provided in Sections 9.01, 9.02, 9.04 and 9.05 of the Bond Indenture.

(b) In addition, the Issuer, the Institution and the Bond Trustee, as appropriate, may, without the consent of any of the Holders of the Bonds, enter into one or more supplements, amendments, restatements, replacements or substitutions to the Agreement or the Bond Indenture or both, to modify, amend, restate, supplement, replace, substitute, change or remove any covenant, agreement, term or provision of the Agreement or the Bond Indenture or both, in whole or in part, including, but not limited to, an amendment, restatement or substitution of the Agreement or the Bond Indenture or both, in whole to relate to all Bonds, or in part to relate to a portion of the Bonds, including but not limited to a series or subseries of the Bonds secured by payment obligations of the health care facilities on whose behalf the allocable portion of the proceeds of the Bonds were utilized, or an affiliate of such health care facilities, in order to effect (i) the affiliation of the Institution, the Obligated Group, any members of the

Obligated Group, any System Affiliates or any Designated Affiliates with any of the foregoing or with another entity or entities in order to create a new or modified credit group or structure or in order to provide for the inclusion of the Institution, the Obligated Group, any members of the Obligated Group, any System Affiliates or any Designated Affiliates in another obligated group, combined group or other unified credit group or structure, (ii) the release or discharge of any collateral securing the Bonds, including, but not limited to, the release or discharge of (A) any or all Notes, in whole or in part, issued pursuant to the Master Indenture to secure the Bonds and (B) the Institution, the Obligated Group, any members of the Obligated Group, any System Affiliate or any Designated Affiliate from any or all liability (whether direct or indirect) with respect to the Bonds or a portion thereof, the Agreement, the Bond Indenture, the Notes, or the Master Indenture or any portion of any thereof, in consideration for the issuance of a note or notes to secure the Bonds or portion of the Bonds that are to become an obligation of the new affiliated entities or the new obligated group, combined group or other unified credit group, which note or notes would constitute obligations of the new affiliated entities or the members of the new obligated group, combined group or other unified credit group, (iii) the replacement of all or a portion of the financial and operating covenants and related definitions set forth in the Master Indenture with those of the new affiliated entities or the new obligated group, combined group or other unified credit group, set forth in the new agreement or master indenture, and (iv) the termination of the status of any Designated Affiliates as Designated Affiliates (the "Undesignated Affiliates"), concurrently with (A) the substitution of the underlying credit source for any Bonds the proceeds of which are allocable to the facilities of such Undesignated Affiliates, from being the Institution under the Agreement and the Institution and the Obligated Group under the Notes and the Master Indenture to being such Undesignated Affiliates or any affiliate of such Undesignated Affiliates, under a replacement or substitute loan agreement, bond indenture, note or notes and master indenture, and (B) the release and discharge of (I) any or all Notes, in whole or in part, issued pursuant to the Master Indenture to secure such Bonds allocable to such Undesignated Affiliates and (II) the Institution, the Obligated Group, any members of the Obligated Group, any System Affiliates or any Designated Affiliates from any or all liability (whether direct or indirect) with respect to the Bonds allocable to the Undesignated Affiliates, the Agreement, the Bond Indenture, the Notes, or the Master Indenture or any portion of any thereof allocable to the Undesignated Affiliates (such transaction is referred to collectively in the Bond Indenture as the "Substitution Transaction").

(c) If all amounts due or to become due on the Bonds have not been fully paid to the holder thereof, at or prior to the implementation of the Substitution Transaction there shall also be delivered to the Issuer and the Bond Trustee: (i) an Opinion of Bond Counsel to the effect that under then existing law the implementation of the Substitution Transaction and the execution of the amendments, supplements, restatements, replacements or substitutions, contemplated in Section 9.07 of the Bond Indenture, in and of themselves, would not adversely affect the validity of the Bonds or the exclusion from federal income taxation of interest payable on the Bonds, and (ii) an opinion of counsel to the new affiliated entities or the new obligated group, combined group or other unified credit group to the effect that (1) the note or notes of the new affiliated entities or the new obligated group, combined group or other unified credit group to be delivered to secure the Bonds allocable to the Undesignated Affiliates constitute legal, valid and binding obligations of the new affiliated entities or the new obligated group, combined group or other unified credit group enforceable in accordance with their terms, except to the extent that the enforceability of such note or notes may be limited by any applicable bankruptcy, insolvency, liquidation, rehabilitation or other similar laws or enactment affecting the enforcement of creditors' rights, and (2) the issuance of the note or notes will not cause the Bonds or such note or notes to become subject to the registration requirements pursuant to the Securities Act of 1933, as amended.

(d) In addition, upon the implementation of the Substitution Transaction, the Institution shall direct the Bond Trustee to give written notice thereof, by first-class mail, to the Issuer and to all Holders of the Bonds then Outstanding.

SATISFACTION AND DISCHARGE

Discharge. If payment of all principal of, premium, if any, and interest on the Bonds in accordance with their terms and as provided in the Bond Indenture is made, or is provided for in accordance with Article X of the Bond Indenture, and if all other sums payable by the Issuer under the Bond Indenture shall be paid or provided for, then the liens, estates and security interests granted pursuant to the Bond Indenture shall cease. Thereupon, upon the request of the Issuer, and upon receipt by the Bond Trustee of an Opinion of Bond Counsel stating that all conditions precedent to the satisfaction and discharge of the lien of the Bond Indenture have been satisfied, the Bond Trustee shall execute and deliver proper instruments prepared by or on behalf of the Issuer acknowledging such satisfaction and discharging the lien of the Bond Indenture and the Bond Trustee shall transfer all property held by it under the Bond Indenture, other than moneys or obligations held by the Bond Trustee for payment of amounts due or to become due on the Bonds or to the Bond Trustee, to the Issuer, the Institution or such other Person as may be entitled thereto as their respective interests may appear. Such satisfaction and discharge shall be without prejudice to the rights of the Bond Trustee thereafter to charge and be compensated or reimbursed for services rendered and expenditures incurred in connection herewith.

The Issuer or the Institution may at any time surrender to the Bond Trustee for cancellation any Bonds previously authenticated and delivered which the Issuer or the Institution may have acquired in any manner whatsoever and such Bond upon such surrender and cancellation shall be deemed to be paid and retired. (Section 10.01)

Providing for Payment of Bonds. Payment of any or all of the Bonds may be provided for by the deposit with the Bond Trustee of moneys or non-callable Government Obligations or Advance-Refunded Municipal Bonds, or any combination thereof. The moneys and the maturing principal and interest income on such non-callable Government Obligations or Advance-Refunded Municipal Bonds, if any, shall be sufficient to pay when due the principal or Redemption Price of and interest on such Bonds. The moneys, non-callable Government Obligations and Advance-Refunded Municipal Bonds shall be held by the Bond Trustee irrevocably in trust for the Holders of such Bonds solely for the purpose of paying the principal or Redemption Price of and interest on such Bonds as the same shall mature, come due or become payable upon prior redemption, and, if applicable, upon simultaneous direction, expressed to be irrevocable, to the Bond Trustee as to the dates upon which any such Bonds are to be redeemed prior to their respective maturities.

In connection with any advance refunding or advance defeasance of the Bonds, there shall be delivered to the Bond Trustee a verification report of an Accountant as to the adequacy of the escrow so established.

If payment of the Bonds is so provided for, the Bond Trustee shall mail a notice within thirty (30) days thereafter so stating to each Holder of a Bond.

Bonds the payment of which has been provided for in accordance with Section 10.02 of the Bond Indenture shall no longer be deemed Outstanding under the Bond Indenture or secured pursuant to the Bond Indenture. The obligation of the Issuer in respect of such Bonds shall nevertheless continue but the Holders thereof shall thereafter be entitled to payment only from the moneys, Government Obligations or Advance-Refunded Municipal Bonds deposited with the Bond Trustee to provide for the payment of such Bonds.

No Bond may be so provided for if, as a result thereof or of any other action in connection with which the provision for payment of such Bond is made, the interest payable on any Bond is made subject to federal income taxes. The Bond Trustee may rely upon an Opinion of Bond Counsel (which opinion may be based upon a ruling or rulings of the Internal Revenue Service) to the effect that the provisions of this paragraph will not be breached by so providing for the payment of any Bonds. (Section 10.02)

Payment of Bonds After Discharge. Notwithstanding the discharge of the lien of the Bond Indenture as provided in Article X of the Bond Indenture, the Bond Trustee shall nevertheless retain such rights, powers and duties

under the Bond Indenture as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds as provided in the Bond Indenture. Nevertheless, any moneys held by the Bond Trustee or any Paying Agent for the payment of the principal of, premium, if any, or interest on any Bond remaining unclaimed for five years after the principal of all Bonds has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided in the Bond Indenture, shall then be paid to the Institution and the Holders of any Bonds not theretofore presented for payment shall thereafter be entitled to look only to the Institution for payment thereof as unsecured creditors and all liability of the Bond Trustee or any Paying Agent with respect to such moneys shall thereupon cease. In the absence of any such written request from the Institution the Bond Trustee shall from time to time deliver such unclaimed funds to or as directed by pertinent escheat authority, as identified by the Bond Trustee in its sole discretion, pursuant to and in accordance with applicable unclaimed property laws, rules or regulations. Any such delivery shall be in accordance with the customary practices and procedures of the Bond Trustee and the escheat authority. Any money held by the Bond Trustee pursuant to this paragraph shall be held uninvested and without any liability for interest. (Section 10.03)

THE LOAN AGREEMENTS

ISSUANCE OF BONDS AND NOTES

Loan Agreement; Issuance of Bonds and Application of Proceeds. To provide funds to finance and refinance the Project, the Issuer agrees to use its best efforts to issue the Bonds in accordance with the Bond Indenture and to cause the proceeds thereof to be paid to the Bond Trustee as provided in the Bond Indenture. The Institution agrees that the proceeds of the Bonds to be made available to finance and refinance the Project shall be deposited with the Bond Trustee and applied as provided in the Bond Indenture. (Section 3.01)

Issuance of Notes. In consideration of the issuance by the Issuer of the Bonds and the application of the proceeds thereof as provided in the Bond Indenture, and to evidence the loan referred to in Section 3.01 of the Agreement, the Institution agrees to cause the Obligated Group to issue the Notes and cause them to be authenticated and delivered to the Bond Trustee as assignee of the Issuer, pursuant to the Agreement, the Master Indenture and the Supplemental Master Indenture, concurrently with the delivery of the Bonds to the Original Purchaser thereof in accordance with the Bond Purchase Contract. The Issuer agrees that the Note shall be registered in the name of the Bond Trustee as assignee of the Issuer. (Section 3.02)

Security for Bonds. (a) The Institution agrees that the principal and Redemption Price of and the interest on the Bonds shall be payable in accordance with the Bond Indenture and the right, title and interest of the Issuer under the Agreement and in and to the Note, the Note Payments and other amounts paid or payable by the Institution under the Agreement, other than fees and expenses payable or reimbursable to the Issuer or the Bond Trustee, shall be assigned and pledged by the Issuer to the Bond Trustee pursuant to the Bond Indenture to secure the payment of the Bonds. The Institution agrees that all of the rights accruing to or vested in the Issuer with respect to the Note or under the Agreement may be exercised, protected and enforced by the Bond Trustee for or on behalf of the Holders in accordance with the provisions of the Agreement and of the Bond Indenture.

(b) The Agreement is executed in part to induce the purchase by others of the Bonds, and, accordingly, all covenants and agreements on the part of the Institution and the Issuer, as set forth in the Agreement, are pursuant to the Bond Indenture declared to be for the benefit of the holders and owners from time to time of the Bonds as set forth in the Bond Indenture.

(c) The Institution agrees to do all things within its power in order to comply with and to enable the Issuer to comply with all requirements, and to fulfill and to enable the Issuer to fulfill all covenants, of the Bond Resolution, the Tax Regulatory Agreement and the Bond Indenture. (Section 3.04)

PAYMENTS

Payments of Principal, Premium and Interest. The Institution covenants that it will duly and punctually pay the principal of and interest and any premium on the Note at the dates and in the places and manner mentioned therein and in the Agreement. Notwithstanding any schedule of payments to be made on the Note set forth therein or in the Agreement, the Institution agrees to make payments upon the Note and be liable therefor at the times and in the amounts equal to the amounts to be paid as principal or Redemption Price of or interest on the Bonds from time to time Outstanding under the Bond Indenture as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

All amounts payable with respect to the Note or under the Agreement by the Institution to the Issuer, except as otherwise expressly provided in the Agreement, shall be paid to the Bond Trustee for the account of the Issuer so long as any Bonds remain Outstanding.

The Institution agrees and represents that it has received fair consideration in return for the obligations undertaken and to be undertaken by the Institution resulting from each Note issued or to be issued by the Institution under the Agreement. (Section 4.01)

Note Payments. (a) The Note Payments shall be made not later than the 10th day of each May and November, commencing the 10th day of November, 2002.

(b) The Note Payments shall include the amount, if any, necessary to cause the amount credited to the Interest Account together with available moneys and investment earnings on investments then on deposit in the Interest Account, if such earnings will be received before the next Bond Payment Date as determined by the Bond Trustee (but only to the extent that (i) such moneys or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than the amount of interest to be paid on Outstanding Bonds on such Bond Payment Date. The Note Payments to be made pursuant to this paragraph (b) shall be appropriately adjusted to reflect the date of issuance of the Bonds and accrued or capitalized interest, if any, deposited in the Interest Account.

(c) The Note Payments shall include (after credit for any investment earnings in the Principal Account that have not previously been credited), during each Bond Year ending on a date on which Serial Bonds mature, the amount necessary to cause the amount then being credited to the Principal Account, together with the available moneys and investment earnings on investments then on deposit in the Principal Account, if such earnings will be received before the last day of the Bond Year as determined by the Bond Trustee (but only to the extent that (i) such moneys or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than one-half of the principal amount of Serial Bonds Outstanding which will mature on the last day of the Bond Year.

(d) The Note Payments shall include (after credit for any investment earnings in the Sinking Fund Account that have not previously been credited), during each Bond Year ending on a date which is a Sinking Fund Account Retirement Date, the amount necessary to cause the amount then being credited to the Sinking Fund Account, together with available moneys and investment earnings on investments then on deposit in the Sinking Fund Account, if such earnings will be received before the last day of the Bond Year as determined by the Bond Trustee (but only to the extent that (i) such moneys or investment earnings have not previously been credited for purposes of such calculation and (ii) such earnings are calculable by the Bond Trustee with reasonable certainty), to be not less than one-half of the unsatisfied Sinking Fund Account Requirements to be satisfied on or before the last day of the Bond Year.

(e) The Note Payments shall include, in addition to the amounts referred to in paragraphs (b), (c) and (d) of Section 4.02 of the Agreement, twelve equal monthly installments of amounts to be deposited to the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than the Reserve Fund Requirement within a period

of twelve (12) months from any transfer of funds by the Bond Trustee from the Reserve Fund in accordance with the Bond Indenture in the event that a deficiency in the Reserve Fund Requirement results from such transfer.

(f) The Note Payments shall include, in addition to the amounts referred to in paragraphs (b), (c), (d) and (e) of Section 4.02 of the Agreement, an amount or amounts to be deposited to the Reserve Fund sufficient to cause the Reserve Fund Value to be not less than ninety percent (90%) of the Reserve Fund Requirement within 120 days after a computation of the Reserve Fund Value by the Bond Trustee indicates that the Reserve Fund Value is below such ninety percent (90%) level, in the event that such deficiency results from a decline in the market value of obligations held in the Reserve Fund. (Section 4.02)

Credits for Payments on Note. The Institution shall receive credit for payment on the Note, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(a) On installments of interest on the Note in an amount equal to moneys deposited in the Interest Account which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against payments on the Note.

(b) On installments of principal on the Note in an amount equal to moneys deposited in the Principal Account or Sinking Fund Account of the Bond Fund created under the Bond Indenture which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited on the Note.

(c) On installments of principal and interest, respectively, on the Note in an amount equal to the principal and interest of Bonds which have been called by the Bond Trustee for redemption prior to maturity and for the redemption of which sufficient amounts are on deposit in the Redemption Account of the Bond Fund created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on the Note. Such credits shall be made against the installments of principal and interest on the Note which would be used, but for such call for redemption, to pay principal and interest on such Bonds when due at maturity or by Sinking Fund Account Requirements for Term Bonds so called for redemption.

(d) On installments of principal and interest, respectively, on the Note in an amount equal to the principal amount of Bonds acquired by the Institution and delivered to the Bond Trustee for cancellation or purchased by the Bond Trustee and cancelled. Such credits shall be made against the installments of principal and interest on the Note which would be used, but for such cancellation, to pay principal and interest on such Bonds when due at maturity or by Sinking Fund Account Requirements for Term Bonds so cancelled.

(e) On payments into the Reserve Fund required under Section 4.02(e) or (f) of the Agreement, in an amount equal to investment earnings on other funds available in the Reserve Fund for application to the calculation of the Reserve Fund Value. (Section 4.03)

Prepayment. (a) So long as all amounts which have become due under the Note have been paid, the Institution may at any time and from time to time pay in advance and in any order of due dates all or part of the amounts to become due under the Note if, not less than forty (40) days prior to such prepayment, the Institution gives notice to the Issuer and the Bond Trustee of its intention to make a prepayment and of the amount thereof and if, not later than the date of the prepayment, the Institution directs the Bond Trustee as to the application of the amounts prepaid to retire Bonds by purchase, redemption or both purchase and redemption prior to or on the next succeeding Bond Payment Date in accordance with Section 5.03(e) of the Bond Indenture.

(b) The Institution may pay all or part of the amounts to become due under the Note in advance and in any order of due dates at the times, in the manner, in the amounts, at the prices, and from the sources set forth with respect to the Bonds in Article III of the Bond Indenture. In particular, the Institution shall have the right to direct the optional redemption or the extraordinary optional redemption of the Bonds as provided in Article III of the Bond Indenture, upon certification by the Institution to the Bond Trustee that any conditions precedent to such redemption shall have been satisfied.

(c) Prepayments made under subsections (a) and (b) of Section 4.04 of the Agreement shall be credited against amounts to become due on the Note as provided in Section 4.03 of the Agreement.

(d) The Institution may also prepay all of its obligations under the Note and the Agreement by providing for the payment of Bonds in accordance with Article X of the Bond Indenture.

(e) The provisions of Section 4.04 of the Agreement are subject to the notice of Bond redemption provisions of Section 3.08 of the Bond Indenture. (Section 4.04)

Obligations Unconditional. The Agreement is a general, unsecured obligation of the Institution and the obligations of the Institution to make payments pursuant hereto and pursuant to the Note and to perform and observe all agreements on its part contained in the Agreement shall be absolute and unconditional. Until the Agreement is terminated or payment in full of all Bonds is made or is provided for in accordance with the Bond Indenture, the Institution (i) will not suspend or discontinue any payments under the Agreement or neglect to perform any of its duties required under the Agreement or under the Tax Regulatory Agreement; (ii) will perform and observe all of its obligations set forth in the Agreement and in the Tax Regulatory Agreement; and (iii) except as provided in the Agreement, will not terminate the Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration; commercial frustration of purpose; any change in the tax or other laws or administrative rulings of, or administrative actions by or under authority of, the United States of America or of the State; or any failure of the Issuer to perform and observe any obligation set forth in the Agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Agreement, the Tax Regulatory Agreement or the Bond Indenture.

Nothing contained in Section 4.06 of the Agreement shall be construed to release the Issuer from the performance of any of its obligations contained in the Agreement. In the event the Issuer fails to perform any such obligation, the Institution may institute such action against the Issuer as the Institution may deem necessary and to the extent permitted by law to compel performance so long as such action shall not violate the terms or conditions of the Agreement, and provided that no costs, expenses or other monetary relief shall be recovered from the Issuer except as may be payable from the Pledged Revenues. The Institution may, however, at its own cost and expense and in its own name or, to the extent lawful and upon written notice to, and prior receipt of written consent of the Issuer, in the name of the Issuer, prosecute or defend any action or proceeding or take any other action involving third Persons which the Institution deems reasonably necessary in order to secure or protect its rights under the Agreement. In such event the Issuer pursuant to the Agreement agrees, to the extent reasonable, to cooperate fully with the Institution, but at the Institution's expense, and to take all action necessary to effect the substitution of the Institution for the Issuer in any such action or proceeding if the Institution shall so request. (Section 4.06)

PARTICULAR COVENANTS

Covenants as to Corporate Existence. The Institution pursuant to the Agreement covenants, except as otherwise expressly provided in the Agreement, or as provided in Sections 405, 408 and 411 of the Master 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. The Institution will not consolidate with or merge with or into any other person, except that the Institution may consolidate or merge with or into any other person if, immediately after giving effect to such action, (i) there exists no condition or event which constitutes, or which, after notice or lapse of time, or both, would constitute, an Agreement Event of Default, and (ii) the conditions set forth in Section 408 of the Master Indenture shall have been satisfied. (Section 5.01)

Preservation of Exempt Status. (a) The Institution represents and warrants that as of the date of the Agreement: (i) it and each other Project User is an organization described in Section 501(c)(3) of the Code; (ii) it and each other Project User has received a letter or determination to that effect; (iii) such letter or determination has not been modified, limited or revoked and the Institution knows of no reason why such letter or determination could be modified, limited or revoked; (iv) it and each other Project User is in compliance with all terms, conditions and

limitations, if any, contained in or forming the basis of such letter or determination; (v) the facts and circumstances which form the basis of such letter or determination continue substantially to exist as represented to the Internal Revenue Service; (vi) neither it nor any other Project User is a "private foundation" as defined in Section 509 of the Code; and (vii) it and each other Project User is exempt from Federal income taxes under Section 501(a) of the Code and it is in compliance with the provisions of said Code and any applicable regulations thereunder necessary to maintain such status.

(b) The Institution agrees that (i) it and each other Project User shall not perform any acts, enter into any agreements, carry on or permit to be carried on at the Institution or at any other Project User, or permit the Institution or any other Project User to be used in or for any trade or business, which shall adversely affect the basis for the exemption under Section 501 of such Code; (ii) it shall not use, or permit any Project User to use, more than five percent (5%) of the net proceeds of the Bonds or permit the same to be used, directly or indirectly, in any trade or business that constitutes an unrelated trade or business as defined in Section 513(a) of the Code or in any trade or business carried on by any Person or Persons who are not governmental units or Tax Exempt Organizations; (iii) it shall not, and it shall not permit any Project User to, directly or indirectly use the proceeds of the Bonds to make or finance loans to Persons other than governmental units or Tax Exempt Organizations; (iv) it shall not take, and it shall not permit any Project User to take, any action or permit any action to be taken on its behalf, or cause or permit any circumstances within its control to arise or continue, if such action or circumstances, or its expectation on the date of issuance of the Bonds, would cause the Bonds to be "arbitrage bonds" under the Code or cause the interest paid by the Issuer on the Bonds to be subject to Federal income tax in the hands of the holders thereof; and (v) it shall use its best efforts, and shall cause each Project User to use its best efforts, to maintain the tax-exempt status of the Bonds.

(c) The Institution and each Project User (or any related person, as defined in Section 147(a)(2) of the Code) shall not, pursuant to an arrangement, formal or informal, purchase the Bonds in an amount related to the amount of the payments due from the Institution under the Agreement. (Section 5.02)

Principles and Beliefs. As the controlling entity of the owners and operators of health care and other facilities founded and operated by Roman Catholic religious congregations, the Institution and its affiliates retain complete autonomy to determine the scope of clinical services and programs that it and its affiliates will offer and in which they will participate. Nothing contained in the Agreement is intended to be applied to compel the Institution or any affiliates to (i) operate in any way contrary to the moral and ethical policies determined by its corporate members and given effect by its Governing Body or (ii) provide or arrange for the provision of any hospital, medical or surgical practices, procedures, or other services to, or on behalf of, any person that conflict with the moral, ethical or religious standards of the Roman Catholic Church, including, but not limited to, the Ethical and Religious Directives for Catholic Health Facilities. Without limiting the generality of the Agreement, nothing contained in the Agreement shall be deemed to require the Institution or any affiliates to perform or permit to be performed any abortion or sterilization or any other medical or surgical procedure or to refrain from providing pastoral care services or otherwise to operate the Facilities, in a manner which the Institution and its affiliates in good faith believe to be contrary to the principles and beliefs of the Roman Catholic Church. (Section 5.03)

Securities Law Status. The Institution affirmatively represents, warrants and covenants that, as of the date of the Agreement, it is an organization organized and operated: (i) exclusively for health care or charitable purposes; (ii) not for pecuniary profit; and (iii) no part of the net earnings of which inure to the benefit of any Person, private stockholder or individual, all within the meaning, respectively, of the Securities Act of 1933, as amended, and of the Securities Exchange Act of 1934, as amended. The Institution agrees that it shall not perform any act nor enter into any agreement which shall change such status as set forth in Section 5.06 of the Agreement. (Section 5.06)

EVENTS OF DEFAULT AND REMEDIES

Agreement Events of Default. Each of the following events shall constitute and be referred to in the Agreement as an "Agreement Event of Default":

(a) The Institution shall fail to make, within five (5) days of the due date thereof, any payment of the principal of, the premium, if any, and interest on any Note Payment when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof.

(b) The Institution shall fail duly to comply with, observe or perform any other covenants, conditions, agreements or provisions of the Agreement or under the Tax Regulatory Agreement for a period of sixty (60) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Institution by the Issuer or the Bond Trustee, or to the Institution, the Issuer and the Bond Trustee by the holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding. If the breach of covenant or agreement is one which cannot be completely remedied within the sixty (60) days after written notice has been given, it shall not be an Agreement Event of Default as long as the Institution has taken active steps within the sixty (60) days after written notice has been given to remedy the failure and is diligently pursuing such remedy.

(c) If there occurs any Bond Indenture Event of Default.

(d) If there occurs any Master Indenture Event of Default.

The Institution shall immediately notify the Issuer and the Bond Trustee in writing if any Agreement Event of Default shall occur. Upon having actual notice of the existence of an Agreement Event of Default, the Bond Trustee shall serve written notice thereof upon the Institution and the Master Trustee unless the Institution has expressly acknowledged the existence of such Agreement Event of Default in a writing delivered by the Institution to the Bond Trustee and the Master Trustee or filed by the Institution in any court and the Bond Trustee has actual knowledge or notice of such filing. (Section 6.01)

Remedies in General. Upon the occurrence and during the continuance of any Agreement Event of Default, but subject to the rights of the Master Trustee under the Master Indenture, the Bond Trustee on behalf of the Issuer, at its option, and after indemnification for its costs, may take such action as it deems necessary or appropriate to collect amounts due under the Agreement, to enforce performance and observance of any obligation or agreement of the Institution under the Agreement or to protect the interests securing the same, and may, without limiting the generality of the foregoing:

(a) Exercise any or all rights and remedies given under the Agreement or available under the Agreement or given by or available under any other instrument of any kind securing the Institution's performance under the Agreement.

(b) Take any action at law or in equity to collect the Note Payments then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of the Institution under the Agreement.

(c) Apply to a court of competent jurisdiction for the appointment of a receiver (but only in the case of an Agreement Event of Default described in Section 6.01(a), (c) or (d) of the Agreement) of any or all of the property of the Institution, such receiver to have such powers as the court making such appointment may confer. The Institution under the Agreement consents and agrees, and will if requested by the Bond Trustee consent and agree at the time of application by the Bond Trustee for appointment of a

receiver, to the appointment of such receiver and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such property and the revenues, profits and proceeds therefrom, with like effect as the Institution could do so, and to borrow money and issue evidences of indebtedness as such receiver. (Section 6.02)

Discontinuance or Abandonment of Default Proceedings. If any proceedings taken by the Issuer or the Bond Trustee on account of any Agreement Event of Default shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Issuer or the Bond Trustee, then and in every case the Issuer, the Bond Trustee and the Institution shall be restored to their former position and rights under the Agreement, respectively, and all rights, remedies and powers of the Issuer and the Bond Trustee with respect to subsequent Agreement Events of Default shall continue as though no such proceeding had taken place. (Section 6.03)

Remedies Cumulative. No remedy conferred upon or reserved to the Issuer or the Bond Trustee under the Agreement or now or hereafter existing at law or in equity or by statute, shall be exclusive but shall be cumulative with all others. Such remedies are not mutually exclusive and no election need be made among them, but any such remedy or any combination of such remedies may be pursued at the same time or from time to time so long as all amounts realized are properly applied and credited as provided in the Agreement. No delay or omission to exercise any right or power accruing upon any Agreement Event of Default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the Issuer or the Bond Trustee. In the event of any waiver of an Agreement Event of Default under the Agreement, the parties shall be restored to their former positions and rights under the Agreement, but no such waiver shall extend to any other or subsequent Agreement Event of Default or impair any right arising as a result thereof. In order to entitle the Bond Trustee to exercise any remedy reserved to it, it shall not be necessary to give notice other than as expressly required in the Agreement. (Section 6.04)

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APPENDIX E

Forms of Opinions of Bond Counsel

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APPENDIX E

Hawkins, Delafield & Wood
67 Wall Street, New York 10005

August 8, 2002

Allegheny County Hospital Development Authority
425 Sixth Avenue
Suite 800
Pittsburgh, Pennsylvania 15219

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $22,450,000 Health System Revenue Bonds, Catholic Health East Issue, Series 2002 (the "Bonds"), of the Allegheny County Hospital Development Authority (the "Issuer"), a body corporate and politic of the Commonwealth of Pennsylvania.

The Bonds are issued under and pursuant to the Municipality Authorities Act, as amended (the "Act"), and under and pursuant to a bond resolution of the Issuer adopted on May 22, 2002 (the "Bond Resolution") and a Bond Indenture dated as of July 1, 2002 (the "Bond Indenture") by and between the Issuer and J.P. Morgan Trust Company, National Association, as Bond Trustee (the "Bond Trustee").

The Bonds are dated July 1, 2002 and bear interest from July 1, 2002 at the rates per annum (payable on November 15, 2002 and semiannually thereafter on each May 15 and November 15) and mature on November 15 in the years and in the respective principal amounts as follows:

Year	Amount	Interest Rate	Year	Amount	Interest Rate
2003	$370,000	3.5%	2011	$ 490,000	4.3%
2004	380,000	3.5	2012	515,000	4.4
2005	395,000	3.5	2013	535,000	4.5
2006	410,000	3.5	2014	560,000	4.625
2007	420,000	3.5	2015	585,000	4.75
2008	435,000	4.0	2022	5,045,000	5.375
2009	455,000	4.0	2032	11,385,000	5.5
2010	470,000	4.2			

The Bonds are subject to redemption prior to maturity upon the terms and conditions provided therein, in the Bond Resolution and in the Bond Indenture. The Bonds are in the form of fully-registered bonds in the denomination of $5,000 and integral multiples thereof and are numbered separately from R-1 upward in order of issuance.

We have also examined an executed copy of the Loan Agreement dated as of July 1, 2002 (the "Agreement") between the Issuer and Catholic Health East (the "Institution"). Pursuant to the Agreement, in order to secure the financing and refinancing of certain hospital facilities, the Institution has agreed, among other thing, to make payments to the Issuer in amounts and at the times stated therein which will be applied to pay the principal of, redemption premium, if any, and interest on the Bonds when due.

We are of the opinion that:

1. The Issuer is duly created and validly existing under the provisions of the Act and has good right and lawful authority to utilize proceeds of the Bonds to assist the Institution in the financing and refinancing of the Project (as defined in the Agreement), and to establish and maintain payments, fees or charges in respect thereof and collect revenues therefrom and to perform all obligations of the Issuer under the Bond Resolution and the Bond Indenture in those respects.

2. The Issuer has the right and power under the Act to adopt the Bond Resolution, and the Bond Resolution has been duly and lawfully adopted by the Issuer, is in full force and effect and is valid and binding upon the Issuer and enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required. The Bond Resolution and the Bond Indenture create the valid pledge which they purport to create of the Pledged Revenues (as defined in the Agreement) and all income and receipts earned on funds held or set aside under the Bond Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Bond Indenture.

3. The Issuer is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by the Issuer in accordance with the Constitution and statutes of the Commonwealth of Pennsylvania, including the Act, and the Bond Resolution and the Bond Indenture, and constitute valid, binding, special and limited obligations of the Issuer, enforceable in accordance with their terms and the terms of the Bond Resolution and the Bond Indenture and entitled to the benefits of the Act and of the Bond Resolution and the Bond Indenture.

4. The Agreement has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Institution, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

5. The Bond Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Institution, and others in connection with the Bonds, and we have assumed compliance by the Issuer and the Institution with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for Federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may

cause interest on the Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Issuer, the Institution and the Project Users will execute a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Issuer, the Institution and the Project Users covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for the purpose of Federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Institution with the procedures and covenants set forth in the Tax Regulatory Agreement as to such tax matters.

7. Under the laws of the Commonwealth of Pennsylvania, as currently enacted and construed, the Bonds are exempt from personal property taxes in Pennsylvania and interest on the Bonds is exempt from Pennsylvania personal income tax and Pennsylvania corporate net income tax. Pursuant to the provisions of Act 68 of 1993 of the Commonwealth of Pennsylvania ("Act 68"), gain from the sale of obligations of the Commonwealth of Pennsylvania or any agency or governmental unit or political subdivision thereof or authority created thereby issued after February 1, 1994, shall be subject to Pennsylvania personal income tax. No opinion is expressed as to the treatment of original issue discount in the computation of gain from the sale of the Bonds pursuant to Act 68.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

The foregoing opinions are qualified only to the extent that the enforceability of the Bonds, the Bond Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreement may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

Hawkins, Delafield & Wood
67 Wall Street, New York 10005

August, 8, 2002

Development Authority of the
Unified Government of Athens-Clarke County, Georgia
440 College Avenue North, Suite 220
Athens, Georgia 30601

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $25,495,000 Health System Revenue Bonds, Catholic Health East Issue, Series 2002 (the "Bonds"), of the Development Authority of the Unified Government of Athens-Clarke County, Georgia (the "Issuer"), a public body politic and corporate of the State of Georgia.

The Bonds are issued under and pursuant to the Development Authorities Law of the State of Georgia, O.C.G.A. Section 36-62-1, et. seq., as amended (the "Act"), and under and pursuant to a bond resolution of the Issuer adopted on June 19, 2002 (the "Bond Resolution") and a Bond Indenture dated as of July 1, 2002 (the "Bond Indenture") by and between the Issuer and J.P. Morgan Trust Company, National Association, as Bond Trustee (the "Bond Trustee").

The Bonds are dated July 1, 2002 and bear interest from July 1, 2002 at the rates per annum (payable on November 15, 2002 and semiannually thereafter on each May 15 and November 15) and mature on November 15 in the years and in the respective principal amounts as follows:

Year	Amount	Interest Rate	Year	Amount	Interest Rate
2005	$460,000	3.5%	2012	$600,000	4.4%
2006	480,000	3.5	2013	630,000	4.5
2007	495,000	3.5	2014	655,000	4.625
2008	510,000	4.0	2015	685,000	4.75
2009	535,000	4.0	2022	5,935,000	5.375
2010	555,000	4.2	2032	13,375,000	5.5
2011	580,000	4.3			

The Bonds are subject to redemption prior to maturity upon the terms and conditions provided therein, in the Bond Resolution and in the Bond Indenture. The Bonds are in the form of fully-registered bonds in the denomination of $5,000 and integral multiples thereof and are numbered separately from R-1 upward in order of issuance.

We have also examined an executed copy of the Loan Agreement dated as of July 1, 2002 (the "Agreement") between the Issuer and Catholic Health East (the "Institution"). Pursuant to the Agreement, in order to secure the financing and refinancing of certain hospital facilities, the Institution has agreed, among other thing, to make payments to the Issuer in amounts and at the times stated therein which will be applied to pay the principal of, redemption premium, if any, and interest on the Bonds when due.

We are of the opinion that:

1. The Issuer is duly created and validly existing under the provisions of the Act and has good right and lawful authority to utilize proceeds of the Bonds to assist the Institution in the financing and refinancing of the Project (as defined in the Agreement), and to establish and maintain payments, fees or charges in respect thereof and collect revenues therefrom and to perform all obligations of the Issuer under the Bond Resolution and the Bond Indenture in those respects.

2. The Issuer has the right and power under the Act to adopt the Bond Resolution, and the Bond Resolution has been duly and lawfully adopted by the Issuer, is in full force and effect and is valid and binding upon the Issuer and enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required. The Bond Resolution and the Bond Indenture create the valid pledge which they purport to create of the Pledged Revenues (as defined in the Agreement) and all income and receipts earned on funds held or set aside under the Bond Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Bond Indenture.

3. The Issuer is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by the Issuer in accordance with the Constitution and statutes of the Commonwealth of Pennsylvania, including the Act, and the Bond Resolution and the Bond Indenture, and constitute valid, binding, special and limited obligations of the Issuer, enforceable in accordance with their terms and the terms of the Bond Resolution and the Bond Indenture and entitled to the benefits of the Act and of the Bond Resolution and the Bond Indenture.

4. The Agreement has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Institution, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

5. The Bond Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Institution, and others in connection with the Bonds, and we have assumed compliance by the Issuer and the Institution with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for Federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may

cause interest on the Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Issuer, the Institution and the Project Users will execute a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Issuer, the Institution and the Project Users covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for the purpose of Federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Institution with the procedures and covenants set forth in the Tax Regulatory Agreement as to such tax matters.

7. Under existing laws of the State of Georgia, interest on the Bonds is exempt from all present state income taxation within the State of Georgia.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

The foregoing opinions are qualified only to the extent that the enforceability of the Bonds, the Bond Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreement may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

Hawkins, Delafield & Wood
67 Wall Street, New York 10005

August 8, 2002

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

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $22,705,000 Health System Revenue Bonds, Catholic Health East Issue, Series 2002 (the "Bonds"), of the Massachusetts Health and Educational Facilities Authority (the "Issuer"), a body politic and corporate and a public instrumentality of the Commonwealth of Massachusetts.

The Bonds are issued under and pursuant to the Health and Educational Facilities Authority Act, Chapter 614 of the Massachusetts Acts of 1968, as amended (the "Act"), and under and pursuant to a bond resolution of the Issuer adopted on June 11, 2002 (the "Bond Resolution") and a Bond Indenture dated as of July 1, 2002 (the "Bond Indenture") by and between the Issuer and J.P. Morgan Trust Company, National Association, as Bond Trustee (the "Bond Trustee").

The Bonds are dated July 1, 2002 and bear interest from July 1, 2002 at the rates per annum (payable on November 15, 2002 and semiannually thereafter on each May 15 and November 15) and mature on November 15 in the years and in the respective principal amounts as follows:

Year	Amount	Interest Rate	Year	Amount	Interest Rate
2003	$175,000	3.5%	2011	$235,000	4.3%
2004	180,000	3.5	2012	245,000	4.4
2005	185,000	3.5	2013	250,000	4.5
2006	190,000	3.5	2014	265,000	4.625
2007	200,000	3.5	2015	280,000	4.75
2008	210,000	4.0	2022	2,400,000	5.375
2009	210,000	4.0	2032	17,455,000	5.5
2010	225,000	4.2			

The Bonds are subject to redemption prior to maturity upon the terms and conditions provided therein, in the Bond Resolution and in the Bond Indenture. The Bonds are in the form of fully-registered bonds in the denomination of $5,000 and integral multiples thereof and are numbered separately from R-1 upward in order of issuance.

We have also examined an executed copy of the Loan Agreement dated as of July 1, 2002 (the "Agreement") between the Issuer and Catholic Health East (the "Institution"). Pursuant to the Agreement, in order to secure the financing and refinancing of certain hospital facilities, the Institution has agreed, among other thing, to make payments to the Issuer in amounts and at the times stated therein which will be applied to pay the principal of, redemption premium, if any, and interest on the Bonds when due.

We are of the opinion that:

1. The Issuer is duly created and validly existing under the provisions of the Act and has good right and lawful authority to utilize proceeds of the Bonds to assist the Institution in the financing and refinancing of the Project (as defined in the Agreement), and to establish and maintain payments, fees or charges in respect thereof and collect revenues therefrom and to perform all obligations of the Issuer under the Bond Resolution and the Bond Indenture in those respects.

2. The Issuer has the right and power under the Act to adopt the Bond Resolution, and the Bond Resolution has been duly and lawfully adopted by the Issuer, is in full force and effect and is valid and binding upon the Issuer and enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required. The Bond Resolution and the Bond Indenture create the valid pledge which they purport to create of the Pledged Revenues (as defined in the Agreement) and all income and receipts earned on funds held or set aside under the Bond Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Bond Indenture.

3. The Issuer is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by the Issuer in accordance with the Constitution and statutes of the Commonwealth of Massachusetts, including the Act, and the Bond Resolution and the Bond Indenture, and constitute valid, binding, special and limited obligations of the Issuer, enforceable in accordance with their terms and the terms of the Bond Resolution and the Bond Indenture and entitled to the benefits of the Act and of the Bond Resolution and the Bond Indenture.

4. The Agreement has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Institution, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

5. The Bond Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Institution, and others in connection with the Bonds, and we have assumed compliance by the Issuer and the Institution with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for Federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may

cause interest on the Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Issuer, the Institution and the Project Users will execute a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Issuer, the Institution and the Project Users covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for the purpose of Federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Institution with the procedures and covenants set forth in the Tax Regulatory Agreement as to such tax matters.

7. Under existing laws of the Commonwealth of Massachusetts, the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, are exempt from taxation imposed by The Commonwealth of Massachusetts, although the Bonds and the interest thereon may be included in the measure of Massachusetts estate and inheritance taxes and of certain Massachusetts corporate excise and franchise taxes.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and assume no obligation to update our opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

The foregoing opinions are qualified only to the extent that the enforceability of the Bonds, the Bond Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreement may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

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