NEW ISSUE

Moody's "A2"
Standard & Poor's "A"
(See "Ratings" herein)

Full Book-Entry

In the opinion of Harris Beach PLLC, Bond Counsel to the Issuer, based on existing statutes, regulations, court decisions and administrative rulings, and assuming compliance with the tax covenants described herein, interest on the Series 2015 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the Series 2015 Bonds is not an "item of tax preference" for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2015 Bonds is, however, included in the computation of "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Bond Counsel is further of the opinion that, based on existing law, for so long as interest on the Series 2015 Bonds is and remains excluded from gross income for federal income tax purposes, such interest is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. See "TAX MATTERS" herein regarding certain other tax considerations.

$38,645,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(HIGHLAND HOSPITAL OF ROCHESTER PROJECT), SERIES 2015

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015 (the "Series 2015 Bonds"), will be issued pursuant to an Indenture of Trust, dated as of September 1, 2015 (the "Indenture"), by and between the Monroe County Industrial Development Corporation (the "Issuer") and Manufacturers and Traders Trust Company, as trustee (the "Trustee"), and are payable from and secured by (i) a pledge and assignment to the Trustee of certain payments to be made under a Loan Agreement, dated as of September 1, 2015 (the "Loan Agreement"), by and between the Issuer and Highland Hospital of Rochester (the "Institution"), and (ii) the funds and accounts (except the Rebate Fund) held by the Trustee under the Indenture. The Loan Agreement is a general obligation of the Institution and requires the Institution to pay, among other things, amounts sufficient to pay the principal, sinking fund installments and Redemption Price of and interest on the Series 2015 Bonds as such payments become due. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS" herein.

The payment obligations of the Institution under the Loan Agreement will be evidenced and secured by, among other things, the issuance by the Institution of an obligation (the "Obligation No. 5") to the Issuer and endorsed to the Trustee, pursuant to the terms of the Master Trust Indenture, dated as of June 1, 2005, as amended and supplemented to the date hereof and as further supplemented by the Supplemental Indenture No. 6 for Obligation No. 5, dated as of September 1, 2015 (collectively, the "Master Indenture"), each by and between the Institution and Manufacturers and Traders Trust Company, as master trustee (the "Master Trustee"). Obligation No. 5 will be an obligation issued under the Master Indenture secured by a pledge of the Institution's Gross Receipts (as such term is defined herein).

The Series 2015 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as described herein under the heading "THE SERIES 2015 BONDS – Redemption and Purchase in Lieu of Redemption Prior to Maturity."

The proceeds of the sale of the Series 2015 Bonds, together with any other available funds of the Institution, will be used to (i) finance and refinance certain costs relating to the 2015 Facility (as defined under "PLAN OF FINANCE" herein), (ii) refund the Refunded Bonds (as defined herein), (iii) fund the payment of capitalized interest on a portion of the Series 2015 Bonds and (iv) pay certain costs of issuance of the Series 2015 Bonds. See "PLAN OF FINANCE" herein.

The Series 2015 Bonds will be issued as registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York, which will act as Securities Depository (as defined herein) for the Series 2015 Bonds. Individual purchases will be made in book-entry form only, in the principal amount of $5,000 or any integral multiple of $5,000 in excess thereof. Purchasers will not receive certificates representing their ownership interest in the Series 2015 Bonds. Interest on the Series 2015 Bonds will be payable on January 1, 2016 and semi-annually thereafter on July 1 and January 1 in each year until maturity.

The Series 2015 Bonds are special and limited obligations of the Issuer and do not constitute a debt or pledge of the faith and credit of the Issuer, the State of New York, or any taxing authority or political subdivision thereof, including Monroe County, New York, for the payment of the principal or Redemption Price thereof or interest thereon. The Issuer has no taxing authority.

The Series 2015 Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriters, subject to prior sale, withdrawal or modification of the offer, the receipt of the approving opinion as to the validity of the Series 2015 Bonds of Harris Beach PLLC, Rochester, New York, Bond Counsel, and certain conditions. Certain legal matters will be passed upon for the Institution by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach PLLC, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York. It is anticipated that the Series 2015 Bonds will be available for delivery in New York, New York, or as may be agreed upon, on or about September 24, 2015.

Barclays

J.P. Morgan **Morgan Stanley**

September 15, 2015

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

$38,645,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(HIGHLAND HOSPITAL OF ROCHESTER PROJECT), SERIES 2015

Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†	Maturity (July 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2016	$ 770,000	3.000%	0.460%	61075TNG9	2026	$1,585,000	5.000%	3.140%(1)	61075TNS3
2017	1,030,000	4.000	0.860	61075TNH7	2027	900,000	5.000	3.270(1)	61075TNT1
2018	1,070,000	5.000	1.240	61075TNJ3	2028	945,000	3.375	3.590	61075TNU8
2019	1,125,000	5.000	1.610	61075TNK0	2029	975,000	3.500	3.720	61075TNV6
2020	1,180,000	5.000	1.900	61075TNL8	2030	1,010,000	3.625	3.860	61075TNW4
2021	1,245,000	5.000	2.190	61075TNM6	2031	1,045,000	3.750	3.940	61075TNX2
2022	1,300,000	5.000	2.430	61075TNN4	2032	1,085,000	3.875	4.020	61075TNY0
2023	1,370,000	5.000	2.650	61075TNP9	2033	1,125,000	5.000	3.770(1)	61075TNZ7
2024	1,435,000	5.000	2.820	61075TNQ7	2034	1,180,000	5.000	3.810(1)	61075TPA0
2025	1,510,000	5.000	2.970	61075TNR5					

$8,230,000 4.000% Term Bond Due July 1, 2040 Priced at 98.143% to Yield 4.120% CUSIP Number† 61075TPB8

$8,530,000 4.125% Term Bond Due July 1, 2045 Priced at 98.625% to Yield 4.206% CUSIP Number† 61075TPC6

---

† Copyright, American Bankers Association ("ABA"). CUSIP (Committee on Uniform Securities Identification Procedures) data herein are provided by CUSIP Global Services, which is managed on behalf of ABA by S&P Capital IQ, a division of McGraw Hill Financial, Inc. CUSIP numbers on the inside cover page of this Official Statement have been assigned by an independent company not affiliated with the Issuer, the Institution, the Underwriters or the Trustee, and such parties are not responsible for the selection or use of the CUSIP numbers. The CUSIP numbers are included solely for the convenience of Holders of the Series 2015 Bonds and no representation is made as to the correctness of the CUSIP numbers printed above. CUSIP numbers assigned to the Series 2015 Bonds may be changed during the term of the Series 2015 Bonds based on a number of factors including but not limited to the refunding or defeasance in whole or in part of such Series 2015 Bonds or the use of secondary market financial products applicable to all or a portion of the Series 2015 Bonds. None of the Issuer, the Institution, the Underwriters or the Trustee has agreed to, nor is there any duty or obligation to, update this Official Statement to reflect any change or correction in the CUSIP numbers printed above.

(1) Priced at the stated yield to the July 1, 2025 optional redemption date at a Redemption Price equal to 100% of the principal amount of the Series 2015 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the Redemption Date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2015 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE ORDER AND PLACEMENT OF MATERIALS IN THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, IS NOT TO BE DEEMED TO BE A DETERMINATION OF RELEVANCE, MATERIALITY OR IMPORTANCE, AND THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES, MUST BE CONSIDERED IN ITS ENTIRETY. THE OFFERING OF THE SERIES 2015 BONDS IS MADE ONLY BY MEANS OF THIS ENTIRE OFFICIAL STATEMENT.

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Institution or the Underwriters to give any information or to make any representations with respect to the Series 2015 Bonds, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Series 2015 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Issuer, the Institution, The Depository Trust Company and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Issuer (except for the statements under the captions "INTRODUCTION – The Issuer," "THE ISSUER" and "LITIGATION – The Issuer" (only insofar as such information pertains to the Issuer)) or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof.

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

The Series 2015 Bonds are not and will not be registered under the Securities Act of 1933, as amended, or under any state securities laws, and neither the Indenture nor the Master Indenture has been or will be qualified under the Trust Indenture Act of 1939 because of available exemptions therefrom. Neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TABLE OF CONTENTS

Note Regarding Forward Looking Statements

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes," and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties include, among others, changes in economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the Institution or the Issuer. Such forward-looking statements speak only as of the date of this Official Statement. The Institution and the Issuer disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the Institution's or the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

OFFICIAL STATEMENT

of the

MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION

Relating to

$38,645,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(HIGHLAND HOSPITAL OF ROCHESTER PROJECT), SERIES 2015

INTRODUCTION

The purpose of this Official Statement, including the cover page and the appendices attached hereto, is to provide information in connection with the issuance by the Monroe County Industrial Development Corporation (the "Issuer") of its $38,645,000 aggregate principal amount of Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015 (the "Series 2015 Bonds"). The following is a brief description of certain information concerning the Series 2015 Bonds, the Issuer and Highland Hospital of Rochester (the "Institution"). A more complete description of such information and additional information that may affect decisions to invest in the Series 2015 Bonds is contained throughout this Official Statement, which should be read in its entirety. Capitalized terms used in this Official Statement shall have the meanings specified in "APPENDIX C – Certain Definitions" hereto. Capitalized terms not otherwise defined in this Official Statement have the meanings provided in the specified documents.

Purpose of the Issue

The proceeds of the sale of the Series 2015 Bonds, together with any other available funds of the Institution, will be used to (i) finance and refinance certain costs relating to the 2015 Facility (as defined under "PLAN OF FINANCE" herein), (ii) refund the Refunded Bonds (as defined herein), (iii) fund the payment of capitalized interest on a portion of the Series 2015 Bonds and (iv) pay certain costs of issuance of the Series 2015 Bonds. See "PLAN OF FINANCE" herein.

Authorization of the Series 2015 Bonds

The Series 2015 Bonds are authorized to be issued pursuant to a resolution of the Issuer adopted on August 11, 2015 (the "Resolution"). The Series 2015 Bonds will be issued under an Indenture of Trust, dated as of September 1, 2015 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee"). See "THE SERIES 2015 BONDS" herein.

The Issuer

The Issuer is a not-for-profit corporation constituting a local development corporation duly organized and existing under the laws of the State of New York (the "State"). See "THE ISSUER" herein.

The Institution

The Institution is a New York not-for-profit corporation and is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Founded in 1889, the Institution is a general acute care community teaching hospital located in Rochester, New York. It is licensed under Article 28 of the New York State Public Health Law and operates 261 adult acute care beds serving residents of the City of Rochester, suburban communities of Monroe County and certain municipalities in surrounding counties. The Institution is a subsidiary of Strong Partners Health System, Inc. ("SPHS"), which is a subsidiary of the University of Rochester. See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester" and "APPENDIX B – Financial Statements of Highland Hospital of Rochester and Independent Auditors' Report."

NEITHER THE OBLIGATIONS OF THE INSTITUTION UNDER THE LOAN AGREEMENT NOR OBLIGATION NO. 5 WILL BE AN OBLIGATION OF THE UNIVERSITY OF ROCHESTER, SPHS OR ANY OF THEIR RESPECTIVE AFFILIATES OTHER THAN THE INSTITUTION AND NONE OF THE UNIVERSITY OF ROCHESTER, SPHS OR ANY OF THEIR RESPECTIVE AFFILIATES OTHER THAN THE INSTITUTION WILL BE LIABLE THEREON.

The issuance of the Series 2015 Bonds is subject to authorization by the governing bodies of both the Institution and SPHS, the Institution's sole member. See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester – General – Organization and Affiliates." The Institution expects that each such authorization will have been made on or prior to the sale date of the Series 2015 Bonds.

Limited Obligations of the Issuer

THE SERIES 2015 BONDS ARE SPECIAL AND LIMITED OBLIGATIONS OF THE ISSUER. THE ISSUER IS OBLIGATED TO PAY PRINCIPAL AND REDEMPTION PRICE OF AND INTEREST ON THE SERIES 2015 BONDS SOLELY FROM THE TRUST ESTATE UNDER THE TERMS OF THE INDENTURE AND AVAILABLE FOR SUCH PAYMENT. THE SERIES 2015 BONDS ARE NOT A DEBT OF THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING MONROE COUNTY, NEW YORK ("MONROE COUNTY"), AND NEITHER THE STATE NOR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING MONROE COUNTY, SHALL BE LIABLE THEREON. THE SERIES 2015 BONDS SHALL NOT BE PAYABLE FROM ANY OTHER FUNDS OF THE ISSUER. THE ISSUER HAS NO TAXING POWERS.

General

The Series 2015 Bonds will be issued as "book-entry-only" obligations to be held by The Depository Trust Company, as depository for the Series 2015 Bonds. See "THE SERIES 2015 BONDS – Book-Entry Only System" herein.

The Series 2015 Bonds will be equally and ratably secured as to principal, premium, if any, and interest by the Indenture. The Indenture constitutes a first lien on the Trust Estate (as defined in the Indenture).

The Series 2015 Bonds are special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2015 Bonds are payable solely from the revenues received by the Issuer pursuant to the Loan Agreement (other than with respect to the Unassigned Rights) and all funds and accounts (excluding the Rebate Fund) established by the Indenture. Pursuant to the Loan Agreement, dated as of September 1, 2015 (the "Loan Agreement"), by and between the Institution and the Issuer, the Institution is obligated to make payments equal to debt service on the Series 2015 Bonds.

The aforementioned revenues consist of the payments required to be made by the Institution under the Loan Agreement with respect to the Series 2015 Bonds on account of the principal and Redemption Price of and interest on the Series 2015 Bonds.

To secure the Series 2015 Bonds, the Issuer will execute and deliver to the Trustee a Pledge and Assignment with an acknowledgement thereof by the Institution, dated as of September 1, 2015, from the Issuer to the Trustee (the "Assignment"), which Assignment will assign to the Trustee certain of the Issuer's rights (except the Unassigned Rights) under the Loan Agreement. Pursuant to the Assignment, loan payments made by the Institution under the Loan Agreement are to be paid directly to the Trustee.

The payment obligations of the Institution under the Loan Agreement will be evidenced and secured by, among other things, the issuance by the Institution of an obligation, dated as of September 1, 2015 ("Obligation No. 5"), to the Trustee by way of endorsement from the Issuer, pursuant to the terms of the Master Trust Indenture, dated as of June 1, 2005 (the "Master Trust Indenture"), as amended and supplemented to the date hereof and as further supplemented by the Supplemental Indenture No. 6 for Obligation No. 5, dated as of September 1, 2015 (the "Supplemental Indenture" and, together with the Master Trust Indenture, as amended and supplemented to the date hereof, the "Master Indenture"), each by and between the Institution and Manufacturers and Traders Trust Company, as master trustee (the "Master Trustee").

The Master Indenture constitutes an obligation of the Institution to repay all obligations issued under the Master Indenture (each an "Obligation"), including Obligation No. 5. The obligation of the Institution to make the payments required by the Master Indenture with respect to Obligation No. 5 is secured by a security interest in the Gross Receipts of the Institution. The issuance of future Obligations is subject to the satisfaction of certain financial covenants set forth in the Supplemental Indenture that bind the Institution, as described in "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS – Master Indenture" and "APPENDIX F – Summary of Certain Provisions of the Master Indenture."

The Institution, upon compliance with the terms and conditions set forth in the Loan Agreement and the Master Indenture and for the purposes described in the Master Indenture, may incur additional Indebtedness. Such Indebtedness, if evidenced by an Obligation issued under the Master Indenture, would constitute a general obligation of the Institution payable and secured on a parity with Obligation No. 5 and all other Obligations outstanding under the Master Indenture. See "APPENDIX F – Summary of Certain Provisions of the Master Indenture."

In accordance with the Indenture and provided that the Institution is in compliance with the requirements of the Master Indenture for incurring Additional Indebtedness (as defined in the Supplemental Indenture), the Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2015 Bonds for certain purposes. See "THE SERIES 2015 BONDS – Additional Bonds." Each series of Additional Bonds shall be secured by a separate Obligation issued under the Master Indenture or a supplement to Obligation No. 5. For a more complete discussion of the security for the Series 2015 Bonds, see "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS – Security for the Series 2015 Bonds."

The purchase of the Series 2015 Bonds involves a degree of risk. Prospective purchasers should carefully consider the entire Official Statement, including the information under the caption "BONDHOLDERS' RISKS" herein.

The Series 2015 Bonds will be sold and delivered by the Issuer to the Underwriters on a negotiated basis pursuant to a bond purchase contract by and among the Issuer, the Institution and the Underwriters. See "UNDERWRITING" herein.

The following summaries are not comprehensive or definitive. All references to the Series 2015 Bonds, the Master Indenture, Obligation No. 5, the Indenture, the Loan Agreement and the Assignment are qualified in their entirety by the definitive forms thereof. Copies of the documents are available for inspection at the principal corporate trust office of the Trustee currently located at One M&T Plaza, 7th Floor, Buffalo, New York 14203.

THE SERIES 2015 BONDS

Authorization

The Series 2015 Bonds are authorized to be issued pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York, as amended (the "Act"), the Issuer's Certificate of Incorporation, Resolution No. 288 of 2009 of the Monroe County Legislature and the Resolution.

General

The Series 2015 Bonds will mature on July 1 of the years and in the amounts shown on the inside cover page hereof. The Series 2015 Bonds will be dated the date of their delivery and will bear interest from such date. Interest on the Series 2015 Bonds will be payable on January 1, 2016, and semi-annually thereafter on each July 1 and January 1 at the rates per annum set forth on the inside cover page hereof. The Series 2015 Bonds shall be issued in book-entry form in denominations of $5,000 or any integral multiple of $5,000 in excess thereof.

The Series 2015 Bonds will be issued as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as the securities depository (the "Securities Depository") for the Series 2015 Bonds. Purchasers will not receive certificates representing their interest in the Series 2015 Bonds. See "Book-Entry Only System" below.

Subject to the provisions of the Indenture, the principal of and premium, if any, on the Series 2015 Bonds shall be payable in lawful money of the United States of America at the Office of the Trustee, or of its successor in trust. Interest on Series 2015 Bonds due on any Bond Payment Date shall be payable to the Person in whose name such Bond is registered at the close of business on the Regular Record Date with respect to such Bond Payment Date, irrespective of any transfer or exchange of such Bond subsequent to such Regular Record Date and prior to such Bond Payment Date, unless the Issuer shall default in the payment of interest due on such Bond Payment Date. In the event of any such default, such defaulted interest shall 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 Trustee to the Owners of Series 2015 Bonds not less than fifteen (15) days preceding such Special Record Date. Such notices shall be mailed to the Persons in whose name the Series 2015 Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. Payment of interest on the Series 2015 Bonds will be made by (i) check or draft mailed to the address of the Person in whose name such Series 2015 Bonds are registered, as such address appears on the registration books maintained by the Trustee, or (ii) at such other address furnished to the Trustee in writing by the Holder at least five (5) Business Days prior to the date of payment, or at the election of an Owner of at least $1,000,000 aggregate principal amount of Series 2015 Bonds, by bank wire transfer to a bank account maintained by such Owner in the United States of America designated in written instructions delivered to the Trustee at least five (5) Business Days prior to the date of such payment, which written instructions may relate to multiple Bond Payment Dates.

Redemption and Purchase in Lieu of Redemption Prior to Maturity

Optional Redemption. The Series 2015 Bonds maturing after July 1, 2025 are subject to redemption by the Issuer at the option of the Institution on or after July 1, 2025, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount of the Series 2015 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the Redemption Date. The Trustee shall call Series 2015 Bonds for redemption in accordance with the Indenture upon receipt of notice from the Issuer, or the Institution on behalf of the Issuer, directing such redemption, which notice shall be sent to the Trustee at least forty-five (45) days prior to the Redemption Date or such fewer number of days as shall be acceptable to the Trustee and shall specify the principal amount of Series 2015 Bonds to be called for redemption and the Redemption Price.

Mandatory Sinking Fund Redemption Without Premium.

The Series 2015 Bonds maturing on July 1, 2040 are subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
July 1, 2035	$1,240,000
July 1, 2036	1,290,000
July 1, 2037	1,345,000
July 1, 2038	1,395,000
July 1, 2039	1,450,000
July 1, 2040	1,510,000*

* Stated maturity.

The Series 2015 Bonds maturing on July 1, 2045 are subject to mandatory redemption on the sinking fund redemption dates and in the sinking fund redemption amounts set forth in the following table, at a Redemption Price equal to 100% of the principal amount thereof being redeemed plus accrued interest to the Redemption Date:

Sinking Fund Redemption Dates	Sinking Fund Redemption Amounts
July 1, 2041	$1,570,000
July 1, 2042	1,635,000
July 1, 2043	1,705,000
July 1, 2044	1,775,000
July 1, 2045	1,845,000*

* Stated maturity.

Special Redemption. The Series 2015 Bonds are subject to redemption prior to maturity at the option of the Issuer (exercised at the direction of the Institution), in whole or in part on any Bond Payment Date, at a redemption price equal to 100% of the principal amount of Series 2015 Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date (i) from proceeds of a Condemnation or insurance award, which proceeds are not used to repair, restore or replace the Facility to which such proceeds relate, and (ii) from unexpended proceeds of the Series 2015 Bonds upon the abandonment of all or a portion of the Facility to which such unexpended proceeds relate due to a legal or regulatory impediment.

Purchase in Lieu of Redemption. If the Series 2015 Bonds are called for redemption in whole or in part pursuant to the terms of the Indenture, the Series 2015 Bonds called for redemption may be purchased in lieu of redemption in accordance with the Indenture. Purchase in lieu of redemption shall be available for all of the Series 2015 Bonds called for redemption or for such lesser portion of such Series 2015 Bonds in denominations of $5,000 or any integral multiple of $5,000 in excess thereof. The Institution may direct the Trustee to purchase all or such lesser portion of the Series 2015 Bonds so called for redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all of the Series 2015 Bonds called for redemption are to be purchased or, if less than all of the Series 2015 Bonds called for redemption are to be purchased, identify those Series 2015 Bonds to be purchased; and (iii) be received by the Trustee no later than 12:00 noon, New York City time, one (1) Business Day prior to the Redemption Date.

Notice of Redemption

When Series 2015 Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Series 2015 Bonds in the name of the Issuer stating: (1) the Series 2015 Bonds to be redeemed; (2) the Redemption Date; (3) that such Series 2015 Bonds will be redeemed at the Office of the Trustee; (4) that on the Redemption Date there shall become due and payable upon each Series 2015 Bond to be redeemed the Redemption Price thereof (except in the case of a mandatory sinking fund redemption of Series 2015 Bonds without premium, in which case the principal will be due and payable on the Redemption Date and the interest will be paid on such date as provided in the Indenture); (5) that from and after the Redemption Date interest thereon shall cease to accrue. With respect to any redemption exercised at the option of the Institution as provided in the Indenture, any such notice of redemption will state that the redemption is conditioned upon receipt by the Trustee, on or prior to the Redemption Date, of moneys sufficient, together with any other moneys held by the Trustee and available therefor, to pay on the Redemption Date the Redemption Price of the Bonds to be redeemed, and that if such moneys are not received on or prior to the Redemption Date such notice shall be of no force or effect and such Bonds shall not be required to be redeemed. The Trustee shall mail a copy of such notice postage prepaid, not less than thirty (30) days nor more than sixty (60) days prior to the Redemption Date, to each Holder at the address of such Holder appearing on the registration books of the Issuer, maintained by the Trustee, as Bond Registrar. Such mailing shall not be a condition precedent to such redemption, and failure to so mail any such notice to any of such Holders shall not affect the validity of the proceedings for the redemption of the Series 2015 Bonds.

Partial Redemption of Series 2015 Bonds

Upon surrender of any Series 2015 Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder thereof a new Series 2015 Bond or Series 2015 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2015 Bond surrendered.

Selection of Bonds for Redemption

If less than all of the Series 2015 Bonds of the same series and maturity are to be redeemed, the Series 2015 Bonds of such series and maturity to be called for redemption shall be selected by lot. If less than all of the Series 2015 Bonds of the same series and different maturities are to be redeemed, the Series 2015 Bonds to be redeemed shall be as directed by the Institution in writing, or if no such written direction is received by the Trustee, the principal amount of such redemption shall be applied in inverse order of maturity and by lot within a maturity.

Book-Entry Only System

Unless otherwise noted, the description that follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2015 Bonds, payment of interest and other payments on the Series 2015 Bonds to DTC Participants or Beneficial Owners of the Series 2015 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2015 Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2015 Bonds is based solely on information furnished by DTC for inclusion in this Official Statement. Accordingly, the Issuer, the Institution, the Trustee and the Underwriters do not and cannot make any representations concerning these matters.

DTC will act as securities depository for the Series 2015 Bonds. The Series 2015 Bonds will be issued as fully-registered securities 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 the Series 2015 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2015 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2015 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2015 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2015 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2015 Bonds, except in the event that use of the book-entry system for the Series 2015 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2015 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may

be requested by an authorized representative of DTC. The deposit of Series 2015 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2015 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2015 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2015 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2015 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Series 2015 Bonds. For example, Beneficial Owners of Series 2015 Bonds may wish to ascertain that the nominee holding the Series 2015 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2015 Bonds within a maturity of the Series 2015 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2015 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2015 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, Redemption Price and interest payments on the Series 2015 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, the Issuer or the Underwriters, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Redemption Price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2015 Bonds at any time by giving reasonable notice to the Issuer and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, then the Series 2015 Bonds shall no longer be restricted to being registered in the name of DTC's nominee, but shall be registered in whatever name or names Holders transferring or exchanging Series 2015 Bonds shall designate, in accordance with the provisions of the Indenture.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2015 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

NONE OF THE ISSUER, THE INSTITUTION, THE UNDERWRITERS OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC OR THE DIRECT OR INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL, REDEMPTION PRICE OR INTEREST ON THE SERIES 2015 BONDS; (3) THE DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO HOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2015 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS HOLDER.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2015 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OF THE SERIES 2015 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2015 BONDS.

Additional Bonds

In accordance with the Indenture and provided that the Institution is in compliance with the requirements of the Master Indenture for incurring Additional Indebtedness (as defined in the Supplemental Indenture), the Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2015 Bonds for any of the following purposes: (1) to pay the cost of completing the Facility (or completing an addition thereto in accordance with the Indenture) or to reimburse expenditures of the Institution for any such costs; (2) to pay the cost of Capital Additions or to reimburse expenditures of the Institution for any such cost; (3) to pay the cost of refunding of any Outstanding Bonds issued under the Indenture or any other indebtedness of the Institution; or (4) to pay the cost of any additional project approved by the Issuer. See "APPENDIX D – Summary of Certain Provisions of the Indenture – Additional Bonds" and "APPENDIX F – Summary of Certain Provisions of the Master Indenture – Additional Indebtedness."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the Institution during each 12-month period ending June 30 of the years shown for the payment of the principal of and interest on the Series 2015 Bonds, debt service on other outstanding indebtedness of the Institution and the total debt service on all indebtedness of the Institution, including the Series 2015 Bonds.

	Series 2015 Bonds				
12-Month Period Ending June 30,	Principal Payments	Interest Payments	Total Debt Service on Series 2015 Bonds	Debt Service on Other Outstanding Indebtedness[(1)]	Total Debt Service[(1)]
2016	–	$ 452,795	$ 452,795	$839,305	$1,292,100
2017	$ 770,000	1,668,925	2,438,925	842,499	3,281,424
2018	1,030,000	1,636,775	2,666,775	838,836	3,505,611
2019	1,070,000	1,589,425	2,659,425	838,230	3,497,655
2020	1,125,000	1,534,550	2,659,550	841,161	3,500,711
2021	1,180,000	1,476,925	2,656,925	837,836	3,494,761
2022	1,245,000	1,416,300	2,661,300	836,755	3,498,055
2023	1,300,000	1,352,675	2,652,675	837,880	3,490,555
2024	1,370,000	1,285,925	2,655,925	837,755	3,493,680
2025	1,435,000	1,215,800	2,650,800	836,380	3,487,180
2026	1,510,000	1,142,175	2,652,175	838,630	3,490,805
2027	1,585,000	1,064,800	2,649,800	839,380	3,489,180
2028	900,000	1,002,675	1,902,675	838,000	2,740,675
2029	945,000	964,228	1,909,228	839,330	2,748,558
2030	975,000	931,219	1,906,219	838,840	2,745,059
2031	1,010,000	895,850	1,905,850	836,530	2,742,380
2032	1,045,000	857,950	1,902,950	837,270	2,740,220
2033	1,085,000	817,334	1,902,334	831,060	2,733,394
2034	1,125,000	768,188	1,893,188	–	1,893,188
2035	1,180,000	710,563	1,890,563	–	1,890,563
2036	1,240,000	656,263	1,896,263	–	1,896,263
2037	1,290,000	605,663	1,895,663	–	1,895,663
2038	1,345,000	552,963	1,897,963	–	1,897,963
2039	1,395,000	498,163	1,893,163	–	1,893,163
2040	1,450,000	441,263	1,891,263	–	1,891,263
2041	1,510,000	382,063	1,892,063	–	1,892,063
2042	1,570,000	319,481	1,889,481	–	1,889,481
2043	1,635,000	253,378	1,888,378	–	1,888,378
2044	1,705,000	184,491	1,889,491	–	1,889,491
2045	1,775,000	112,716	1,887,716	–	1,887,716
2046	1,845,000	38,053	1,883,053	–	1,883,053

(1) Figures do not include debt service on the Refunded Bonds expected to be refunded with a portion of the proceeds of the Series 2015 Bonds.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS

Payment of the Series 2015 Bonds

The Series 2015 Bonds will be special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2015 Bonds are payable solely from the revenues received by the Issuer pursuant to the Loan Agreement (other than with respect to the Unassigned Rights) and all funds and accounts (excluding the Rebate Fund) established by the Indenture. Pursuant to the Loan Agreement between the Institution and the Issuer, the Institution is obligated to make payments equal to debt service on the Series 2015 Bonds. The aforementioned revenues consist of the payments required to be made by the Institution under the Loan Agreement with respect to the Series 2015 Bonds on account of the principal, Redemption Price of and interest on the Series 2015 Bonds. Pursuant to the Assignment, loan payments made by the Institution under the Loan Agreement are to be paid directly to the Trustee.

The Institution's obligations under the Loan Agreement and under Obligation No. 5 are general obligations of the Institution. Any payments made on Obligation No. 5 shall also be made directly to the Trustee.

NEITHER THE OBLIGATIONS OF THE INSTITUTION UNDER THE LOAN AGREEMENT NOR OBLIGATION NO. 5 WILL BE AN OBLIGATION OF THE UNIVERSITY OF ROCHESTER, SPHS OR ANY OF THEIR RESPECTIVE AFFILIATES OTHER THAN THE INSTITUTION AND NONE OF THE UNIVERSITY OF ROCHESTER, SPHS OR ANY OF THEIR RESPECTIVE AFFILIATES OTHER THAN THE INSTITUTION WILL BE LIABLE THEREON.

Security for the Series 2015 Bonds

The Series 2015 Bonds will be secured by (1) all moneys and securities held from time to time by the Trustee for the Owners of the Series 2015 Bonds pursuant to the Indenture, including all Series 2015 Bond proceeds prior to disbursement pursuant to the terms of such Indenture (excluding monies held in the Rebate Fund) and (2) the Loan Agreement, as assigned to the Trustee (except the Unassigned Rights) pursuant to the terms of the Assignment.

To secure the Series 2015 Bonds, the Issuer will execute and deliver to the Trustee the Assignment with an acknowledgement thereof by the Institution from the Issuer to the Trustee, which Assignment will assign to the Trustee certain of the Issuer's rights (except the Unassigned Rights) under the Loan Agreement. Pursuant to the Assignment, loan payments made by the Institution under the Loan Agreement are to be paid directly to the Trustee. See "APPENDIX E – Summary of Certain Provisions of the Loan Agreement and Pledge and Assignment" hereto.

Master Indenture

General

The obligations of the Institution under the Loan Agreement are to be secured by Obligation No. 5, which, in turn, is secured by the security interest granted to the Master Trustee in the Gross Receipts of the Institution. Concurrently with the delivery of the Series 2015 Bonds, Obligation No. 5 shall be issued under the Master Indenture to the Trustee by way of endorsement from the Issuer in a principal amount equal to, and bearing interest at the same rate as, the Series 2015 Bonds.

Pursuant to the Master Indenture, the Institution is subject to certain covenants, including restrictions on encumbering its Property (as defined in the Master Indenture) and limitations on the incurrence of Indebtedness (as defined in the Master Indenture), consolidation and merger, the disposition

of assets and the maintenance of Income Available for Debt Service (as defined in the Master Indenture); provided, however, that certain covenants will not be in effect to the extent, and for so long as, the Institution maintains a rating in the second highest Rating Category (as defined in the Supplemental Indenture). See "APPENDIX F – Summary of Certain Provisions of the Master Indenture – Special Covenants – Removal of Covenants upon Rating Upgrade."

THE MASTER INDENTURE PERMITS THE INSTITUTION TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR OBLIGATION NO. 5, INCLUDING THE INSTITUTION'S GROSS RECEIPTS, ON A PARITY WITH SUCH OBLIGATIONS. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE TRUSTEE FOR THE SECURITY OF THE SERIES 2015 BONDS. THE MASTER INDENTURE PROVIDES THAT, UNDER CERTAIN CIRCUMSTANCES, AND SUBJECT TO CERTAIN LIMITATIONS CONTAINED THEREIN, PROPERTY MAY BE SOLD, PLEDGED, ASSIGNED OR OTHERWISE DISPOSED OF OR ENCUMBERED. SEE "APPENDIX F – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE" HERETO FOR A DESCRIPTION OF THE CONDITIONS WHEREBY THE INSTITUTION MAY ISSUE ADDITIONAL OBLIGATIONS AND A DESCRIPTION OF CERTAIN PERMITTED LIENS AND ENCUMBRANCES ON THE GROSS RECEIPTS OF THE INSTITUTION.

Security for Obligation No. 5

Pursuant to the Master Indenture, each Obligation issued thereunder is a general obligation of the Institution. Under the Master Indenture, the Institution may not pledge or grant a security interest on any of its Property other than the Lien created by the pledge of Gross Receipts or a Lien on Property, the purchase, acquisition or, in the case of vacant land only, improvement of which is financed with the proceeds of Non-Recourse Indebtedness secured by a Lien on such Property with no recourse, directly or indirectly, to any other Property of the Institution. The enforcement of the Obligations may be limited by (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and (v) federal bankruptcy laws, State receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture. See "BONDHOLDERS' RISKS – Enforceability of the Master Indenture."

Security Interest in Gross Receipts

As security for all Obligations issued under the Master Indenture, including Obligation No. 5, the Institution has pledged and granted to the Master Trustee a security interest in the Pledged Assets. Pledged Assets consist of Gross Receipts, defined in the Master Indenture to include all Accounts and all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of the Institution, including, without limitation, (a) revenues derived from the Institution's operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Indenture, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by the Institution, and (d) rentals received from the leasing of real or tangible personal property.

The Master Indenture shall be deemed a "security agreement" for purposes of the UCC. The Master Trustee's security interest in the Gross Receipts shall be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements that comply with the requirements of the UCC and the Institution covenants to execute and deliver such other documents as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

Additional Indebtedness

The Institution may issue additional Obligations under the Master Indenture that are secured on a parity with Obligation No. 5 by the pledge of Gross Receipts. See "APPENDIX F – Summary of Certain Provisions of the Master Indenture" for a description of the conditions under which the Institution may issue additional Obligations under the Master Indenture.

Under certain conditions set forth in the Master Indenture, in addition to incurring Indebtedness represented by an Obligation, the Institution may incur debt in the form of Indebtedness that is not evidenced or secured by an Obligation issued under the Master Indenture. See "See "APPENDIX F – Summary of Certain Provisions of the Master Indenture" for a description of various financial covenants applicable to the Institution.

The Institution has certain Indebtedness outstanding. See "APPENDIX B – Financial Statements of Highland Hospital of Rochester and Independent Auditors' Report" for the fiscal years ended December 31, 2014 and 2013.

THE ISSUER

The Issuer is a not-for-profit corporation constituting a local development corporation duly organized and existing under Section 1411 of the Not-for-Profit Corporation Law of the State, as amended (the "Act"), having an office for the transaction of business at 50 W. Main Street, Suite 8100, Rochester, New York 14614. The Issuer has the authority and power to own, lease and sell personal and real property for the purposes of, among other things, acquiring, constructing and equipping certain projects exclusively in furtherance of the charitable or public purposes of relieving and reducing unemployment, promoting and providing for additional and maximum employment, bettering and maintaining job opportunities, instructing or training individuals to improve or develop their capabilities for such jobs, by encouraging the development of, or retention of, an industry in the community or area, and lessening the burdens of government and acting in the public interest. The Act further authorizes the Issuer to issue its bonds and to loan the proceeds thereof for the purpose of carrying out any of its corporate purposes and, as security for the payment of the principal and redemption price of and interest on any such bonds so issued and any agreements made in connection therewith, to pledge certain revenues and receipts to secure the payment of such bonds and interest thereon.

The Issuer has no power of taxation.

The Series 2015 Bonds are special and limited obligations of the Issuer, payable solely as provided in the Indenture.

THE SERIES 2015 BONDS ARE NEITHER A GENERAL OBLIGATION OF THE ISSUER, NOR A DEBT OR INDEBTEDNESS OF MONROE COUNTY OR THE STATE AND NEITHER MONROE COUNTY NOR THE STATE WILL BE LIABLE THEREON.

PLAN OF FINANCE

The proceeds of the sale of the Series 2015 Bonds, together with any other available funds of the Institution, will be used to finance or refinance costs relating to that certain project (collectively, the "Project") consisting of: (A)(i)(1) the construction and equipping of an approximately 38,500-square foot two (2)-story (with mechanical penthouse) expansion of the southeast corner of the Institution's 261-bed acute care hospital facility located at 1000 South Avenue in the City of Rochester, Monroe County, New York (the "Hospital") to house a perioperative suite with six (6) relocated operating rooms and an observation unit with twenty six (26) beds, together with ancillary and related facilities improvements, (2) the construction, renovation, equipping and modernization of various areas in the operating room/post-anesthesia care unit located in the Hospital and (3) the construction and equipping of future space for a possible additional Interventional Radiology room and a platform for a possible replacement of the existing MRI machine in the Hospital (collectively, the "2015 Improvements"); and (ii) the acquisition and installation in and around the 2015 Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "2015 Equipment" and, together with the 2015 Improvements, the "2015 Facility"); (B) the refunding of all of the outstanding principal amount of the County of Monroe Industrial Development Agency ("COMIDA") Fixed Rate Civic Facility Revenue Refunding Bonds (Highland Hospital of Rochester Project), Series 2005, and COMIDA Fixed Rate Civic Facility Revenue Project Bonds (Highland Hospital of Rochester Project), Series 2005 (collectively, the "Refunded Bonds") that were issued for the benefit of the Institution and used to refinance prior indebtedness of the Institution and finance certain capital projects of the Institution, respectively; (C) the funding of capitalized interest on a portion of the Series 2015 Bonds; and (D) the payment of certain costs and expenses incidental to the issuance of the Series 2015 Bonds.

SOURCES AND USES OF BOND PROCEEDS

Proceeds of the Series 2015 Bonds are to be applied as follows:

Sources of Funds:	
Par Amount of the Series 2015 Bonds	$38,645,000
Net Original Issue Premium	1,824,568
Institution Contribution	4,289,077
Moneys on Deposit Under Refunded Bonds Indentures	3,358,551
Total Sources of Funds	$48,117,196
Uses of Funds:	
Deposit to the Project Fund	$27,958,594
Transfer to trustee for Refunded Bonds	18,551,455
Deposit to Capitalized Interest Account of the Project Fund[(1)]	787,645
Estimated Costs of Issuance[(2)]	819,502
Total Uses of Funds	$48,117,196

(1) Capitalized interest is expected to pay a portion of the interest payments of the Series 2015 Bonds prior to the completion date of the 2015 Facility.

(2) Includes Issuer's fee, Underwriters' discount, printing costs, Trustee fees, rating agencies' fees, legal fees and other miscellaneous costs of issuance.

BONDHOLDERS' RISKS

The following discussion of risks to holders of the Series 2015 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2015 Bonds, in addition to other risks described throughout this Official Statement.

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

General

The Series 2015 Bonds are not a debt or liability of the State of New York or any political subdivision thereof, but are special and limited obligations of the Issuer payable solely from the revenues received by the Issuer pursuant to the Loan Agreement, the funds and accounts held by the Trustee pursuant to the Indenture (except for the Rebate Fund) and certain investment income thereon. The Issuer has no taxing power. The obligation of the Institution to make payments under the Loan Agreement is secured by Obligation No. 5, which, in turn, is secured by a security interest granted to the Master Trustee in the Gross Receipts of the Institution. No representation or assurance can be made that revenues will be realized by the Institution in amounts sufficient to provide funds for payment of debt service on the Series 2015 Bonds when due and to make other payments necessary to meet the obligations of the Institution. Further, there is no assurance that the revenues of the Institution can be increased sufficiently to match increased costs that may be incurred.

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

Future revenues and expenses of the Institution may be affected by events and economic conditions, which may include an inability to control expenses in periods of inflation, as well as other conditions such as: demand for health care services; the capability of the management of the Institution; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the Institution; and increased use of discounted payment schedules through contracts with health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other managed care organizations. Other factors that may affect revenues and expenses include: the ability of the Institution to provide services required by patients; the relationship of the Institution with physicians; the success of the Institution's strategic plans; the degree of cooperation among and competition with other hospitals in the Institution's area; changes in levels of private philanthropy; malpractice claims and other litigation; economic and demographic developments in the United States and in the service areas in which facilities of the Institution are located; changes in interest rates that affect the investment results; and changes in rates, costs, third-party payments (including, without limitation, Medicare and Medicaid program reimbursement) and governmental regulations concerning payment. All of the factors referenced above could affect the Institution's ability to make payments pursuant to the Loan Agreement and under Obligation No. 5. See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester" and "APPENDIX B – Financial Statements of Highland Hospital of Rochester and Independent Auditors' Report."

Health Care Reform

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

The changes in the health care industry brought about by the ACA will likely have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Institution. For example, the projected increase in the numbers of individuals with health care insurance occurring as a consequence of Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the penalty on certain individuals who do not purchase insurance could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. A negative impact to the hospital industry overall will likely result from scheduled cumulative reductions in Medicare payments; such reductions are substantial. Conversely, the legislation's cost-cutting provisions to the Medicare program, which include reductions in Medicare market basket updates to hospital reimbursement rates under the inpatient PPS (as hereinafter defined) over the next ten years, as well as reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions, will likely result in a significant negative impact to the hospital industry overall. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors. Because approximately 40% of the revenues of the Institution for the fiscal year ended December 31, 2014 were from Medicare spending, the reductions may have a material impact, and could offset any positive effects of the ACA.

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

Beginning in 2014, the ACA created "health insurance exchanges" to provide consumers with improved access to health insurance. The ACA provides that such exchanges may be either state-

sponsored or federally-facilitated exchanges. Beginning January 1, 2015, health insurers participating in the health insurance exchanges are allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance the quality of care. The health insurance exchanges may have positive impact for hospitals by increasing the availability of health insurance to individuals who were previously uninsured. Conversely, employers or individuals may shift their purchase of health insurance to new plans offered through the exchanges, which may or may not reimburse providers at rates equivalent to rates the providers currently receive. The exchanges could alter the health insurance markets in ways that cannot be predicted, and exchanges might, directly or indirectly, take on a rate-setting function that could negatively impact providers. Because the exchanges are still so new, the effects of these changes upon the financial condition of any third-party payor that offers health insurance, rates paid by third-party payors to providers and, thus, the revenues, results of operations and financial condition of the Institution, cannot be predicted.

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

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

On January 26, 2015, the Department of Health and Human Services ("DHHS") announced a timetable for transitioning Medicare payments from the traditional fee-for-service model to a value-based payment system. This schedule calls for tying 30% of traditional Medicare fee-for-service payments to quality or value through alternative payment models, such as accountable care organizations or bundled payment arrangements, by the end of 2016, increasing to 50% by 2018. In addition, DHHS has proposed that by 2016, 85% of all Medicare fee-for-service payments have a component based on quality or efficiency of care, such as value-based purchasing or readmission reductions, increasing to 95% by 2018. As of the date of such announcement, approximately 20% of Medicare's fee-for-service payments are made through alternative delivery models, and 80% of fee for service payments have a component based upon quality or efficiency of care, up from almost none in 2011.

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

The ACA contains amendments to existing criminal, civil and administrative anti-fraud statutes and increases in funding for enforcement efforts to recoup prior federal health care payments to providers. Under the ACA, a broad range of providers, suppliers and physicians are required to adopt a compliance

and ethics program. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provides new opportunities for regulatory and enforcement scrutiny, as well as potential liability if an organization fails to prevent or identify improper federal health care program claims and payments.

Broadly speaking, the provisions of the ACA that encourage or mandate health care coverage for individuals can be expected to increase demand for health care and reduce the amount of uncompensated care that the Institution provides. However, revisions to the Medicare reimbursement program could reduce revenues. Therefore, the impact of the ACA on the operations of the Institution cannot be currently ascertained and it may have a material adverse impact on the Institution's operations.

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

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

General Economic Factors

Hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Institution provides. Tax-exempt hospitals, in particular, often treat large numbers of indigent patients who are unable to pay in full, or perhaps at all, for their medical care. In addition, poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

If an economic downturn occurs, health care providers, including the Institution, could be materially and adversely impacted in a number of ways, including as a result of reduced investment income, reduced philanthropic donations, reduced access to the credit markets, difficulties in obtaining new liquidity facilities or extensions of existing liquidity facilities, increased bad debt expense and charity care write-offs and increased borrowing costs, any of which may negatively affect the operations or financial condition of a provider.

Legislative, Regulatory and Contractual Matters Affecting Revenue

The health care industry is heavily regulated by the federal and state governments. A substantial portion of revenue comes from governmental sources. Governmental revenue sources are subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors, and governmental payors and actions by, among others, the Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Institution. In the past, there have been frequent and significant changes in the methods and standards used by government agencies to reimburse and regulate the operation of hospitals. See "Health Care Reform" and "Medicare and Medicaid Reimbursement – DSH Payments" herein for more information on current and proposed future changes in hospital reimbursement. No assurances can be given that further substantial changes will not occur in the future or that payments made under such programs will remain at levels comparable to the present levels or be sufficient to cover all existing costs. While changes are anticipated, the impact of such changes on the Institution cannot be predicted. The Institution is exploring the possibility of forming accountable care organizations and health homes and entering into risk based (capitation) agreements, which would change the approach of care delivery to one focused on promoting the wellness of a population of patients, rather than treating diseases and other conditions that result from poor health maintenance. The expectation of this evolving philosophy is to ultimately reduce the cost of health care and, therefore, benefit patients and providers alike.

The Institution has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payors for adjustments to current and prior years' payment rates, based on industry-wide and Institution-specific data. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with government payors, have been settled through December 31, 2008. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled and additional information is obtained. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs.

Legislation is periodically introduced in Congress and in the New York State legislature that could result in limitations on the Institution's revenue, third-party payments, and costs or charges, or that could result in increased competition or an increase in the level of indigent care required to be provided by the Institution. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to promote competition in the health care industry, to contain health care costs, to provide national health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. The effects of future reform efforts on the Institution cannot be predicted.

Debt Limit Increase

Through legislation, the federal government has created a debt "ceiling" or limit on the amount of debt that may be issued by the United States Treasury. In the past several years, political disputes have arisen within the federal government in connection with authorizations for an increase in the federal debt ceiling. Any failure by Congress to increase the federal debt limit may impact the federal government's ability to incur additional debt, pay its existing debt instruments and to satisfy its obligations relating to the Medicare and Medicaid programs.

The Institution's management is unable to determine at this time what impact any future failure to increase the federal debt limit may have on its operations and financial condition, although such impact may be material. Additionally, the market price or marketability of the Series 2015 Bonds in the secondary market may be materially adversely impacted by any failure to increase the federal debt limit.

State Budget

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

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

Each of the Final Budgets for 2011-2012 through 2015-2016 assumes a targeted growth rate for Medicaid equal to the ten-year average change in the medical component of the Consumer Price Index

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

Although the Final Budgets for 2011-2012 through 2015-2016 contain the statutory tools necessary to implement the recommendations of the Medicaid Redesign Team, there can be no assurance that these proposals will achieve the level of gap-closing savings anticipated or limit the rate of annual growth in DOH State Funds Medicaid spending. In addition, many of the cost-saving initiatives are dependent upon timely federal approvals, appropriate amendments to the existing systems and processes and a collaborative working relationship with health care industry stakeholders.

The effect of the Medicaid redesign process on the Institution will depend significantly on participation in new models of integrated care delivery, the ability to collaborate with different types of providers and relationships with Medicaid managed care plans, as those plans will play an increasingly larger role over the next several years.

Medicare and Medicaid Reimbursement

A portion of the Institution's revenue is derived from the Medicare and Medicaid programs.

Medicare is a federal health benefits program administered by CMS, fiscal intermediaries and carriers. Available to individuals age 65 or over, and certain other classes of individuals, the Medicare program provides, among other things, health care benefits that cover, within prescribed limits, the major costs of most medically necessary care for such individuals, subject to certain deductibles and co-payments.

Medicare Part A covers inpatient services and certain other services, Medicare Part B covers certain outpatient services and physician services, and Medicare Part C covers services for persons enrolled in Medicare managed care organizations. Medicare pays most acute care hospitals for most services provided to inpatients under a payment system known as the "Prospective Payment System" or "PPS." Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. Some costs are also paid on the basis of "reasonable cost."

Medicare Part D makes outpatient prescription drug benefits available to Medicare beneficiaries. The private Medicare Part D plans are funded through premium payments from enrolled Medicare beneficiaries and subsidies from the federal government. Enrollment is available on an ongoing and

intermittent basis. While participation in the program is voluntary, those who wait to enroll beyond their initial point of eligibility are penalized with additional surcharges which increase over time. The ACA includes changes to the Medicare Part D program, including the gradual reduction of the cost sharing burden by beneficiaries under Medicare Part D (the so-called "donut hole"). Although Medicare Part D reimbursement does not cover inpatient prescriptions, changes in enrollment or program administration could affect the Institution's revenues. Going forward, an expansion of coverage for outpatient pharmaceutical therapy may reduce the Institution's admissions or shift the characteristics of those patients that are admitted.

Medicaid is a federal health benefits program that is state administered. Medicaid is available only to certain low-income individuals and families who fit into an eligibility group that is recognized by federal and state law. DOH administers the New York Medicaid Program for the State. Services are provided through use of a Medicaid card or through a Medicaid managed care plan. Under the ACA, eligibility for Medicaid was expanded to cover individuals with income under 133% of the Federal Poverty Level ("FPL"), effective in 2014.

Health care providers have been and will likely continue to be affected significantly by changes in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. Diverse and complex statutory and regulatory mechanisms, the effect of which is to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs, have been enacted and approved in recent years. The ACA introduces changes to the Medicare program that have been estimated by the Congressional Budget Office to significantly reduce the cost of the program over the next ten years. The ACA reduces cost sharing by Medicare beneficiaries for certain preventive services and wellness visits and expands coverage for these services. It also creates a new voluntary long-term care insurance program that helps cover the cost of long-term care services in order to allow people to remain at home and in the community. In addition, the ACA includes programs that link Medicare payments for hospitals and physicians with quality outcomes and the development of new patient care models that stress primary care and community-based care. The objective of these programs is to manage chronic diseases better and to reduce inpatient admissions and other high cost care provided by health care facilities, such as hospitals and nursing homes. As the result of spending reductions called for by the Budget Control Act of 2011, beginning on April 1, 2013, CMS implemented a 2% reduction in payments to health care providers, Medicare Advantage organizations, Medicare Part D sponsors and certain other programs. To date, the 2016 Congressional budget is still pending but has included proposals to both raise the federal spending caps instituted by the Budget Control Act, as well as severe reductions in Medicare payments. It is not possible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of the Institution.

Inpatient Operating Costs. Under PPS, acute care hospitals are paid a specified amount towards their operating costs based on the Medicare Severity Diagnosis Related Group ("MS-DRG") to which each Medicare inpatient service is assigned, which is determined by the diagnoses, procedures and other factors for each particular inpatient stay. The amount paid for each MS-DRG is established prospectively by CMS as a part of the Institution's PPS, and is not related to a hospital's actual costs. For each MS-DRG, CMS assigns a weighting factor that reflects the relative hospital resources used with respect to discharges classified within that group compared to discharges classified within other groups. Each MS-DRG weight represents the average resources required to care for cases in that particular MS-DRG, relative to the national average resources consumed per case by the "average" hospital. CMS is required to adjust, or recalibrate, on a budget-neutral basis, the MS-DRG weights annually to reflect changes in treatment patterns, new technologies and other factors affecting the use of hospital resources.

To calculate the payment for a particular discharge, the MS-DRG weight is multiplied by a "standardized amount" that reflects the operating and labor costs particular to the geographic region

where the Institution is located. The standardized amount is adjusted annually based upon an annual update factor. The annual update factor is based on a hospital "market basket" index, or the percentage by which the cost of the mix of goods and services for the cost reporting period at issue will exceed the cost of such mix of goods and services for the preceding 12-month cost reporting period. Congress can apply (and has done so) a statutory adjustment to the market basket index for any given year. For every year since 1983, Congress has modified the increases and given substantially less than the increase in the market basket index. The ACA provides for additional reductions to the market basket update, as well as other payment adjustments, in future years. There is, therefore, no assurance that future updates in MS-DRG payments will keep pace with the increases in providing inpatient hospital services. Additional payments are available, where applicable, for the direct and indirect costs of medical education, for hospitals serving a disproportionate share of patients subsidized by federal funds and for certain atypical or "outlier" cases. With the exception of outlier cases, PPS payments are not adjusted for actual costs or variations in service or length of stay. Beginning in 2014, the ACA incrementally decreases the Medicare and Medicaid payments for disproportionate share hospitals by $36 billion over a ten year period, based on an assumption that the law's new coverage and access provisions will substantially reduce uncompensated care provided by hospitals. The PPS amount and adjustments described above are calculated using formulae established by CMS that are revised periodically pursuant to federal budgetary policy. There is no assurance that the Institution will be paid amounts that adequately reflect the actual cost of providing health care or the cost of the health care technologies available to patients.

Outpatient Services. Under Section 1833(t) of the Social Security Act, hospital outpatient services, including hospital operating and capital costs, are paid on a prospective basis under a methodology known as the outpatient prospective payment system ("OPPS"). Certain hospital supplier services, however, including certain physician and non-physician practitioner services, ambulance, physical and occupational therapy, and speech pathology services are reimbursed pursuant to fee schedules rather than pursuant to the hospital OPPS. Under hospital OPPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures, which are comparable clinically and in terms of resource use, into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Payment is made on the basis of the APC group rather than on the cost of the individual service.

Payments made under OPPS are adjusted annually based on the hospital inpatient market basket percentage increase. In addition, hospitals must submit specified quality data in order to receive the full market basket update in any given year. Failure to report such data results in a 2% reduction for all OPPS services for the subsequent year.

On November 10, 2014, CMS issued a final rule that updated payment policies and rates for both outpatient hospital departments and ambulatory surgery centers. Under this rule CMS will be increasing payment rates with respect to outpatient PPS by a factor of 2.2%, however it will continue to implement the statutory 2.0 percentage point reduction for hospitals failing to meet outpatient quality reporting requirements. The rule also provides for an increase in payment rates to ambulatory surgery centers of 1.4%. Additionally, the rule provides for coding modifications pertaining to hospital outpatient clinic visits and provides for additional quality measures pertaining to hospital outpatient and ambulatory care services. This final rule became effective in January 1, 2015.

There can be no assurance that the hospital OPPS rate will be sufficient to cover the actual costs of the Institution allocable to Medicare patient care. In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Medical Education Costs. Medicare pays for certain costs associated with both direct and indirect medical education (including portions of the salaries of residents and faculty and other overhead costs directly attributable to medical education programs for training residents, nurses and allied health professionals) under Section 1886(h) of the Social Security Act. Payment for direct graduate medical education ("DGME") reimburses hospitals for the direct costs of their medical education programs, including faculty and resident salaries and other costs incurred directly and in support of the teaching programs. The payment amount for DGME costs for a cost reporting period is based on the hospital's number of residents in that period and the hospital's costs per resident in a base year, multiplied by the hospital's Medicare "patient load." Payment for the operating costs of indirect medical education is made as an adjustment to a hospital's MS-DRG payment and based on a statutory formula determined in part by the ratio of a hospital's number of full-time equivalent residents to its average number of staffed beds. There can be no assurance that payments to the Institution for providing medical education will be adequate to cover the costs attributable to medical education programs for training residents, nurses and allied health professionals.

Physician Payments. Certain physician services are paid on a national fee schedule called the "resource-based-relative-value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. The Sustainable Growth Rate ("SGR"), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates. Since 2003, Congress has passed legislation to delay application of the SGR. The Protecting Access to Medicare Act of 2014 (H.R. 4302), signed into law on April 1, 2014, averted until March 2015 physician fee cuts of 24% under the sustainable growth rate formula. On April 16, 2015 President Obama signed Federal legislation which, among other things, repealed the SGR and replaces it with an annual 0.5% reimbursement increase for physicians for the next five years.

Capital Costs. Hospitals are paid on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are paid exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the Institution. As noted above, the ACA includes reductions over time to the disproportionate share payments.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Institution allocable to Medicare patient stays or to provide adequate flexibility in meeting the Institution's future capital needs.

DSH Payments. In addition to making payments for services provided directly to beneficiaries, Medicare makes additional payments to hospitals that treat a disproportionately large number of low-income patients. These DSH payments are determined annually based on certain statistical information submitted to DHHS and are applied as a percentage addition to MS-DRG payments. Hospitals receiving Medicare DSH payments may also receive Medicaid DSH payments. The federal government distributes federal Medicaid DSH funds to each state based on a statutory formula. The states then distribute DSH payments among qualifying hospitals. Under a final rule issued by CMS on August 17, 2015, reductions for participants in the DSH program by $1.2 billion will begin in fiscal year 2016, effective as of October 1, 2015.

Annual Cost Reports. All hospitals participating in the Medicare and Medicaid programs must meet specific financial reporting requirements, which involve submission of annual cost reports to identify expenses associated with the services provided to Medicare and Medicaid beneficiaries. These

cost reports are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due in reimbursement. The audit process may be prolonged, and it may take several years to reach the final determination of allowable amounts.

The federal government uses a national recovery audit contractor ("RAC") program to identify overpayments and underpayments to providers under the Medicare program. The RAC auditors are compensated on a contingent fee basis. The ACA expands the scope of the RAC program to include Medicare Parts C and D and Medicaid.

Compliance and Reimbursement. Hospitals must comply with standards called "Conditions of Participation" to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under applicable Medicare rules, hospitals accredited by The Joint Commission are deemed to meet the Conditions of Participation. Failure to maintain The Joint Commission accreditation or to otherwise comply with the Conditions of Participation or other applicable state licensing requirements could have a material adverse effect on the revenues of the Institution. There can be no assurance that the Institution will continue to receive The Joint Commission accreditation in the future.

Recent Legislation. On April 16, 2015, President Obama signed The Medicare Access and CHIP Reauthorization Act of 2015 into law which attempts to provide more stable funding and, among other things: repeals the Sustained Growth Rate (SGR) formula; extends the Children's Health Insurance Program to September 30, 2017; funds Community Health Centers through 2017; and through the Protecting Integrity in Medicare Act strengthens Medicare's ability to fight fraud which builds on existing program inequity policies. The Institution cannot predict what impact such legislation might have on its revenues.

Managed Care and Other Private Initiatives

Currently, the term "managed care" refers to all commercial relationships between payors and providers. The term covers the negotiated arrangement for prices and payment terms that a health care provider will accept from a payor on behalf of a covered individual. All prices and terms are carefully articulated in contracts between providers and payors. Prices and terms differ for each hospital and for each payor and, usually, for each product sold by each payor. For example, a payor may sell HMO, PPO, Medicare and Medicaid products to various populations. That payor will then have a unique price established with each individual hospital for every covered service offered for each product sold.

Typical payment methodologies that have been established include severity-adjusted case neutral rates; per diem rates for stays in a Medical/Surgical Unit, Intensive Care Unit, and Cardiac Care Unit; case rates for obstetric deliveries, open heart surgeries and other tertiary level services; discounts from full charges; and set fees for outpatient services. As part of these negotiated contracts, the Institution has developed payment terms limiting the extent to which a payor may retroactively deny payments for services, which has been a common practice among managed care companies. The contracts also define requirements for insurers/managed care payors to conduct concurrent and prospective reviews. Some contracts contain provisions for advances and Periodic Interim Payments (PIP) as well as other terms that are financially acceptable to the Institution. However, these contracts have finite terms and are subject to renegotiation, and managed care payors are expected to continue to seek ways to reduce the utilization of health care services. Traditional insurance companies and managed care organizations in the State are increasingly offering managed care programs, including various payment methodologies and utilization controls through the use of primary care physicians. Payment methodologies include per diem rates, per discharge rates, discounts from established charges, fee schedules and capitation payments. Enrollment in managed care programs has increased, and managed care programs are expected to have a greater

influence on the manner in which health care services are delivered and paid for in the future. In addition, some managed care organizations have been delaying reimbursements to hospitals, thereby affecting cash flows. To the extent that Medicaid and Medicare reimbursement continues to be reduced, managed care and private pay rates are expected to follow this trend. The Institution's financial condition may be adversely affected by these trends.

Medicare and Medicaid Managed Care

The Medicare program has encouraged the development of managed care products for Medicare beneficiaries. Enrollment in a Medicare managed care product is voluntary and enrollees may disenroll and re-enroll in the traditional fee-for-service Medicare system. Managed Medicare plans may be structured as HMOs, PPOs, private fee-for-service-plans or Provider Sponsored Organizations ("PSO").

The federal Medicare program pays each managed Medicare plan a pre-established monthly premium for each Medicare beneficiary who voluntarily enrolls in the plan. The premium levels are set at a regional average price adjusted by each enrollee's age, gender and other considerations. In return for the premium, the plan pays for all the covered and medically necessary services delivered to the enrollee in the month. The plan is at full financial risk for costs incurred for caring for its enrollees in the given month, as described above.

The establishment of the Medicare Advantage program in 2003 increased reimbursement to managed Medicare plans, many of which in turn offered increased benefits coverage to beneficiaries. The ACA, however, provides for reductions to managed Medicare plan payments, with the intention of aligning managed Medicare per capita premium payments with expenditures in the traditional Medicare fee-for-service program.

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

New York State's program for mandatory Medicaid managed care enrollment, The Partnership Plan (also known as the 1115 Waiver), was approved by CMS in July 1997, allowing the State to begin enrolling most Medicaid recipients in managed care plans. Mandatory Medicaid managed care enrollment programs were instituted throughout New York City, and a significant portion of the Medicaid eligible population has been enrolled in managed care plans. Since 1997, the Partnership Plan 1115 Waiver has since been extended several times, most recently as of August 2011, effective through December 31, 2014, although the waiver authority for New York's Medicaid managed care program extends only through September 30, 2015. The 2011 amendments to the Partnership Plan 1115 Waiver have further extended the groups eligible and required to enroll in Medicaid managed care, which will likely result in an increase in Medicaid managed care admissions. Following the July 2015 approval of the State's value based purchasing "roadmap" under the 1115 Waiver's new value based purchasing requirements, managed care plan incentives for meeting value based purchasing goals have been added in order to encourage the development of integrated delivery systems within the State. Specific expected improvements include: (i) reducing avoidable readmissions; (ii) improving community health by expanding access to preventive and disease management programs; (iii) implementing programs aimed at improving access to preventive services; and (iv) encouraging community involvement to encourage health and wellness.

The ACA made several changes to the Medicaid program. The ACA gives states the option to expand Medicaid program eligibility to cover individuals with household income up to 133% of the FPL; as noted above, New York has extended Medicaid eligibility consequently. The federal government will pay 100% of the cost of certain newly eligible Medicaid beneficiaries through 2016. Thereafter, each state will share in the financial burden of expanded Medicaid coverage as the federal government's payments will phase downward from 100% of the cost to a permanent 90% matching rate by 2020. The ACA also prohibits states from reimbursing certain providers for certain health care-acquired conditions or "provider preventable conditions" and requires states to implement policies to conform to this requirement.

Medicaid patient volume at the Institution may be reduced, partially attributable to competition from other health networks and the uncertainty relating to this historic change in the process for treating Medicaid. The teaching component of Medicaid and managed Medicaid reimbursement is expected to continue to be paid by the State directly to the Institution.

See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester – Annual Financial Statement Information – Summary of Historical Revenues and Expenses – Medicare" and "– Medicaid" hereto.

Future actions by the federal and state governments are expected to continue the trend toward more restrictive limits on payment for hospital services. The Institution cannot assess or predict the ultimate effect of any such legislation or regulation, if enacted or adopted, on its operations.

Litigation and Claims

The Institution is involved in litigation and claims in the ordinary course of business. While the ultimate outcome of these lawsuits cannot be determined at this time, it is the opinion of management that the ultimate resolution of these claims will not have a material adverse effect on the Institution.

See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester – Litigation" hereto.

Competition

Payments to the hospital industry have undergone rapid and fundamental change triggered by the deregulation of the acute care hospital reimbursement system and the requirement to negotiate all nongovernment contracts and prices. This may further increase competitive pressures on acute care hospitals, including the Institution. The Institution faces and will continue to face competition from other hospitals, integrated delivery systems and ambulatory care providers that offer similar health care services.

There are many limitations on the ability of a hospital to increase volume and control costs, and there can be no assurance that volume increases or expense reductions needed to maintain the financial stability of the Institution will occur.

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

Workforce Shortages

Workforce shortages have affected health care organizations at the local, regional and national level. There can be no assurance that such workforce shortages will not continue or increase over time and adversely affect the Institution's ability to control costs and its financial performance.

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

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. While only a small percentage of the employees of the Institution are union employees operating under a collective bargaining agreement, there is no guarantee that such number will not increase in the future. See "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester – Annual Financial Statement Information – Employees" hereto.

In addition, employee strikes or other adverse labor actions may have an adverse impact on the Institution.

Risks Related to Construction and Renovation of the 2015 Facility

The Project is subject to the risk of delays due to a variety of factors including, among others, delays in obtaining the necessary permits, licenses and other governmental approvals, site difficulties, labor disputes, delays in delivery and shortage of materials, weather conditions, fire and other casualties and default by the Institution, contractors or subcontractors. If completion of the Project is delayed beyond the estimated construction period, receipt of revenues projected from the operations of the 2015 Facility will be delayed and the ability of the Institution to make required payments may be adversely affected. Such a delay could adversely affect the ability of the Institution to meet the debt service payments on the Series 2015 Bonds and the operating expenses of the Institution.

The Institution's management believes that the proceeds of the Series 2015 Bonds, together with other funds of the Institution, will be sufficient to finance the costs of the Project. The cost of the Project may be increased, however, if there are change orders. Further, the cost of construction and renovation of the 2015 Facility may be affected by other factors beyond the control of the Institution, including, but not limited to, labor disputes, delays in delivery and shortage of materials, site difficulties, adverse weather conditions, contractor defaults, fire and casualty and unknown contingencies.

Federal "Fraud and Abuse" Laws and Regulations

The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, in return for or to induce business that may be paid for, in whole or in part, under a federal health care program including,

but not limited to, the Medicare or Medicaid programs. The ACA amended the Anti-Kickback Law to provide that a claim that includes items or services resulting from a violation of the Anti-Kickback Law now constitutes a false or fraudulent claim for purposes of the False Claims Act. Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of Inspector General of the United States Department of Health and Human Services (the "OIG"), the enforcement arm of DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of $50,000 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed and violation of this law also renders the violator civilly liable under the civil FCA (as defined herein). The scope of prohibited payments in the Anti-Kickback Law is broad and includes many economic arrangements involving hospitals, physicians and other health care providers, including (but not limited to) joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts.

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

Federal and State False Claims Acts

The federal criminal False Claims Act (the "criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The federal civil False Claims Act (the "civil FCA" and, together with the criminal FCA, the "FCA") is one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office of the Department of Justice. Under the civil FCA, those who knowingly submit, or cause another person or entity to submit, false claims for payment of government funds are liable for three times the government's damages plus civil penalties of $5,500 to $11,000 per false claim. On May 20, 2009, the Fraud Enforcement and Recovery Act of 2009 ("FERA") was signed into law. It included significant amendments to the civil FCA. Among other items, FERA expanded the scope of potential civil FCA liability, increased the Attorney General's power to delegate authority to investigate a civil FCA case prior to intervening in a civil FCA action, and increased protections for whistleblower plaintiffs beyond employees. The ACA also amended the civil FCA by expanding the numbers of activities that are subject to enforcement as violations of the civil FCA, including, among other actions, failure to report and return to a federal health care program a known overpayment within 60 days of having identified the overpayment or, for cost-reporting entities, the date (if later) on which a hospital cost report is due.

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

Under the civil FCA and New York FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims or failing to refund known overpayments. Civil federal and New York State FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the

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

Violations of the civil FCA and New York FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties.

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

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

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

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

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

Violations of Stark can result in denial of payment, substantial civil money penalties, and exclusion from the Medicare and Medicaid programs. In certain circumstances, knowing violations may

also create liability under the FCA. Enforcement actions for any such violations could have a material adverse impact on the financial condition of a health care provider, including the Institution.

Civil Monetary Penalty Act

The federal Civil Monetary Penalty Act ("CMPA") provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPA if it knowingly presents, or causes to be presented, improper claims for reimbursement under Medicare, Medicaid and other federal health care programs. A hospital that participates in arrangements known as "gain sharing" by paying a physician to limit or reduce services to Medicare fee-for-service beneficiaries also would be subject to CMPA penalties. A health care provider that provides benefits to Medicare or Medicaid beneficiaries that the provider knows or should know are likely to induce the beneficiaries to choose the provider for their care also would be subject to CMPA penalties. The CMPA authorizes imposition of a civil money penalty and treble damages.

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition. The ACA also amended the CMPA laws to establish various new grounds for exclusion and civil monetary penalties, as well as increased penalty thresholds for existing civil monetary penalties.

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. The New York Office of the Medicaid Inspector General (the "OMIG") also has the authority to exclude individuals and entities from participation in Medicaid. Providers are excluded for reasons that may include program-related convictions, patient abuse or neglect convictions, and licensing board disciplinary actions. The ACA authorizes the Secretary of DHHS to exclude a provider from participation in Medicare and Medicaid, as well as to suspend payments to a provider pending an investigation or prosecution of a credible allegation of fraud against the provider.

Enforcement Activity

Enforcement activity against health care providers has increased, and enforcement authorities are adopting more aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals will be subject to an investigation, audit or inquiry regarding billing practices or false claims. Due to the complexity of these laws, the instances in which an alleged violation may arise to trigger such investigations, audits or inquiries are increasing and could result in enforcement action against the Institution.

Enforcement authorities are sometimes in a position to compel settlements by providers charged with, or being investigated for, false claims violations by withholding or threatening to withhold

Medicare, Medicaid or similar payments or by threatening the possibility of a criminal action. In addition, the cost of defending such an action, the time and management attention consumed thereby and the facts of a particular case may dictate settlement. Therefore, regardless of the merits of a particular case or cases, the Institution could experience materially adverse settlement costs, as well as materially adverse costs associated with the implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation, business and credit of the Institution, regardless of the outcome, and could have material adverse consequences on the financial condition of the Institution.

The ACA provides funding of health care fraud initiatives in the amount of $10 million per year for fiscal years 2011-2020 and an additional $250 million over fiscal years 2011-2016.

Increased Enforcement Affecting Academic Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the National Institute of Health ("NIH") significantly increased the number of facility inspections that these agencies perform. The United States Food and Drug Administration ("FDA") also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in past "Work Plans" has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and other agencies of the U.S. Public Health Service. The Institution receives payments for health care items and services under many of these grants and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire research programs, and errors in the billing of Medicare for care provided to patients enrolled in clinical trials that are not eligible for Medicare reimbursement can subject the Institution to sanctions as well as repayment obligations.

Department of Health Regulations

The Institution is subject to regulations of DOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Institution's ability to add services or beds and to modify existing services materially is also subject to DOH review and approval. Approvals can be highly discretionary, may involve substantial delay, and may require substantial changes in the proposed request. Accordingly, the Institution's ability to make changes to its service offerings and respond to changes in the environment may be limited.

New York State Executive Order 38

On January 18, 2012, Governor Cuomo signed an Executive Order limiting spending for administrative costs and executive compensation at State-funded service providers. The Institution may be subject to the limitations contained in the Executive Order. The Executive Order limits reimbursement with State funds for executive compensation to $199,000 annually per executive and requires that 75% (increasing to 85% by April 1, 2015) of State-authorized payments be utilized for direct care or services, rather than administrative costs. In March 2013, DOH published a third version of proposed regulations to implement the Executive Order, which became effective July 1, 2013. On April 9, 2014, a New York trial-level court struck down the Executive Order, a decision which the State of New York plans to

appeal. On July 29, 2014, a different New York trial-level court upheld the Executive Order. Whether the Executive Order will remain in effect and the ways in which the final regulations may impact the Institution remain unclear. Accordingly, it is impossible at this time to predict what changes in accounting or practices might be required of the Institution as a result of this Executive Order.

Regulation of Patient Transfer

Federal and New York laws require hospitals to provide emergency treatment to all persons presenting themselves with emergency medical conditions. Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA") in response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided. EMTALA requires hospitals with emergency rooms, including the Institution, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital.

Failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as civil penalties of up to $50,000 per violation. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Other Governmental Regulation

The Institution is subject to regulatory actions and policy changes by those governmental and private agencies that administer the Medicare and Medicaid programs and actions by, among others, the National Labor Relations Board, professional and industrial associations of staff and employees, applicable professional review organizations, the Joint Commission, the Environmental Protection Agency, the Internal Revenue Service ("IRS") and other federal, state and local governmental agencies, and by the various federal, state and local agencies created by the National Health Planning and Resources Development Act and the Occupational Safety Health Act.

Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Institution. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Institution's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

OIG and OMIG Compliance Guidelines

On February 23, 1998, the OIG published Compliance Program Guidance ("CPG") for the hospital industry. In recognition of the significant changes in the delivery and reimbursement for hospital services that have occurred since the CPG's publication, the OIG published Supplemental Compliance Program Guidance on January 31, 2005. Most recently, the DHHS and OIG released jointly developed guidance to help health care providers' boards address compliance issues. These issuances (collectively, the "Guidances") provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable federal and state law and the program requirements of federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. The Institution maintains a corporate compliance program that is designed to assist staff to meet or exceed

applicable standards established by federal and state laws and regulations. However, the presence of a compliance program is not an assurance that health care providers, such as the Institution, will not be investigated by one or more federal or state agencies that enforce health care fraud and abuse laws or that they will not be required to make repayments to various health care insurers (including the Medicare and/or Medicaid programs).

Since October 2009, hospitals in New York have been required by statute and regulation to have an effective compliance program. The compliance program must include, among other things, a chief compliance officer, written policies and the conduct of audits after the identification of risk areas. It is expected that the OMIG will conduct audits of compliance programs and assess their effectiveness. Under New York law, each year the Institution must certify that it has a compliance program in place and that it has been effective, and management of the Institution has advised that it will so certify this year.

Not-for-Profit Status

As a non-profit tax-exempt organization, the Institution is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Institution conducts large-scale complex business transactions and is a significant employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for not-for-profit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead, in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. For example, in August of 2011, the real estate tax exemption of three Illinois-based hospitals was revoked for failing to provide sufficient charity care. In June 2015, the property tax exemption of a New Jersey hospital was revoked based on the operation and use of the property for substantial for-profit purposes, including generating revenues for for-profit physicians. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

IRS Form 990 for Not-for-Profit Corporations

The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including the Institution) to submit information required by the federal government for such organizations. The current version of the Form 990, which has been revised in recent years, requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The form also requires the disclosure of a significantly greater amount of both hard data and anecdotal information on community benefit information on Schedule H to Form 990, and establishes uniform standards for reporting of information relating to tax-exempt bonds on Schedule K to Form 990, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. Schedule K is also intended to address compliance by tax-exempt organizations with recordkeeping and record retention requirements relating to their outstanding tax-exempt bonds.

The Form 990 is intended to result in enhanced transparency as to the operations of exempt organizations. It is also possible that it will result in enhanced enforcement, as the Form 990 will make a wealth of detailed information on compliance risk areas available to the IRS.

Internal Revenue Code Requirements

The Institution has been determined to be a tax-exempt organization described in Section 501(c)(3) of the Code. Additionally, Code Section 501(r) imposes certain additional requirements on tax-exempt hospital organizations, such as the Institution. Maintaining that status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that would cause their assets to inure to the benefit of private persons.

Any suspension, limitation, or revocation of the tax-exempt status of the Institution or assessment of significant tax liability could have a material adverse effect on the Institution and might lead to loss of tax exemption of interest on the Series 2015 Bonds. Revocation of the tax-exempt status of the Institution under Section 501(c)(3) of the Code could subject the interest paid to Bondholders to federal income tax retroactively to the date of the issuance of the Series 2015 Bonds.

Private Inurement and Excess Benefit Transactions. Section 501(c)(3) of the Code specifically conditions continued exemption upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Similarly, excessive private benefit can compromise tax-exempt status. In the context of a tax-exempt hospital organization, special attention is focused upon such things as the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS maintains scrutiny over a broad variety of contractual relationships commonly entered into by hospital organizations, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax.

Intermediate sanctions legislation enacted in 1996 – imposing penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person" – may be applied in lieu of, or in addition to, revocation of exemption. The tax is imposed both on the disqualified person receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve "excess benefit." Although the Institution believes that the sanction of revocation of tax-exempt status is likely to be imposed only in cases of pervasive excess benefit, the imposition of this penalty excise tax in lieu of revocation is likely to result in negative publicity and other consequences that could have a materially adverse effect on the operations, property or assets of the Institution.

The IRS has indicated that, in certain circumstances, violation of federal or state fraud and abuse statutes or the federal Anti-Kickback Statute could constitute grounds for revocation of a hospital's tax-exempt status, irrespective of whether private inurement or excess benefit transactions are present.

Charity Care and Other Matters. Hospital organizations have long been subject to requirements related to community benefit and charity care as a condition of their continued tax-exempt status. Code Section 501(r), created as part of the ACA in 2010, imposed additional requirements on tax-exempt hospital organizations to: (i) conduct a community health needs assessment at least every three years and adopt an implementation strategy to meet the identified community needs; (ii) adopt, implement and

widely publicize a written financial assistance policy and a policy to provide emergency medical treatment without discrimination; (iii) limit charges to individuals who quality for financial assistance under such tax-exempt hospital's financial assistance policy to no more than the amounts generally billed to individuals who have insurance covering such care and refrain from using "gross charges" when billing such individuals; and (iv) refrain from taking extraordinary collection actions without first making reasonable efforts to determine whether the individual is eligible for assistance under such tax-exempt hospital's financial assistance policy. The Treasury Department is required to review information about each tax-exempt hospital's community benefit activities at least once every three years, as well as to submit an annual report to Congress with information regarding the levels of charity care, bad debt expenses, unreimbursed costs of government programs and costs incurred by tax-exempt hospitals for community benefit activities. The periodic reviews and reports to Congress regarding the community benefits provided by tax-exempt hospital organizations may increase the likelihood that Congress will require such organizations to provide specified minimum levels of charity care in order to retain tax-exempt status.

Charity care issues also serve as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. The lawsuits filed against not-for-profit hospitals raise a number of claims against the hospital defendants, including claims that the defendants, by accepting tax-exempt status, entered into agreements with the federal, state and local governments promising to provide free or reduced care to all those who need it; the uninsured patients are beneficiaries of those agreements and can bring suit on them; the defendants engaged in illegal tactics against the uninsured; the defendants engaged in illegal price discrimination by charging the uninsured rates far in excess of the rates charged to Medicare, Medicaid and other insurers; the defendants violated state consumer fraud statutes; and the defendants conspired to charge illegal prices to the uninsured.

Tax Audits

Taxing authorities historically have conducted tax audits of not-for-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Audits of hospital organizations, such as the Institution, are informed by the learning of the Hospital Compliance Project Final Report issued by the IRS in February 2009. The Institution is not currently under audit and, while it believes that it is compliance with applicable tax rules, it can make no assurance as to the future likelihood of such an audit or the results thereof.

Further Tax-Related Developments

Various state and local governmental bodies in certain parts of the country have challenged the tax-exempt status of not-for-profit institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various not-for-profit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institutions or that the institution did not provide sufficient care to indigent persons so as to warrant exemption from taxation as a charitable institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. Since such actions and proposals have been made, they have been vigorously challenged and contested. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations of the Institution by requiring it to pay income or real estate taxes.

There have been numerous Congressional hearings in the past several years held by the House Ways and Means Committee, the Senate Finance Committee and other committees investigating various activities and practices of tax-exempt and other health care organizations, including hospital pricing systems, hospital billing and collection practices, unaudited business income and prices charged to uninsured patients. It cannot be determined at this time whether any legislation will be enacted in response to Congressional hearings and investigations and, if so, what form any such legislation would take and what its impact would be on the Institution.

Other legislative changes or judicial actions with respect to matters relating to the tax-exempt status of not-for-profit corporations, including the provision of free care to the indigent and the exemption from property taxes of such corporations, could be enacted. There can be no assurance that the future changes in federal, state or local laws, rules, regulations and policies governing tax-exempt entities will not have adverse effects on the future operations of the Institution.

Antitrust

Enforcement of the antitrust laws against health care providers has increased extensively over the last several years. Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, and certain pricing and salary setting activities. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private litigants seeking damages for harm arising out of allegedly anti-competitive behavior. Common areas of potential liability include joint action among providers with respect to payor contracting, medical staff credentialing, and issues relating to market share. Liability in any of these or other trade regulation areas may be substantial, depending on the facts and circumstances of each case. With respect to payor contracting, the Institution, from time to time, may be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources is dependent on a myriad of factors that may change from time to time. From time to time, the Institution may be involved with one or more of these types of activities, and the Institution cannot predict in general when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case. If any provider with whom the Institution is or becomes affiliated is determined to have violated the antitrust laws, the Institution may be subject to liability as a joint actor.

Some judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Some court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved. There can be no assurance that a third party reviewing the activities of the Institution would find such activities to be in full compliance with the antitrust laws.

Health Insurance Portability and Accountability Act

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") addresses the confidentiality of individuals' health information and established civil and criminal sanctions for health care fraud which expanded upon prior health care fraud laws and applies to health care benefit programs.

HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, securities, premiums, credits, property or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including:

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

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from $50,000 to $250,000 or imprisonment for up to 10 years if the information was for a violation of willful neglect or for a violation related to the intent to sell, transfer, or use the individually identifiable health information for commercial advantage, personal gain or malicious harm.

Compliance with HIPAA has required changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in monitoring of ongoing compliance with the various regulations. The Institution has implemented HIPAA training and ongoing monitoring. The financial cost of compliance with the "administrative simplification" regulations is substantial. Failure to achieve compliance with the transactions and code set standards could result in substantial payment delays, which could, in turn, have significant negative cash flow implications for the Institution.

HITECH Act

On February 17, 2009, President Obama signed into law the HITECH Act, which is part of the American Recovery and Reinvestment Act of 2009. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, in particular by: (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals' rights with respect to protected health information, (v) increasing penalties for violations and (vi) providing for enforcement of violations by State attorneys general.

On January 25, 2013, the DHHS issued comprehensive modifications to the existing HIPAA regulations to implement the requirements of the HITECH Act, commonly known as the "HIPAA Omnibus Rule." The HIPAA Omnibus Rule became effective on March 26, 2013 and covered entities were required to be in compliance as of September 23, 2013 (though certain requirements have a longer timeframe). Key aspects of the HIPAA Omnibus Rule include, but are not limited to (i) a new standard for what constitutes a breach of private health information, (ii) establishing four levels of culpability with respect to civil monetary penalties assessed for HIPAA violations, (iii) direct liability of business associates for certain violations of HIPAA, (iv) modifications to the rules governing research, (v) stricter requirements regarding non-exempt marketing practices, (vi) modification and re-distribution of notices of privacy practices and (vii) stricter requirements regarding the protection of genetic information. While the effects of the HIPAA Omnibus Rule cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the Institution.

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

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

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

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

Violations of HIPAA can result in civil monetary penalties of up to $25,000 per type of violation in each calendar year and criminal penalties of up to $250,000 per violation. Paired with violations of the

HITECH Act, as described above, these penalties can be even higher, with civil penalties under the HITECH Act generally ranging from $100 to $50,000 per violation, with caps of $25,000 to $1.5 million for all violations of a single requirement in a calendar year, depending on the severity of the violation and the level of willful negligence involved. The Institution does not expect that the prohibited practices provisions of HIPAA or the HITECH Act will affect the Institution in any material respect, but there can be no assurance that these changes and the associated costs of compliance will not have a materially adverse effect on its operations or financial condition.

Security Breaches and Unauthorized Releases of Personal Information

State and local authorities are increasingly focused on the importance of protecting the confidentiality of individuals' personal information, including patient health information. Many states have enacted laws requiring businesses to notify individuals of security breaches that result in the unauthorized release of personal information. In some states, notification requirements may be triggered even where information has not been used or disclosed, but rather has been inappropriately accessed. State consumer protection laws may also provide the basis for legal action for privacy and security breaches and frequently, unlike HIPAA, authorize a private right of action. In particular, the public nature of security breaches exposes health organizations to increased risk of individual or class action lawsuits from patients or other affected persons, in addition to government enforcement. Failure to comply with restrictions on patient privacy or to maintain robust information security safeguards, including taking steps to ensure that contractors who have access to sensitive patient information maintain the confidentiality of such information, could consequently damage a health care provider's reputation and materially adversely affect business operations.

Environmental Matters

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These requirements govern medical and toxic or hazardous waste management, air and water quality control, notices to employees and the public and training requirements for employees. As owners and operators of properties and facilities, the Institution may be subject to potentially material liability for costs of investigating and remedying the release of any such substances either on, or that have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Institution will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Institution.

Affiliation, Merger, Acquisition and Divestiture

As part of its ongoing planning and property management functions, the Institution reviews the use, compatibility and financial viability of many of their operations, and from time to time, may pursue changes in the use, or disposition, of their facilities. Likewise, the Institution may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the Institution in the future, or about the potential sale of some of the operations and properties of the Institution. Discussions with respect to affiliation, merger, acquisition, disposition, or

change of use, including those that may affect the Institution, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the Institution may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

Professional Liability Claims and General Liability Insurance

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

The Institution currently carries malpractice, directors' and officers' liability and general liability insurance, which the Institution considers adequate, but no assurance can be given that the Institution will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Institution or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Institution, see "APPENDIX A – Certain Information Concerning Highland Hospital or Rochester – Annual Financial Statement Information – Insurance."

Licensing, Accreditations, Investigations and Audits

On a regular basis, health care facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors, the Joint Commission and other accrediting bodies. Renewal and continuance of certain of these licenses, certifications and accreditation are based on inspections, surveys, audits investigations or other reviews, some of which may require or include affirmative action or response by the Institution. These activities generally are conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could result in a loss or reduction in the scope of licensure, certification or accreditation of the Institution, or could reduce the payment received or require repayment of amounts previously remitted.

The Institution is subject to periodic review by The Joint Commission. The Institution has received accreditation from The Joint Commission valid to November 2016. No assurance can be given as to the effect on future operations of existing, or subsequently amended, laws, regulations and standards for certification or accreditation.

In addition, the Institution sponsors programs of graduate medical education ("GME Programs"), training residents and fellows, which programs are accredited by the Accreditation Council for Graduate Medical Education ("ACGME") (for medical programs) and by the American Dental Association ("ADA") (for dental programs). All GME Programs are subject to periodic review by the applicable specialty Residency Review Committee of the ACGME, or by the ADA, as appropriate. No assurance can be given as to (i) the outcome of future reviews of these GME Programs, (ii) such programs' continued accreditation, or (iii) the continuing eligibility of the costs associated therewith for graduate medical education reimbursement. See "APPENDIX A – Certain Information Concerning Highland Hospital or Rochester – Annual Financial Statement Information – Major Accreditations and Memberships."

Increased Costs and State-Regulated Reimbursement

In recent years, substantial cutbacks in personnel and other cost-cutting measures have been instituted at hospitals throughout the State. Generally, these cutbacks have been instituted to address the disparity between rising medical costs and State-regulated reimbursement formulas, including those for Medicaid, Blue Cross and Blue Shield, and other third-party payors. Rising health care costs resulted from, among other factors, health care costs exceeding inflation, staff shortages, pharmaceutical costs and the highly technical nature of the industry. The Institution has been affected by the impact of such rising costs, and there can be no assurance that the Members would not be similarly affected by the impact of additional unreimbursed costs in the future.

Secondary Market

There can be no assurance that there will be a secondary market for the purchase or sale of the Series 2015 Bonds. From time to time there may be no market for them depending upon prevailing market conditions, including the financial condition or market position of firms who may make the secondary market, the evaluation of the Institution's capabilities and the financial conditions and results of operations of the Institution.

Enforceability of Lien on Gross Receipts

The Loan Agreement and the Assignment provide that the Institution shall make payments to the Trustee sufficient to pay the Series 2015 Bonds and the interest thereon as the same become due. The obligation of the Institution to make such payments is secured by Obligation No. 5, which, in turn, is secured by a security interest granted to the Master Trustee in the Gross Receipts of the Institution. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS – Master Indenture – Security Interest in Gross Receipts." Gross Receipts paid by the Institution to other parties in the ordinary course might no longer be subject to the lien on the Master Indenture and might therefore be unavailable to the Master Trustee.

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

In the event of bankruptcy of the Institution, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court, may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Institution before paying debt service on the Series 2015 Bonds.

Pursuant to the New York Uniform Commercial Code, a security interest in the proceeds of Gross Receipts may not continue to be perfected if such proceeds are not paid over to the Master Trustee by the

Institution under certain circumstances. If any required payment is not made when due, the Institution must transfer or pay over immediately to the Master Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by the Institution be transferred to the Master Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment. The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Series 2015 Bonds as to the security interest in the Gross Receipts. See "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2015 BONDS – Master Indenture."

Enforceability of the Master Indenture

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

Exercise of Remedies under Master Indenture

"Events of Default" under the Master Indenture include the failure of the Institution to make payments on any Obligation Outstanding under the Master Indenture (such as Obligation No. 5) and may include nonpayment related defaults under documents such as the Loan Agreement or the Indenture. The Master Indenture provides that upon an "Event of Default" thereunder, the Master Trustee may in its discretion, by notice in writing to the Institution, declare the principal of all (but not less than all) Obligations Outstanding thereunder to be due and payable immediately and may exercise other remedies thereunder. However, the Master Trustee is not required to declare amounts under the Master Indenture to be due and payable immediately unless requested to do so by the holders of not less than 51% in aggregate principal amount of all Obligations then Outstanding under the Master Indenture. Consequently, upon the occurrence of an "Event of Default" under the Indenture with respect to the Series 2015 Bonds and an acceleration of the maturity of the Series 2015 Bonds, the Master Trustee is not required to accelerate the maturity of all Obligations Outstanding under the Master Indenture upon direction from the Trustee unless (i) the principal amount of the Series 2015 Bonds Outstanding is at least equal to 51% of the principal amount of all Obligations Outstanding under the Master Indenture, or (ii) the Trustee and all other holders of Obligations requesting such acceleration hold at least 51% of all Obligations Outstanding under the Master Indenture. See APPENDIX F – Summary of Certain Provisions of the Master Indenture – Additional Remedies Upon Certain Events of Default" for a description of the circumstances under which acceleration of payments under Obligation No. 5 is permitted.

Bankruptcy

The Series 2015 Bonds are payable from the sources and are secured as described in this Official Statement. The practical realization of value from the collateral for the Series 2015 Bonds described herein upon any default will depend upon the exercise of various remedies specified by the Loan Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial actions which are often subject to discretion and delay.

Under existing law, the remedies specified by the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the performance of the covenants contained in those documents. The legal opinions to be delivered concurrently with the delivery of the Series 2015 Bonds will be qualified as to the enforceability of the various agreements and other instruments by limitations imposed by State and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization or other laws affecting the enforcement of creditors' rights generally.

The rights and remedies of the holders of the Series 2015 Bonds are subject to various provisions of Title 11 of the United States Code (the "Bankruptcy Code"). If the Institution were to file a petition for relief under the Bankruptcy Code, the filing would automatically stay the commencement or continuation of any judicial or other proceedings against the Institution and its property. The Institution would not be permitted or required to make payments of principal or interest under the Loan Agreement and Obligation No. 5, unless an order of the United States Bankruptcy Court were issued for such purpose. In addition, without an order of the United States Bankruptcy Court, the automatic stay may serve to prevent the Trustee from applying amounts on deposit in certain funds and accounts held under the Indenture from being applied in accordance with the provisions of the Indenture, and the application of such amounts to the payment of principal and Sinking Fund Installments of, and interest on, the Series 2015 Bonds. Moreover, any motion for an order canceling the automatic stay and permitting such funds and accounts to be applied in accordance with the provisions of the Indenture would be subject to the discretion of the United States Bankruptcy Court, and may be subject to objection and/or comment by other creditors of the Institution, which could affect the likelihood or timing of obtaining such relief. The automatic stay may also extinguish the Master Trustee's continuing security interest in the Institution's Gross Receipts arising subsequent to the filing of the bankruptcy petition, adversely affect the ability of the Master Trustee to exercise remedies upon default, including the acceleration of all amounts payable by the Institution under Obligation No. 5, the Master Indenture and the Loan Agreement, and may adversely affect the Master Trustee's or the Trustee's ability to take all steps necessary to file a claim under the applicable documents on a timely basis.

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

Considerations Relating to Additional Debt

Subject to the terms set forth therein, the Indenture, the Loan Agreement and the Master Indenture permit the Institution to incur additional indebtedness, including Additional Bonds. Such indebtedness would increase the Institution's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2015 Bonds.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Institution, or the market value of the Series 2015 Bonds, to an extent that cannot be determined at this time:

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

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

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

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

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

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

- Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or a change in federal income tax law or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2015 Bonds and the level of charitable donations to the Institution.

CONTINUING DISCLOSURE OBLIGATIONS

The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Series 2015 Bonds and the Issuer will not provide any such information. In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the Institution has undertaken all responsibilities for any continuing disclosure to Bondholders as provided below, and the Issuer shall have no liability with respect to such disclosures.

The Institution has covenanted for the benefit of Bondholders to provide certain financial information and operating data relating to the Institution by not later than 180 days after the close of its fiscal year in each year commencing December 31, 2015 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report will be filed with the Electronic Municipal Market Access ("EMMA") system of the Municipal Securities Rulemaking Board ("MSRB") or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events, and the circumstances under which changes to this continued disclosure undertaking may be made, are contained in the Continuing Disclosure Agreement, a copy of which may be obtained from the Institution upon written request. This undertaking has been made in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

The Annual Report shall contain annual information concerning the Institution consisting of (1) financial and operating data of the type included in this Official Statement, which shall include information as described in "APPENDIX A – Certain Information Concerning Highland Hospital of Rochester" relating to the following: (i) utilization statistics of the type set forth under the heading "Utilization Statistics;" (ii) revenue and expense data of the type set forth under the heading "Summary of Historical Revenues and Expenses; and (iii) information on the sources of revenue by payor of the type set forth under the headings "Payor Classification" and "Patient Services Revenues" together with (2) such narrative explanation, as may be necessary to avoid misunderstanding regarding the presentation of financial and operating data concerning the Institution.

The notices relating to the occurrence of certain enumerated events shall include notices of any of the following events with respect to the Series 2015 Bonds, not later than 10 business days after the occurrence of such event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, IRS notices or material events affecting the tax-exempt status of the Series 2015 Bonds; (7) modifications to the rights of holders of the Series 2015 Bonds, if material; (8) bond calls, if material; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2015 Bonds, if material; (11) rating changes; (12) tender offers; (13) bankruptcy, insolvency, receivership or similar event of an obligated person; (14) merger, consolidation or acquisition of an obligated person, if material; (15) appointment of a successor or additional trustee, or the change of name of a trustee, if material; and (16) failure to provide annual financial information as required. In addition, the Trustee will undertake, for the benefit of the holders of the Series 2015 Bonds, to provide to the EMMA system of the MSRB, in a timely manner, notice of any failure by the Institution to provide the Annual Report by the date required in the undertakings of the Institution described above.

More specific information relating to the Annual Report or the notices of enumerated events, and the circumstances under which changes to this continued disclosure undertaking may be made, are

contained in the Continuing Disclosure Agreement, a copy of which may be obtained from the Institution upon written request.

The Institution has entered into continuing disclosure agreements in connection with issuance of the Refunded Bonds and bonds issued in 2010 by the Dormitory Authority of the State of New York (the "DASNY Bonds"). Within the last five years, the Institution has failed to comply with such continuing disclosure agreements as follows: (i) with respect to the Refunded Bonds, (A) the Institution filed its audited financial statements late for the years ending December 31, 2014, 2013, 2012, 2011 and 2010, (B) the Institution filed its unaudited quarterly financial filings late for the quarters ending December 31, 2014, June 30, 2014, March 31, 2014, December 31, 2013, September 30, 2013, June 30, 2013, March 31, 2013, December 31, 2012, June 30, 2012, March 31, 2012, December 31, 2011, March 31, 2011, December 31, 2010 and September 30, 2010, and (C) the Institution has not filed annual unaudited combined financial statements for the Institution and its affiliates operating a skilled nursing facility and long-term care facility; and (ii) with respect to the DASNY Bonds, the Institution filed its certificate of compliance with respect to the annual report for the 2012 fiscal year late. The Institution made a submission to the Commission under its Municipalities Continuing Disclosure Cooperation Initiative in connection with the offering document for the DASNY Bonds. Prior to such submission, the Institution filed all outstanding disclosure items with the MSRB except the annual unaudited combined financial statements referenced in (i)(C) above. The Institution has not and does not plan to file such annual unaudited combined financial statements as their disclosure would be materially misleading to holders of the Refunded Bonds. The revenues of the entities operating the long-term care and skilled nursing facilities are not available to the Institution or to the payment of the Institution's debts. Except as stated herein, the Institution is now in material compliance with its continuing disclosure obligations.

TAX MATTERS

Federal Income Taxes

In the opinion of Harris Beach PLLC, Bond Counsel to the Issuer, and subject to the limitations set forth below, under existing statutes, regulations, administrative rulings and court decisions as of the date of such opinion, interest on the Series 2015 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. Furthermore, Bond Counsel is of the opinion that interest on the Series 2015 Bonds is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2015 Bonds is included in "adjusted current earnings" for purposes of calculating the federal alternative minimum tax imposed on certain corporations. Corporate purchasers of the Series 2015 Bonds should consult with their tax advisors regarding the computation of any alternative minimum tax liability.

The difference between the principal amount of the Series 2015 Bonds maturing on July 1 in the years 2028 through 2032, inclusive, 2040 and 2045 (collectively, the "Discount Bonds") and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of each maturity of such Discount Bonds is first sold, constitutes original issue discount, which is excluded from gross income for federal income tax purposes to the same extent as interest on the Discount Bonds. The Code provides that the amount of original issue discount accrues in accordance with a constant interest method based on the compounding of interest, and that the basis of a Discount Bond acquired at such initial offering price by an initial purchaser of such an owner's adjusted basis for purposes of determining an owner's gain or loss on the disposition of a Discount Bond will be increased by the amount of such accrued original issue discount. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond that is a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability. Consequently, a corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in a federal alternative

minimum tax liability, even though the owner of such Discount Bond has not received cash attributable to such original issue discount in such year.

The Series 2015 Bonds maturing on July 1 in the years 2016 through 2027, inclusive, 2033 and 2034 (collectively, the "Premium Bonds") are being offered at prices in excess of their principal amounts. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of the Premium Bonds are advised that they should consult with their own advisors with respect to the tax consequences of owning such Premium Bonds.

The Code establishes certain requirements that must be met at and subsequent to the issuance and delivery of the Series 2015 Bonds in order that interest on the Series 2015 Bonds be and remain excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Code. These continuing requirements include certain restrictions and prohibitions on the use of the proceeds of the Series 2015 Bonds and the Project, restrictions on the investment of proceeds and other amounts and the rebate to the United States of certain earnings in respect of such investments. Failure to comply with such continuing requirements may cause the interest on the Series 2015 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2015 Bonds, irrespective of the date on which such noncompliance occurs. In the Indenture, the Loan Agreement, the Tax Compliance Agreement, and accompanying documents, the Issuer and the Institution have covenanted to comply with certain procedures, and have made certain representations and certifications, designed to assure compliance with the requirements of the Code. The opinion of Bond Counsel described above is made in reliance upon, and assumes, continuing compliance with such covenants and procedures and the continuing accuracy, in all material respects, of such representations and certifications.

Bond Counsel expresses no opinion regarding any other federal income tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2015 Bonds. The proposed form of opinion of Bond Counsel is attached to hereto as "APPENDIX G."

In addition to the matters referred to in the preceding paragraphs, prospective purchasers of the Series 2015 Bonds should be aware that the accrual or receipt of interest on the Series 2015 Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences may depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Examples of such other federal income tax consequences of acquiring or holding the Series 2015 Bonds include, without limitation, that (i) with respect to certain insurance companies, the Code reduces the deduction for loss reserves by a portion of the sum of certain items, including interest on the Series 2015 Bonds, (ii) interest on the Series 2015 Bonds earned by certain foreign corporations doing business in the United States may be subject to a branch profits tax imposed by the Code, (iii) passive investment income, including interest on the Series 2015 Bonds, may be subject to federal income taxation under the Code for certain S corporations that have certain earnings and profits, and (iv) the Code requires recipients of certain Social Security and certain other federal retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2015 Bonds. In addition, the Code denies the interest deduction for indebtedness incurred or continued by a taxpayer, including, without limitation, banks, thrift companies, and certain other financial companies to purchase or carry tax-exempt obligations, such as the Series 2015 Bonds. The foregoing is not intended as an exhaustive list of potential tax consequences. Prospective purchasers should consult their tax advisors regarding any possible collateral consequences with respect to the Series 2015 Bonds.

Certain requirements and procedures contained in or referred to in the Indenture, the Loan Agreement, the Tax Compliance Agreement, and other relevant documents may be changed, and certain actions may be taken or omitted subsequent to the date of issue, under the circumstances and subject to the terms and conditions set forth in such documents or certificates, upon the advice of, or with the approving opinion of, a nationally recognized bond counsel. Bond Counsel expresses no opinion as to any tax consequences with respect to the Series 2015 Bonds, or the interest thereon, if such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Harris Beach PLLC.

State Income Taxes

In the opinion of Bond Counsel, under existing law as of the date of the issuance of the Series 2015 Bonds, for so long as interest on the Series 2015 Bonds is and remains excluded from gross income for federal income tax purposes, such interest is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof. Noncompliance with any of the federal income tax requirements set forth above resulting in the interest on the Series 2015 Bonds being included in gross income for federal tax purposes would also cause such interest to be subject to personal income taxes imposed by the State of New York and any political subdivision thereof.

Bond Counsel expresses no opinion regarding any other state or local tax consequences related to the ownership or disposition of, or the receipt or accrual of interest on, the Series 2015 Bonds.

Interest on the Series 2015 Bonds may or may not be subject to state or local income taxes in jurisdictions other than the State of New York under applicable state or local tax laws. Bond Counsel expresses no opinion as to the tax treatment of the Series 2015 Bonds under the laws of such other state or local jurisdictions. Each purchaser of the Series 2015 Bonds should consult his or her own tax advisor regarding the taxable status of the Series 2015 Bonds in a particular jurisdiction other than the State of New York.

Other Considerations

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or omitted) or any events occurring (or not occurring) after the date of issuance of the Series 2015 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2015 Bonds.

No assurance can be given that any future legislation, including amendments to the Code or the State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2015 Bonds to be subject to federal or State income taxation, or otherwise prevent Bondholders from realizing the full current benefit of the tax status of such interest. Further, no assurance can be given that the introduction or enactment of any such future legislation, or any judicial decision or action of the Internal Revenue Service or any State taxing authority, including, but not limited to, the promulgation of a regulation or ruling, or the selection of the Series 2015 Bonds for audit examination, or the course or result of any Internal Revenue Service examination of the Series 2015 Bonds or of obligations which present similar tax issues, will not affect the market price or marketability of the Series 2015 Bonds. For example, various legislative proposals have been released the effect of which would be to limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code (including the Series 2015 Bonds) for taxpayers whose income exceeds certain threshold levels. No prediction is made as to whether any such proposals will be enacted. Prospective purchasers of the Series 2015 Bonds should consult their own tax advisors regarding the foregoing matters.

All quotations from and summaries and explanations of provisions of law do not purport to be complete, and reference is made to such laws for full and complete statements of their provisions.

ALL PROSPECTIVE PURCHASERS OF THE SERIES 2015 BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS IN ORDER TO UNDERSTAND THE IMPLICATIONS OF THE CODE AS TO THESE AND OTHER FEDERAL AND STATE TAX CONSEQUENCES, AS WELL AS ANY LOCAL TAX CONSEQUENCES, OF PURCHASING OR HOLDING THE SERIES 2015 BONDS.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements for the Institution as of December 31, 2014 and 2013 and for the years then ended, included in "APPENDIX B" of this Official Statement, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report thereon appearing in "APPENDIX B" to this Official Statement. PricewaterhouseCoopers LLP has not audited, reviewed, compiled or performed any procedures with respect to the preliminary financial data relating to any period subsequent to December 31, 2014 presented in "APPENDIX A" to this Official Statement. Accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect to such preliminary financial data.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of McGraw Hill Financial, Inc. ("S&P"), have assigned ratings of "A2" and "A," respectively, to the Series 2015 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the respective rating agency. There is no assurance that such rating will prevail for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating agency if, in the judgment of either or both of them, circumstances so warrant. Any such downward revision or withdrawal of such rating or ratings may have an adverse effect on the market price of the Series 2015 Bonds.

LITIGATION

The Issuer

There is not now pending nor, to the knowledge of the Issuer threatened, any litigation questioning or affecting the validity of the Series 2015 Bonds or the proceedings or authority under which the Series 2015 Bonds were issued. Neither the creation, organization or existence of the Issuer nor the title of any of the present members or other officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to its knowledge, threatened which in any manner questions the right of the Issuer to execute and deliver the Indenture or the Loan Agreement.

The Institution

There is not now pending nor, to the knowledge of the Institution, threatened any litigation restraining or enjoining the execution or delivery of the Financing Documents to which the Institution is a party or questioning or affecting the validity of such documents or the proceedings or authority under which such documents were authorized or delivered. Neither the creation, organization or existence of the Institution nor the title of any of the present members or other officers of the Institution to their respective offices is being contested. There is no litigation pending or, to its knowledge, threatened which in any manner questions the right of the Institution to enter into the Financing Documents to which the Institution is a party or which would have a material adverse effect on the ability of the Institution to meet its obligations under the Loan Agreement.

LEGAL MATTERS

All legal matters incident to the authorization and validity of the Series 2015 Bonds are subject to the approval of Harris Beach PLLC, Bond Counsel, whose approving opinion will be delivered with the issuance of Series 2015 Bonds. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach, PLLC, Rochester, New York. Certain legal matters will be passed upon for the Institution by its counsel, Nixon Peabody LLP, Rochester, New York. Certain legal matters will be passed upon for the Underwriters by their counsel, Winston & Strawn LLP, New York, New York.

UNDERWRITING

Barclays Capital Inc., acting as representative of the underwriters (the "Underwriters"), has agreed, subject to certain conditions, to purchase the Series 2015 Bonds from the Issuer at an aggregate purchase price of $40,317,202.72 (which is equal to the aggregate principal amount of the Series 2015 Bonds, less an Underwriters' discount in the amount of $152,364.88, plus net premium in the amount of $1,824,567.60) and to make an initial public offering of the Series 2015 Bonds at prices that are not in excess of the initial public offering prices corresponding to the yields set forth on the inside cover page of this Official Statement, plus accrued interest, if any. The Underwriters will be obligated to purchase all the Series 2015 Bonds if any of the Series 2015 Bonds are purchased. The Series 2015 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2015 Bonds into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) at prices lower than the initial public offering prices as set forth on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates may have from time to time performed, and may in the future perform, various investment banking services for the Institution, for which it received or will receive customary fees and expenses. In the ordinary course of its various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Institution.

MISCELLANEOUS

All the summaries of the provisions of the Series 2015 Bonds, the Indenture, the Loan Agreement, the Assignment, the Master Indenture and the Continuing Disclosure Agreement set forth herein and all other summaries and references to such other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and are made subject to all of the detailed provisions thereof, to which reference is hereby made for further information, and do not purport to be complete statements of any or of all such provisions of such documents.

All estimates and assumptions herein have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates or assumptions are correct or will be realized. So far as any statements herein involve matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Neither this Official Statement nor any statement which may have been made orally or in writing with regard to the Series 2015 Bonds is to be construed as a contract with the holders of the Series 2015 Bonds.

The information set forth in this Official Statement, including the information set forth in the appendices, should not be construed as representing all the conditions affecting the Issuer, the Institution or the Series 2015 Bonds.

The Issuer has not assisted in the preparation of this Official Statement, except for the statements under the captions "INTRODUCTION – The Issuer," "THE ISSUER" and "LITIGATION – The Issuer" herein and, except for those sections, the Issuer is not responsible for any statements made in this Official Statement. Except for the authorization, execution, and delivery of documents to which it is a party that are required to effect the issuance of the Series 2015 Bonds, and Issuer assumes no responsibility for the disclosures set forth in this Official Statement.

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

MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION

By: /s/ Paul A. Johnson
Title: Acting Executive Director

HIGHLAND HOSPITAL OF ROCHESTER

By: /s/ Adam P. Anolik
Title: Chief Financial Officer

APPENDIX A

CERTAIN INFORMATION CONCERNING HIGHLAND HOSPITAL OF ROCHESTER

GENERAL

Introduction

The Highland Hospital of Rochester ("Highland" or the "Hospital") is a not-for-profit corporation organized under the laws of the State of New York, and exempt from taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code, as amended (the "Code"). The Hospital is a 261-bed acute care hospital facility located at 1000 South Avenue, Rochester, New York. The Hospital is a subsidiary of Strong Partners Health System, Inc. ("SPHS"), a New York not-for-profit corporation exempt from taxation as an organization described in Section 501(c)(3) of the Code, which is the sole member and unregulated parent of Highland. However, SPHS is not an obligor with regard to the Series 2015 Bonds.

Incorporated in 1889, the Hospital serves residents of portions of the City of Rochester, suburban communities in Monroe County, and certain municipalities in surrounding counties. The Hospital is currently licensed to provide major patient care services: general medical and surgical care; intensive care; obstetrical and newborn care; linear accelerator, acute renal dialysis; outpatient primary care clinic care; and emergency services. Highland's primary care satellite clinic system is extensive and it provides care throughout the Greater Rochester area at its 13 off-site primary and specialty health care centers.

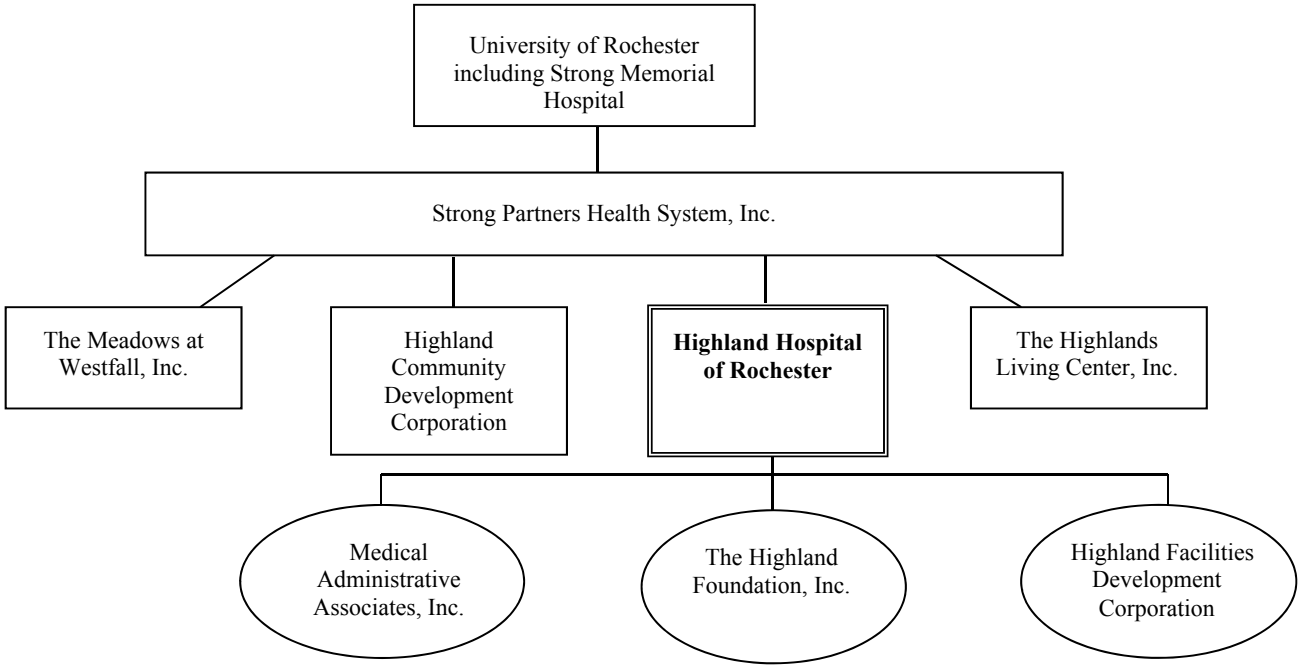
Included in its bed complement of 261 are 14 intensive care unit beds and 29 maternity beds. In addition, there are also 44 newborn bassinets at Highland.

Certified Operating Certificate Bed Complement

Medical/Surgical	218
Obstetrics	29
Intensive Care Unit	14
Total adult acute care beds	261
Newborn bassinets	44
Total	305

Organization and Affiliates

The chart below illustrates the current organizational structure of the affiliated corporations of Highland and SPHS. Separate governing boards of directors maintain fiduciary responsibility over the University of Rochester, SPHS and the other SPHS subsidiaries.



The Hospital operates an acute care hospital serving the population residing in Monroe County and other nearby counties and is a medical teaching affiliate of the University of Rochester School of Medicine and Dentistry. The University of Rochester is the sole corporate member of SPHS. SPHS is also the sole corporate member of the Hospital, Highland Community Development Corporation ("HCDC"), The Highlands Living Center, Inc. ("HLC"), and The Meadows at Westfall, Inc. (the "Meadows").

The Hospital's subsidiaries consist of the following:

Highland Facilities Development Corporation. Highland Facilities Development Corporation ("HFDC") is a New York not-for-profit corporation, whose primary purpose is to provide services which are substantially related to the charitable purposes of the Hospital but do not involve provision of health care services. HFDC owns and operates a medical office building and a parking garage on the Hospital campus.

Medical Administrative Associates, Inc. Medical Administrative Associates, Inc. d/b/a Highland South Wedge Pharmacy (the "Apothecary") is a New York business corporation that owns and operates a retail pharmacy.

The Highland Foundation, Inc. The Highland Foundation, Inc. (the "Foundation") is a New York not-for-profit corporation, whose primary purpose is to solicit, receive, and maintain funds exclusively for the benefit of the Hospital and other SPHS entities.

The Hospital's other affiliates are as follows:

Strong Partners Health System, Inc. SPHS's primary purpose is to oversee a regional health care delivery system of health services.

SPHS, as the sole member of Highland, the Meadows, HCDC and HLC, has certain operational powers over these corporations, as set forth in their respective bylaws, including the following:

(1) to elect, remove (with or without cause), appoint and replace the members of the Board of Directors;
(2) to approve the strategic plan and capital and operating budgets;
(3) to approve the authorization of any debt in excess of $500,000 or having a term of 5 years of more, unless previously approved as part of the capital or operating budget;
(4) to approve any transfer of assets to unrelated entities;
(5) to approve the appointment or removal of the CEO;
(6) to direct transfer of assets to the extent necessary or appropriate to achieve the goals of the University of Rochester's health care system;
(7) to approve any dissolution, liquidation, merger, consolidation, lease or transfer of all or substantially all assets; and
(8) to approve any amendment to the by-laws or certificate of incorporation.

Strong Memorial Hospital. Strong Memorial Hospital ("Strong") is a tertiary care teaching institution located in Rochester, New York. It is an integrated division of the University of Rochester, which is a private, not-for-profit institution of higher education based in Rochester, New York. Strong provides health care services through its inpatient and outpatient care facilities located in Rochester, New York.

Highland Community Development Corporation. HCDC is a New York not-for-profit corporation which owns and operates The Highlands at Pittsford, a retirement community located in Pittsford, Monroe County, New York. The retirement community includes 132 independent living units, 48 enriched housing units, a community common area, a dining room, sitting areas and recreational areas.

The Highlands Living Center, Inc. The Highlands Living Center, Inc. is a New York not-for-profit corporation which owns and operates a 120-bed skilled nursing facility and an adult day care health program for seniors in Pittsford, Monroe County, New York. The skilled nursing facility is adjacent to The Highlands at Pittsford.

The Meadows at Westfall, Inc. The Meadows is a New York not-for-profit corporation that owns and operates a 145-bed nursing home in Brighton, New York, known as The Highlands at Brighton.

Debt of Affiliated Entities

The debt of the hospital's affiliated entities as of December 31, 2014, which is not an obligation of the Hospital, is as follows:

Highland Community Development Corporation

Total long-term indebtedness, including current portion, consists of a mortgage loan dated as of January 26, 1994 with the Dormitory Authority of the State of New York with a principal balance of $7,095,000.

The Highlands Living Center

Total long-term indebtedness, including current portion, consists of a loan from HCDC with a principal balance of $3,635,000.

Neither the obligations of the Hospital under the Loan Agreement nor Obligation No. 5 will be an obligation of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital and none of the University of Rochester, SPHS or any of their respective affiliates other than the Hospital will be liable thereon.

Governance

Except for the reserved powers retained by its sole member, SPHS, as described above, the Hospital is governed by its Board of Directors (the "Board"), consisting of between 13 and 19 directors divided into 3 classes, each class being elected for three-year terms in alternating years. The Board acts as a whole on all matters and therefore has no standing committees. The current Board of Directors consists of the following individuals:

Highland Hospital of Rochester Board of Directors
2015 Listing

Hon. Francis A. Affronti*
NYS Supreme Court
7th Judicial District

Christian Modesti*
President
Biomaxx, Inc.

Cindy Becker
Vice President & COO
Highland Hospital

Mark B. Taubman, MD
Senior Vice President of Health Sciences/CEO of University of Rochester Medical Center

Kathleen Whelehan*
CEO
Upstate National Bank

Karen Lamy*
VP of Finance
The Summit Federal Credit Union

Adam Anolik
CFO
Strong Memorial and Highland Hospitals

Steven I. Goldstein*
President and CEO
Strong Memorial and Highland Hospitals

Brent Dubeshter, MD*
Director of Gynecologic Oncology

Steven Burkhart, MD*
Community OB/GYN Physician

Joseph Johnson, MD*
Chairperson
Chief of Surgery Highland Hospital

Theodore Hirokawa, MD*
Associate Professor
University of Rochester

Mark A. Eidlin*
Senior Vice President
Merrill Lynch, Pierce Fenner & Smith Incorporated

Michael P. Riordan*
Senior Vice President
UBS Financial Services, Inc.

Belinda Lischerelli*
Finance Director
Wegmans Food Markets

Nicholas Nicosia, DDS*
Retired, Eastman Kodak

Robert McCann, MD**
Chief of Medicine
Highland Hospital

Ann Marie Cook*
President
Lifespan of Greater Rochester NY

Bilal Ahmed, MD**
Community Physician

*Indicates voting Board member.
**Honorary Member.

The current Board of Directors of SPHS, with responsibility for all of the powers reserved to SPHS as sole member of the Hospital, consists of the following individuals:

Strong Partners Health System, Inc. Board of Directors
2014-2015 Listing

C. William Brown
Risk Management Consultant
Brighton Pittsford Agency, Inc.

Michael F. Buckley, Esq.
Partner
Harter, Secrest & Emery, LLP

Richard J. Collins, MD
Retired Physician

Ann Marie Cook
President
Lifespan of Greater Rochester NY

James DeCaro, PhD

Mark A. Eidlin
Senior Vice President
Merrill Lynch, Pierce Fenner & Smith Incorporated

Jack Eisenberg

Roger B. Friedlander
Consultant

Steven I. Goldstein
President & CEO
Strong Memorial and Highland Hospitals

Gerard T. Guerinot, MD
Retired Physician

William J. Hall, MD
Director, Center for Healthy Aging
Highland Hospital

George W. Hamlin IV

Susan R. Holliday

Alan Illig, Esq.
Counsel
Harter, Secrest & Emery, LLP

Joseph A. Johnson, MD
Chief of Surgery
Highland Hospital

Amy Kates

Robert N. Latella, Esq.
Partner
Hiscock & Barclay, LLP

Robert M. McCann, MD
Chief of Medicine
Highland Hospital

Daniel A. Mendelson, MD
Community Physician

James C. Moore

Deborah Price

Peter G. Robinson

Michael P. Riordan
UBS Financial Services, Inc.

David P Stornelli, MD
Community Physician

Mark B. Taubman, MD
Dean, SMD, VP for Health Sciences
Strong Memorial Hospital

Kathleen R. Whelehan

Seth M. Zeidman, MD
Community Physician

Potential Conflicts of Interest

The Hospital has adopted a policy to minimize any adverse effect of possible conflicts of interest between personal interests of members of the Board, officers or staff and the interests of the Hospital. The purpose of the policy is to ensure that decisions about the Hospital business are made solely in terms of the benefits to the Hospital and are not influenced by any private profit or other benefit to the members of the Board, officers or staff who take part in the decision. Board members are surveyed each year and requested to indicate any conflicts or attest to there being none. There were no conflicts declared in the most recent survey.

Management

Dr. Mark B. Taubman, M.D., Chief Executive Officer, University of Rochester Medical Center and UR Medicine; Dean of the School of Medicine and Dentistry, and Senior Vice President for Health Sciences. Dr. Taubman received his M.D. degree from New York University and completed his training in medicine and cardiology at the Brigham and Women's Hospital and Harvard Medical School. He has served on the faculties of Mt. Sinai School of Medicine in New York, Children's Hospital Medical Center and Harvard Medical School in Boston, Massachusetts. Dr. Taubman is on leave as the Charles E. Dewey Professor and Chairman of Medicine. He was previously Chief of the Cardiology Division (2003-2009) at the University of Rochester. In addition he was Director of the Aab Cardiovascular Research Institute (2005-2007) and Director of the Center for Cellular and Molecular Cardiology (2003-2005). Dr. Taubman is a member of the American Heart Association, the American Society of Hypertension, the Association of University Cardiologists, and the Association of American Medical Colleges. He is a Fellow, American College of Cardiology and Fellow, American College of Physicians. He is the former Editor-in-Chief, Arteriosclerosis, Thrombosis, and Vascular Biology. Dr. Taubman is an international

authority in vascular biology with research interests in tissue factor biology and chemokines. Dr. Taubman has published widely – more than 120 articles, chapters, and books.

David A. Kirshner, MBA, CPA, Senior Vice President and Chief Financial Officer, University of Rochester Medical Center. Before joining the University of Rochester Medical Center, Mr. Kirshner was Vice President, Corporate and Business Development of Valence Health, a population health management technology company. Prior to Valance, Mr Kirshner was Senior Vice President and Chief Financial Officer at Boston Children's Hospital for 14 years, where he also served as the Medical Center's Treasurer. Past roles also include Treasurer and Chief Financial Officer of Winchester Healthcare Management; Vice President of Finance, Anna Jaques Hospital in Newburyport, MA; and Co-CFO at Sturdy Memorial Hospital in Attleboro, MA. Mr. Kirshner is a member of the Board of Trustees of Noble and Greenough School and Chairman of its Audit Committee. He is a graduate of University of Pittsburgh (BA) and Boston University (MBA).

Steven I. Goldstein, President and Chief Executive Officer of Strong Memorial Hospital and Highland Hospital; President, Long-Term Care Division; President, Strong Partners, and Vice President, University of Rochester Medical Center. Mr. Goldstein joined Strong Memorial Hospital in September 1996 as Executive Director and Chief Operating Officer and assumed his present position in June 1997. Mr. Goldstein was Senior Vice President of The Greater Rochester Health System, Inc. from August 1995 to September 1996 and President and CEO of Rochester General Hospital from March 1993 to September 1996. From September 1982 to March 1993, he was Director and Chief Operating Officer of Rochester General Hospital. Mr. Goldstein received his Master of Hospital and Health Care Administration from the St. Louis University Graduate School of Hospital and Health Care Administration. Mr. Goldstein was recently appointed to a three-year term to the Accreditation Council of Graduate Medical Education and the American Hospital Association – Committee on Clinical Leadership. Mr. Goldstein recently completed a three-year term as a member of the Board of Trustees of the American Hospital Association (AHA) and the chair of AHA Regional Policy Board 2 where he previously served as a delegate. He is a past Chairman of the Board of Trustees of the Healthcare Associate of New York State (HANYS).

Raymond J. Mayewski, MD, FACP, Medical Director for Clinical Services at the Medical Center, Vice President and Chief Medical Officer for Strong Memorial Hospital and Highland Hospital and Senior Associate Dean for Clinical Affairs. Dr. Mayewski received his Bachelor of Science (Honors) degree from Pennsylvania State University and Doctor of Medicine degree from Temple Medical School. After joining the Hospital in 1972 as an intern and then as Chief Resident in Medicine, Dr. Mayewski became a licensed physician in 1975 and was certified by the American Board Internal Medicine in 1975 and also certified by the American Board of Medicine Pulmonary Medicine subspecialty in 1978. He served as Associate Chairman for Clinical Affairs in the Department of Medicine from 1991 to 1995 and became a Dean's Professor of Medicine in 1994. He was appointed Medical Director for Clinical Services at the University of Rochester Medical Center and Chief Medical Officer for the Hospital in 1995 and was the founding director of the URMFG which he directed until 2004. Dr. Mayewski also directs the Grateful Patient Donors Philanthropic Program for Medical Center Advancement which began in 2009, and is Dean's Professor of Medicine, an endowed professorship. He also established the Raymond J. Mayewski Professorship in General Internal Medicine, a fully endowed professorship, made possible through philanthropic patient gifts. He is a Fellow of the American College of Physicians and serves on numerous committees of other local State and national organizations. Dr. Mayewski serves on the Board of the University of Rochester Medical Center, as well as continuing to serve on executive committees at the University of Rochester Medical Center.

Adam P. Anolik, Senior Director for Finance and Chief Financial Officer, Strong Memorial and Highland Hospitals and Associate Vice President, University of Rochester Medical Center. Mr. Anolik joined the Hospital in 1999 as Director of Financial Operations and assumed his present position in 2014. Prior to arriving at the University Mr. Anolik served as Vice President of Finance and Internal Services at Planned Parenthood of the Rochester/Syracuse Region. Mr. Anolik also served as Senior Vice President and Chief Financial Officer at St. Mary's Hospital. From 1988 to 1992 he was with the international public accounting firm, KPMG Peat Marwick, where he specialized in audits of universities and health care providers. Mr. Anolik currently serves as Chair of the Board of the Finger Lakes Visiting Nurse Service, Chair of the Retirement Committee at the Jewish Home of Rochester and Chair of the Finance and Audit Committees of the Medical Center Insurance Company, Inc. Mr. Anolik is a cum laude graduate of Franklin and Marshall College, where he received his Bachelor of Arts degree in Accounting.

Cindy Becker, RN, MS, MBA, Vice President and Chief Operating Officer of Highland Hospital. Ms. Becker joined Highland Hospital in 1988 as the Department Manager for the Emergency Department. She advanced to positions of Assistant Vice President for Nursing and Vice President for Nursing in 1993. She assumed the Chief Operating Officer position in 2000. She served as Captain in the United States Air Force for 3 years. She received her Master's in Nursing Administration from the University of Buffalo and MBA from the Simon School at the University of Rochester. She is a Fellow of the American College of Healthcare Executives and serves on numerous committees.

Medical and Dental Staff

The following is a summary by clinical department of the Medical and Dental Staff of the Hospital, including number of physicians and dentists, average age, and the approximate percentage who are board certified:

Department Name	Total on Staff	Average Age	% Board Certified
Anesthesiology	64	47	86
Dentistry	5	53	80
Emergency Medicine	26	45	81
Family Medicine	120	48	89
Med Diagnostic Imaging	75	52	87
Medicine	400	50	87
Neurology	61	49	92
Neurosurgery	23	51	78
Obstetrics/Gynecology	100	49	85
Orthopedics	46	51	85
Pathology/Lab Medicine	34	53	97
Pediatrics	93	52	88
Radiation Oncology	17	53	76
Surgery	131	51	89
Total	1,158	50	87

Leading Admitting Physicians

The top fifteen admitting physicians on staff are indicated in the table below by specialty, together with their age and number of discharges for the period from January 1, 2014 through December 31, 2014:

Physician	Cases	% Total	Age	Specialty
O'Malley, William	611	3.8	51	General Surgery
Kates, Stephen	439	2.7	55	Orthopedic Surgery
Drinkwater, Christopher	403	2.5	65	Orthopedic Surgery
Queenan, Ruth Anne	381	2.4	55	OB/GYN
Zeidman, Seth	378	2.3	53	Neuro-Surgery
Boyd, Allen	354	2.2	62	Orthopedic Surgery
Ginnetti, John	251	1.5	37	Orthopedic Surgery
DuBeshter, Brent	230	1.4	62	GYN Oncology
Johnson, Joseph	222	1.4	53	General Surgery
Florescue, Heather	204	1.3	37	OB/GYN
Angel, Cynthia	200	1.2	59	GYN Oncology
Mead, Karen	181	1.1	65	Geriatric Medicine
Allen, Egan	170	1.1	48	Geriatric Medicine
Lim, Oona	162	1.1	46	OB/GYN
Surgeon, Coral	147	0.9	62	OB/GYN
TOTAL	**4,333**	**26.9**	--	--

Physician Recruitment and Retention

In collaboration with the University of Rochester Medical Center ("URMC"), the Hospital actively works to retain and recruit needed physicians. The Hospital benefits from the relationship with the URMC as many physicians practice at both Highland and Strong. Since the affiliation in 1997, several clinical programs have been relocated from Strong to Highland. Examples of these are GYN Oncology, midwives, medicine/pediatric clinics, and an orthopedic joint replacement program.

Also, as an academic medical center, URMC trains approximately 722 residents and fellows in 79 accredited graduate medical and dental education programs. Upon completion, these resident and fellows serve as a source of new physicians for the Hospital.

Also, on occasion, the Hospital has acquired physician practices within the local market either through purchasing the practice or through offering employment.

Service Area and Demographics

Highland is located in the City of Rochester in the center of Monroe County. The primary and secondary service areas ("PSA" and "SSA") were defined based upon historical patient origin and market share information on a zip code-specific basis. The criteria established to define the PSA and SSA are as follows: PSA, where the Hospital derived 200 or more discharges from the zip code; and SSA, where (i) the Hospital's market share is greater than 10% from the zip code, and (ii) the Hospital derives 50 or more but less than 200 discharges from the zip code.

By applying the above criteria, the Hospital defines its PSA and SSA area to be in Monroe, Livingston, Ontario, Genesee and Wayne Counties (the "Surrounding Counties"). All of the zip codes defined as the PSA are within Monroe County, and are located in the communities surrounding the City of Rochester. The Hospital's PSA and SSA include 45 zip codes. Together, these 45 zip codes represent approximately 83 percent of the Hospital's total discharges. Twenty-eight of these zip codes comprise the PSA, which represents approximately 76 percent of the Hospital's total discharges. The remaining 17 zip codes comprise the SSA, which represents approximately 12 percent of the Hospital's total discharges. Approximately 15 percent of the Hospital's discharges have historically been derived from outside the PSA and SSA.

Demographic Characteristics of the Service Area

The forecast of population for the inpatient PSA (Monroe County) and SSA (Surrounding Counties) was developed from 2010 U.S. census data and population estimates for 2014 and 2019 were provided by ESRI Business Information Solutions. In 2010, the population for the PSA and SSA was 1,072,221.

The population of the PSA and SSA is estimated to increase between 2010 and 2019 by 8,977 or 0.84%. The projected population increase in the hospital's PSA and SSA (0.84%) is slightly lower than the projected increase in Monroe County (0.97%), and it is much lower than the projected increase in Ontario County (4.6%) of the surrounding region.

Primary Service Area and Secondary Service Area Population Data

	2010	**2014**	**2019**
Primary Service Area			
Monroe County, New York	745,054	747,060	752,306
Secondary Service Area			
Genesee County, New York	60,050	59,497	58,551
Livingston County, New Yolk	65,250	65,572	65,693
Ontario County, New York	108,105	110,525	113,040
Wayne County, New York	93,762	92,764	91,608
Subtotal Secondary Service Area	327,167	328,358	328,892
Total 5 Counties	**1,072,221**	**1,075,418**	**1,081,198**

Competition

There are three acute care hospitals which management of the Hospital classifies as major competitors to the Hospital within its primary service area.

Hospital	**Adult # Beds**	**Location**	**Distance from Highland Hospital**
Strong Memorial Hospital*	830	Rochester	1 mile
Rochester General Hospital	528	Northern Rochester	8 miles
Unity Hospital	292	Northwest Rochester	9 miles

*An affiliate of Highland Hospital of Rochester. See "Organization and Affiliates" above.

Services and Programs

Primary Care Satellite Network

Highland operates a network of 12 primary care satellite medical practices in 13 locations, including two residency training programs. These practices, representing the disciplines of Family Medicine (some of whom provide OB/GYN care), Internal Medicine, and Internal Medicine & Pediatrics, provide high quality, accessible primary health care services to a wide variety of patients throughout the greater Rochester area.

The oldest and largest of these satellites is the Highland Family Medicine program at the Highland Family Health Center (the "Center") and is located at 777 South Clinton Avenue in Rochester, within walking distance of the Highland campus. The Center, established in 1975, serves as the home for the University of Rochester's Department of Family Medicine and, as a jointly sponsored program between Highland and the University, the Family Medicine residency training program. This program, which graduates 12 Family Medicine physicians each year over a three-year training program, is the oldest in New York State and the third such program to be established nationally (1967). The program is ranked as one of the top programs in the nation in terms of its residency training. In addition to the residents, there are 43 physicians, nurse practitioners and family therapists providing service at this practice. The Center is on the same campus as The Cornhill Internal Medicine satellite practice, the Apothecary and a laboratory collection station.

In addition to training residents in Family Medicine, the network and Highland, through a similar relationship with the University, trains physicians in the joint program of Internal Medicine and Pediatrics at the Culver Medical Group location, at 913 Culver Road in Rochester, a 10-minute drive north of the Highland campus. This program graduates eight physicians annually who are trained in both disciplines of Internal Medicine and Pediatrics over a four-year training program. In addition to the residents in training, there are six full time faculty physicians providing services at this practice.

In addition to the residency training programs noted above, Highland operates a growing network of primary care practices which are geographically dispersed throughout the community. These practices are located throughout Monroe and Livingston Counties and represent a mix of urban, suburban and rural locations. There are 42 physicians and 5 nurse practitioners/physician assistants providing services at these practices. A listing of these practices is as follows:

Practice	**Location**
Avon Medical Group	Avon, New York
Caledonia Medical Group	Caledonia, New York
Cornhill Internal Medicine	Rochester, New York
East Ridge Family Medicine	Rochester, New York
Penfield Family Medicine	Penfield, New York
Genesee Valley Family Medicine	Mt. Morris, Geneseo and Lakeville, New York
Calkins Creek Family Medicine	Henrietta, New York
Webster Family Medicine	Webster, New York
Greece Medical Associates	Rochester, New York

Surgery

The Hospital's operating room cases have increased approximately 7% since 2010. The growth is led by key institutional services including Orthopedics, Neurosurgery and General Surgery, which includes the bariatric surgery program, which is the largest of its kind in central, western and southern New York State, and second largest overall in the entire state, performing 650-700 annual cases.

Orthopedics

The Evarts Joint Center for Orthopedics opened to the community in March 2005. The center includes a 20-bed inpatient unit that includes rehabilitation services on the floor, two state-of-the-art operating rooms and an outpatient clinic. The center represents collaboration between the URMS, the Hospital and private physicians from the community. In November of 2004, the Hospital launched a geriatric fracture service that utilizes Highland's comprehensive orthopedics and geriatric services to provide an expedited admission to the Hospital for older patients who have fallen and require orthopedic care. The integrated model of care with orthopedics and geriatrics has improved patient care clinical outcomes. Our orthopedic surgical volume has grown from 2,411 in 2010 to 2,913 in 2014. This increase is not only in our flagship programs in total joint replacements and geriatric fractures but also in other subspecialties including foot & ankle and upper extremities.

Neurosurgery

The neurosurgery service has expanded with the recruitment of additional surgeons and a new chief of neurosurgery. Fiscal year 2015 case volume was 855 cases compared with 660 cases in fiscal year 2010, an increase of approximately 30%. This was partly as a result of Highland's creation of a neuromedicine program which combined the clinical service of neurology and neurosurgery to provide a collaborative and integrated disease management model of care where patients are managed collaboratively by neurologists, neurosurgeons, and pain management specialists in a team-patient centered approach. A dedicated 24-bed inpatient unit was renovated to provide care to this patient population.

Emergency Department

The Hospital's Emergency Department ("ED") volume has continued to increase over the last five years. In 2014, the ED handled 42,375 patient visits, a 30% growth over 2010. The recent growth is a result of the previous expansion of the Hospital ED, which had not been renovated since 1975, along with continuous outreach programs to the community, physicians, as well as to emergency medical transport agencies.

Women's Services

The Hospital offers a full array of women's services to the community. Its family maternity center delivered 3,063 babies in 2014, more than any hospital in the region. Highland also performs the vast majority of GYN Oncology surgeries in the region. This is the result of the relocation of this specialty formerly located at Strong. The Highland Breast Care Center handled 17,449 visits in 2014, a 13% increase over the previous year. In addition, Highland provides a wide range of obstetrics and gynecology services to women in the community through its community OB/GYN service, regardless of insurance coverage.

Geriatric Services

The Hospital offers comprehensive services to older adults and has a dedicated inpatient unit (Acute Care for Elders Unit) that provides specialized care to older adults in the community. The Hospital also has a dedicated geriatric primary care practice. Geriatricians provide medical oversight to the majority of the nursing homes in Rochester and Monroe County. The collaboration provides seamless care when patients are transferred from the nursing home to the Hospital.

Oncology Program

The cancer treatment center at the Hospital provides a multi-disciplinary team approach to clinical services provided in radiation, medical and surgical oncology. We offer brachytherapy treatment for prostate cancer and gynecological cancers. Services are integrated with the James P. Wilmot Cancer Center at URMC.

OPERATING INFORMATION

Utilization Statistics

The Hospital provides a wide range of medical, surgical, and obstetrical services, with 21% of the discharges from obstetrics followed by medicine and orthopedics.

In fiscal year 2014, the Hospital discharged 15,778 adult inpatients plus 4,491 observation patients, and cared for 229,227 clinic patients and 42,375 ED patients. Approximately 75.3% of inpatients came from the PSA in Monroe County and 16.7% of the inpatients came from the SSA in Genesee, Livingston, Ontario and Wayne counties. The remaining 8.0% of patients came from outside of the PSA and SSA.

Inpatient Utilization

	2010	2011	2012	2013	2014
Medical/Surgical					
Discharges	12,705	12,957	12,876	12,942	12,421
Patient Days	60,434	63,275	60,994	61,939	63,058
Average Length of Stay (days)	4.8	4.9	4.7	4.8	5.1
Average Daily Census	168	170	168	173	176
Licensed Beds	232	232	232	232	232
Percent Occupancy	72.4%	73.3%	72.4%	74.6%	75.9%
Maternity					
Discharges	3,214	3,084	3,188	3,096	3,357
Patient Days	9,174	8,105	8,884	8,594	8,642
Average Length of Stay (days)	2.9	2.6	2.8	2.8	2.6
Average Daily Census	25	24	24	23	24
Licensed Beds	29	29	29	29	29
Percent Occupancy	86.2%	82.8%	82.8%	79.3%	82.8%
Total Acute					
Discharges	15,919	16,041	16,075	16,038	15,778
Patient Days	69,608	71,380	69,878	70,533	71,700
Average Length of Stay (days)	4.4	4.4	4.3	4.4	4.5
Average Daily Census	193	194	192	195	197
Licensed Beds	261	261	261	261	261
Percent Occupancy	73.9%	74.3%	73.6%	74.7%	75.5%
Nursery					
Discharges	3,112	3,055	3,174	3,053	3,200
Patient Days	7,903	7,710	8,057	7,258	7,654
Average Length of Stay (days)	2.5	2.5	2.5	2.4	2.4
Average Daily Census	22	21	22	20	21
Licensed Beds	44	44	44	44	44
Percent Occupancy	50.0%	47.7%	50.0%	45.5%	47.7%

Historical Outpatient Utilization

	2010	2011	2012	2013	2014
ED Visits	32,696	36,547	39,838	39,347	42,375
Clinic Visits	224,775	227,019	218,710	233,850	229,227
Ambulatory Surgery Visits	5,040	4,930	5,128	5,194	5,497

Payor Classification

The distribution of patient volume by payor classification for Highland, based on historical information, is presented in the table below.

	2010	2011	2012	2013	2014
Inpatient Discharges					
Medicare	42%	45%	44%	45%	44%
Medicaid	19%	17%	25%	23%	25%
Blues/HMOs	28%	25%	17%	24%	14%
Commercial	7%	6%	3%	4%	5%
Self-Pay	2%	1%	2%	2%	9%
Other	2%	8%	8%	5%	2%
Total	100%	100%	100%	100%	100%
Ambulatory Surgery					
Medicare	36%	31%	33%	37%	37%
Medicaid	7%	6%	6%	7%	10%
Blues/HMOs	39%	35%	35%	40%	41%
Commercial	13%	13%	12%	11%	8%
Self-Pay	0%	1%	0%	0%	1%
Other	5%	13%	14%	4%	4%
Total	100%	100%	100%	100%	100%
ED Visits					
Medicare	26%	23%	26%	28%	29%
Medicaid	25%	26%	24%	25%	33%
Blues/HMOs	23%	21%	19%	21%	21%
Commercial	11%	12%	10%	11%	5%
Self-Pay	9%	12%	12%	9%	7%
Other	6%	6%	9%	6%	5%
Total	100%	100%	100%	100%	100%
OP Clinics					
Medicare	23%	20%	19%	25%	26%
Medicaid	27%	30%	27%	30%	32%
Blues/HMOs	34%	35%	33%	32%	32%
Commercial	9%	7%	8%	8%	7%
Self-Pay	4%	1%	0%	1%	1%
Other	3%	9%	12%	5%	2%
Total	100%	100%	100%	100%	100%

Commercial insurance percentages have remained relatively stable during this period. Medicare and Medicaid revenues are inclusive of patients enrolled in managed care programs, as well as fee-for-service.

ANNUAL FINANCIAL STATEMENT INFORMATION

Summary of Historical Revenues and Expenses

The summary of historical revenues and expenses for each of the five years ended December 31, 2014 in the table below has been derived from the consolidated audited financial statements of Highland through 2014. The data should be read in conjunction with the consolidated audited financial statements and related notes thereto included in Appendix B.

Hospital Operating Results
(Dollars in Thousands)
Fiscal Year Ended December 31,

	2010	2011	2012	2013	2014
Operating Revenues:					
Net Patient Service Revenue	$259,455	$261,036	$270,111	$288,388	$295,684
Other Operating Revenue	17,740	22,287	24,267	24,475	30,292
Total Operating Revenue	277,195	283,323	294,378	312,863	325,976
Operating Expenses:					
Salaries, Wages & Fringe Benefits	150,951	157,464	171,219	181,713	184,259
Supplies and Other Expenses	96,437	91,037	90,759	97,175	102,045
Interest	1,608	1,409	1,695	1,581	1,470
Depreciation	13,345	14,585	16,723	17,283	17,943
Total Operating Expenses	262,341	264,494	280,395	297,752	305,718
Income from Operations	14,854	18,829	13,983	15,112	20,258
Pension Liability Adjustments	(4,635)	(26,651)	(10,089)	28,848	(41,624)
Other gains (losses), net	(886)	798	1,658	1,184	745
Change in net assets	$11,105	$(7,024)	$5,552	$45,144	$(20,621)

The following table presents the Days of Cash on Hand reported by the Hospital as compared to the State median for all hospitals and the U.S. median for similarly sized hospitals (200 – 299 beds). Days of Cash on Hand measures the number of days of daily operating expenses that could have been covered by unrestricted cash and investments available at the end of each of the fiscal years shown:

Days of Cash on Hand

	Highland	NYS Median	U.S. Median
2010	83.1	32.0	114.5
2011	98.9	32.5	101.7
2012	105.7	33.1	96.4
2013	119.7	33.7	116.2
2014	136.8	33.7	116.2

The following table presents the Long-Term Debt to Capitalization Ratio reported by the Hospital as compared to the State median for all hospitals and the U.S. median for similarly sized hospitals (200 – 299 beds) at the end the last five fiscal years. The ratio measures the amount of long-term debt an institution has outstanding as a percentage of the sum of its outstanding indebtedness and unrestricted net assets.

Long-Term Debt to Capitalization Ratio

	Highland	NYS Median	U.S. Median
2010	29%	50%	33%
2011	29	55	32
2012	26	52	28
2013	18	42	32
2014	19	42	32

Management's Discussion of Financial Performance

The Hospital has consistently generated operating margins that align with or exceed its budgeting objectives of between 4.0% and 5.0% for the years ended December 31, 2010 through 2014. During this period, revenue grew 18%. This growth was fueled by increased inpatient and outpatient volumes as well as patient case mix (acuity). The Hospital has continued to benefit from the close affiliation with the URMC through programmatic integrations which have brought new patients to the Hospital. Also contributing to revenue growth have been relatively modest increases in third-party payment rates. This is particularly true of the Medicare and Medicaid programs due to Federal and State budget constraints and regulatory mandates. To meet these revenue constraints, Highland has consistently strived to control expenses to match the imposed constraints on revenue. This has been key to its consistent performance.

Consistent with the operating margin, the Hospital's net assets have similarly improved with the exception of 2011 and 2014. This was due primarily to actuarial adjustments to its defined benefit pension plan assets as a result of the general economic downturn during those periods. The Hospital amended its retirement plan to implement a defined contribution plan for all new employees, effective January 1, 2011. This has helped to mitigate future significant fluctuations in financial performance due to market conditions.

Patient Service Revenues

The Hospital's major sources of patient services revenue are Medicare, Medicaid, Blue Cross and commercial insurers. During 2014, the Hospital received approximately 81% of its patient service revenues from Medicare, Medicaid, and Blue Cross. Comparative sources of patient service revenues for the last five years ended December 31, 2010 through 2014 are as follows:

Calendar Year Ended December 31,

Payor	**2010**	**2011**	**2012**	**2013**	**2014**
Medicare	40%	40%	41%	43%	40%
Medicaid	12	14	14	13	15
Blues/HMOs	36	35	34	33	31
Commercial	9	8	8	8	11
Self-Pay	2	2	2	2	2
Other	1	1	1	1	1
Total	100%	100%	100%	100%	100%

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

Medicare

Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than average, providers typically will receive additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services based on service groups called ambulatory payment classifications. Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been completed and final settled through December 31, 2008.

Medicaid and Other Third-Party Payors

The New York Health Care Reform Act of 1996, as amended ("HCRA"), governs payments to hospitals in New York State through December 31, 2016. Under HCRA, Medicaid, workers compensation and no-fault payors pay rates are promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs") and other managed care plans, negotiate payments rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges.

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

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

Capital Campaign and Fundraising

Capital campaigning and fundraising for the Hospital are conducted under the auspices of the Foundation. The fair market value of the Foundation's net assets as of December 31, 2014 was:

Unrestricted	$1,609,511
Temporarily Restricted	4,475,965
Permanently Restricted	3,201,429
Total	$9,286,905

Unrestricted net assets are not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets result from donors who stipulate that their donated resources be maintained permanently. The Foundation, on behalf of the Hospital, is permitted to use or expend part or all of the income and gains derived from the donated permanently restricted net assets, restricted only by the donors' wishes.

Other Operating Revenue

Other operating revenue consists primarily of Hospital cafeteria revenues, parking fee revenues, and physician office rental, along with revenues generated from the Hospital's retail pharmacy. This revenue supplements patient care income; and prices, fees, and rates charged are consistent with the overall market.

Six Month Unaudited Financial Statements

In the opinion of the Hospital's management, there have been no material adverse changes in the financial condition of the Hospital since December 31, 2014, the date of the last audited consolidated financial statements. The summary of historical revenues and expenses for the six-month periods ended June 30, 2015 and 2014 and the summary of the Hospital's balance sheet as of June 30, 2015 with a comparison to December 31, 2014 in the tables that follow have been derived from the Hospital's internally prepared unaudited financial statements. The data in the table below reflects, in the opinion of management of the Hospital, all adjustments necessary to summarize fairly the results for such periods. The results for the six-month period ended June 30, 2015 should not be considered indicative of the results for the full fiscal year.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Hospital Operating Results (Unaudited)
(Dollars in Thousands)

	Six Months Ended June 30, 2014	2015
Operating Revenues:		
Net Patient Service Revenue	$145,786	$153,248
Other Operating Revenue	10,806	15,679
Total Operating Revenue	156,592	168,927
Operating Expenses:		
Salaries, Wages & Fringe Benefits	$91,190	$97,656
Supplies and Other Expenses	47,664	53,165
Interest	758	697
Depreciation	8,830	9,286
Total Operating Expenses	148,442	160,804
Income from Operations	8,150	8,123
Other gains (losses), net	(14,787)	12,887
Excess of revenues over expenses	$(6,637)	$21,010

Hospital Balance Sheet
(Dollars in Thousands)

	December 31, 2014 (Audited)	June 30, 2015 (Unaudited)
Assets:		
Cash	$107,554	$126,667
Net patient accounts receivable	19,750	17,343
Other receivables	8,802	8,206
Other current assets	9,021	9,043
Total current assets	**145,127**	**161,259**
Assets whose use is limited	4,212	4,397
Trusts receivable	163	163
Long-term investments	8,834	9,109
Property and equipment	136,508	136,929
Other assets	11,306	11,441
Total assets	**$306,150**	**$323,298**
Liabilities and Net Assets:		
Current portion of debt	$2,590	$2,590
Accounts payable and accrued expenses	29,167	29,568
Accrued payroll and benefits/taxes	3,180	5,681
Total current liabilities	**34,937**	**37,839**
Accrued pension liability	87,836	77,837
Estimated professional liability costs	6,660	6,810
Estimated third-party payor settlements	9,223	11,550
Long-term debt	28,087	28,037
Other non-current liabilities	10,475	11,283
Net assets	128,932	149,942
Total liabilities and net assets	**$306,150**	**$323,298**

Community Service

Highland's commitment to its community and underserved population has been and continues to be a major focus of the mission of the Hospital. Throughout the years, Highland has expanded services and developed new programs in direct response to community need. Accessibility, convenience and quality have been a primary focus in providing these services.

Highland's Family Maternity Center offers patients and families quality customer focused service through the use of 29 post-partum beds, a family dining room, home care nursing, case management, lactation counseling and other obstetrical education programs.

The Highland Community OB/GYN and Midwifery Programs are designed to meet the needs of the underserved with a team of doctors, midwives, nurse practitioners, nurses, social workers, and volunteers who assist in removing the barriers to health care for the indigent. In 2014, over 21,400 visits were provided to women served by this practice.

Highland's Family Medicine Center, located within the South Wedge community, is not only a primary care medical practice but, in partnership with the University of Rochester School of Medicine and Dentistry, also serves as a family medicine residency site. The center was the first of its kind in New York State and the third in the United States. Some 510 physicians have been trained at the Family Medicine Center. Approximately 60 physicians have focused on family medicine specialties such as family systems, care of patients with AIDS, and OB services. With a strong research component, the Family Medicine Center is a unique example of the Hospital's commitment to care for the community.

Highland's Cancer Center is considered among the top cancer programs of its size in the county. Radiation, medical and surgical oncology programs work together in order to give patients and their families coordinated services. Highland's Cancer Center also offers services at two off-site clinics in other area hospitals. These are located at Park Ridge Hospital and F.F. Thompson Hospital.

Highland is actively involved in community activities such as: the United Way campaign; being an active member of Highland's neighborhood's South East Area Coalition; sponsorship of the Rochester Lilac festival; sponsorship, with assistance from Eastman Kodak and other area businesses, of the Breast Care Educational luncheon; being actively involved and represented on numerous community boards of directors; and having close educational ties with local colleges and universities such as Rochester Institute of Technology, SUNY Cortland, SUNY Alfred, SUNY Brockport, Monroe Community College, St. John Fisher, Nazareth College and the University of Rochester.

Outstanding Indebtedness

As of December 31, 2014, the Hospital had the following outstanding long-term indebtedness: (a) obligations relating to the County of Monroe Industrial Development Agency (COMIDA) Series 2005 Highland Hospital of Rochester Civic Facility Revenue Refunding Bonds and Civic Facility Revenue Project Bonds (collectively, the "COMIDA Bonds") and Series 2005 Direct Taxable Notes having an aggregate outstanding principal balance at December 31, 2014 of $20,751,538; and (b) obligations relating to the Dormitory Authority of the State of New York Highland Hospital of Rochester Revenue Bonds, Series 2010 having an outstanding principal balance at December 31, 2014 of $9,925,000.

A portion of the proceeds of the Series 2015 Bonds will be used to redeem both series of COMIDA Bonds in full.

To date, the Hospital has not entered into any interest rate swap agreements.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

Historical and Pro Forma Debt Service Coverage

The following table sets forth the Hospital's historical coverage of the maximum annual debt service requirements on certain long-term indebtedness of the Hospital for the fiscal years ended December 31, 2012, 2013 and 2014. The table also sets forth the Hospital's historical coverage of the pro forma maximum annual debt service requirements for the fiscal years ended December 31, 2012, 2013 and 2014, on certain long-term indebtedness of the Hospital which is expected to be outstanding upon the issuance of the Series 2015 Bonds.

	Fiscal Year Ended December 31,		
	2012	**2013**	**2014**
		(dollars in thousands)	
Change in net assets	$5,552	$45,144	$(20,621)
Add (Less):			
Depreciation and amortization	16,723	17,283	17,943
Interest	1,695	1,581	1,470
Pension Liability Adjustments	10,089	(28,848)	41,624
Income available for debt service	$34,059	$35,160	$40,416
Historical maximum annual debt service	$5,658	$4,230	$4,210
Historical maximum debt service coverage ratio	6.02x	8.31x	9.60x
Pro forma maximum annual debt service [(1)]	$3,506	$3,506	$3,506
Pro forma maximum debt service coverage ratio[(2)]	9.72x	10.03x	11.53x

(1) The pro forma maximum annual debt service has been calculated on the basis of fiscal years ending June 30 for each of the years shown consistent with the Hospital's change to a June 30 fiscal year end beginning June 30, 2015.

(2) The pro forma maximum debt service coverage ratio has been calculated based on the pro forma maximum annual debt service in order to demonstrate the maximum impact that issuance of the Series 2015 Bonds would have had on Highland's historical debt service coverage ratio for the fiscal years ended December 31, 2012, 2013 and 2014.

Employees

As of December 31, 2014, Highland employed approximately 2,279 full-time employees ("FTEs"). The number of FTEs increased by 178 from December 31, 2010 as a direct result of the expansion of clinical programs at the Hospital.

The Hospital has a full time nurse recruiter and an active nursing recruitment program. The Hospital offers a competitive compensation package, including tuition reimbursement, enhanced incentive pay programs, referral bonuses, flexible per diem programs and a mentored orientation program, in order to attract and retain a qualified workforce.

The Hospital's defined benefit retirement plan (the "Plan") covers employees of the Hospital, HLC, and HCDC who have completed two years of continuous employment. The benefits for the Plan agreement are based primarily on years of service and employees' pay near retirement. The Hospital's policy is to contribute annually an amount consistent with the requirement of the Employee Retirement Income Security Act. Effective January 1, 2004, the accrued benefits of employees of HLC and HCDC were frozen and no future benefits are being accrued under the Plan. The Hospital has agreed to incur and fund all future costs related to HLC's and HCDC's employees included in the Plan. For the years ended December 31, 2014 and 2013, the Hospital incurred retirement plan expense of $6,632,369 and $11,744,818, respectively. In addition, the Hospital recorded a pension related benefit (charge) other than net periodic pension cost of $(41,624,033) and $28,848,322 for the years ending December 31, 2014 and 2013, respectively. These amounts are included in other changes on the consolidated statements of operations and changes in net assets.

The Plan was amended in October 2013 to indicate that, effective January 1, 2013, if the present value of a participant's vested accrued benefit is $5,000 or less, it shall be distributed from the Plan within one year following the participant's termination of employment. A participant with a vested accrued benefit of $5,000 or less may elect to have the present value of his or her benefit paid in a lump sum cash payment or transferred directly to an IRA or other eligible retirement plan of his or her choice.

The Hospital expects to contribute $8,450,000 to the Plan in 2015 and contributed $10,760,000 to the Plan in 2014.

The Plan assets for Highland are invested with an outside trustee for the sole benefit of the Plan participants. Investments are directed by the Hospital or by investment managers appointed by the Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

Risk mitigation is achieved by diversifying investments across multiple asset classes, by investment in high quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. Market risk inheres in any portfolio but the investment policies and strategies are designed to avoid concentration of risk in one entity, industry, country or commodity.

The cost of the Hospital's 403(b) plan was $2,079,710 and $1,815,044 in 2014 and 2013, respectively, and is recorded in benefits expense on the consolidated statements of operations and changes in net assets.

Benefits offered to eligible employees include: health insurance covering hospitalization, major medical expenses, prescription drugs, dental, hearing, and vision; short- and long-term disability; life insurance; retirement plan; and tuition reimbursement. The Hospital is in compliance with its funding obligations under the above benefit plans.

The Hospital has a history of positive employee relations. With the exception of the Hospital's operating engineers (five employees), the Hospital is union free.

Insurance

The Hospital maintains comprehensive all risk form property insurance as well as professional liability, general liability, directors and officers liability and other types of insurance coverage, at levels which management believes are prudent.

Professional and general liability coverage is provided by MCIC Vermont, Inc. and includes coverage of $3.5 million per occurrence. The Hospital's claims made coverage for professional liability insurance is provided under insurance policies obtained jointly with other hospitals. The primary layer of coverage, and the first $3 million layer of excess insurance, were written by MCIC Vermont, Inc. (A Risk Retention Group), formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Hospital is $221,000,000 per claim. The per claim coverage amount at each of the participating institutions has been tailored to their own experiences and exposures. All non-Hospital employed medical staff with admitting privileges are required to maintain professional liability insurance coverage in accordance with Hospital and statutory requirements.

The property and casualty insurance programs for the Hospital are provided by Traveler's Insurance and include comprehensive coverage against certain risks of loss, including property and business interruption insurance. Limits and coverages are reviewed and updated annually. Aggregate coverage for 2014 under this policy is approximately $346 million. The Hospital also maintains a business package policy with Philadelphia Insurance that covers its automobiles and selected other properties, including its medical office building and parking garage.

The Hospital maintains a self-insurance program for workers compensation, along with an excess workers compensation policy through the Safety National Casualty Corporation.

The Hospital also carries a directors and officers insurance policy through United Educators, a commercial crime policy through St. Paul/Travelers, and a pollution policy through AIG.

Major Accreditations and Memberships

The Hospital is fully accredited by the Joint Commission on Accreditation of Health Care Organizations (JCAHO), which granted a full three-year accreditation to November 2016. The Hospital is also a member of the American Hospital Association (AHA) and the Healthcare Association of New York State (HANYS). The Hospital is licensed by the New York Department of Health and the New York State Board of Pharmacy.

LITIGATION

The Hospital has no litigation or proceeding pending or, to its knowledge, threatened against it except: (i) litigation being defended by insurance companies on behalf of the Hospital, the probable recoveries in which and the estimated costs and defenses of which, in the opinion of counsel to the Hospital for such matters or of the applicable insurance carrier, will be entirely within the Hospital's applicable insurance policy limits (subject to applicable deductibles); and (ii) litigation, the probable recoveries in which and the estimated costs and defenses of which, after exhaustion of available insurance proceeds, if any, in the opinion of Hospital management, will not materially and adversely affect the Hospital's operations or financial condition.

APPENDIX B

FINANCIAL STATEMENTS OF HIGHLAND HOSPITAL OF ROCHESTER AND INDEPENDENT AUDITORS' REPORT

[THIS PAGE INTENTIONALLY LEFT BLANK]

Highland Hospital of Rochester and Subsidiaries

Consolidated Financial Statements
December 31, 2014 and 2013

Highland Hospital of Rochester and Subsidiaries
Index
December 31, 2014 and 2013

Independent Auditor's Report

To the Audit Committee
Highland Hospital of Rochester

We have audited the accompanying financial statements of Highland Hospital of Rochester and Subsidiaries (together the "the Hospital"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Highland Hospital of Rochester and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and changes in net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

May 15, 2015

Highland Hospital of Rochester and Subsidiaries
Consolidated Balance Sheets
Years Ended December 31, 2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	$ 63,229,279	$ 58,305,127
Short-term investments	44,324,615	32,661,351
Patient accounts receivable, net of estimated uncollectibles of approximately $4,095,000 and $4,309,000, respectively	19,750,100	17,337,660
Other receivables, net	5,057,426	5,669,564
Affiliate receivables	3,680,850	5,149,852
Pledges receivable, net	63,662	119,800
Supplies, at lower of cost or market	5,575,096	4,856,687
Prepaid expenses	1,927,347	1,593,293
Insurance claims receivable - current	1,518,628	1,392,671
Total current assets	145,127,003	127,086,005
Assets whose use is limited	4,211,589	4,213,011
Trusts receivable	163,464	161,859
Pledges receivable, net	92,813	142,931
Insurance claims receivable	6,073,452	5,188,103
Investments held for long-term purposes	7,247,959	6,892,658
Investments held in perpetuity by others	1,585,562	1,618,572
Deferred financing and other costs, net	1,073,922	1,276,920
Property and equipment, net	136,507,829	130,872,455
Other noncurrent assets	4,066,048	4,554,517
Total assets	$ 306,149,641	$ 282,007,031
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	$ 2,589,936	$ 2,734,936
Accounts payable and accrued expenses	19,270,873	14,407,390
Affiliate payables	1,069,862	212,633
Accrued payroll and payroll taxes	3,179,774	5,547,812
Accrued vacation and compensated absences	4,960,318	5,045,831
Estimated professional liability costs - current	1,518,628	1,392,807
Estimated third-party payor settlements - current	1,449,640	259,396
Accrued workers compensation liability - current	897,595	848,187
Total current liabilities	34,936,626	30,448,992
Estimated professional liability costs	6,659,972	6,092,163
Accrued pension liability	87,836,337	50,339,935
Accrued workers compensation liability	9,608,361	8,135,300
Estimated third-party payor settlements	9,222,569	6,286,377
Long-term debt	28,086,602	30,681,538
Other noncurrent liabilities	867,598	469,988
Total liabilities	177,218,065	132,454,293
Commitments and contingencies		
Net assets		
Unrestricted	121,257,980	142,208,709
Temporarily restricted	4,472,163	4,115,018
Permanently restricted	3,201,433	3,229,011
Total net assets	128,931,576	149,552,738
Total liabilities and net assets	$ 306,149,641	$ 282,007,031

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

Highland Hospital of Rochester and Subsidiaries
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted net assets		
Revenue		
Net patient service revenue	$ 300,307,487	$ 292,466,566
Provision for uncollectibles	(4,623,890)	(4,078,631)
Net patient service revenue	295,683,597	288,387,935
Other revenue	30,092,102	24,108,223
Net assets released from restriction - operations	200,324	367,098
Total unrestricted revenue	325,976,023	312,863,256
Expenses		
Salaries	144,038,334	139,854,368
Benefits	40,220,862	41,858,234
Pharmaceutical and medical supplies	57,299,103	55,063,005
Professional and contract services	17,325,864	16,836,584
Interest	1,470,491	1,580,862
Depreciation, accretion and amortization	17,942,849	17,282,579
Other expenses	27,420,349	25,275,899
Total expenses	305,717,852	297,751,531
Income from operations	20,258,171	15,111,725
Investment income	630,071	522,268
Excess of revenues over expenses	20,888,242	15,633,993
Other changes		
Pension related benefit (charges) other than net periodic pension cost	(41,624,033)	28,848,322
Net assets released from restriction-capital	141,810	400,176
Transfer to affiliates	(356,748)	(475,350)
(Decrease) increase in unrestricted net assets	(20,950,729)	44,407,141
Temporarily restricted net assets		
Contributions	215,698	773,026
Investment income	436,789	387,899
Net unrealized (loss) gain on investments	46,792	144,511
Net assets released from restriction	(342,134)	(767,274)
Increase in temporarily restricted net assets	357,145	538,162
Permanently restricted net assets		
Contributions	2,060	3,256
Net unrealized gain on investments	(29,638)	195,922
(Decrease) increase in permanently restricted net assets	(27,578)	199,178
Change in net assets	(20,621,162)	45,144,481
Net assets		
Beginning of year	149,552,738	104,408,257
End of year	$ 128,931,576	$ 149,552,738

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

Highland Hospital of Rochester and Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	$ (20,621,162)	$ 45,144,481
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation, accretion and amortization	17,942,849	17,282,579
Provision for uncollectibles	4,623,890	4,078,631
Pension related changes other than net periodic pension cost	41,624,033	(28,848,322)
Transfers to affiliates	356,748	475,350
Unrealized/realized (gains) on investments	(127,175)	(434,573)
Restricted contributions	(217,758)	(776,282)
Changes in assets and liabilities		
Patient accounts receivable	(7,036,330)	(5,516,661)
Estimated third-party payor settlements	4,126,436	(1,816,947)
Other receivables	612,138	1,478,791
Supplies	(718,409)	606,228
Prepaid expenses	(334,054)	182,926
Trusts receivable	(1,605)	(21,981)
Pledges receivable	106,256	(102,259)
Insurance receivable	(1,011,306)	(151,863)
Change in affiliate receivables/payables	2,326,231	(2,530,428)
Other noncurrent assets	452,653	(963,211)
Accounts payable and accrued expenses	2,819,370	1,571,265
Accrued pension liability	(4,127,631)	5,364,818
Accrued workers compensation liability	1,522,469	444,455
Estimated professional liability costs	693,630	(448,273)
Other noncurrent liabilities	397,610	(25,862)
Net cash provided by operating activities	43,408,883	34,992,862
Cash flows from investing activities		
Change in assets whose use is limited	1,422	1,317,033
(Increase) in short-term investments	(11,663,264)	(18,725,136)
(Increase) in investments held for long-term purposes	(195,116)	(308,440)
Acquisition of property, plant, and equipment	(23,748,847)	(19,481,782)
Net cash used in investing activities	(35,605,805)	(37,198,325)
Cash flows from financing activities		
Repayment of long-term debt	(2,739,936)	(2,648,980)
Change in affiliate receivables	-	654,452
Transfers to affiliates	(356,748)	(475,350)
Restricted contributions	217,758	776,282
Net cash (used in) financing activities	(2,878,926)	(1,693,596)
Net increase (decrease) in cash	4,924,152	(3,899,059)
Cash		
Beginning of year	58,305,127	62,204,186
End of year	$ 63,229,279	$ 58,305,127
Supplemental disclosures of cash flow information		
Cash paid during the year for interest, net of amounts capitalized	$ 1,470,491	$ 1,580,862
Cash (received) during the year for income taxes		
Noncash transactions		
Increase in construction-related payables	(409,438)	1,862,463

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

1. Organization and Significant Accounting Policies

The consolidated financial statements include the accounts of Highland Hospital of Rochester (the "Hospital") and its wholly owned subsidiaries, Highland Facilities Development Corporation ("HFDC"), Medical Administrative Associates, Inc. ("MAA"), and Highland Hospital Foundation, Inc. ("HHF").

Highland Hospital of Rochester is a not-for-profit, New York corporation which operates an acute care hospital and is a medical teaching affiliate of the University of Rochester School of Medicine and Dentistry. The Hospital primarily provides health care services to the population residing in Monroe County and other nearby counties. Highland Hospital of Rochester and its subsidiaries along with other affiliated corporations are affiliated corporations of Strong Partners Health System ("SPHS"). The University of Rochester (the "University") is the sole corporate member of SPHS. SPHS is the sole corporate member of the Hospital, Highland Community Development Corporation ("HCDC"), The Highlands Living Center, Inc. ("HLC") and The Meadows at Westfall, Inc. ("The Meadows").

HFDC is a not-for-profit, New York corporation, whose primary purpose is to provide services which are substantially related to the charitable purposes of the Hospital but do not involve provision of health care services. HFDC owns and operates a medical office building and a parking garage on the Hospital campus.

MAA is a for-profit, New York corporation, whose primary purpose is to own and operate retail pharmacies.

HHF is a not-for-profit, New York corporation, whose primary purpose is to solicit, receive, and maintain funds exclusively for the benefit of the Hospital and other SPHS entities.

All significant inter-company balances and transactions have been eliminated and for presentation purposes Highland Hospital of Rochester and subsidiaries are herein referred to as the Hospital.

Basis of Presentation
The Hospital's consolidated financial statements have been prepared in accordance with generally accepted accounting principles, consistent with the *AICPA Audit and Accounting Guide for Health Care Organizations* ("Audit Guide"). In accordance with the provisions of the Audit Guide, net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, unrestricted net assets are net assets that are not subject to donor-imposed stipulations and are available for operations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets result from donors who stipulate that their donated resources be maintained permanently. The Hospital is permitted to use or expend part or all of the income and gains derived from the donated assets, restricted only by the donors' wishes.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas which are affected by the use of estimates include the allowance for uncollectible accounts, estimated third-party payor settlements, self-insurance reserves, and pension obligations.

Revenue Recognition
Net operating revenues are recognized in the period services are performed and consist primarily of net patient service revenue that is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive revenue adjustments due to future audits, reviews and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Excess of Revenues over Expenses
The Hospital's excess of revenues over expenses includes all unrestricted revenue, gains, expenses, and losses for the reporting period, except for net assets released from restrictions for capital purposes, capital grant revenue, and certain other items.

Investments Held for Long-Term Purposes
The Hospital's investments are primarily held as part of the University's consolidated investment pool, and are subject to the same asset allocation between stocks, debt securities, hedge funds and other investments as the overall University investment pool. The Hospital reports investments in equity and debt securities at fair value in the balance sheet based on quoted market prices of public securities markets. The fair value of other investments is based upon values reported by the respective investment managers and consists of readily marketable securities that may be less liquid than the University's other investments. Investment income or loss (including realized gains or losses on investments, interest, and dividends) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in the operating measure as the investments are trading securities.

A decline in the market value of an investment security below its cost that is designated as other than temporary is recognized through an impairment charge. Impairment charges are included in excess of revenue over expenses in the statement of operations and changes in net assets and a new cost basis is established.

Cash and Cash Equivalents
Cash and cash equivalents consist of liquid investments with an original maturity of ninety days or less, excluding amounts limited as to use.

Short-Term Investments
The Hospital reports short-term investments at fair value based upon values reported by the respective investment managers. Investment income or loss (including realized gains or losses on investments and interest) is included in the excess of revenues over expenses, unless their use is restricted by donor stipulations or law. Unrealized gains and losses on investments are included in the operating measure as the investments are trading securities.

Supplies
Supplies consist primarily of pharmaceuticals and medical supplies and are valued at the lower of cost or market on the first-in, first-out basis.

Investments Held in Perpetuity by Others
The Hospital is a beneficiary of a perpetual trust held and administered by others. Distributions from the trust are recorded as contributions and the carrying value of the investments are adjusted for changes in the fair value of the trust assets.

Assets Whose Use is Limited
Assets whose use is limited include assets pledged by the Hospital as collateral for obligations of the Hospital. Also included are tax-exempt bond proceeds to be used for the acquisition of property and equipment and debt service reserve funds. The Hospital has determined that cash and cash equivalents classified as assets whose use is limited are not considered as cash equivalents for statement of cash flow purposes.

Deferred Financing and Other Costs
Deferred financing costs are capitalized and amortized over the term of the related borrowing.

Property and Equipment
Property and equipment are recorded at cost. Donated property and equipment are recorded at estimated fair value at the date of receipt. The Hospital calculates depreciation using the straight-line method applied to the following useful lives:

Land and leasehold improvements	5–20 years
Buildings and fixed equipment	20–40 years
Moveable equipment	3–15 years

Leasehold improvements and equipment under capital leases are amortized on the straight-line method over the lesser of the lease term or the estimated useful life. Such amortization is included in depreciation and amortization.

Interest cost incurred on borrowed funds during the period of construction of property and equipment is capitalized as a component of the cost of acquiring those assets.

Long-Lived Assets
In the event circumstances indicate, the Hospital applies guidance related to the impairment or disposal of long-lived assets. Under the guidance, the Hospital reviews the carrying value of its long-lived assets, other than goodwill and purchased intangible assets with indefinite useful lives, if any, for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Hospital assessment would include an estimate of the undiscounted future cash flows that are directly associated with and that are expected to arise from the use of and eventual disposition of such asset group and if the carrying value of the asset group exceeded the estimated undiscounted cash flows, the Hospital would record an impairment charge to the extent the carrying value of the long-lived assets exceeds its estimated fair value.

In connection with its assessment of recoverability of its long-lived assets and its ongoing strategic review of the business and its operations, the Hospital continually reviews the remaining useful lives of its long-lived assets. If this review indicates that the remaining useful life of the long-lived assets has been reduced, the Hospital adjusts the depreciation on that asset to facilitate full cost recovery over its revised estimated remaining useful life. No such adjustment was made in 2014 or 2013.

Insurance Claims
The Hospital's provision for estimated professional liability and workers' compensation claims includes estimates of the ultimate costs for claims incurred, but not reported.

Self-insured professional liability and workers' compensation claim losses and expenses are recorded based upon management's estimate of losses associated with pending and probable claims. Loss estimates are derived from data developed by representatives of the Hospital's legal counsel, insurance company, physicians, insurance advisor, actuary, and management.

Donor-Restricted Gifts
Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated statements of operations and changes in net assets.

Income Taxes
The Hospital, HFDC, and HHF are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from Federal, state, and local income taxes on related income pursuant to Section 501(a) of the code. MAA is a for profit corporation subject to Federal and New York State income taxes.

Charity Care and Provision for Bad Debts
The Hospital's policy is to treat patients in need of medical services without regard to their ability to pay for such services. The Hospital maintains records to identify and monitor the level of uncompensated care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. In addition to charity care, the Hospital also provides services at rates significantly below the cost of rendering those services. The estimated difference between the cost of services provided to Medicaid patients and the reimbursement from the State for this patient care is also monitored.

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

In order to qualify for charity care, patients are expected to submit financial information demonstrating need. In many cases, patients may be unable or unwilling to provide that data. In those cases, the uncompensated care is classified as bad debt expense unless the Hospital is able to obtain information that would indicate the patient appears to be eligible for charity care assistance. In those cases the uncompensated care is recorded as charity care.

The provision for bad debts is based upon management's assessment of expected collections considering economic experience, trends in health care coverage, and other collection indicators. After satisfaction of amounts due from insurance and reasonable efforts to collect from the patient have been exhausted, the Hospital follows established guidelines for placing certain past-due patient balances with collection agencies subject to terms of certain restrictions on collection efforts as determined by the Hospital.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital calculates the cost of charity care by applying the ratio of cost to gross charges to the gross uncompensated charges under the charity care policy. The Hospital maintains records to identify and monitor the level of charity care it provides. The cost of services and supplies furnished under the Hospital's charity care policy were approximately $4,973,688 and $5,661,515 in 2014 and 2013, respectively. The Hospital received reimbursements of approximately $5,770,433 and $5,536,468 from New York State in 2014 and 2013, respectively, related to providing charity care to patients."

2. Fair Value Measurements

The Hospital follows fair value accounting, which defines fair value, establishes a framework of measuring fair value, and expands disclosures related to fair value measurements. Assets and liabilities recorded at fair value in the balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair value. An asset or liability's categorization within the fair value hierarchy is based on the lowest level of judgment input to its valuation. Hierarchical levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities as follows:

Level 1 Valuation based on quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access. Such valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 Valuations based on quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active or for which all significant inputs are observable, directly or indirectly.

Level 3 Valuations are based on inputs that are unobservable and significant to the overall fair value measurement. These are generally company generated inputs and are not market based inputs.

The following table presents the financial instruments carried at fair value as of December 31, 2014 on the consolidated balance sheet by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 11,015,566	$ -	$ -	$ 11,015,566
US Treasury and Government Instruments	-	2,669,660	-	2,669,660
Corporate Notes and Bonds	-	36,871,749	-	36,871,749
Investments Held in Perpetuity by Others	-	-	1,585,562	1,585,562
University of Rochester Endowment	-	5,227,188	-	5,227,188
	$ 11,015,566	$ 44,768,597	$ 1,585,562	$ 57,369,725

The following table presents the financial instruments carried at fair value as of December 31, 2013 on the consolidated balance sheet by the valuation hierarchy defined above:

	Level 1	Level 2	Level 3	Total
Cash and Cash Equivalents	$ 10,750,204	$ -	$ -	$ 10,750,204
US Treasury and Government Instruments	-	2,878,853	-	2,878,853
Corporate Notes and Bonds	-	25,264,512	-	25,264,512
Investments Held in Perpetuity by Others	-	-	1,618,572	1,618,572
University of Rochester Endowment	-	4,873,451	-	4,873,451
	$ 10,750,204	$ 33,016,816	$ 1,618,572	$ 45,385,592

The valuation methods described below may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Fair value for Level 1 is based upon quoted market prices in active markets. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

For the years ended December 31, 2014 and 2013, unrealized appreciation of $(33,010) and $186,103, respectively was recorded on Level 3 investments.

3. Third-Party Reimbursement

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

Medicare
Under the Medicare program, the Hospital receives reimbursement under a prospective payment system ("PPS") for inpatient services. Under the hospital inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group ("DRG"). When the estimated cost of treatment for certain patients is higher than the average and exceeds specified thresholds, the Hospital receives additional "outlier" payments. The Hospital also receives reimbursement under a prospective payment system for certain medical outpatient services, based on service groups, called ambulatory payment classifications ("APCs"). Other outpatient services are based upon a fee schedule and/or actual costs. The Hospital's Medicare cost reports are subject to audit by the fiscal intermediary. Such audits have been completed and final settled through December 31, 2008.

Effective October 1, 2007, the Centers for Medicare and Medicaid Services ("CMS") revised the Medicare patient classification system. The new Medicare severity adjusted diagnosis related groups ("MS-DRGs") reflect changes in technology and current methods of care delivery. CMS has expanded the number of DRGs from 538 to 745 and requires identification of conditions that are present upon admission.

Medicaid and Other Third-Party Payors
The New York Health Care Reform Act of 1996 ("HCRA"), as amended, governs payments to hospitals in New York State through December 31, 2013. Under the Act, Medicaid, workers compensation and no-fault payors pay rates promulgated by the New York State Department of Health. Fixed payment amounts per inpatient discharge are established based on the patient's assigned case mix intensity similar to a Medicare DRG. All other third-party payors, principally Blue Cross, other private insurance companies, Health Maintenance Organizations ("HMOs"), Preferred Provider Organizations ("PPOs") and other managed care plans, negotiate payment rates directly with the hospitals. Such arrangements vary from DRG-based payment systems, to per diems, case rates and percentage of billed charges. If such rates are not negotiated, then the payors are billed at the Hospital's established charges. Effective January 1, 2008, the New York State Department of Health ("DOH") updated the data utilized to calculate the NYS DRG service intensity weights ("SIWs") in order to utilize more current data in the DOH promulgated rates. Furthermore, effective December 1, 2009, NYS implemented inpatient reimbursement reform. The reform updated the data used to calculate payment rates utilizing All Payor Revised DRGs (APR-DRGs). APR-DRGs use revised service intensity weights to adjust each APR-DRG for patient acuity. Similar type outpatient reforms were implemented effective December 1, 2008 by connecting outpatient payments to Ambulatory Payment Groups (APGs) which use outpatient SIWs based on types of service and resource consumption.

In addition, under HCRA, all nonmedicare payors are required to make surcharge payments for the subsidization of indigent care and other health care initiatives. The percentage amounts of the surcharge vary by payor and apply to a broader array of health care services. Also, certain payors are required to fund a pool for graduate medical education expenses through surcharges on payments to hospitals for inpatient services or through voluntary election to pay a covered lives assessment directly to the Department of Health. Through December 31, 2008, these additional payments were used to fund a pool for graduate medical education (GME) expenses. Beginning January 1, 2009, the GME pool was consolidated into the indigent care pool.

Revenue from Blue Cross and MVP Health Care accounted for approximately 26% and 5%, respectively, of the Hospital's net patient service revenue for the year ended December 31, 2014 and 28% and 5%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2013.

Revenue from Medicare and Medicaid programs accounted for approximately 40% and 15%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2014 and 43% and 13%, respectively, of the Hospital's net patient revenue for the year ended December 31, 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term. The Hospital believes that it is in compliance, in all material respects, with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation. Noncompliance with such laws and regulations could result in repayments of amounts improperly reimbursed, substantial monetary fines, civil and criminal penalties and exclusion from the Medicare and Medicaid programs.

Both Federal and New York State regulations provide for certain adjustments to current and prior years' payment rates and indigent care pool distributions based on industry-wide and hospital-specific data. The Hospital has established estimates based on information presently available of the amounts due to or from Medicare, Medicaid, workers compensation and no-fault payors and amounts due from the indigent care pool for such adjustments. Those adjustments which can be reasonably estimated have been provided for in the accompanying consolidated financial statements. The Hospital has estimated the potential impact of such adjustments based on the most recent information available. However, those which are either (a) without current specific regulations to implement such adjustments, or (b) dependent upon certain future events, cannot be reasonably estimated and have not been provided for in the accompanying consolidated financial statements. Management believes the amounts recorded in the accompanying consolidated financial statements will not be materially affected upon the implementation of such adjustments.

During 2014 and 2013, the Hospital recognized $(220,081) and $2,355,803, respectively, of net patient service revenue as a result of changes in estimates related to third-party payor settlements.

There are various other proposals at the Federal and New York State levels relating to Medicare and Medicaid, that could, among other things, reduce reimbursement rates, modify reimbursement methods, increase managed care penetration. The ultimate outcome of these proposals and other market changes cannot presently be determined.

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Third-party and government payors	$ 284,404,676	$ 277,843,038
Self-pay	15,902,811	14,623,528
Total net patient service revenue	300,307,487	292,466,566
Provision for bad debts	(4,623,890)	(4,078,631)
Net patient service revenue less provision for bad debts	$ 295,683,597	$ 288,387,935

4. Asset Retirement Obligations

The Hospital accrues for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Over time, the liability is accreted to its settlement value. Upon settlement of the liability, the Hospital will recognize a gain or loss for any difference between the settlement amount and liability recorded.

The following is a summary of the components of the asset retirement obligation:

	2014	2013
Change in asset retirement obligations		
Asset retirement obligation at beginning of year	$ 469,988	$ 495,850
Accretion expense	274,803	21,049
Effect of revisions in estimated obligation	122,807	(46,911)
Asset retirement obligation at end of year	$ 867,598	$ 469,988

5. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements. Concentrations of patient accounts receivable by payor classes at December 31 are as follows:

	2014	2013
Medicare	14.0 %	15.0 %
Medicaid	3.0	5.0
Excellus	35.0	35.0
MVP Health Care	16.0	14.0
Commercial insurance	17.0	14.0
Self-pay	10.0	11.0
All other	5.0	6.0
	100.0 %	100.0 %

6. Investments – Assets Whose use is Limited

Assets whose use is limited is comprised of cash, restricted for the following purposes:

	2014	2013
Debt service reserve fund	$ 4,211,589	$ 4,213,011
Total assets whose use is limited	$ 4,211,589	$ 4,213,011

7. Investments

Short-term investments are comprised of the following:

	2014	2013
Certificates of deposit	$ 4,533,220	$ 4,517,985
US Treasury and other government instruments	2,669,660	2,878,853
Corporate notes/bonds	37,121,735	25,264,513
	$ 44,324,615	$ 32,661,351

Investments held for long-term purposes are comprised of the following:

	2014	2013
Investments held in the University's consolidated endowment pool	$ 5,227,188	$ 4,873,451
Corporate bonds	2,020,771	2,019,207
	$ 7,247,959	$ 6,892,658

The Hospital's return on investments for the years ended December 31, is as follows:

	2014	2013
Interest and dividend income	$ 520,050	$ 428,128
Realized gains	94,008	67,395
Unrealized gain	16,013	26,745
Total unrestricted investment income	630,071	522,268
Temporarily restricted net unrealized gain on investments	46,792	144,511
Temporarily restricted investment income	436,789	387,899
Permanently restricted net unrealized (loss) gain on investments	(29,638)	195,922
Total return on investments	$ 1,084,014	$ 1,250,600

8. Trusts Receivable

Trusts receivable at December 31 is comprised of the following:

	2014	2013
Present value of trusts estimated to be received in		
More than 5 years	$ 163,464	$ 161,859
	$ 163,464	$ 161,859

The Hospital's trusts receivable consist of split interest agreements with donors, primarily charitable remainder unitrusts. Assets held under these agreements are included in trusts receivable. Generally, contribution revenues are recognized at the dates the agreements are established, at the present value of the estimated future benefits. Adjustments to the receivable include amortization of the discount, revaluation of the present value of estimated future payments, and changes in actuarial assumptions during the term of the trust.

9. Pledges Receivable

Pledges receivable at December 31 is comprised of the following:

	2014	2013
Present value of pledges estimated to be received in		
Less than 1 year	$ 63,662	$ 119,800
Between 1 and 5 years	92,813	142,931
	$ 156,475	$ 262,731

The amounts shown above are net of discounts of $11,422 and $20,234 and allowances for uncollectible pledges of $26,341 and $26,341 as of December 31, 2014 and 2013, respectively.

10. Property and Equipment

Property and equipment at December 31 is comprised of the following:

	2014	2013
Land	$ 232,769	$ 207,769
Land and leasehold improvements	989,773	981,573
Buildings	155,727,680	146,352,142
Equipment	148,949,886	139,658,918
	305,900,108	287,200,402
Accumulated depreciation and amortization	(179,095,578)	(164,844,989)
Construction in progress	9,703,299	8,517,042
Property and equipment, net	$ 136,507,829	$ 130,872,455

Property and equipment includes $36,184,656 and $36,184,656 of costs relating to capital leases at December 31, 2014 and 2013, respectively. Related accumulated amortization was $34,279,238 and $33,527,531 at December 31, 2014 and 2013, respectively.

Construction in progress is made up of certain projects started but not completed at December 31. The estimated cost to complete these projects was approximately $2,687,038 and $7,165,010 at December 31, 2014 and 2013, respectively. There was no capitalized interest related to construction in progress at December 31, 2014 and 2013.

11. Long-Term Debt

The Hospital has pledged certain property and equipment, revenues and collateralized funds as collateral for its various debt arrangements. Long-term debt payable at December 31 consist of the following:

	2014	2013
COMIDA, Series 2005	$ 20,751,538	$ 23,121,474
DASNY, Series 2010	9,925,000	10,295,000
	30,676,538	33,416,474
Less: Current installments of long-term debt	2,589,936	2,734,936
	$ 28,086,602	$ 30,681,538

COMIDA, Series 2005
Pursuant to an agreement with the Hospital and the County of Monroe Industrial Agency ("COMIDA") dated June 23, 2005, COMIDA issued and sold $20,000,000 of fixed rate Civic Facility Revenue Refunding Bonds and $14,920,000 of fixed rate Civic Facility Revenue Project Bonds, maturing on August 1, 2022 and August 1, 2025, respectively. The COMIDA Refunding Bonds were issued at a premium of $912,000 and were used to refund a portion of Series 1997A debt. These Refunding Bonds are collateralized by amounts in Debt Service Reserve Fund. The COMIDA Project Bonds were issued at a premium of $362,000 and were issued to finance (1) the Park Ridge Oncology Project, (2) the Bariatric Center and Operating Room Project, (3) the Inpatient Joint Center Project, (4) the Orthopedic Operating Room Project and (5) various equipment and renovation projects throughout Highland Hospital. The Project Bonds are collateralized by the construction projects noted above. In addition, the Hospital issued $6,135,000 of direct taxable notes on June 23, 2005 to refund the remaining portion of Series 1997A and all of Series 1997B debt. These notes were issued at a discount of $5,000 and are collateralized by amounts in a Debt Service Reserve Fund.

These bonds were issued with interest rates ranging from 3.125% to 5.00%.

Under terms of the COMIDA agreement, the Hospital is required to meet various financial covenants related to debt service coverage and liquidity measures based on audited financial statements. As of December 31, 2014, the Hospital is in compliance with these requirements.

DASNY, Series 2010
Pursuant to an agreement with the Hospital and the Dormitory Authority of the State of New York (DASNY) dated June 25, 2010, DASNY issued and sold $11,000,000 of bonds, maturing on July 1, 2032, known as Highland Hospital Revenue Bonds, Series 2010. The Series 2010 bonds were issued to finance the creation of a twenty-two bed Neuromedicine Inpatient Unit and the enhancement and expansion of space, equipment and technology used for Perioperative Services.

These bonds were issued with interest rates ranging from 2.00% to 5.20%.

Scheduled principal repayments on long-term debt are as follows:

	Long-Term Debt
2015	$ 2,589,936
2016	2,359,936
2017	2,414,936
2018	2,519,936
2019	2,624,936
Thereafter	18,166,858
	$ 30,676,538

The Hospital, either directly or through the University, also has several noncancelable operating leases for clinical and office space that expire over the next fifteen years. Rental expense for operating leases was $3,648,556 and $3,490,600 for the years ended December 31, 2014 and 2013, respectively. The future minimum lease payments are as follows:

Year Ending December 31,	
2015	$ 2,570,780
2016	2,494,066
2017	2,204,979
2018	2,140,134
2019	2,493,950
Thereafter	869,706
	$ 12,773,615

12. Professional Liability Risk

The Hospital's coverage for professional liability insurance is provided under insurance policies obtained jointly with other universities and teaching hospitals. The primary layer of coverage as well as the buffer and self-insured layers of excess insurance, were written by MCIC Vermont, Inc. (A Risk Retention Group) formed and directed by the participating insured institutions. Multiple layers of excess insurance were purchased from several different insurance companies. The maximum coverage for the Hospital is $221,000,000 per claim. The per claim coverage amount at each of the five participating institutions has been tailored to their own experiences and exposures.

In 2011, the Hospital adopted the principles of insurance claim and recovery accounting for professional liability claims. This required liability claims and any anticipated insurance recoveries to be reported on a gross basis versus the previous practice of netting the recoveries against liability claims. The insurance claims receivable as calculated by the actuaries was approximately $4,853,124 and $4,468,423 as of December 31, 2014 and 2013, respectively, along with a corresponding increase to the accrued professional liability costs. This amount was split between current and noncurrent based upon projected future payments on professional liability claims as determined by the actuaries.

Based on estimates provided by the actuaries retained by MCIC Vermont, Inc., the Hospital's obligation for incurred but not reported claims was $3,325,203 and $3,016,547 as of December 31, 2014 and 2013, respectively, which has been recorded as a noncurrent liability. This amount has not been discounted.

13. Pension Plan

The Hospital's defined benefit retirement plan (the "Plan") covers employees of the Hospital, HLC, and HCDC who have completed two years of continuous employment. The benefits for the Plan agreement are based primarily on years of service and employees' pay near retirement. The Hospital's policy is to contribute, annually, an amount consistent with the requirement of the Employee Retirement Income Security Act. Effective January 1, 2004, the accrued benefits of employees of HLC and HCDC were frozen and no future benefits are being accrued under the Plan. The Hospital has agreed to incur and fund all future costs related to HLC's and HCDC's employees included in the Plan. For the years ended December 31, 2014 and 2013, the Hospital incurred retirement plan expense of $6,632,369 and $11,744,818, respectively, that is recorded in benefits expense on the consolidated statements of operations and changes in net assets. In addition, the Hospital recorded a pension related benefit (charges) other than net periodic pension cost of $(41,624,033) and $28,848,322 for the years ending December 31, 2014 and 2013, respectively. These amounts are included in other changes on the consolidated statement of operations and changes in net assets.

The Plan was amended in October 2013 to indicate that, effective January 1, 2013, if the present value of a Participant's vested accrued benefit is $5,000 or less, it shall be distributed from the Plan within one year following the Participant's termination of employment. A Participant with a vested accrued benefit of $5,000 or less may elect to have the present value of his or her benefit paid in a lump sum cash payment or transferred directly to an IRA or other eligible retirement plan of his or her choice.

The cost of the Hospital's 403(b) plan was $2,079,710 and $1,815,044 in 2014 and 2013 respectively and is recorded in benefits expense on the consolidated statements of operations and changes in net assets.

The Hospital is required to recognize the overfunded or underfunded status of a defined benefit pension and postretirement plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The Hospital is also required to measure the funded status of the plan as of the balance sheet date.

The following tables present the changes in the Hospital's Plan benefit obligation and the fair value of the Plan assets for the years ended December 31, 2014 and 2013 and the funded status of the Plan at December 31, 2014 and 2013:

	2014	2013
Change in benefit obligations		
Benefit obligation at beginning of year	$ 167,102,530	$ 176,117,151
Service cost	5,020,820	5,925,746
Interest cost	8,159,383	7,067,451
Actuarial loss	537,739	1,348,540
Change due to discount rate	27,608,815	(22,829,838)
Change due to other assumptions	7,594,453	4,417,729
Benefits paid	(5,483,997)	(4,944,249)
Benefit obligation at end of year	210,539,743	167,102,530
Accumulated benefit obligation	196,094,646	154,206,622
Change in plan assets		
Fair value of plan assets at beginning of year	116,762,595	102,293,712
Actual return on plan assets	1,281,075	13,575,575
Employer contribution	10,760,000	6,380,000
Participants' contributions	-	-
Benefits and expenses paid	(6,100,264)	(5,486,692)
Fair value of Plan assets at end of year	122,703,406	116,762,595
Funded status	$ (87,836,337)	$ (50,339,935)
Amounts recognized in the Statement of Financial Position		
Noncurrent assets	$ -	$ -
Current Liabilities	-	-
Noncurrent liabilities	(87,836,337)	(50,339,935)
	$ (87,836,337)	$ (50,339,935)
Amounts recognized in the Balance Sheets consists of		
Accrued benefit cost	$ (6,089,787)	$ (10,217,418)
Unrecognized prior service cost	-	-
Unrecognized losses	(81,746,550)	(40,122,517)
	$ (87,836,337)	$ (50,339,935)

	2014	2013
Components of net periodic pension cost		
Service cost	$ 5,020,820	$ 5,925,746
Interest cost	8,159,383	7,067,451
Expected return on plan assets	(9,690,420)	(8,226,521)
Amortization of unrecognized loss	3,142,586	6,978,142
	$ 6,632,369	$ 11,744,818

The estimated actuarial loss that will be amortized into net periodic pension expense over the next fiscal year is $7.8 million. The estimated prior service cost/credit that will be amortized into net periodic expense of the next fiscal year is $0.

The following table presents a reconciliation of amounts recognized in unrestricted net assets as of December 31, 2014:

Reconciliation of amounts recognized in unrestricted net assets	
Unrecognized prior service cost	$ -
Unrecognized losses	81,746,550
Unrestricted Net Assets	$ 81,746,550

The following table presents other changes in plan assets and benefit obligations recognized in unrestricted net assets:

Other changes in plan assets and benefit obligations recognized in unrestricted net assets	
Net loss	$ 44,766,619
Amortization of net (loss)	(3,142,586)
Unrestricted Net Assets	$ 41,624,033

Benefits are valued based upon the projected unit credit cost method. The assumptions used for the Plan at the measurement date are as follows:

	2014	**2013**
Discount rate for obligation	3.94 %	4.95 %
Discount rate for pension expense	4.95 %	4.07 %
Future compensation increase rate	3.60 %	3.60 %
Long term rate of return on plan assets	8.00 %	8.00 %

Discount rates are established based on Moody's spot rates from the Citigroup above median curve that, if the pension benefit obligation was settled at the measurement date, would provide the necessary future cash flows to pay the benefit obligation when due.

The Plan funds are allocated to two money managers, each with a balanced portfolio. These money managers monitor financial market funds and adjust inconsistent strategy accordingly.

The weighted average asset allocation for the Plan as of December 31 by asset categories is as follows:

	2014	**2013**
Asset category		
Equity securities	51 %	55 %
Fixed income securities	34	39
Cash and other investments	15	6
	100 %	100 %

Investment Policy
The Plan's asset allocation policy states the assets should be allocated as follows:

	2014	2013
Asset category		
Equity securities	57 %	57 %
Fixed income securities	38	38
Cash and other investments	5	5
	100 %	100 %

In addition, the total equity commitment should not exceed 75% of assets.

The asset allocation ranges established by this investment policy represent a long-term perspective, and as such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the policy range. These divergences should be of a short-term nature.

Inflows and disbursements should be allocated such that the assets are rebalanced toward the target allocation.

Scheduled estimated future benefit payments are as follows:

	Pension Benefits
2015	$ 5,464,000
2016	6,225,000
2017	6,984,000
2018	7,741,000
2019	8,501,000
2020–2024	52,863,000

Cash Flows Contributions
The Hospital expects to contribute $8,450,000 to the Plan in 2015 and contributed $10,760,000 to the Plan in 2014.

The plan assets for Highland Hospital are invested with an outside trustee for the sole benefit of the plan participants. Investments are directed by the Hospital or by investment managers appointed by the Hospital. They are managed to maximize total return while maintaining a prudent level of risk.

Risk mitigation is achieved by diversifying investments across multiple asset classes, by investment in high quality securities and by permitting flexibility in the balance of investments in the permitted asset classes. Market risk inheres in any portfolio but the investment policies and strategies are designed to avoid concentration of risk in one entity, industry, country or commodity.

The expected return on assets was derived based on long term expected yields of the plan's assets which reflect the composition of the portfolio. In particular, we assume an estimated 60%/40% equity/fixed income allocation, expected inflation of 2.35%, a risk free rate of return of 2.0%, long-term and risk premiums of 4% - 6% for equities and 1.5% - 2.5% for fixed income, for an expected range of 7.35% - 8.95%. This supports the assumption of 8.0% as the long term rate of return on assets.

The following assets were recorded at fair value within the pension assets of the Hospital as of December 31, 2014 and 2013, respectively.

	2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Description				
Cash	$ 1,657,893	$ -	$ -	$ 1,657,893
Mutual Fund - Global Asset Allocation	59,912,685	-	-	59,912,685
Mutual Fund - Multi-Asset	-	61,132,828	-	61,132,828
	$ 61,570,578	$ 61,132,828	$ -	$ 122,703,406

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Description				
Cash	$ 987,815	$ -	$ -	$ 987,815
Mutual Fund - Global Asset Allocation	57,203,549	-	-	57,203,549
Mutual Fund - Multi-Asset	-	58,571,231	-	58,571,231
	$ 58,191,364	$ 58,571,231	$ -	$ 116,762,595

Fair value for Level 1 is based upon quoted market prices. Level 2 may be based on quoted prices for similar assets and/or inputs other than quoted prices that are observable for the asset or liability.

14. Related Party and Transfers to Affiliates

HCDC is a not-for-profit, New York corporation whose primary purpose is to develop, construct, and operate a senior living facility in the Monroe County market area.

HLC is a not-for-profit, New York corporation whose primary purpose is to develop, construct, and operate a skilled nursing home facility in the Monroe County market area.

In addition, HCDC and HLC utilize the Hospital's accounts payable and payroll systems. On a monthly basis, the Hospital makes payments on HCDC's and HLC's outstanding payables and issues payroll checks to employees of these entities. The Hospital is reimbursed by HCDC and HLC for these disbursements in the following month based on their available cash flow. Amounts related to these activities which are due from HCDC were $325,384 and $159,317 as of December 31, 2014 and 2013, respectively. Amounts related to these activities are due from HLC were $1,785,300 and $2,047,632 as of December 31, 2014 and 2013, respectively.

The Meadows is a not-for-profit, New York Corporation whose primary purpose is to operate a skilled nursing facility in the Monroe County market area. The Hospital provides various

administrative services to The Meadows, which are included in affiliate receivables on the consolidated balance sheets. At December 31, 2014 and 2013, the amount due from The Meadows was $121,878 and $0, respectively.

In order to fulfill specific strategic initiatives of the Hospital, the Hospital funded, through inter-affiliate transfers, certain operating needs of The Meadows during 2014 and 2013. The amounts of these transfers for the years ended December 31, 2014 and 2013 were $356,748 and $475,350, respectively.

The Hospital provides certain administrative services to Strong Memorial Hospital ("Strong") and the University. During the years ended December 31, 2014 and 2013, the Hospital charged Strong and the University $3,470,819 and $4,273,264, respectively, for these services, which offset expenditures in other expenses on the consolidated statements of operations and changes in net assets.

Current affiliate receivable balances at December 31 are as follows:

	2014	2013
HCDC	$ 325,384	$ 159,317
HLC	1,785,300	2,047,632
The Meadows	121,878	-
University	307,418	811,458
Strong	1,140,870	2,131,445
	$ 3,680,850	$ 5,149,852

In addition, the Hospital purchases certain administrative services from Strong and the University. During the years ended December 31, 2014 and 2013, the Hospital was charged $22,732,886 and $21,036,051, respectively, for these services, which are included in other expenses on the consolidated statements of operations and changes in net assets.

HHF received contributions of $446 in 2014 for other SPHS entities.

Affiliate payable balances at December 31 are as follows:

	2014	2013
University	$ 946,365	$ 59,929
Strong	94,208	-
HLC	26,551	26,451
The Meadows	2,738	126,253
	$ 1,069,862	$ 212,633

15. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Support of health care services	$ 2,422,176	$ 2,238,022
Educational purposes	2,049,987	1,876,996
	$ 4,472,163	$ 4,115,018

Permanently restricted net assets are restricted to the following purpose:

	2014	2013
Investments to be held in perpetuity, the income from which is expendable to support health care services	$ 3,201,433	$ 3,229,011

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes of the following:

	2014	2013
Hospital operations	$ 200,324	$ 367,098
Capital	141,810	400,176
	$ 342,134	$ 767,274

Endowment net assets consist of the following at December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Funds			
True Endowments	$ -	$ 3,201,433	$ 3,201,433
Term Endowments	4,472,163	-	4,472,163
Total Endowment Funds	$ 4,472,163	$ 3,201,433	$ 7,673,596

Rollforward of endowment net assets from December 31, 2013 to 2014:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2013	$ 4,115,018	$ 3,229,011	$ 7,344,029
Investment return			
Investment income	436,789	797	437,586
Net appreciation (depreciation)	46,792	(30,435)	16,357
Total investment return	483,581	(29,638)	453,943
New gifts	215,698	2,060	217,758
Amounts appropriated for expenditure	(342,134)	-	(342,134)
Endowment net assets, December 31, 2014	$ 4,472,163	$ 3,201,433	$ 7,673,596

Endowment net assets consist of the following at December 31, 2013:

	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Funds			
True Endowments	$ -	$ 3,229,011	$ 3,229,011
Term Endowments	4,115,018	-	4,115,018
Total Endowment Funds	$ 4,115,018	$ 3,229,011	$ 7,344,029

Rollforward of endowment net assets from December 31, 2012 to 2013:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2012	$ 3,576,856	$ 3,029,833	$ 6,606,689
Investment return			
Investment income	387,899	5,919	393,818
Net appreciation (depreciation)	144,511	190,003	334,514
Total investment return	532,410	195,922	728,332
New gifts	773,026	3,256	776,282
Amounts appropriated for expenditure	(767,274)	-	(767,274)
Endowment net assets, December 31, 2013	$ 4,115,018	$ 3,229,011	$ 7,344,029

16. Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including primary care, obstetrics and gynecology, oncology, cardiology, and surgery. Expenses relating to providing these services are as follows:

	2014	2013
Nursing service	$ 78,613,502	$ 78,450,411
Professional services other than nursing	136,381,072	130,695,744
General services	35,223,284	33,450,915
Fiscal and administrative services	55,499,994	55,154,461
	$ 305,717,852	$ 297,751,531

17. Workers' Compensation Insurance

The Hospital is self-insured for workers' compensation claim losses and expenses. A letter of credit in the amount of $8,883,877 is maintained as security for workers' compensation claims. Included in liabilities at December 31, 2014 and 2013 are accruals of $10,505,956 and $8,983,487, respectively, for specific incidents to the extent that they have been asserted or are probable of assertion and can be reasonably estimated. These liabilities are offset by a receivable for the expected insurance direct payments against these claims of approximately $2,738,956 and $2,112,487 at December 31, 2014 and 2013, respectively. This liability has been discounted by 2.00% and 2.50% at December 31, 2014 and 2013, respectively.

18. Disclosures About the Fair Value of Financial Instruments

Cash, Patient Accounts Receivable, All Other Current Assets, and Current Liabilities
The carrying amounts of cash, patient accounts receivable, all other current assets, and current liabilities approximate fair value because of the short maturity of these instruments.

Long-Term Debt
Based on current borrowing rates for debt with similar terms and average maturities, management estimates that the fair value of the COMIDA and DASNY long-term debt is $34,034,822 and $35,056,051 as compared to the recorded value of $30,676,538 and $33,416,474 at December 31, 2014 and 2013, respectively. The Hospital's long-term debt is valued using Level 2 inputs. The fair value of long-term debt is estimated based on quoted market prices for the same or similar debt or on the current rates offered to the Hospital for debt of the same remaining maturities. The Hospital believes that the carrying value of long-term debt approximates fair value based on the current rates at which the Hospital could borrow funds with similar remaining maturities.

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

19. Commitments and Contingencies

In the ordinary course of operations, the Hospital is named as a defendant in various lawsuits, or events occur which could lead to litigation, claims, or assessments. Although the outcome of such matters cannot be predicted with certainty, management believes that insurance coverage is sufficient to cover current or potential claims, or that the final outcomes of such matters will not have a material adverse effect on the financial position.

20. Subsequent Events

The Hospital has performed an evaluation of subsequent events through May 15, 2015, the date on which the consolidated financial statements were issued.

APPENDIX C

CERTAIN DEFINITIONS

"1997 Facility" shall have the meaning assigned to such in term in the WHEREAS paragraphs of the Indenture.

"2005 Facility" shall have the meaning assigned to such in term in the WHEREAS paragraphs of the Indenture.

"2015 Facility" shall have the meaning assigned to such in term in the WHEREAS paragraphs of the Indenture.

"Accountant" means a nationally or regionally recognized firm of independent certified public accountants selected by the Institution having expertise in the particular businesses in which the Institution is engaged.

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

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

"Additional Bonds" means any bonds, other than the Series 2015 Bonds, issued pursuant to the Indenture.

"Assignment" means the Pledge and Assignment.

"Authorized Representative" means with respect to the Issuer, its President, Vice President or Executive Director, with respect to the Institution, any officer of the Institution, and with respect to both such additional persons as, at the time, are designated to act on behalf of the Issuer or the Institution, as the case may be, by written certificate furnished to the Trustee and to the Issuer or the Institution, as the case may be, containing the specimen signature of each such person and signed on behalf of (i) the Issuer by its President, Vice President or Executive Director, or (ii) the Institution by any officer of the Institution.

"Bond" or "Bonds" means the Series 2015 Bonds and any Additional Bonds, authorized to be issued pursuant to the Indenture.

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

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

"Bondholder" or "Holder" or "Owner" means the registered owner at the time in question of any Bond, as shown on the registration books maintained by the Bond Registrar pursuant to the Indenture.

"Bond Payment Date" means any date on which a Debt Service Payment shall be payable on any of the Bonds according to their terms so long as any of the Bonds shall be Outstanding.

"Bond Proceeds" means the sum of the face amount of the Series 2015 Bonds plus accrued interest, if any, premium, if any, less the sum of the original issue discount plus the Underwriter's spread or similar discount, if any.

"Bond Purchase Contract" means the Bond Purchase Contract, dated September 15, 2015, by and among the Issuer, the Institution and the Underwriter.

"Bond Registrar" means the Trustee, acting as such, and any successor bond registrar for the Bonds appointed pursuant to the Indenture, their respective successors and any other corporation which may at any time be substituted in their respective places pursuant to the Indenture.

"Bond Resolution" means the resolution adopted by the Issuer on August 11, 2015 authorizing the issuance, execution, sale and delivery of the Series 2015 Bonds and the execution and delivery of Issuer Documents, as such resolution may be amended or supplemented from time to time.

"Bond Year" means the one-year period beginning on the day after the expiration of the preceding Bond Year. The first Bond Year begins on the date of the original issuance of the Bonds and ends one year later.

"Business Day" means a day other than a Saturday, Sunday, legal holiday or other day on which the Trustee is authorized by law or executive order to remain closed.

"Capital Additions" means all property or interests in property, real, personal and mixed (a) which constitute additions, improvements or extraordinary repairs to or replacements of all or any part of the Facility, and (b) the cost of which is properly capitalized under generally accepted accounting principles.

"Capitalized Interest Account" means the subaccount of the Project Fund created by the Indenture.

"Certificate of Authentication of the Trustee" and "Trustee's Certificate of Authentication" means the certificate executed by an authorized officer of the Trustee certifying the due authentication of the Series 2015 Bonds in the aggregate principal amount of $38,645,000.

"Closing" or "Closing Date" means the date of the sale and delivery of the Series 2015 Bonds and the delivery of the Financing Documents.

"Code" means the Internal Revenue Code of 1986, as amended, and the final, temporary and proposed regulations and rulings of the United States Department of the Treasury promulgated thereunder. References to Sections of the Code shall be construed also to refer to successor and renumbered sections.

"Commercial Code" shall mean the Uniform Commercial Code, as the same may from time to time be in effect in the State.

"Completion Date" means the date of completion of the acquisition, construction and equipping of the Facility, as certified pursuant to the Loan Agreement.

"Computation Period" means each period from the date of original issuance of the Bonds through the date on which a determination of the Rebate Amount is made.

"Condemnation" means the taking of title to, or the use of, Property under the exercise of the power of eminent domain by any governmental entity or other Person acting under Governmental Authority.

"Continuing Disclosure Agreement" means the Continuing Disclosure Agreement, dated as of September 1, 2015, by and between the Institution and the Trustee, as the same may be amended or supplemented from time to time.

"Contract Term" means the period commencing with the Closing Date and continuing until the principal of, premium, if any, and interest on the Bonds have been paid in full, or provision therefor has been made pursuant to the Indenture, and all other amounts due under the Loan Agreement have been paid in full.

"Cost of the Facility" means the Project Costs.

"Debt Service Payment" means, with respect to any Bond Payment Date, (i) the interest payable on such Bond Payment Date on the Bonds Outstanding, plus (ii) the principal, if any, payable on such Bond Payment Date on the Bonds Outstanding, plus (iii) the premium, if any, payable on such Bond Payment Date on the Bonds Outstanding.

"Defeasance Obligations" shall mean (i) cash; (ii) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGS)); (iii) direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury; (iv) obligations of Resolution Funding Corp. ("REFCORP") (*provided*, *however*, that, only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book-entry form shall qualify as Defeasance Obligations); (v) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P (*provided*, *however*, that, if such pre-funded municipal bonds are only rated by S&P, then such pre-refunded bonds shall have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or "AAA" rated pre-refunded municipals; and (vi) obligations issued by the following agencies which are backed by the full faith and credit of the U.S.: (a) U.S. Export-Import Bank (Eximbank) Direct Obligations or fully guaranteed certificates of beneficial ownership; (b) Farmers Home Administration (FmHA); (c)

Federal Financing Bank; (d) General Services Administration; Participation Certificates; (e) U.S. Maritime Administration; Guaranteed Title XI financing; and (f) U.S. Department of Housing and Urban Development (HUD) Project Notes, Local Authority Bonds, New Communities Debentures – U.S. government guaranteed debentures, U.S. Public Housing Notes and Bonds – U.S. government guaranteed public housing notes and bonds.

"Depository" or "DTC" means The Depository Trust Company, New York, New York, and its successors and assigns.

"Earnings Fund" means the fund so designated which is created by the Indenture.

"Equipment" means all machinery, equipment and other tangible personal property used and to be used in connection with the Facility and acquired or refinanced in whole or in part with the Bond Proceeds with such additions thereto and substitutions therefor as may exist from time to time.

"Event of Default" means any of those events defined as Events of Default by the Indenture or, when used with respect to the Loan Agreement, any of those events defined as Events of Default by the Loan Agreement.

"Exempt Obligation" means (i) an obligation of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, the interest on which is excludable from gross income under Section 103 of the Code, which is not a "specified private activity bond" within the meaning of Section 57(a)(5) of the Code, and which, at the time an investment therein is made or such obligation is deposited in any fund or account under the Indenture, is rated, without regard to qualification of such rating by symbols such as "+" or "–" and numerical notation, no lower than the second highest rating category for such obligation by at least two nationally recognized statistical rating services; (ii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of, the payment of the principal of or interest on any of the foregoing; and (iii) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Extraordinary Services" and "Extraordinary Expenses" means all services rendered and all reasonable, out-of-pocket expenses incurred by the Trustee or any Paying Agent under the Indenture other than Ordinary Services and Ordinary Expenses including but not limited to, the services rendered and expenses reasonably incurred by the Trustee with respect to any Event of Default under the Financing Documents, or the happening of an occurrence which, with the passage of time or the giving of a notice, would ripen into an Event of Default.

"Facility" means, collectively, the 1997 Facility, the 2005 Facility and the 2015 Facility.

"Favorable Opinion of Bond Counsel" shall mean, with respect to any action, the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act and the Indenture and will not impair the exclusion of interest on the Bonds from gross income for purposes of Federal

income taxation (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"Federal Agency Obligation" means (i) an obligation issued by any federal agency or instrumentality; (ii) an obligation the principal of and interest on which are fully insured or guaranteed as to payment by a federal agency; (iii) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (iv) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Financing Documents" or "Bond Documents" means, collectively, the Bonds, the Indenture, the Loan Agreement, the Pledge and Assignment, the Tax Compliance Agreement, the Master Indenture, the Obligation No. 5, the Supplemental Indenture No. 6, the Continuing Disclosure Agreement, any other document or instrument executed in connection therewith to secure the Institution's obligation to repay the Series 2015 Bonds or make the debt service payments due under the Loan Agreement, and any other instrument or document supplemental thereto.

"Fiscal Year" means the fiscal year of the Institution currently commencing on January 1 and ending on December 31 of each year or such other fiscal year as the Institution designates in writing to the Trustee.

"Fixed Interest Rate" means the interest rates on the Bonds as set forth in the Indenture, from and including the date of issuance of the Bonds, through but not including the final maturity date on the Bonds.

"Governmental Authority" means the United States, the State, and any other state or any political subdivision thereof, and any agency, department, commission, board, bureau or instrumentality of any of these, having jurisdiction over the construction, equipping, ownership, leasing, operation and/or maintenance of the Facility.

"Governmental Obligations" means (i) a direct obligation of the United States of America; (ii) an obligation the principal of and interest on which are fully insured or guaranteed by the United States of America; (iii) an obligation to which the full faith and credit of the United States of America are pledged; (iv) a certificate or other instrument which evidences the beneficial ownership of, or the right to receive all or a portion of the payment of the principal of or interest on any of the foregoing; and (v) a share or interest in a mutual fund, partnership or other fund wholly comprised of any of the foregoing obligations.

"Hazardous Materials" means any flammable explosives, radon, radioactive materials, asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum, petroleum-based products, methane, hazardous materials, hazardous wastes, hazardous or toxic substances or related materials as set forth in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 U.S.C. Sections 9601, et seq.), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Sections 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Sections 6901, et seq.), the Toxic Substances Control Act, as amended (15 U.S.C. Sections 2601, et seq.), Articles 15 or 27 of the

New York Environmental Conservation Law, or any other applicable Environmental Law and the regulations promulgated thereunder.

"Indenture" means the Indenture of Trust, dated as of September 1, 2015, by and between the Issuer and the Trustee pursuant to which the Series 2015 Bonds are authorized to be issued, as may be amended or supplemented by any additional Supplemental Indenture.

"Independent Counsel" means an attorney or attorneys or firm or firms of attorneys duly admitted to practice law before the highest court in the State.

"Institution" means Highland Hospital of Rochester, a not-for-profit corporation and an organization described in Section 501(c)(3) of the Code, organized and existing under the laws of the State of New York, with an office located at 1000 South Avenue, Rochester, New York 14620 and its successors and assigns.

"Institution Documents" means the Loan Agreement, the Tax Compliance Agreement, the Master Indenture, the Obligation No. 5, the Supplemental Indenture No. 6, the Continuing Disclosure Agreement, the Preliminary Official Statement and the Official Statement.

"Interest Payment Date" means each January 1 and July 1 (or the next succeeding Business Day if such first day is not a Business Day), commencing with January 1, 2016.

"Investment Agreement" means an agreement for the investment of moneys with a Qualified Financial Institution.

"Issuer" means (i) Monroe County Industrial Development Corporation and its successors and assigns and (ii) any not-for-profit corporation resulting from or surviving any consolidation or merger to which the Monroe County Industrial Development Corporation or its successors or assigns may be a party.

"Issuer Documents" means the Bonds, the Indenture, the Loan Agreement, the Pledge and Assignment and the Tax Compliance Agreement.

"Land" means the real property which is the site of the Facility.

"Lien" means any interest in Property securing an obligation owed to a Person, whether such interest is based on the common law, statute or contract, and including but not limited to a security interest arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. The term "Lien" includes reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar encumbrances, including but not limited to, mechanics', materialmen's, warehousemen's and carriers' liens and other similar encumbrances affecting real property. For the purposes of the Indenture, a Person shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

"Loan Agreement" means the Loan Agreement, dated as of September 1, 2015, by and between the Issuer and the Institution pursuant to which the Issuer loans the proceeds of the Series 2015 Bonds to the Institution with the debt-service payments thereunder to be in an amount sufficient to pay, among other things, the principal of and interest on the Series 2015 Bonds.

"Loss Event" means in the event that at any time during the term of the Loan Agreement, the whole or part of the Facility shall be damaged or destroyed, or the whole or any part of the Facility shall be taken or condemned by a competent authority for any public use or purpose, or by agreement between the Issuer and those authorized to exercise such right, or if the temporary use of the Facility or any part thereof shall be so taken by Condemnation or agreement.

"Master Trustee" means Manufacturers and Traders Trust Company, its successors and assigns acting in its capacity as Master Trustee under the Master Trust Indenture.

"Master Trust Indenture" or "Master Indenture" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Net Proceeds" means so much of the gross proceeds with respect to which that term is used as remain after payment of all expenses, costs and taxes (including attorneys' fees and disbursements and Trustee's fees and disbursements) incurred in obtaining such gross proceeds.

"Obligation No. 5" means (i) Obligation No. 5 for the Series 2015 Bonds, dated the Closing Date, issued by the Institution to the Trustee by way of endorsement from the Issuer pursuant to and in accordance with the Master Trust Indenture and (ii) any other note, bond or evidence of indebtedness issued by the Institution in accordance with the Master Trust Indenture in connection with any series of Additional Bonds issued under the Indenture.

"Office of the Trustee" means the corporate trust officers of the Trustee located at One M&T Plaza, 7th Floor, Buffalo, New York 14203.

"Official Statement" means the Official Statement of the Issuer, dated the date thereof, with respect to the offering and sale of the Series 2015 Bonds.

"Opinion of Counsel" shall mean a written opinion of counsel who may (except as otherwise expressly provided in the Loan Agreement or any other Financing Document) be counsel for the Institution or the Issuer and who shall be reasonably acceptable to the Trustee.

"Ordinary Services" and "Ordinary Expenses" means those services normally rendered and those reasonable, out-of-pocket expenses normally incurred by a trustee or paying agent under instruments similar to the Indenture, including reasonable fees and disbursements of counsel to the Trustee.

"Outstanding" or "Bonds Outstanding" or "Outstanding Bonds" means when used with reference to a Bond or Bonds, as of any particular date, all Bonds which have been issued, executed, authenticated and delivered under the Indenture, except:

(i) Bonds cancelled by the Trustee because of payment or redemption prior to maturity or surrendered to the Trustee under the Indenture for cancellation;

(ii) any Bond (or portion of a Bond) for the payment or redemption of which there has been separately set aside and held in the Bond Fund either:

(A) moneys and/or

(B) Defeasance Obligations in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys,

in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the payment or redemption date, which payment or redemption date shall be specified in irrevocable instructions given to the Trustee to apply such moneys and/or Defeasance Obligations to such payment on the date so specified, provided, that, if such Bond or portion thereof is to be redeemed, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(iii) Bonds in exchange for or in lieu of which other Bonds shall have been authenticated and delivered under the Indenture,

provided, however, that, in determining whether the Holders of the requisite principal amount of Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, such Bonds including Series 2015 Bonds owned by the Institution or any affiliate of the Institution shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds which the Trustee knows to be so owned shall be so disregarded. Bonds which have been pledged in good faith to a Person may be regarded as Outstanding for such purposes if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Institution or any affiliate of the Institution.

"Participant" means any of those brokers, dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as securities depository.

"Paying Agent" means the Trustee, acting as such, and any additional paying agent for the Bonds appointed pursuant to the Indenture, their respective successors and any other corporation which may at any time be substituted in their respective places pursuant to the Indenture.

"Permitted Collateral" means any of the following:

(i) Government Obligations described in clauses (i), (ii) or (iii) of the definition of Government Obligations;

(ii) Federal Agency Obligations described in clauses (i) or (ii) of the definition of Federal Agency Obligations;

(iii) commercial paper that (A) matures within two hundred seventy (270) days after its date of issuance, (B) is rated in the highest short term rating category by at least one nationally recognized statistical rating service, and (C) is issued by a domestic corporation whose unsecured senior debt is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category; and

(iv) financial guaranty agreements, surety or other similar bonds or other instruments of an insurance company that has an equity capital of at least $125,000,000 and is rated by Bests Insurance Guide or a nationally recognized statistical rating service in the highest rating category.

"Permitted Encumbrances" means:

(i) the Pledge and Assignment, the Indenture and any other Financing Document;

(ii) liens for real estate taxes, assessments, levies and other governmental charges, the payment of which is not in default;

(iii) utility, access and other easements and rights-of-way restrictions and exceptions that an Authorized Representative of the Institution certifies to the Issuer and the Trustee will not interfere with or impair the Institution's use of the Facility as provided in the Loan Agreement;

(iv) such minor defects, irregularities, encumbrances, easements, rights-of-way and clouds on title as normally exist with respect to property similar in character to the Facility and as do not, either singly or in the aggregate, materially impair the property affected thereby for the purpose for which it is owned by the Institution;

(v) any mechanic's, workmen's, repairmen's, materialmen's, contractors', warehousemen's, carriers', suppliers' or vendors' lien or right in respect thereof if payment is not yet due and payable, or are insured over, or which are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or has been due for less than 90 days;

(vi) any mortgage, lien, security interest or other encumbrance which exists in favor of the Trustee;

(vii) any lien on Property, Plant or Equipment;

(viii) such other liens and exceptions to title that do not materially impair the value of the Facility as approved in writing by the Trustee;

(ix) deposits, endorsements, guaranties, and other encumbrances incurred in the ordinary course of business and which do not secure indebtedness;

(x) liens granted on a parity or subordinate basis with the Liens granted to the Trustee as security for the Bonds to secure indebtedness incurred or permitted pursuant to the Loan Agreement;

(xi) Liens to secure indebtedness permitted to be incurred pursuant to the Loan Agreement; and

(xii) those Liens on the Facility in existence as of the date of the Indenture.

"Permitted Investments" means any of the following: (i) Government Obligations; (ii) Federal Agency Obligations; (iii) Exempt Obligations; (iv) uncollateralized certificates of deposit that are fully insured by the Federal Deposit Insurance Corporation and issued by a banking organization authorized to do business in the State; (v) collateralized certificates of deposit that are (A) issued by a banking organization authorized to do business in the State that has an equity capital of not less than $125,000,000, whose unsecured senior debt, or debt obligations fully secured by a letter of credit, contract, agreement or surety bond issued by it, are rated by at least one nationally recognized statistical rating service in at least the second highest rating category, and (B) are fully collateralized by Permitted Collateral; and (vi) Investment Agreements that are fully collateralized by Permitted Collateral.

"Person" means an individual, partnership, corporation, trust or unincorporated organization, and a government or agency or political subdivision or branch thereof.

"Plans and Specifications" means the plans and specifications for the Facility prepared for the Institution, as the same may be amended or supplemented from time to time.

"Pledge and Assignment" means the Pledge and Assignment, dated as of September 1, 2015, by and between the Issuer and the Trustee, pursuant to which the Issuer assigns to the Trustee substantially all of its rights under the Loan Agreement (except the Unassigned Rights).

"Preliminary Official Statement" means the Preliminary Official Statement of the Issuer, dated the date thereof, with respect to the offering and sale of the Series 2015 Bonds.

"Project" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Project Costs" shall have the meaning assigned to such term in the WHEREAS paragraphs of the Indenture.

"Project Fund" means the fund so designated which is created by the Indenture.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Property, Plant and Equipment" shall mean all property of the Institution that is considered net property, plant and equipment under generally accepted accounting principles.

"Qualified Financial Institution" means any of the following entities that has an equity capital of at least $125,000,000 or whose obligations are unconditionally guaranteed by an affiliate or parent having an equity capital of at least $125,000,000:

(i) a securities dealer, the liquidation of which is subject to the Securities Investors Protection Corporation or other similar corporation, and (A) that is on the Federal Reserve Bank of New York list of primary government securities dealers and (B) whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service not lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated, by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this summarized paragraph of the Indenture as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(ii) a bank, a trust company, a national banking association, a corporation subject to registration with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956 or any successor provisions of law, a federal branch pursuant to the International Banking Act of 1978 or any successor provisions of law, a domestic branch or agency of a foreign bank which branch or agency is duly licensed or authorized to do business under the laws of any state or territory of the United States of America, a savings bank, a savings and loan association, an insurance company or association chartered or organized under the laws of the United States of America, any state of the United States of America, or any foreign nation whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service no lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this summarized paragraph of the Indenture as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iii) a corporation affiliated with or which is a subsidiary of any entity described in (ii) above or which is affiliated with or a subsidiary of a corporation which controls or wholly owns any such entity, whose senior unsecured long term debt is at the time an investment with it is made is rated by at least one nationally recognized statistical rating service no lower than in the second highest rating category, or, in the absence of a rating on long term debt, whose short term debt is rated by at least one nationally recognized statistical rating service not lower than in the highest rating category; provided, however, that no short term rating may be utilized to determine whether an entity qualifies under this summarized paragraph of the Indenture as a Qualified Financial Institution if the same would be inconsistent with the rating criteria of any Rating Agency;

(iv) the Government National Mortgage Association or any successor thereto, the Federal National Mortgage Association or any successor thereto, or any other federal agency or instrumentality; or

(v) a corporation whose obligations, including any investments of any moneys held under the Indenture purchased from such corporation, are insured by an insurer that meets the applicable rating requirements set forth above.

"Rating Agency" means any nationally recognized securities rating agency.

"Rebate Amount" means with respect to the Bonds, the amount computed as described in the Tax Compliance Agreement.

"Rebate Fund" means the fund so designated pursuant to the Indenture.

"Record Date" means the Regular Record Date or the Special Record Date, as the case may be.

"Redemption Date" means the date determined by the Trustee, following receipt by the Trustee of notice from the Issuer or the Institution, on behalf of the Issuer, pursuant to the Indenture as of the date as of which a redemption shall be effective.

"Redemption Price" means, when used with respect to a Bond, the principal amount thereof plus the applicable redemption premium, if any, payable thereon, plus accrued interest to the Redemption Date.

"Regular Record Date" means, with respect to any Bond Payment Date, the fifteenth (15^{th}) day of the calendar month (whether or not a Business Day) next preceding such Bond Payment Date.

"Request for Disbursement" means a request for disbursement by the Institution to the Trustee substantially in the form of Exhibit B attached to the Indenture.

"Reserved Rights" means the Unassigned Rights.

"SEQR Act" means the State Environmental Quality Review Act, as amended and the regulations thereunder.

"Series 2015 Bonds" means the Issuer's $38,645,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015.

"Special Record Date" means a date for the payment of interest on the Bonds after an Event of Default has occurred fixed by the Trustee pursuant to the Indenture.

"State" means the State of New York.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture, which may be executed by the Issuer and the Trustee in accordance with the Indenture.

"Supplemental Indenture No. 6" shall have the meaning assigned to such terms in the WHEREAS paragraphs of the Indenture.

"Tax Compliance Agreement" means the Tax Compliance Agreement, dated the Closing Date, by and between the Issuer and the Institution, as the same may be amended, modified or supplemented from time to time in accordance with the terms thereof and the Indenture.

"Tax-Exempt Organization" means any corporation (or other entity) determined by the Internal Revenue Service to be exempt from taxation for federal income tax purposes.

"Trustee" means Manufacturers and Traders Trust Company, a corporation organized and existing under the banking laws of the State of New York, as Trustee under the Indenture, and any corporation resulting from or surviving any consolidation or merger to which it or its successors may be a party and any successor trustee at the time serving as such under the Indenture.

"Trust Estate" means all Property which may from time to time become subject to the Lien of the Indenture.

"Unassigned Rights" shall mean collectively:

(i) the right of the Issuer in its own behalf to receive all Opinions of Counsel, reports, financial statements, certificates, insurance policies, binders or certificates, or other notices or communications required to be delivered to the Issuer under the Loan Agreement;

(ii) the right of the Issuer to grant or withhold any consents or approvals required of the Issuer under the Loan Agreement;

(iii) the right of the Issuer to enforce, in its own behalf, the obligation of the Institution to complete the Project;

(iv) the right of the Issuer, in its own behalf (or on behalf of the appropriate taxing authorities), to enforce, receive amounts payable under or otherwise exercise its rights under Sections 1.5, 2.1, 2.2, 3.1, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 5.1, 6.1, 6.2, 6.3, 6.5, 6.6, 6.10, 6.11, 6.13, 6.18, 6.19, 7.7, 8.1, 8.2, 8.4, 9.3, 9.10, 9.13, 9.17, 9.18 and 9.19 of the Loan Agreement; and

(v) the right of the Issuer, in its own behalf, to declare an Event of Default under the Loan Agreement with respect to any of the Unassigned Rights.

"Underwriter" means, collectively, Barclays Capital Inc., acting on behalf of itself, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC, or their respective successors or assigns.

[END OF APPENDIX C]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following description of certain provisions of the Indenture is only a brief outline of some of the provisions thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Indenture for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Delivery of Series 2015 Bonds

Upon the execution and delivery of the Indenture, the Issuer shall execute and deliver the Series 2015 Bonds to the Trustee and the Trustee shall authenticate the Series 2015 Bonds and deliver them upon receipt of the Bond Proceeds in accordance with the directions of the Issuer and the provisions of the Indenture. (Section 2.07)

Additional Bonds

(a) Provided the Institution is in compliance with the requirements of the Master Trust Indenture for incurring Additional Indebtedness (as defined in the Supplemental Indenture No. 6), the Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2015 Bonds issued under the Indenture for any of the purposes listed below:

(1) To pay the cost of completing the Facility or completing an addition thereto based on the original general design and scope of the Facility or such addition thereto set forth in the original plans and specifications therefor, with such changes as may have become necessary to carry out such original design, or to reimburse expenditures of the Institution for any such costs;

(2) To pay the cost of Capital Additions or to reimburse expenditures of the Institution for any such cost;

(3) To pay the cost of refunding of any Outstanding Bonds issued under the Indenture or any other indebtedness of the Institution; or

(4) To pay the cost of any additional project approved by the Issuer.

(b) In any such event the Trustee shall, at the written request of the Issuer, authenticate the Additional Bonds and deliver them as specified in the request, but only upon receipt of:

(1) (A) a Supplemental Indenture setting forth the terms of the Additional Bonds and, for Additional Bonds described in subsection (a)(2) or (4) above, describing

the Capital Additions to become part of the Facility; (B) a supplement to the Loan Agreement providing for additional Debt Service Payments to be made by the Institution sufficient to cover the debt service due on the Additional Bonds and (C) an obligation under the Master Trust Indenture or a supplement to the Obligation No. 5 evidencing the Institution's obligations for the additional payments to be made by the Institution under the Loan Agreement as provided in the supplement to the Loan Agreement referenced in item (B) above.

(2) for Additional Bonds described in subsection (a)(1), (a)(2) or (a) (4) above, a certificate signed by an Authorized Representative of the Institution stating that the proceeds of the Additional Bonds plus other amounts, if any, available to the Institution for the purpose will be sufficient to pay the cost thereof; and (ii) payments and additional payments, if any, scheduled to be paid by the Institution under the Loan Agreement will be adequate to satisfy all of the Debt Service Payments required to be made on the Bonds to remain Outstanding during the remaining life thereof; provided, however, such Additional Bonds shall not be issued to cure any deficiencies existing on the date of such certification in any funds required to be maintained under the Indenture;

(3) for Additional Bonds described in subsection (a)(1) above, (i) a certificate of the Institution stating (A) the estimated cost of completion of the Facility or the addition thereto and (B) that all approvals required for completion of the Facility or addition thereto have been obtained, other than building permits for any portions of the Facility or such addition thereto which, based on consultations with the Institution and contractor or other construction manager, will be obtained in due course so as not to interrupt or delay construction of the Facility or such addition thereto and other than licenses or permits required for occupancy or operation of the Facility or such addition thereto upon its completion;

(4) for Additional Bonds described in subsection (a)(3) above, (A) a certificate of an Authorized Representative of the Institution that notice of redemption of the Bonds to be refunded has been given or that provisions have been made therefor, and (B) a certificate of an Accountant stating that the proceeds of the Additional Bonds plus the other amounts, if any, stated to be available for the purpose, will be sufficient to accomplish the purpose of the refunding and to pay the cost of refunding, which shall be itemized in reasonable detail;

(5) for any Additional Bonds, a certified resolution of the Issuer (A) stating the purpose of the issue, (B) establishing the series of Additional Bonds to be issued and providing the terms and form of Additional Bonds thereof and directing the payments to be made into the funds established under the Indenture, (C) authorizing the execution and delivery of the Additional Bonds to be issued and (D) authorizing redemption of any previously issued Bonds which are to be refunded;

(6) for any Additional Bonds, a certificate of an Authorized Representative of the Institution stating (A) that no Event of Default under the Indenture or under the Loan Agreement or under the Obligation No. 5 has occurred and is continuing (except, in the

case of Additional Bonds described in subsection (a)(l) above, for an Event of Default, if any, resulting from non-completion of the Facility or an addition thereto) and (B) that the proceeds of the Additional Bonds plus other amounts, if any, stated to be available for that purpose will be sufficient to pay the costs for which the Additional Bonds are being issued, which shall be itemized in reasonable detail;

(7) for any Additional Bonds, a certified resolution of the Board of Trustees of the Institution (A) approving the issuance of the Additional Bonds and the terms thereof, (B) authorizing the execution of any required amendments or supplements to the Indenture, the Master Trust Indenture and the Loan Agreement and (C) for Additional Bonds described in subsection (a)(3) above, authorizing redemption of the Bonds to be refunded;

(8) for any Additional Bonds, an opinion or opinions of Bond Counsel to the effect that (A) the purpose of the Additional Bonds is one for which Additional Bonds may be issued under the Indenture, (B) all conditions prescribed in the Indenture as precedent to the issuance of the Additional Bonds have been fulfilled, (C) the Additional Bonds have been validly authorized and executed and when authenticated and delivered pursuant to the request of the Issuer will be valid, legally binding, special obligations of the Issuer, and are entitled to the benefit and security of the Indenture, (D) all consents of any regulatory bodies required as a condition to the valid issuance of the Additional Bonds have been obtained and (E) issuance of such Additional Bonds will not adversely affect the tax status of Outstanding Bonds;

(9) for any Additional Bonds, a certificate of an Authorized Representative of the Institution stating that all of the requirements of the Master Trust Indenture for the incurrence of Additional Indebtedness (as defined in the Supplemental Indenture No. 6) have been satisfied; and

(10) for Additional Bonds described in subsection (a)(1), (a)(2) or (a) (4) above, an opinion of Independent Counsel to the Institution reasonably acceptable to the Issuer. (Section 2.13)

Establishment of Funds and Accounts; Application of Series 2015 Bond Proceeds and Allocation Thereof

In connection with the issuance of the Series 2015 Bonds, the Indenture requires the establishment of the following trust funds and accounts with the Trustee: (a) Monroe County Industrial Development Corporation Project Fund (Highland Hospital of Rochester Project), Series 2015 (the "Project Fund"), within which there shall be a Capitalized Interest Account relating to the 2015 Facility; (b) Monroe County Industrial Development Corporation Bond Fund (Highland Hospital of Rochester Project), Series 2015 (the "Bond Fund"); (c) Monroe County Industrial Development Corporation Rebate Fund (Highland Hospital of Rochester Project), Series 2015 (the "Rebate Fund"), within which there shall be two (2) accounts: (1) the Principal Account and (2) the Earnings Account; and (d) Monroe County Industrial Development Corporation Earnings Fund (Highland Hospital of Rochester Project), Series 2015 (the "Earnings

Fund"). Upon the receipt of the proceeds of the Bonds, the Trustee shall deposit and apply such proceeds in accordance with the Indenture. (Section 4.01 and 4.02)

Use of the Moneys in the Project Fund

Moneys in the Project Fund shall be applied and expended by the Trustee in accordance with the provisions of the Loan Agreement and the Indenture; provided further that, during the time prior to the Completion Date, the Trustee is hereby authorized to disburse from the Capitalized Interest Account of the Project Fund on the Business Day prior to an Interest Payment Date for the Series 2015 Bonds, for deposit into the Bond Fund, such amount, together with amounts already available as is sufficient to pay the interest on the Series 2015 Bonds coming due on such Interest Payment Date (or, if insufficient funds are then on deposit, the balance of such Capitalized Interest Account). The Trustee, under the Indenture, is authorized to disburse from the Project Fund the amount required for the payment of Project Costs and is directed to issue its checks (or, at the direction of the Institution, make wire transfers) for each disbursement from the Project Fund, upon being furnished certain documents required under by the Indenture. The completion of the acquisition, construction and equipping of the Facility and payment or provision for payment of items included within the Cost of the Facility shall be evidenced by the filing with the Trustee of the certificate required by the Loan Agreement. As soon as practicable and in any event not more than sixty (60) days from the date of the certificate referred to in the preceding sentence, (1) any balance remaining in the Project Fund, except for (i) amounts the Institution shall have directed the Trustee to retain for any item included within the Cost of the Facility not then due and payable, and (ii) amounts required to be transferred to the Rebate Fund by the Tax Compliance Agreement and the Indenture, shall without further authorization be transferred to the Bond Fund and thereafter be applied to pay principal of the Bonds on the next occurring Bond Payment Date. If an Event of Default under the Indenture shall have occurred and the Outstanding principal amount of the Bonds shall have been declared due and payable pursuant to the Indenture, the entire balance remaining in the Project Fund, after making the transfer to the Rebate Fund required by the Tax Compliance Agreement and the Indenture, shall be transferred to the Bond Fund. (Section 4.04)

Payments into the Bond Fund; Use of Moneys in the Bond Fund

There shall be deposited by the Trustee into the Bond Fund when and as received the following: (i) accrued interest, if any, as provided in the Indenture, (ii) any and all payments received by the Trustee under the Loan Agreement, (iii) the balance in the Project Fund, the Earnings Fund and the Rebate Fund to the extent specified in the Indenture, (iv) the amount of net income or gain received from the investments of moneys in the Bond Fund and (v) all other moneys received by the Trustee under and pursuant to any of the provisions of the Loan Agreement or the Indenture which by the terms of the Indenture or the Loan Agreement are required to be or which are accompanied by directions that such moneys are to be paid into the Bond Fund. (Section 4.05)

So long as there remain any Bonds Outstanding, moneys in the Bond Fund shall be used solely for the payment, when due, of Debt Service Payments on the Bonds or for the redemption of the Bonds as provided in the Indenture. (Section 4.06)

Payments into Earnings Fund; Application of Earnings Fund

All investment income or earnings on amounts held in the Project Fund, the Earnings Fund or any other special fund held with respect to the Bonds under any of the Financing Documents (other than the Rebate Fund or the Bond Fund) shall be deposited upon receipt by the Trustee into the Earnings Fund.

Within thirty (30) days after the end of each Bond Year, or such later date that the Trustee receives the written certificate required to be delivered by or on behalf of the Institution pursuant to the Indenture and the Tax Compliance Agreement, the Trustee shall withdraw from the Earnings Fund an amount equal to the difference, if any, between the Rebate Amount set forth in such certificate and the amount then on deposit in the Rebate Fund. Any amounts remaining in the Earnings Fund following such transfer shall be transferred to the funds, as specifically directed by the Institution, which were the sources of the earnings deposited into the Earnings Fund. If an Event of Default under the Indenture shall have occurred and the outstanding principal amount of the Bonds shall have been declared due and payable, the entire balance remaining in the Earnings Fund, after making the transfer to the Rebate Fund required in the Tax Compliance Agreement and in the Indenture, shall be transferred to the Bond Fund and thereafter be applied to pay principal of the Bonds on the next occurring Bond Payment Date. (Section 4.08)

Payments Into Rebate Fund; Application of Rebate Fund

The Rebate Fund and the amounts deposited therein shall not be subject to a security interest, pledge, assignment, Lien or charge in favor of the Trustee, the Owner of any Bond or any other Person.

The Trustee, upon the receipt of a certification of the Rebate Amount from an Authorized Representative of the Institution, in accordance with the Tax Compliance Agreement, shall deposit in the Rebate Fund Principal Account within thirty (30) days after the end of each Bond Year, or such later date that the Trustee receives such certification from the Institution, an amount such that the amount held in the Rebate Fund Principal Account after such deposit is equal to the Rebate Amount calculated as of the last day of the prior Bond Year. If there has been delivered to the Trustee a certification of the Rebate Amount in conjunction with the completion of the Facility pursuant to the Tax Compliance Agreement at any time during a Bond Year the Trustee shall deposit in the Rebate Fund Principal Account within thirty (30) days of the Completion Date, or such later date that the Trustee receives such certification from the Institution, an amount such that the amount held in the Rebate Fund Principal Account after such deposit is equal to the Rebate Amount calculated at the Completion Date. The amounts deposited in the Rebate Fund Principal Account pursuant to the Indenture shall be withdrawn from the Earnings Fund, to the extent of any moneys therein and then, to the extent of any deficiency, from such fund or funds as are designated by the Institution to the Issuer and the Trustee in writing.

In the event that on the first day of any Bond Year the amount on deposit in the Rebate Fund Principal Account exceeds the Rebate Amount, the Trustee, upon the receipt of written

instructions from an Authorized Representative of the Institution, shall withdraw such excess amount and prior to the Completion Date, deposit it in the Project Fund or, after the Completion Date, deposit it in the Bond Fund.

The Trustee, upon the receipt of written instructions from an Authorized Representative of the Institution, shall pay to the United States, out of amounts in the Rebate Fund, (i) not later than thirty (30) days after the last day of the fifth Bond Year and after every fifth Bond Year thereafter, an amount equal to ninety percent (90%) of the balance, if any, in the Rebate Fund Principal Account and the total amount on deposit in the Rebate Fund Earnings Account as of the date of such payment and (ii) notwithstanding the provisions of the Indenture, not later than thirty (30) days after the date on which all Bonds have been paid in full, the balance in the Rebate Fund. (Section 4.09)

Investment of Moneys

Moneys held in any fund established by the Indenture (other than the Bond Fund) shall be invested and reinvested by the Trustee in Permitted Investments, pursuant to direction by the Authorized Representative of the Institution. Moneys held in the Bond Fund shall be invested and reinvested, pursuant to direction by the Authorized Representative of the Institution, only in Governmental Obligations maturing as needed. (Section 4.11)

Payment to Institution Upon Payment of Bonds

Except as otherwise specifically provided in the Indenture, after payment in full of (1) the principal of, premium, if any, and interest on all the Bonds (or after provision for the payment thereof has been made in accordance with the Indenture), (2) the fees, charges and expenses of the Trustee and Paying Agent, and (3) all other amounts required to be paid under the Indenture and the Loan Agreement, and provided that all moneys required to be paid into the Rebate Fund have been paid or adequately provided for, all amounts remaining in any fund established pursuant to the Indenture (except the Rebate Fund) or otherwise held by the Trustee and by any additional Paying Agent for the account of the Issuer or the Institution under the Indenture and under the Loan Agreement shall be paid to the Institution. (Section 4.12)

Payments Due on Other Than Business Days

In any case where a Bond Payment Date shall not be a Business Day, then payment of the principal of, premium, if any, and interest on the Bonds need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date due and no interest shall accrue for the period after such date. (Section 5.14)

Priority Rights of Trustee

The rights and privileges of the Institution set forth in the Loan Agreement are specifically made subject and subordinate to the rights and privileges under the Financing Documents of the Trustee and the Holders of the Bonds. (Section 6.01)

Defeasance of Bonds

Any Outstanding Bond shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning of, and with the effect expressed in the Indenture if (i) there shall have been irrevocably deposited with the Trustee sufficient Defeasance Obligations, in accordance with the Indenture which will, without further investment, be sufficient, together with other amounts held for such payment, to pay the principal of the Bonds when due or to redeem the Bonds at the Redemption Price, if any, specified in the Indenture, (ii) in the event such Bonds are to be redeemed prior to maturity in accordance with the Indenture, all action required by the provisions of the Indenture to redeem the Bonds shall have been taken or provided for to the satisfaction of the Trustee, and notice thereof in accordance with the Indenture shall have been duly given or provisions satisfactory to the Trustee shall have been made for the giving of such notice, (iii) provision shall have been made for the payment of all fees and expenses of the Trustee and of any additional Paying Agents with respect to the Bonds, (iv) the Issuer shall have been reimbursed for all of its expenses under the Financing Documents and (v) all other payments required to be made under the Loan Agreement and the Indenture with respect to the Bonds shall have been made or provided for. At such time as a Bond shall be deemed to be paid under the Indenture, as aforesaid, such Bond shall no longer be secured by or entitled to the benefit of the Indenture, except for the purposes of any such payment from such moneys or Defeasance Obligations.

For the purposes of the Indenture the Trustee shall be deemed to hold sufficient moneys to pay the principal of an Outstanding Bond not then due or to redeem Outstanding Bonds prior to the maturity thereof only if there shall be on deposit with the Trustee for such purpose Defeasance Obligations maturing or redeemable at the option of the holder thereof not later than (i) the maturity date of such Bonds, or (ii) the first date following the date on which such Bonds are to be redeemed pursuant to the Indenture (whichever may first occur), or both cash and such Defeasance Obligations, in an amount which, together with income to be earned on such Defeasance Obligations (without reinvestment) prior to such maturity date or Redemption Date, equals the principal due on such Bond, together with the premium, if any, due thereon and all interest thereon which has accrued and which will accrue to such maturity date or Redemption Date. The Trustee may, at the expense of the Institution, obtain a certificate from an Accountant as to whether the cash or Defeasance Obligations held by the Trustee meet the requirements of the Indenture.

Upon the defeasance of all Outstanding Bonds in accordance with the Indenture, the Trustee shall hold in trust, for the benefit of the Holders of such Bonds, all such moneys and/or Defeasance Obligations and shall make no other or different investment of such moneys and/or Defeasance Obligations and shall apply the proceeds thereof and the income therefrom only to the payment of such Bonds. (Section 7.02)

Events of Default

The following shall be "Events of Default" under the Indenture, and the terms "Event of Default" or "Default" shall mean, when they are used in the Indenture, any one or more of the following events:

(a) A default in the due and punctual payment of the interest on any Bond, irrespective of notice; or

(b) A default in the due and punctual payment of the principal or Redemption Price of any Bond whether at the stated maturity thereof, upon proceedings for redemption thereof (except with respect to a proposed optional redemption under the Indenture for which the notice of redemption shall no longer be of force or effect in accordance with the Indenture), or upon the maturity thereof by declaration or otherwise; or

(c) (i) Subject to clause (ii) below, the failure by the Issuer to observe and perform any covenant, condition or agreement under the Indenture on its part to be observed or performed (except obligations referred to in the Indenture) for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Issuer and the Institution by the Trustee or by the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of Outstanding Bonds;

(ii) If the covenant, condition, or agreement which the Issuer has failed to observe or perform is of such a nature that it cannot reasonably be fully cured within such thirty (30) days, the Issuer shall not be in default if the Issuer commences a cure within such thirty (30) days and thereafter diligently proceeds with all action required to complete the cure, and, in any event, completes such cure within sixty (60) days of such written notice from the Trustee or the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Bonds Outstanding, unless the Trustee or the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Outstanding Bonds shall give their written consent to a longer period; or

(d) The occurrence and continuance of an "Event of Default" under the Loan Agreement; or

(e) The occurrence and continuance of an "Event of Default" under the Master Trust Indenture. (Section 8.01)

Acceleration

Upon the occurrence and continuance of an Event of Default under the Indenture, the Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) of the aggregate principal amount of the Outstanding Bonds shall, by written notice delivered to the Issuer and the Institution declare all Bonds Outstanding immediately due and payable, and such Bonds shall become immediately due and payable, anything in the Bonds or in the Indenture to the contrary notwithstanding. (Section 8.02)

Enforcement of Remedies

In the event the Bonds are declared immediately due and payable, the Trustee may, and upon the written request of the Holders as set forth in the Indenture shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Act, the Bonds, the Loan

Agreement, the Obligation No. 5 and the Indenture by such suits, actions or proceedings as the Trustee, being advised by counsel, shall deem necessary or expedient. Upon the occurrence and continuance of any Event of Default, and upon being provided with the security and indemnity if so required pursuant to the Indenture, the Trustee shall exercise such of the rights and powers vested in the Trustee by the Indenture and use the same degree of care and skill in their exercise as a prudent man would exercise or use in the circumstances in the conduct of his own affairs.

The Trustee may sue for, enforce payment of and receive any amounts due or becoming due from the Issuer or the Institution for the payment of the principal, premium, if any, and interest on the Outstanding Bonds under any of the provisions of the Indenture, the Bonds, the Obligation No. 5 or the Loan Agreement without prejudice to any other right or remedy of the Trustee or of the Holders.

In accordance with the Indenture, upon the occurrence and continuance of any Event of Default the Trustee may pursue any available remedy at law or in equity by suit, action, mandamus or other proceeding to enforce the payment of the principal of, premium, if any, on and interest on the Bonds then Outstanding and to enforce and compel the performance of the duties and obligations of the Issuer and the Institution under the Financing Documents. In addition, the Trustee may, without notice to the Issuer or the Institution, exercise any and all remedies afforded the Issuer under the Loan Agreement in its name or the name of the Issuer without the necessity of joining the Issuer.

Regardless of the happening of an Event of Default, the Trustee, if requested in writing by the Holders of not less than fifty-one percent (51%) in the aggregate principal amount of the Outstanding Bonds may, and if provided with the security and indemnity required by the Indenture shall, institute and maintain such suits and proceedings as advised by such Holders shall be necessary or expedient to prevent any impairment of the Trust Estate by any acts which may be unlawful or in violation of the Indenture or of any resolution authorizing the Bonds, or to preserve or protect the interests of the Holders; provided that such request is in accordance with law and the provisions of the Indenture and, in the sole judgment of the Trustee, is not unduly prejudicial to the interests of the Holders not making such request. (Section 8.03)

Application of Moneys

The Net Proceeds received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture shall be deposited in the Bond Fund.

All moneys in the Bond Fund following the occurrence of an Event of Default shall be applied to the payment of the reasonable fees and expenses of the Issuer and the Trustee and then:

(i) Unless the principal of all the Bonds shall have become due or shall have been declared due and payable,

FIRST - To the payment of all installments of the interest then due, in the order of the maturity of the installments of such interest and, if the amount available shall not be

sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment of interest, to the Persons entitled thereto without any discrimination or preference.

SECOND - To the payment of the unpaid principal or Redemption Price of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Indenture), in order of their due dates, with interest on such Bonds, at the rate or rates expressed thereon, from the respective dates upon which such Bonds became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, to the Persons entitled thereto without any discrimination or preference.

THIRD - To the payment of the principal or Redemption Price of and interest on the Bonds as the same become due and payable.

(ii) If the principal of all the Bonds shall have become due by declaration or otherwise, to the payment of the principal and interest (at the rate or rates expressed thereon) then due and unpaid upon all of 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 and interest, to the Persons entitled thereto without discrimination or preference.

(iii) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture then, subject to the provisions of the Indenture in the event that the principal of all the Bonds shall later become due by declaration or otherwise, the moneys shall be applied in accordance with the provisions of the Indenture. (Section 8.05)

Individual Holder Action Restricted

No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for any remedy under the Indenture unless:

(i) an Event of Default has occurred of which the Trustee has been notified as provided in the Indenture or of which under the Indenture the Trustee is deemed to have notice, and

(ii) the Holders of at least fifty-one percent (51%) in aggregate principal amount of Bonds Outstanding shall have made written request to the Trustee to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, and

(iii) such Holders shall have offered the Trustee indemnity as provided in the Indenture, and

(iv) the Trustee shall have failed or refused to exercise the powers granted under the Indenture 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.

No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Indenture or to enforce any right under the Indenture except in the manner provided for in the Indenture and for the equal benefit of the Holders of all Bonds Outstanding. (Section 8.09)

Supplemental Indentures Not Requiring Consent of Holders

Without the consent of or notice to any of the Holders, the Issuer and the Trustee may enter into one or more Supplemental Indentures, not inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

(i) In connection with the issuance of Additional Bonds, to set forth such matters as are specifically required or permitted under the Indenture;

(ii) To cure any ambiguity or formal defect or omission in the Indenture;

(iii) To grant to or confer upon the Trustee for the benefit of the Holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders or the Trustee;

(iv) To add to the covenants and agreements of the Issuer in the Indenture, other covenants and agreements to be observed by the Issuer;

(v) To more precisely identify the Trust Estate;

(vi) To subject to the Lien of the Indenture additional revenue, receipts, Property or collateral;

(vii) To evidence the appointment of a successor Trustee;

(viii) To preserve the tax-exempt status of the Bonds; or

(ix) To effect any other change in the Indenture which, in the judgment of the Trustee based on an opinion of Independent Counsel, is not to the prejudice of the Trustee or the Holders. (Section 10.01)

Supplemental Indentures Requiring Consent of Holders

Except as provided in the Indenture, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds shall have the right, from time to time, to consent to and approve the execution by the Issuer and the Trustee of such Supplemental Indentures as shall be deemed necessary and desirable by the Issuer for the purpose of modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture or in any Supplemental Indenture or in the Bonds; provided, however, that nothing contained in the Indenture shall permit: (i) a change in the terms of redemption or maturity of the principal or the time of payment of interest on any Outstanding Bond or a reduction in the principal amount of or premium, if any, on any Outstanding Bond or the rate of interest thereon, without the consent of the Holder of such Bond; or (ii) the creation of a Lien upon the Trust Estate ranking prior to or on a parity with the Lien created by the Indenture, without the consent of the Holders of all Outstanding Bonds; or (iii) the creation of a preference or priority of any Bond or Bonds over any other Bond or Bonds, without the consent of the Holders of all Outstanding Bonds; or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, without the consent of the Holders of all Outstanding Bonds.

If at any time the Issuer shall request the Trustee to enter into a Supplemental Indenture for any of the purposes of the Indenture, the Trustee, upon being satisfactorily indemnified with respect to expenses, shall cause notice to be given in in accordance with the Indenture; provided, however, that the failure to give such notice or any defect therein shall not affect the validity of any proceeding taken pursuant to the Indenture.

If the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds Outstanding at the time of the execution of any such Supplemental Indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Holder of any Bond shall have any right to object to any of the terms and provisions contained therein or in any manner to question the propriety of the execution thereof or enjoin or restrain the Trustee or the Issuer from executing the same or from taking any action pursuant to the provisions thereof. (Section 10.02)

Amendments to Loan Agreement

Without the consent of or notice to the Holders, the Issuer and the Institution may enter into, and the Trustee may consent to, any amendment, change or modification of the Loan Agreement as may be required (i) by the provisions thereof or of the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission therein, (iii) for the purpose of issuing Additional Bonds under the Indenture, (iv) in connection with the description of the Facility, (v) in order to preserve the tax-exempt status of the Bonds or (vi) in connection with any other change therein, which, in the sole judgment of the Trustee based on an opinion of Independent Counsel, does not adversely affect the interests of the Trustee or the Holders. Except for amendments, changes or modifications as provided in the Indenture, neither the Issuer nor the Trustee shall consent to any amendment, change or modification of the Loan Agreement without notice thereof being given to the Holders in the manner provided in the Indenture and the

written approval or consent of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds procured and given in the manner set forth in the Indenture; provided, however, that no such amendment shall be permitted which changes the terms of payment under the Indenture without the consent of the Holders of all Outstanding Bonds. (Section 11.01).

Amendments to Tax Compliance Agreement

Without the consent of or notice to the Holders, the Issuer and the Institution may enter into, and the Trustee may consent to, any amendment, change or modification of the Tax Compliance Agreement as may be required (i) by the provisions thereof or of the Indenture, (ii) for the purpose of curing any ambiguity or formal defect or omission therein, (iii) for the purpose of issuing Additional Bonds under the Indenture, (iv) in connection with the description of the Facility, (v) in order to preserve the tax-exempt status of the Bonds, or (vi) in connection with any other change therein, which, in the sole judgment of the Trustee based on an opinion of Independent Counsel, does not adversely affect the interests of the Trustee or the Holders. Except for amendments, changes or modifications as provided in the Indenture, neither the Issuer nor the Trustee shall consent to any amendment, change or modification of the Tax Compliance Agreement without notice thereof being given to the Holders in the manner provided in the Indenture and the written approval or consent of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Outstanding Bonds procured and given in the manner set forth in the Indenture; provided, however, that no such amendment shall be permitted which changes the terms of payment thereunder without the consent of the Holders of all Outstanding Bonds. (Section 11.03)

[END OF APPENDIX D]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT AND PLEDGE AND ASSIGNMENT

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following description of certain provisions of the Loan Agreement is only a brief outline of some of the provisions thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Loan Agreement for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Completion by Institution

The Institution unconditionally covenants and agrees under the Loan Agreement that it will complete the Project, or cause the Project to be completed, by the Completion Date, and that such completion will be effected in a workmanlike manner, using high-grade materials, free of defects in materials or workmanship (including latent defects), as applicable, and in accordance with the Loan Agreement and the Indenture. In the event that moneys in the Project Fund are not sufficient to pay the costs necessary to complete the Project in full, the Institution shall pay that portion of such costs of the Project as may be in excess of the moneys therefor in said Project Fund and shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or the Holders of any of the Series 2015 Bonds (except from the proceeds of Additional Bonds which may be issued for that purpose), nor shall the Institution be entitled to any diminution of the debt service payments payable or other payments to be made under the Loan Agreement. (Section 2.2)

Issuance of Series 2015 Bonds

On the Closing Date, or on such other date as the Issuer, the Trustee, and the Institution may mutually agree upon, the Trustee shall deposit the proceeds of the Series 2015 Bonds in the Project Fund (i) upon receipt of the Series 2015 Bonds and (ii) subject to the terms and conditions of the Indenture. Additional Bonds may be issued and purchased from time to time, as set forth in the Indenture on a pari passu basis with the Series 2015 Bonds. Each series of Additional Bonds shall be issued only for the purpose provided in the Supplemental Indenture executed in connection therewith.

The Issuer under the Loan Agreement agrees to loan the proceeds of the Series 2015 Bonds to the Institution and the Institution under the Loan Agreement agrees to pay to the Trustee the principal of and interest on the Series 2015 Bonds and all other amounts due under the Loan Agreement in accordance with the terms of the Loan Agreement, the Indenture and the Series 2015 Bonds. (Section 3.1)

Payment Provisions; Pledge of Loan Agreement

The Institution covenants to make debt service payments for and in respect of the Series 2015 Bonds pursuant to the Loan Agreement, which the Issuer agrees shall be paid by the Institution directly to the Trustee on or prior to each Bond Payment Date for deposit in the Bond Fund in an amount equal to the sum of (i) the interest then becoming due and payable on the Series 2015 Bonds on such Bond Payment Date (less any amount available in the Project Fund for transfer to the Bond Fund), (ii) the principal amount of the Series 2015 Bonds then Outstanding which will become due on such Bond Payment Date (whether at maturity or by redemption or acceleration as provided in the Indenture), and (iii) the principal of and redemption premium, if any, including sinking fund installments, on the Series 2015 Bonds to be redeemed which will become due on such Bond Payment Date together with accrued interest to the such date of redemption.

In addition, the Institution shall pay, as an additional payment, within fifteen (15) days after receipt of an invoice setting forth the nature and payee of each such expense and demand for payment therefor, the expenses payable by the Issuer to the Trustee pursuant to and under the Indenture.

If the Obligation No. 5 is outstanding, payments may be made thereunder for any payments under the Loan Agreement required to pay the principal of redemption premium, if any, and interest on the Series 2015 Bonds when due (whether at maturity or by redemption or acceleration or otherwise as provided in the Indenture), payments shall be made on behalf of the Institution by the Trustee with funds received by the Trustee from the Institution with respect to the Obligation No. 5 pursuant to the Indenture, and any amounts paid under the Obligation No. 5 for such purposes shall be credited against the payments due from the Institution under the Loan Agreement with respect to such payments on the Series 2015 Bonds to the extent that funds are paid under the Obligation No. 5 and applied by the Trustee to such payments on the Series 2015 Bonds.

Notwithstanding anything contained in the Loan Agreement to the contrary, the Institution's payment obligations under the Loan Agreement shall be deemed satisfied to the extent the Trustee receives corresponding payments from the Institution under and pursuant to the Obligation No. 5. (Section 3.2)

Obligation of Institution Unconditional

The obligations of the Institution to pay debt service payments and all other payments provided for in the Loan Agreement and to maintain the Facility in accordance with the Loan Agreement constitute a general obligation of the Institution and shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim or deduction and without any rights of suspension, deferment, diminution or reduction it might otherwise have against the Issuer, the Trustee or the Holder of any Series 2015 Bond and the obligation of the Institution shall arise whether or not the Project has been completed as provided in the Loan Agreement. (Section 3.3)

Maintenance, Alterations and Improvements

During the term of the Loan Agreement, the Institution will keep the Facility in good and safe operating order and condition, ordinary wear and tear excepted, will occupy, use and operate the Facility in the manner for which it was designed and intended and contemplated by the Loan Agreement, and will make all replacements, renewals and repairs thereto (whether ordinary or extraordinary, structural or nonstructural, foreseen or unforeseen) as provided in the Master Trust Indenture. (Section 4.1)

Taxes, Assessments and Charges

The Institution shall pay, when the same shall become due, all taxes and assessments, general and specific, if any, levied and assessed upon or against the Facility, any estate or interest of the Institution in the Facility, or the payments under the Loan Agreement during the term of the Loan Agreement and all water and sewer charges, special district charges, assessments and other governmental charges and impositions whatsoever, foreseen or unforeseen, ordinary or extraordinary, under any present or future law, and charges for public or private utilities or other charges incurred in the occupancy, use, operation, maintenance or upkeep of the Facility. (Section 4.3)

Insurance

At all times throughout the term of the Loan Agreement including, without limitation, during any period of construction or renovation of the Facility, the Institution shall maintain insurance with insurance companies licensed to do business in the State (or authorized in the State under the Federal Liability Risk Retention Act), against such risks, loss, damage and liability (including liability to third parties) and for such amounts as are customarily insured against by other enterprises of like size and type as that of the Institution. (Section 4.4)

Damage, Destruction and Condemnation

In the event that at any time during the term of the Loan Agreement, the whole or part of the Facility shall be damaged or destroyed, or the whole or any part of the Facility shall be taken or condemned by a competent authority for any public use or purpose, or by agreement between the Issuer and those authorized to exercise such right, or if the temporary use of the Facility or any part thereof shall be so taken by Condemnation or agreement (a "Loss Event"): (i) the Issuer shall have no obligation to rebuild, replace, repair or restore the Facility, (ii) there shall be no abatement, postponement or reduction in the debt service payments or other amounts payable by the Institution under the Loan Agreement, and (iii) the Institution will promptly give written notice of such Loss Event to the Issuer and the Trustee, generally describing the nature and extent thereof.

Upon the occurrence of a Loss Event, any Net Proceeds derived therefrom shall be paid to the Institution and applied by the Institution in accordance with the Master Trust Indenture.

Notwithstanding the foregoing, if all or substantially all of the Facility shall be taken or condemned, or if the taking or Condemnation renders the Facility unsuitable for use by the

Institution as contemplated by the Loan Agreement, the Institution shall exercise its option to terminate the Loan Agreement pursuant to the Loan Agreement, and the Institution shall thereupon pay to the Trustee for deposit in the Bond Fund an amount which, when added to any amounts then in the Bond Fund and available for that purpose, shall be sufficient to retire and redeem the Series 2015 Bonds in whole at the earliest possible date (including, without limitation, principal and interest to the maturity or redemption date and redemption premium, if any), and to pay the expenses of redemption, the fees and expenses of the Issuer, the Bond Registrar, the Trustee and the Paying Agent, together with all other amounts due under the Indenture and under the Loan Agreement, and such amount shall be applied, together with such other available moneys in such Bond Fund, if applicable, to such redemption or retirement of the Bonds on said redemption or maturity date. (Section 5.1)

Restrictions on Institution

The Institution covenants that it will maintain its corporate existence, will continue to operate as a not-for-profit organization, will obtain, maintain and keep in full force and effect such governmental approvals, consents, licenses, permits and accreditations as may be necessary for the continued operation of the Institution, will not dissolve or otherwise dispose of all or substantially all of its assets and will not consolidate with or merge into another corporation or permit one or more corporations to consolidate with or merge into it unless otherwise permitted by the terms of the Loan Agreement. Furthermore, such sale, transfer, consolidation, merger, acquisition or other disposition shall occur only if permitted under the Master Trust Indenture. (Section 6.1)

Indemnity

The Institution shall at all times protect and hold the Issuer, the Trustee, the Bond Registrar and the Paying Agent, and any of their respective directors, members, officers, employees, servants or agents or any of such Persons and persons under the control or supervision of any of such Persons (collectively, the "Indemnified Parties") harmless of, from and against any and all claims (whether in tort, contract or otherwise), taxes (of any kind and by whomsoever imposed), demands, penalties, fines, liabilities, lawsuits, actions, proceedings, settlements, costs and expenses (collectively, "Claims") of any kind for losses, damage, injury and liability (collectively, "Liability") of every kind and nature and however caused (except, with respect to any Indemnified Party, Liability arising from the gross negligence or willful misconduct of such Indemnified Party), arising during the period commencing from the date the Issuer adopted the inducement resolution for the Project, and continuing throughout the term of the Loan Agreement and for the relevant statute of limitations thereafter for any Claim arising during such term (subject to the Loan Agreement), upon or about the Facility or resulting from, arising out of, or in any way connected with the events described in the Loan Agreement. (Section 6.2)

Notice by the Institution

The Institution shall promptly notify the Issuer and the Trustee of the occurrence of any Event of Default or any event which with notice and/or lapse of time would constitute an Event of Default under any Financing Document of which it has knowledge. Any notice

required to be given pursuant to the Loan Agreement shall be signed by an Authorized Representative of the Institution and set forth a description of the default and the steps, if any, being taken to cure said default. If no steps have been taken, the Institution shall state this fact on the notice. (Section 6.6)

Events of Default

Any one or more of the following events shall constitute an "Event of Default" under the Loan Agreement: (a) failure of the Institution to pay any debt service payment that has become due and payable by the terms of the Loan Agreement which results in a default in the due and punctual payment of the principal of, redemption premium, if any, or interest on any Bond; (b) failure of the Institution to pay any amount (except as set forth in the Loan Agreement) that has become due and payable or to observe and perform any covenant, condition or agreement on its part to be performed under the Loan Agreement, and continuance of such failure for a period of thirty (30) days after receipt by the Institution of written notice from the Issuer, the Trustee, or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, specifying the nature of such default; (c) failure of the Institution to observe and perform any covenant, condition or agreement under the Loan Agreement on its part to be performed (except as set forth in the Loan Agreement) and (1) continuance of such failure for a period of thirty (30) days after receipt by the Institution of written notice specifying the nature of such default from the Issuer, the Trustee, or the Holders of more than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, or (2) if by reason of the nature of such default the same can be remedied, but not within the said thirty (30) days, and the Institution fails to proceed with reasonable diligence after receipt of said notice to cure the same or fails to continue, with reasonable diligence, its efforts to cure the same; (d) the Institution shall (i) apply for or consent to the appointment of or the taking of possession by a receiver, liquidator, custodian or trustee of itself or of all or a substantial part of its property, (ii) admit in writing its inability, or be generally unable, to pay its debts as such debts generally become due, (iii) make a general assignment for the benefit of its creditors, (iv) commence a voluntary case under the federal Bankruptcy Code (as now or in effect after the date of the Loan Agreement), (v) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, (vi) take any action for the purpose of effecting any of the foregoing, or (vii) be adjudicated a bankrupt or insolvent by any court; (e) a proceeding or case shall be commenced, without the application or consent of the Institution, in any court of competent jurisdiction, seeking, (i) liquidation, reorganization, dissolution, winding-up or composition or adjustment of debts, (ii) the appointment of a trustee, receiver, liquidator, custodian or the like of the Institution or of all or any substantial part of its assets, (iii) similar relief under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing against the Institution shall be entered and continue unstayed and in effect, for a period of ninety (90) days or (iv) the Institution shall fail to controvert in a timely or appropriate manner, or acquiesce in writing to, any petition filed against itself in an involuntary case under such Bankruptcy Code; the terms "dissolution" or "liquidation" of the Institution as used above shall not be construed to prohibit any action otherwise permitted by the Loan Agreement; (f) any representation or warranty made (i) by or on behalf of the Institution in the application and related materials submitted to the Issuer or the initial purchaser(s) of the

Series 2015 Bonds for approval of the Project or its financing, or (ii) by the Institution in the Loan Agreement or in any of the other Financing Documents, or (iii) in the Bond Purchase Contract, or (iv) in the Tax Compliance Agreement, or (v) any report, certificate, financial statement or other instrument furnished pursuant to the Loan Agreement or any of the foregoing shall prove to be false, misleading or incorrect in any material respect as of the date made; or (g) an "Event of Default" caused by the Institution under the Indenture or under any other Financing Document shall occur and be continuing. (Section 7.1)

Remedies on Default

Whenever any Event of Default referred to in the Loan Agreement shall have occurred and be continuing, the Issuer, or the Trustee where so provided, may take any one or more of the following remedial steps:

(a) The Trustee, as and to the extent provided in the Indenture, may cause all principal installments of debt service payments payable under the Loan Agreement for the remainder of the term of the Loan Agreement to be immediately due and payable, whereupon the same, together with the accrued interest thereon, shall become immediately due and payable; provided, however, that, upon the occurrence of an Event of Default under the Loan Agreement, all principal installments of debt service payments payable under the Loan Agreement for the remainder of the term of the Loan Agreement, together with the accrued interest thereon, shall immediately become due and payable without any declaration, notice or other action of the Issuer, the Trustee, the Holders of the Bonds or any other Person being a condition to such acceleration;

(b) The Issuer or the Trustee may take whatever action at law or in equity as may appear necessary or desirable to collect the debt service payments then due and thereafter to become due, or to enforce performance or observance of any obligations, agreements or covenants of the Institution under the Loan Agreement;

(c) The Trustee may take any action permitted under the Indenture with respect to an Event of Default thereunder; and

(d) The Issuer, without the consent of the Trustee or any Bondholder, may proceed to enforce its Reserved Rights by bringing an action for damages, injunction or specific performance and the Institution under the Loan Agreement appoints the Issuer its true and lawful agent and attorney-in-fact (which appointment shall be deemed to be an agency coupled with an interest) with full power of substitution to file on its behalf all affidavits, questionnaires and other documentation necessary to accomplish such conveyance.

In the event that the Institution fails to make any debt service or other payment required in the Loan Agreement, the payment so in default shall continue as an obligation of the Institution until the amount in default shall have been fully paid. (Section 7.2)

Remedies Cumulative

The rights and remedies of the Issuer or the Trustee under the Loan Agreement shall be cumulative and shall not exclude any other rights and remedies of the Issuer or the Trustee allowed by law with respect to any default under the Loan Agreement. (Section 7.4)

Options

The Institution has the option to make advance debt service payments for the deposit in the Bond Fund to effect the retirement of the Bonds in whole or the redemption in whole or in part of the Bonds, all in accordance with the terms of the Indenture; *provided*, *however*, that, no partial redemption of the Bonds may be effected through advance debt service payments under the Loan Agreement if there shall exist and be continuing an Event of Default.

The Institution shall have the option to terminate the Loan Agreement on any date during the term of the Loan Agreement by causing the redemption, purchase or defeasance in whole of all Outstanding Bonds in accordance with the terms set forth in the Indenture. (Section 8.1)

Termination of Loan Agreement

After full payment of the Bonds or provision for the payment in full thereof having been made in accordance with the Indenture and the payment of the fees and expenses of the Issuer, the Paying Agent, the Bond Registrar and the Trustee and all other amounts due and payable under the Loan Agreement or the Indenture, together with any amounts required to be rebated to the federal government pursuant to the Indenture or the Tax Compliance Agreement, the Loan Agreement shall terminate, subject, however, to the survival of the obligations of the Institution under the Loan Agreement. (Section 8.4)

Assignment

The Institution may not at any time, except as otherwise permitted pursuant to the Loan Agreement, assign or transfer the Loan Agreement, without the prior written consent of the Issuer and the Trustee (which consents shall not be unreasonably withheld); *provided*, *further*, that, (1) the Institution shall nevertheless remain liable to the Issuer for the payment of all debt service payments and for the full performance of all of the terms, covenants and conditions of the Loan Agreement and of any other Financing Document to which it shall be a party, (2) any assignee or transferee of the Institution in whole of the Facility shall have assumed in writing and have agreed to keep and perform all of the terms of the Loan Agreement on the part of the Institution to be kept and performed, shall be jointly and severally liable with the Institution for the performance thereof, shall be subject to service of process in the State, and, if a corporation, shall be qualified to do business in the State, (3) in the Opinion of Counsel addressed to the Issuer and Trustee, such assignment or transfer shall not legally impair in any respect the obligations of the Institution for the payment of all debt service payments nor for the full performance of all of the terms, covenants and conditions of the Loan Agreement or of any other Financing Document to which the Institution shall be a party, nor impair or limit in any respect the obligations of any obligor under any other Financing Document, (4) any assignee or transferee shall be a Tax-Exempt Organization or, if not a Tax-Exempt Organization, upon receipt of an opinion of Bond Counsel addressed to the Issuer and the Trustee as to the non-

includability in gross income of interest on the Bonds for purposes of federal income taxation, and shall utilize the Facility in compliance with the Act, (5) such assignment or transfer shall not violate any provision of the Loan Agreement, the Indenture or any other Financing Document, (6) such assignment or transfer shall in no way diminish or impair the Institution's obligation to carry the insurance required under the Loan Agreement and the Institution shall furnish written evidence satisfactory to the Issuer and the Trustee that such insurance coverage shall in no manner be limited by reason of such assignment or transfer, (7) each such assignment or transfer contains such other provisions as the Issuer or the Trustee may reasonably require, and (8) in the opinion of Bond Counsel, such assignment or transfer shall not cause the interest on the Bonds to be includable on gross income for federal income taxes. The Institution shall furnish or cause to be furnished to the Issuer and the Trustee a copy of any such assignment or transfer in substantially final form at least thirty (30) days prior to the date of execution thereof. (Section 9.3)

Amendments

In accordance with the terms thereof, the Loan Agreement may be amended only with the concurring written consent of the Trustee given in accordance with the provisions of the Indenture (Section 9.6)

Inspection of Facility

The Institution will permit the Trustee, or its duly authorized agents, at all reasonable times during normal business hours upon written notice to enter upon the Facility and to examine and inspect the Facility and available, exercise their rights under the Loan Agreement, under the Indenture and under the other Financing Documents with respect to the Facility. (Section 9.10)

SUMMARY OF CERTAIN PROVISIONS OF THE PLEDGE AND ASSIGNMENT

The following description of the Pledge and Assignment is only a brief outline thereof, and does not purport to summarize or describe all of the provisions thereof. Reference is made to the Pledge and Assignment for details of the provisions thereof.

All terms not otherwise defined below shall have the meaning given to such terms in Appendix C attached to the Official Statement.

Pursuant to the Pledge and Assignment, the Issuer will grant to the Trustee a lien on and security interest in, and pledge, assign, transfer and set over to the Trustee all of the Issuer's right, title and interest in any and all moneys due or to become due to the Issuer and any and all other rights and remedies of the Issuer under or arising out of the Loan Agreement (except for Reserved Rights).

[END OF APPENDIX E]

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The following summarizes certain provisions of the Master Indenture to which reference is made for the detailed provisions thereof. Such summary does not purport to be complete and reference is made to the Master Indenture for full and complete statements of such and all provisions. Defined terms used in the Master Indenture shall have the meanings ascribed to them in this Appendix F.

Definitions

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

"Affiliate" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by the Corporation or by any Person which directly or indirectly controls the Corporation or (ii) controls, directly or indirectly, the Corporation. For purposes of this definition, control means the ownership of not less than 25% of the voting securities of a Person or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Annual Debt Service" means the Long-Term Debt Service Requirement for each Fiscal Year.

"Audited Financial Statements" means the combined financial statements of the Corporation and its subsidiaries, if any, for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants.

"Board of Directors" means the board of directors of the Corporation.

"Capitalization" means the sum of the aggregate Long-Term Indebtedness of the Corporation, plus the aggregate unrestricted fund balance of the Corporation, all as calculated in accordance with generally accepted accounting principles.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Consultant" means a firm or firms which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any Affiliate, and which is a professional management consultant of national repute for having the skill and experience necessary to render the particular report required by the provision of the Master Trust

Indenture in which such requirement appears and which is reasonably acceptable to the Master Trustee.

"Corporate Charter" means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

"Corporate Trust Office" means the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date of the Master Trust Indenture is located in Buffalo, New York.

"Corporation" means Highland Hospital of Rochester, a not-for-profit corporation organized and existing under the laws of the State, and its successors and assigns and any surviving, resulting or transferee corporation thereof.

"Corporation Representative" means the Person at the time designated to act on behalf of the Corporation in a written certificate furnished to the Master Trustee, which certificate shall contain a specimen signature of such Person and shall be signed on behalf of the Corporation by the Chief Executive Officer or Chief Financial Officer of the Corporation or by his designee.

"Derivative Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Corporation entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Indebtedness" means all or a portion of any Indebtedness incurred by the Corporation pursuant to or in connection with a Derivative Agreement.

"Derivative Period" means the time period during which a Derivative Agreement is in effect.

"Event of Default" means, with respect to the Master Trust Indenture, any one or more of those events set forth in Section 4.01 of the Master Trust Indenture.

"Fiscal Year" means the fiscal year of the Corporation, which shall be the period commencing on January 1 of any year and ending on December 31 of the following year unless the Master Trustee is notified in writing by the Corporation of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

"Fitch" means Fitch Ratings Ltd. (formerly known as Fitch IBCA).

"Government Obligations" means (i) U.S. Treasury Certificates, Notes and Bonds, including State and Local Government Series; (ii) direct obligations of the U.S. Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities; (iii) obligations of the Resolution Funding Corp. (REFCORP); provided, however, that only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable; (iv) pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P; provided, however, that if the issue is only rated by S&P then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition; and (v) obligations which are backed by the full faith and credit of the U.S. issued by (a) U.S. Export-Import Bank (Eximbank), direct obligations or fully guaranteed certificates of beneficial ownership, (b) Farmers Home Administration (FmHA), certificates of beneficial ownership, (c) Federal Financing Bank, (d) General Services Administration, participation certificates, (e) U.S. Maritime Administration, guaranteed Title XI financing, (f) U.S. Department of Housing and Urban Development (HUD), Project Notes, local authority bonds, new communities debentures (U.S. government guaranteed debentures), and U.S. Public Housing Notes and Bonds (U.S. government guaranteed public housing notes and bonds).

"Governmental Restrictions" means federal, state or other applicable governmental laws or regulations affecting the Corporation or its operations placing restrictions and limitations on the (i) fees and charges to be fixed, charged and collected by the Corporation or (ii) the amount or timing of the receipt of such revenues.

"Gross Receipts" means all Accounts and all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of the Corporation, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Trust Indenture, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by the Corporation, and (d) rentals received from the leasing of real or tangible personal property.

"Guaranty" means any obligation of the Corporation guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not the Corporation which obligation of such other Person would, if such obligation were the obligation of the Corporation, constitute Indebtedness under the Master Trust Indenture.

"Holder" means the owner of any Obligation issued in registered form.

"Income Available for Debt Service" means, with respect to the Corporation, as to any Fiscal Year, the excess of revenues over expenses before depreciation, amortization and interest

expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) any unrealized gains and losses on investments or (c) any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets, and (2) revenues shall not include income from the investment of funds held in a Qualified Escrow to the extent that such income has been or is required to be applied to the payment of principal of or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness.

"Indebtedness" means (i) all indebtedness of the Corporation for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by the Corporation, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness.

"Insurance Consultant" means a firm or person which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and, if being retained to evaluate alternative risk management programs, including self-insurance, which has the skill and experience necessary to render such an evaluation.

"Issuer" means the County of Monroe Industrial Development Agency, a local development corporation existing under the laws of the State of New York, and any successor thereto.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of the Corporation which secures any Indebtedness or any other obligation of the Corporation or which secures any obligation of any Person, other than an obligation to the Corporation.

"Long-Term Debt Service Coverage Ratio" means for any period of time the ratio determined by dividing the Income Available for Debt Service by Annual Debt Service.

"Long-Term Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long-Term Indebtedness of the Corporation during such period, also taking into account (i) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that, with respect to new Variable Rate Indebtedness, the interest rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such

Indebtedness was incurred and thereafter shall be calculated as set forth above; and (ii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Corporation on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the Corporation under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, or is in default thereunder, the amount of interest payable by the Corporation shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available in a Qualified Escrow (other than principal and interest so payable solely by reason of the Corporation's failure to make payments from other sources).

"Long-Term Indebtedness" means Indebtedness with a term greater than one (1) year.

"Master Trust Indenture" or "Indenture" means the Master Trust Indenture, dated as of June 1, 2005, including any amendments or supplements to the Master Trust Indenture.

"Master Trustee" means Manufacturers and Traders Trust Company, Buffalo, New York, in the trusts created under the Master Trust Indenture.

"Moody's" means Moody's Investor Service.

"Net Book Value", when used in connection with Property and Equipment or other Property of any Person, means the value of such property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles, and when used in connection with Property and Equipment or other Property of the Corporation, means the aggregate of the values so determined with respect to such Property and Equipment or other Property of the Corporation determined in such a manner that no portion of Property and Equipment or other Property is included more than once.

"New Group" shall have the meaning given in Section 3.13 of the Master Trust Indenture.

"New Trustee" shall have the meaning given in Section 3.13 of the Master Trust Indenture.

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien, the liability for which is effectively limited to the Property, the purchase or acquisition or, in the case of vacant land only, the improvement of which was financed with the proceeds of such Non-Recourse Indebtedness and which is subject to such Lien with no recourse, directly or indirectly, to any other Property of the Corporation.

"Obligation" means the evidence of particular Indebtedness issued under the Master Trust Indenture.

"Officer's Certificate" means a certificate signed by (i) the chairman of the Board of Directors, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Board of Directors of the Corporation as the context requires or (ii) the Corporation Representative. Each Officer's Certificate presented under the Master Trust Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of) the Master Trust Indenture and shall incorporate by reference and use in all appropriate instances all terms defined in the Master Trust Indenture. Each Officer's Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer's Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

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

"Opinion of Counsel" means an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for the Corporation or other counsel acceptable to the Master Trustee.

"Outstanding" when used with reference to Indebtedness means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Trust Indenture, Obligations or Related Bonds that are owned by the Corporation or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Corporation shall be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge as being so owned shall be deemed to be not Outstanding.

"Permitted Liens" means those Liens described in Section 3.05 of the Master Trust Indenture.

"Person" means an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Pledged Assets" means all Gross Receipts of the Corporation, now owned or hereafter acquired, and all proceeds thereof.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property and Equipment" means all Property of the Corporation which is property and equipment under generally accepted accounting principles.

"Qualified Escrow" means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness or Related Bonds secured by such Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Corporation's payment obligations with respect to principal of or interest on (a) the Long-Term Indebtedness or Related Bonds secured thereby which are issued under the documents establishing such fund or account or (b) Long-Term Indebtedness or Related Bonds secured thereby which are issued prior to the establishment of such fund or account.

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

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

"Related Bonds" means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer"), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) the Corporation in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or (ii) any Person other than the Corporation in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by the Corporation of a Guaranty in respect of such indebtedness or other obligation, which Guaranty is represented by an Obligation.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Replacement Master Trust Indenture" shall have the meaning given in Section 3.13 of the Master Trust Indenture.

"S&P" or "Standard & Poor's" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"Short-Term Indebtedness" means indebtedness with a term of one (1) year or less, but not including accounts payable by the Corporation in the ordinary course of its operations.

"State" means the State of New York.

"Subordinated Indebtedness" means Indebtedness of the Corporation that by the terms thereof is specifically junior and subordinate to the Obligations with respect to payment of principal and interest thereon and that is evidenced by an instrument containing provisions substantially the same as those set forth in Exhibit A to the Master Trust Indenture.

"Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust 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 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.

"Total Operating Revenues" means, with respect to the Corporation, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt or the lease of any such asset.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

(Section 1.01)

Execution and Authentication of Obligations

Each Obligation shall be executed for and on behalf of the issuer thereof, by the chairman of its Board of Directors, its president, chief executive officer, or chief financial officer. The signature of any such officer may be mechanically or photographically reproduced on the Obligation. If any officer whose signature appears on any Obligation ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Each Obligation shall be manually authenticated by an authorized officer of the Master Trustee, without which authentication no Obligation shall be entitled to the benefits of the Master Trust Indenture.

The Master Trustee's authentication certificate shall be substantially in the following form:

MASTER TRUSTEE'S AUTHENTICATION CERTIFICATE

The undersigned Master Trustee hereby certifies that this Obligation No. ____ is one of the Obligations described in the within-mentioned Master Trust Indenture.

MANUFACTURERS AND TRADERS TRUST COMPANY, as Master Trustee

By _____
Authorized Signatory

(Section 2.03)

Supplement Creating Indebtedness

The Corporation and the Master Trustee may from time to time enter into a Supplement in order to create Indebtedness under the Master Trust Indenture. Such Supplement shall, with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of, redemption premium, if any, and interest on such Obligation shall be payable, and the form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture.

(Section 2.04)

Security; Restrictions on Encumbering Property; Payment of Principal and Interest

(a) Except as otherwise provided in any Supplement with respect to the issuance of an Obligation, which exception shall apply only to the particular Obligation issued pursuant to such Supplement:

(i) Any Obligation issued pursuant to the Master Trust Indenture shall be a general obligation of the issuer of such Obligation.

(ii) To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by the Corporation of its other obligations under the Master Trust Indenture, the Corporation pledges, assigns and grants to the Master Trustee a security interest in its Pledged Assets.

(iii) At least one (1) business day prior to the delivery of the first Obligation under the Master Trust Indenture, there shall be delivered to the Master Trustee duly executed financing statements to evidence the security interest of the Master Trustee in the Pledged Assets in the form required by the New York Uniform Commercial Code with copies sufficient in number for filing

in the office of the Secretary of State in Albany, New York and in the office of the City Clerk of the City of Rochester, New York.

(iv) The Corporation shall also execute and deliver to the Master Trustee from time to time such amendments or supplements to the Master Trust Indenture as may be necessary or appropriate to include as security under the Master Trust Indenture the Pledged Assets. In particular, the Corporation covenants that it will, at least thirty (30) days prior to the expiration of any financing statement, prepare and file such continuation statements of existing financing statements as shall, in the Opinion of Counsel, be necessary to comply with applicable law and shall provide to the Master Trustee written notice of such filing. If the Master Trustee shall not have received such notice at least twenty-five (25) days prior to the expiration date of any such financing statement, the Master Trustee shall prepare and file or cause the Corporation to prepare and file such continuation statements in a timely manner to assure that the security interest in Pledged Assets shall remain perfected.

(v) Without limiting the generality of the foregoing, such security interest shall apply to all rights to receive Gross Receipts whether in the form of accounts receivable, contract rights or other rights, and to the proceeds thereof. The security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter owned or acquired by the Corporation.

(b) The Corporation covenants that it will not pledge or grant a security interest in any of its Property except (i) as provided in subsection (a) of this summarized section and (ii) any pledge or grant of a security interest in Property, the purchase or acquisition or, in the case of vacant land only, the improvement of which is financed with the proceeds of Non-Recourse Indebtedness secured by a Lien on such Property with no recourse, directly or indirectly, to any other Property of the Corporation.

(c) The Corporation covenants promptly to pay or cause to be paid the principal of, redemption premium, if any, and interest on each Obligation issued under the Master Trust Indenture at the place, on the dates and in the manner provided in the Master Trust Indenture, in the Supplement and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Except as otherwise provided in any Supplement with respect to the issuance of an Obligation, the Corporation covenants that, subject to the rights, if any, of holders of Permitted Liens, if an Event of Default shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured, such Gross Receipts to be applied in accordance with Section 4.04 of the Master Trust Indenture.

(Section 3.01)

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

The Corporation covenants:

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

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

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

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

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Indebtedness created and Outstanding under the Master Trust Indenture) whose validity, amount or collectability is being contested in good faith.

(f) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(g) To procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Healthcare Organizations or other

applicable recognized accrediting body; provided, however, that it need not comply with this summarized subsection (g) if and to the extent that its Board of Directors shall have determined in good faith, evidenced by a resolution of the Board of Directors, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) So long as the Master Trust Indenture shall remain in force and effect, the Corporation agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or to fail to take any action which action or failure to act (including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization) would, in the Opinion of Bond Counsel, result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal income tax purposes.

(Section 3.02)

Insurance

The Corporation agrees that it will maintain, or cause to be maintained, such insurance with respect to the operation and maintenance of its Property (including one or more self-insurance programs considered by an Insurance Consultant to be reasonable and appropriate) of such type and in such amounts as are normally carried by hospital facilities of similar type and size and against such risks as are customarily insured against in connection with hospital operations and hospital facilities of similar type and size.

(Section 3.03)

Insurance and Condemnation Proceeds

(a) Amounts that do not exceed 20% of the Net Book Value of the Property and Equipment of the Corporation received by the Corporation as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

(b) Amounts that exceed 20% of the Net Book Value of the Property and Equipment of the Corporation received by the Corporation as insurance proceeds with respect to any casualty loss or as condemnation awards shall be applied in such manner as the recipient may determine; provided, however, that the recipient shall notify the Master Trustee and within sixty (60) days after the casualty loss or taking, deliver to the Master Trustee:

> (i) (A) An Officer's Certificate certifying the expected Long Term Debt Service Coverage Ratio for each of the two (2) full Fiscal Years following the date on which such proceeds or awards are expected to have been fully applied, which Long Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, and (B) if the amount of such proceeds

or awards received with respect to any casualty loss or condemnation exceeds thirty percent (30%) of the Net Book Value of the Property and Equipment of the Corporation, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long Term Debt Service Coverage Ratio for each of the periods described in clause (i) of this subsection (b) to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, at the highest practicable level.

The Corporation agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions described in clause (i), or the recommendations described in clause (ii), of this subsection (b).

(c) Notwithstanding the foregoing, if, in the opinion of the Consultant delivered pursuant to clause (ii) of subsection (b), attainment of the Long Term Debt Service Coverage Ratio of at least 1.00 for each of the periods described in clause (i) of subsection (b) is impracticable, such proceeds or awards shall be delivered to the Master Trustee and applied by the Master Trustee, after payment of (i) the costs and expenses, including reasonable counsel fees, of the proceedings resulting in the collection of such moneys incurred or made by the Master Trustee under the Master Trust Indenture as follows:

(A) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(B) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(C) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Trust Indenture, then, subject to the provisions of paragraph (B) of this subsection (c) in the event that the principal of all Outstanding 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 this subsection (c).

Whenever all Obligations and interest thereon have been paid under the provisions of this subsection (c) and all expenses and charges, including reasonable counsel fees, 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 Corporation, its successors, or as a court of competent jurisdiction may direct.

(Section 3.04)

Limitations on Indebtedness

Additional Indebtedness may be incurred by the Corporation as Obligations under the Master Trust Indenture or otherwise; provided that, so long as any Obligations are Outstanding and any Supplement with respect to the issuance of Obligations is in effect, the Corporation shall not incur any additional Indebtedness that is prohibited under the terms of any such Supplement or Supplements.

(Section 3.06)

Consolidation, Merger, Sale or Conveyance

(a) The Corporation covenants that it will not merge into or consolidate with, or sell or convey all or substantially all of its assets to any Person unless:

(i) The successor corporation or entity shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation or entity to assume the due and punctual payment of the principal of, redemption premium, if any, and interest on all Outstanding Obligations issued under the Master Trust Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Trust Indenture and any Supplement to the Master Trust Indenture and granting to the Master Trustee a security interest in the Pledged Assets of such successor corporation or entity; and

(ii) The successor corporation or entity immediately after such merger or consolidation, or such sale or conveyance, would not be in default in the performance or observance of any covenant or condition of the Master Trust Indenture and the condition described in the section of the Master Trust Indenture entitled “Limitations on Indebtedness” would be met for the incurrence of one (1) additional dollar of Long-Term Indebtedness; and

(iii) If all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion from gross income for purposes of federal income taxation of interest payable on such Related Bond.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation or entity, such successor corporation or entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Trust Indenture as such predecessor. Such successor corporation or entity thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Trust Indenture; and upon the order of such successor corporation or entity and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation or entity shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation or entity under the Master Trust Indenture shall in all respects have the same security position and benefit under the Master Trust Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Trust Indenture as though all of such Obligations had been issued under the Master Trust Indenture without any such consolidation, merger, sale or conveyance having occurred.

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

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this summarized section and that it is proper for the Master Trustee under the provisions of the Master Trust Indenture with respect to defaults and remedies and of this summarized section to join in the execution of any instrument required to be executed and delivered by this summarized section.

(Section 3.09)

Filing of Audited Financial Statements, Certificate of No Default and Other Information

The Corporation covenants that it will:

(a) Within thirty (30) days after receipt of the Audited Financial Statements but in no event later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of such Audited Financial Statements.

(b) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and

financial affairs (or of any consolidated or combined group of companies, including its consolidated or combined subsidiaries, including the Corporation) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records, and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request, subject to patient confidentiality and safety concerns.

(c) Within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Trust Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(Section 3.10)

Replacement Master Trust Indenture

Each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds shall surrender such Obligation to the Master Trustee and each Related Bond Trustee for Related Bonds shall, with the prior written consent of the bond insurer, if any, or credit facility provider, if any, for such Related Bonds, surrender any Obligation issued to secure such Related Bonds to the Master Trustee, upon presentation to the Holder or the Related Bond Trustee, as the case may be, of the following:

(a) an original replacement note or similar obligation (the "Substitute Obligation") duly executed, authenticated and issued under and pursuant to an existing or new master trust indenture, trust agreement, bond order, bond resolution or similar instrument (the "Replacement Master Trust Indenture") by which the party or parties purported to be obligated thereby (the "New Group") have agreed to be bound; provided, however, that:

(i) the trustee serving as master trustee under such Replacement Master Trust Indenture (the "New Trustee") shall be an independent corporate trustee (which may be the Master Trustee or the Related Bond Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Master Trust Indenture; and

(ii) for so long as any Related Bonds issued by the Issuer are outstanding, the Replacement Master Trust Indenture shall have been approved by the Issuer, unless the Replacement Master Trust Indenture shall be an existing master trust indenture, trust agreement, bond order, bond resolution or similar instrument by which any member of the New Group is already bound and the issuance of bonds secured thereby has already been authorized or approved by the Issuer, in which case the consent of the Issuer will not be required;

(b) an original counterpart or certified copy of the Replacement Master Trust Indenture pursuant to which each member of the New Group has agreed (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Trust Indenture and (ii) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Trust Indenture) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the

Replacement Master Trust Indenture at the times and in the amounts provided in each such note or obligation;

(c) an Opinion of Counsel addressed to the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, and the Corporation to the effect that: (1) the Replacement Master Trust Indenture has been duly authorized, executed and delivered or has been duly adopted, as the case may be, by each member of the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the Corporation, and the Replacement Master Trust Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, enforceable in accordance with their terms, subject in each case to customary exceptions for bankruptcy, insolvency, fraudulent conveyance and other laws generally affecting enforcement of creditors' rights and application of general principles of equity; (2) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Trust Indenture have been complied with and satisfied; and (3) registration of the Substitute Obligation under the Securities Act of 1933, as amended, and qualification of the Replacement Master Trust Indenture under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said Acts have been complied with;

(d) an Officer's Certificate certifying that the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Trust Indenture for the incurrence of one (1) additional dollar of Long-Term Indebtedness described in the section of the Master Trust Indenture entitled "Limitations on Indebtedness", as demonstrated in such certificate;

(e) an Opinion of Bond Counsel that the surrender of the Obligation and the acceptance by the Related Bond Trustee of the Substitute Obligation will not adversely affect the validity of any Related Bonds or any exemption for the purposes of federal or state income taxation to which interest on any Related Bonds would otherwise be entitled;

(f) evidence that (i) written notice of such substitution, together with a copy of such Replacement Master Trust Indenture, has been given by the New Group to each rating agency, if any, then maintaining a rating on any Obligation or Related Bonds and (ii) the then current rating category on each such Obligation or Related Bonds shall not be withdrawn or reduced (without regard to any rating refinement or gradation by numerical modifier or otherwise) by any such rating agency as a result of such substitution;

(g) evidence that written notice of such substitution and rating confirmation, together with a copy of such Replacement Master Trust Indenture, has been given by the New Group to each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee under each Related Bond Indenture, as the case may be, not less than forty-five (45) days prior to the execution and delivery of the Replacement Master Trust Indenture; and

(h) such forecasts and other opinions and certificates as the Issuer may require and such other opinions and certificates as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the

Master Trustee or the bond insurer, if any, or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee, the Issuer or the bond insurer, if any, or credit facility provider, if any, may request.

Notwithstanding any other provisions of this summarized section, no Substitute Obligation may be issued without the prior written consent of fifty-one percent (51%) of the Holders of the Obligations, and no Substitute Obligations may extend the stated maturity of or time for paying interest on any Obligation surrendered to the Master Trustee or reduce the principal amount of or the redemption premium or rate of interest payable on such Obligation without the consent of each Holder of such Obligation evidencing and securing Indebtedness other than Related Bonds or the registered owners of all Related Bonds then outstanding, as the case may be.

(Section 3.13)

Events of Default

Event of Default, as used in the Master Trust Indenture, shall mean any of the following events:

(a) The Corporation shall fail to make any payment of the principal of, the redemption premium, if any, or interest on any Obligations issued and Outstanding under the Master Trust Indenture when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or of any Supplement;

(b) The Corporation shall fail duly to perform, observe or comply with any covenant or agreement on its part under the Master Trust 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 Corporation by the Master Trustee, or to the Corporation and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it shall not constitute an Event of Default if corrective action is instituted within such thirty (30) day period and diligently pursued until the Event of Default is corrected;

(c) An event of default shall occur under a Related Bond Indenture or upon a Related Bond and continue beyond any applicable cure period provided for therein;

(d) The Corporation shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Trust Indenture and Non-Recourse Indebtedness), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, which event of default shall not have been waived by the

holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall be deemed waived and thereafter not constitute an Event of Default within the meaning of this summarized section for so long as such payment shall be contested in good faith if within thirty (30) days of such acceleration written notice is delivered to the Master Trustee, signed by the Corporation Representative, that the Corporation is contesting the payment of such Indebtedness and the amount of such Indebtedness is less than one-half of one percent (1/2%) of Income Available for Debt Service of the immediately preceding Fiscal Year, or if such Indebtedness is equal to or greater than one-half of one percent (1/2%) of Income Available for Debt Service, within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, the Corporation in good faith shall commence proceedings to contest the obligation to pay or the existence or payment of such Indebtedness;

(e) The entry of a decree or order by a court having jurisdiction in the premises for an order for relief against the Corporation, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Corporation under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of the Corporation or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and

(f) The institution by the Corporation of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of the Corporation or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

(Section 4.01)

Acceleration; Annulment of Acceleration

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Trust Indenture, the Master Trustee may and, upon the written request of (i) the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, shall, by notice to the Corporation, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in any other section of the Master Trust Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent

is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated there shall be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, all interest which accrues thereon from the date of acceleration to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Corporation has paid or caused to be paid or deposited with the Master Trustee moneys or Government Obligations sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Corporation has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Corporation under the Master Trust Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may, and upon the written request of Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations Outstanding shall, annul such declaration of acceleration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

(Section 4.02)

Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Trust Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Suit upon all or any part of the Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders;

(iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders;

(v) Enforcement of rights, if any, as a secured party under the Uniform Commercial Code of the State of New York; and

(vi) Enforcement of any other right of the Holders conferred by law or by the Master Trust Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Trust Indenture by any acts which may be unlawful or in violation of the Master Trust Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Trust Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders not making such request.

(Section 4.03)

Application of Moneys after Default

During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Trust Indenture with respect to defaults and remedies, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Trust Indenture and (ii) in the sole discretion of the Master Trustee, the payment of the expenses of operating the Corporation, shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal,

or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Trust Indenture with respect to defaults and remedies, then, subject to the provisions of paragraph (b) of this summarized section in the event that the principal of all Outstanding 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 this summarized section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this summarized section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of this summarized section and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation, its successors, or as a court of competent jurisdiction may direct.

(Section 4.04)

Remedies Not Exclusive

No remedy by the terms of the Master Trust Indenture conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Master Trust Indenture or existing at law or in equity or by statute on or after the date of the Master Trust Indenture.

(Section 4.05)

Waiver of Event of Default

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the provisions of the Master Trust Indenture with respect to defaults and

remedies to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Trust Indenture, or before the completion of the enforcement of any other remedy under the Master Trust Indenture.

(c) Notwithstanding anything contained in the Master Trust Indenture to the contrary, the Master Trustee, upon the written request of the Holders of not less than a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Trust Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of the section of the Master Trust Indenture entitled "Acceleration; Annulment of Acceleration", a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations (with respect to which such payment default exists) at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Trust Indenture, the Corporation, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Trust Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

(Section 4.09)

Notice of Default

The Master Trustee shall, within ten (10) days after it has knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured or properly waived before the giving of such notice; provided that, except in the case of default in the payment of the principal of, redemption premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) of the section of the Master Trust Indenture entitled "Events of Default", the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or any responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

(Section 4.12)

Certain Duties and Responsibilities

(a) Except during the continuance of an Event of Default:

(i) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Trust Indenture, and no implied covenants or obligations shall be read into the Master Trust Indenture against the Master Trustee; and

(ii) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Master Trustee and conforming to the requirements of the Master Trust Indenture; but in the case of any such certificates or opinions which by any provision of the Master Trust Indenture are specifically required to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Master Trust Indenture.

(b) In case an Event of Default has occurred and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Trust Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(c) No provision of the Master Trust Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this subsection (c) shall not be construed to limit the effect of subsection (a) of this summarized section;

(ii) the Master Trustee shall not be liable for any error of judgment made in good faith by a chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer or employee of the Master Trustee customarily performing functions similar to those performed by any of the above designated officers or with respect to a particular matter, any other officer or employee to whom such matter is referred because of his knowledge of and familiarity with the particular subject, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(iii) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Trust Indenture, except under the circumstances set forth in subsection (c) of the section of the Master Trust

Indenture entitled "Waiver of Event of Default" requiring the consent of the Holders of all the Obligations at the time Outstanding; and

(iv) no provision of the Master Trust Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial or other liability, directly or indirectly, in the performance of any of its duties under the Master Trust Indenture, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of the Master Trust Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this summarized section.

(Section 5.01)

Removal and Resignation of the Master Trustee

(a) The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, if no Event of Default shall have occurred and be continuing, by an instrument in writing signed by the Corporation Representative. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor trustee as provided below) has been appointed and has assumed the trusts created by the Master Trust Indenture. Written notice of such resignation or removal shall be given to the Corporation and to each Holder at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Corporation Representative, if no Event of Default shall have occurred and be continuing, or at the direction of the Holders of not less than a majority in aggregate principal amount of Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, the Corporation or any Holder may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

(b) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least Ten Million Dollars ($10,000,000), if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(c) Every successor Master Trustee howsoever appointed under the Master Trust Indenture shall execute, acknowledge and deliver to its predecessor and also to the Corporation an instrument in writing, accepting such appointment under the Master Trust Indenture, and

thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all material records relating to the trust or copies thereof and, on request, communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

(d) Each successor Master Trustee, not later than ten (10) days after its assumption of the duties under the Master Trust Indenture, shall mail a notice of such assumption to each registered Holder.

(Section 5.04)

Supplements Not Requiring Consent of Holders

The Corporation, when authorized by resolution or other action of equal formality by its Board of Directors, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Master Trust Indenture.

(b) To correct or supplement any provision in the Master Trust Indenture which may be inconsistent with any other provision in the Master Trust Indenture, or to make any other provisions with respect to matters or questions arising under the Master Trust Indenture and which shall not materially and adversely affect the interests of the Holders.

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of the Master Trust Indenture.

(d) To qualify the Master Trust Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Indebtedness as permitted under the Master Trust Indenture.

(f) To obligate a successor to the Corporation as provided in the Master Trust Indenture.

(g) To comply with the provisions of any federal or state securities law.

(Section 6.01)

Supplements Requiring Consent of Holders

(a) Other than Supplements referred to in the section of the Master Trust Indenture entitled "Supplements Not Requiring Consent of Holders" and subject to the terms and provisions and limitations contained in the provisions of the Master Trust Indenture with respect to defaults and remedies and not otherwise, the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by the Corporation, when authorized by resolution or other action of equal formality by its Board of Directors, and the Master Trustee of such Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Trust Indenture; provided, however, nothing in this summarized section shall permit or be construed as permitting a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, redemption premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) If at any time the Corporation shall request the Master Trustee to enter into a Supplement pursuant to this summarized section, which request is accompanied by a copy of the resolution or other action of its Board of Directors certified by its secretary, and the proposed Supplement and if the Master 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 Obligations specified in subsection (a) for the Supplement in question which instrument or instruments shall refer to the proposed Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee, thereupon, but not otherwise, the Master Trustee may execute such Supplement in substantially such form, without liability or responsibility to any Holder, whether or not such Holder shall have consented thereto.

(c) Any such consent shall be binding upon the Holder giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Supplement, such revocation and, if such Obligation is transferable by delivery, proof that

such Obligation is held by the signer of such revocation in the manner permitted by the Master Trust Indenture. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Supplement, the Master Trustee shall make and file with the Corporation a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding shall have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Corporation from executing the same or from taking any action pursuant to the provisions thereof.

(Section 6.02)

[Remainder of page intentionally left blank.]

SUMMARY OF CERTAIN PROVISIONS OF THE SUPPLEMENTAL INDENTURE NO. 6 FOR OBLIGATION NUMBER NO. 5

The following summarizes certain provisions of the Supplemental Indenture No. 6 for Obligation No. 5 to which reference is made for the detailed provisions thereof. Such summary does not purport to be complete and reference is made to the Supplemental Indenture No. 6 for Obligation No. 5 for full and complete statements of such and all provisions.

Definitions

For the purposes of the Supplemental Indenture No. 6 for Obligation No. 5, unless the context otherwise indicates the following words and phrases shall have the following meanings. All terms used in the Supplemental Indenture No. 6 for Obligation No. 5 which are defined in the Master Trust Indenture shall have the meanings assigned to them in the Master Trust Indenture:

"Accountant" means a firm of independent certified public accountants of favorable reputation selected by the Corporation subject to the consent of the Bond Trustee, whose consent shall not be unreasonably withheld.

"Additional Indebtedness" means Indebtedness incurred by the Corporation subsequent to the issuance of the Bonds.

"Affiliate" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by the Corporation or by any Person which directly or indirectly controls the Corporation or (ii) controls, directly or indirectly, the Corporation. For purposes of this definition, control means the ownership of not less than 25% of the voting securities of a Person or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Annual Debt Service" means the Long Term Debt Service Requirement for each Fiscal Year.

"Board of Directors" means the board of directors of the Corporation.

"Bond Trustee" means Manufacturers and Traders Trust Company, a banking corporation duly organized and validly existing under the laws of the State of New York, and any successor to its duties under the Indenture.

"Bonds" means the $38,645,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015.

"Business Day" means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in 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 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.

"Consultant" means a firm or firms which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any Affiliate, and which is a professional management consultant of national repute for having the skill and experience necessary to render the particular report required by the provision of Supplement No. 6 in which such requirement appears and which is reasonably acceptable to the Bond Trustee.

"Corporation" means Highland Hospital of Rochester, a not-for-profit corporation organized and existing under the laws of the State, and its successors and assigns and any surviving, resulting or transferee corporation thereof.

"Covenant Defeasance" means, with respect to Indebtedness, Indebtedness for which there has been deposited with a trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the holders of such Indebtedness, (i) cash or (ii) non-callable U.S. Government Obligations maturing as to principal and interest at such times and in such amounts as will insure the availability of cash (without consideration of any reinvestment of such principal or interest) or (iii) a combination thereof, in an amount sufficient, taking into account the interest or increment to accrue on such U.S. Government Obligations, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Corporation, to pay the principal of, premium, if any, and each installment of interest on all such Indebtedness on the date that such principal, premium, if any, and interest is due and payable.

"Derivative Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Corporation entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Indebtedness" means all or a portion of any Indebtedness incurred by the Corporation pursuant to or in connection with a Derivative Agreement.

"Derivative Period" means the time period during which a Derivative Agreement is in effect.

"Equipment" means all machinery, equipment, fixtures, building materials and other personal property acquired, constructed and installed and used and/or to be acquired, constructed and installed and used in connection with the issuance of the Bonds and financed or refinanced with proceeds of the Bonds.

"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 the Corporation.

"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 as is selected by the Corporation.

"Funded Indebtedness" means (a) all Indebtedness of a Person for money borrowed or credit extended which is not Short-Term; (b) all Indebtedness of a Person incurred or assumed in connection with the acquisition or construction of Property which is not Short-Term; (c) Guaranties of Indebtedness which is not Short-Term; and (d) Capitalized Rentals under Capitalized Leases; 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 Supplement No. 6.

"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: (1) 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 obligations of any Person pursuant to (i) any arrangement with any other Person whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated principal amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same amount, or (ii) any option, futures contract, put, call, straddle or other instrument or technique entered into for hedging or other risk management purposes of such Person, in each case which arrangement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Improvements" means all those building and improvement (i) affixed or attached to the land owned or leased by the Corporation, (ii) financed or refinanced with the

proceeds of the Bonds or of any other amounts paid by the Corporation, and (iii) not part of the Equipment, all as they may exist from time to time.

"Income Available for Debt Service" means, for any given Fiscal Year, the excess of revenues after expenses, less any interest expense, depreciation and amortization, loss on early extinguishments of debt, plus any gain on fixed assets.

"Indebtedness" means (a) all Guaranties and (b) all liabilities of a Person (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and shall include, without limitation, Non-Recourse Indebtedness; provided that Indebtedness shall not include (i) any Hedging Obligation, or (ii) any Indebtedness subject to Covenant Defeasance.

"Indenture" means the Indenture of Trust, dated as of September 1, 2015, between the Issuer and the Bond Trustee, as may be amended or supplemented from time to time.

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

"Issuer" means (i) Monroe County Industrial Development Corporation and its successors and assigns and (ii) any not-for-profit corporation resulting from or surviving any consolidation or merger to which the Monroe County Industrial Development Corporation or its successors or assigns may be a party.

"Land, Buildings and Equipment" means all Property of a Person which is classified as land, buildings and equipment under generally accepted accounting principles.

"Lien" means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person other than the Corporation and any Capitalized Lease under which the Corporation is lessee.

"Long Term Debt Service Coverage Ratio" means for any period of time the ratio determined by dividing the Income Available for Debt Service by Annual Debt Service.

"Long Term Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long Term Indebtedness of the Corporation during such period, also taking into account (i) with respect to Variable Rate Indebtedness that is Long Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that, with respect to new Variable Rate Indebtedness, the interest

rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness was incurred and thereafter shall be calculated as set forth above; and (ii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Corporation on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by the Corporation under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, or is in default thereunder, the amount of interest payable by the Corporation shall be the interest calculated as if such Derivative Agreement had not been executed; provided, however, that interest shall be excluded from the determination of Long Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long Term Indebtedness and provided further, however, that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long Term Indebtedness shall not include principal and interest payable from funds available in a Qualified Escrow (other than principal and interest so payable solely by reason of the Corporation's failure to make payments from other sources).

"Long-Term Indebtedness" means Indebtedness with a term greater than one (1) year.

"Maximum Annual Debt Service" means the maximum of annual debt service on any Outstanding Long-Term Indebtedness in any Fiscal Year.

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

"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 Land, Buildings and Equipment and the income therefrom, the cost of

which Land, Buildings and Equipment shall have been financed with the proceeds of such Indebtedness with no recourse, directly or indirectly, to any other Property of such Person.

"Obligation No. 5" means the Obligation issued pursuant to Supplemental Indenture No. 6 for Obligation No. 5.

"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.

"Person" means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, 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.

"Qualified Escrow" means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Corporation's payment obligations with respect to principal of or interest on (a) the Long-Term Indebtedness secured thereby which are issued under the documents establishing such fund or account or (b) Long-Term Indebtedness secured thereby which are issued prior to the establishment of such fund or account.

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

"Rating Category" shall mean one of the generic rating categories of a Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise.

"Short-Term", when used in connection with Indebtedness, means Indebtedness 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 Financial Services LLC, a Delaware limited liability company which is a subsidiary of McGraw Hill Financial, Inc., its successors and assigns.

"Supplement No. 6" means the Supplemental Indenture No. 6 for Obligation No. 5.

"Total Operating Revenues" means, with respect to the Corporation, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Unrestricted Cash and Investments" means the sum of cash, cash equivalents and unrestricted or unencumbered long-term marketable of liquid investments, board restricted assets and any short-term investments.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

"Written Request" means a request in writing signed by the President or any Vice President of the Corporation, or any other officers designated by the Corporation.

(Section 1)

Payments on Obligation No. 5; Credits.

(a) Principal of, interest and any applicable redemption premium on, Obligation No. 5 are payable in any coin or currency of the United States of America which on the payment date is legal tender for the payment of public and private debts. Except as provided in subsection (b) of this summarized section with respect to credits, and the provisions of Supplement No. 6 regarding prepayment, payments on the principal of, redemption premium, if any, and interest on, Obligation No. 5 shall be made at the times and in the amounts specified in Obligation No. 5 in clearing house funds by the Corporation depositing the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable (or the next preceding business day if such date is a Saturday, Sunday or holiday in the city in which the principal corporate trust office of the Bond Trustee is located), and giving notice to the Master Trustee of each payment of principal, interest or premium on Obligation No. 5, specifying the amount paid and identifying such payment as a payment on Obligation No. 5.

(b) The Corporation shall receive credit for payment on Obligation No. 5, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 5 in an amount equal to moneys deposited in the Bond Fund created under the Indenture which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 5.

(ii) On installments of principal on Obligation No. 5 in an amount equal to moneys deposited in the Bond Fund created under the Indenture which amounts are available to pay principal or sinking fund installments of the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 5.

(iii) On installments of principal of and interest on Obligation No. 5 in an amount equal to the principal amount of Bonds which have been called by the Bond Trustee for redemption or purchase in lieu of redemption prior to maturity and for the redemption or purchase in lieu of redemption of which sufficient amounts in cash are on deposit in the Bond Fund created under the Indenture, or otherwise held by the Bond Trustee for redemption or purchase in lieu of redemption by the Bonds, to the extent such amounts have not been previously credited against payments on Obligation No. 5, and interest on such Bonds from and after the date fixed for redemption or purchase in lieu of redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 5, and interest on such Bonds from and after the date fixed for redemption or purchase in lieu of redemption thereof. Such credits shall be made against the installments of principal of and interest on Obligation No. 5 which would be due, but for such call for redemption or purchase in lieu of redemption, to pay principal of and interest on such Bonds when due at maturity.

(iv) On installments of principal of and interest, respectively, on Obligation No. 5 in an amount equal to the principal amount of Bonds acquired by the Corporation, delivered to the Bond Trustee for cancellation and cancelled by the Bond Trustee. Such credits shall be made against the installments of principal of and interest on Obligation No. 5 which would be due, but for such cancellation, to pay principal of and interest on Bonds at maturity.

(Section 3)

Mutilation, Destruction, Loss and Theft of Obligation No. 5

If (i) Obligation No. 5 is surrendered to the Master Trustee in a mutilated condition, or the Corporation and the Master Trustee receive evidence to their satisfaction of the destruction, loss or theft of Obligation No. 5 and (ii) there is delivered to the Corporation and the Master Trustee such security or indemnity as may be required by them to hold them harmless, then, in the absence of proof satisfactory to the Corporation and the Master Trustee that Obligation No. 5 has been acquired by a bona fide purchaser and upon the Holder's paying the reasonable expenses of the Corporation and the Master Trustee, the Corporation shall cause to be executed and the Master Trustee shall authenticate and deliver, in exchange for such mutilated Obligation No. 5, a new Obligation No. 5 of like principal amount, date and tenor. Every mutilated Obligation No. 5 so surrendered to the Master Trustee shall be cancelled by it and delivered to, or upon the order of, the Corporation. If any such mutilated, destroyed, lost or stolen Obligation No. 5 has become or is about to become due and payable, Obligation No. 5 may be paid when due instead of delivering a new Obligation No. 5.

(Section 6)

Execution and Authentication of Obligation No. 5

Obligation No. 5 shall be manually executed for and on behalf of the Corporation by its Chief Executive Officer or Chief Financial Officer. If any officer whose signature appears on Obligation No. 5 ceases to be such officer before delivery thereof, such signature shall remain valid and sufficient for all purposes as if such officer had remained in office until such delivery. Obligation No. 5 shall be manually authenticated by an authorized officer of the Master Trustee,

without which authentication Obligation No. 5 shall not be entitled to the benefits of Supplement No. 6.

(Section 7)

Right to Redeem

Obligation No. 5 shall be subject to redemption, in whole or in part, prior to the maturity, in an amount equal to the principal amount of any Bond called for redemption or purchase in lieu of redemption pursuant to the Indenture, and cancelled by the Bond Trustee. Obligation No. 5 shall be subject to redemption on the date any Bond shall be so redeemed or purchased, and in the manner provided in the Supplement No. 6.

(Section 8)

Tax Exempt Status

The Corporation covenants in Supplement No. 6 that so long as all amounts due or to become due on any Bond have not been fully paid to the holder thereof, it will not take any action or suffer any action to be taken by others, including the alteration or loss of its status as a Tax-Exempt Organization, which would result in the interest payable on any Bond becoming includable in gross income of the holder thereof for purposes of federal income taxation under the Internal Revenue Code of 1986, as amended.

(Section 12)

Special Covenants

The Corporation covenants and agrees in Supplement No. 6 that the following provisions shall be in effect so long as Obligation No. 5 is Outstanding under the Master Trust Indenture and the Bonds are Outstanding under the Indenture, and such provisions will not be amended or modified without the prior written consent of the owner of Obligation No. 5 so long as Obligation No. 5 is Outstanding under the Master Trust Indenture and the Bonds are Outstanding under the Indenture:

(a) Rate Covenant.

(i) The Corporation agrees to fix, charge and collect rates, fees and charges for the use of, and for the services furnished or to be furnished by, the Corporation, sufficient, together with other available funds, to pay its obligations and expenses and to produce Income Available for Debt Service in each Fiscal Year equal to 110% of the Annual Debt Service on all Long-Term Indebtedness for such Fiscal Year (excluding, however, principal and interest with respect to any such indebtedness incurred to pay the cost of Improvements until the first Fiscal Year commencing after the estimated date of occupancy or utilization of such Improvements).

(ii) If in any Fiscal Year the Income Available for Debt Service is less than the above-required amounts, within 30 days of the receipt of the audit report for such

Fiscal Year the Corporation is required to employ a Consultant (1) to review and analyze the financial condition of the Corporation, including the financial reports required under Supplement No. 6, (2) to inspect the Corporation's Facilities and review its operation and administration, and (3) to submit a written report to the Corporation and the Bond Trustee recommending revisions of the rates, fees and charges of the Corporation and the methods of operation of the Corporation that will result in producing the amount so required in such following Fiscal Year. The Corporation will revise its rates, fees and charges, or alter its methods of operation and take such other action as is necessary to comply with such recommendations, to the extent not prohibited by law. If the Corporation complies with all recommendations of the Consultant with respect to its rates, fees, charges and methods of operation, to the extent not prohibited by law, and otherwise complies with the requirements of the Indenture, the failure of Income Available for Debt Service to meet the requirements set forth above will not constitute an Event of Default under the Indenture so long as Income Available for Debt Service is not less than 100% of Annual Debt Service on Long-Term Indebtedness for such Fiscal Year.

(b) Additional Indebtedness.

(1) To provide additional funds (i) to pay for the costs of Improvements, (ii) to complete the payment of the costs of any Improvements which were financed with the proceeds from the sale of any additional bonds, taxable notes or the incurrence of any alternative indebtedness, or (iii) to refund any outstanding Long-Term Indebtedness, Additional Indebtedness of the Corporation may be issued and secured on a parity with the Bonds, at one time or from time-to-time.

(2) Additional Indebtedness may be issued for the original cost of Improvements only if, among other things:

(i) the Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was not less than 125% of the Maximum Annual Debt Service on all Outstanding and proposed Long-Term Indebtedness as shown on a statement signed by an Accountant and approved by the Corporation, or

(ii) (A) the Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was at least equal to 110% of the Maximum Annual Debt Service on all Long-Term Indebtedness for those two Fiscal Years as shown, on a statement signed by an Accountant and approved by the Corporation, and (B) the Bond Trustee receives a written report from the Consultant (together with appropriate schedules to support such report) stating that the estimated Income Available for Debt Service for each of the two Fiscal Years immediately following the Fiscal Year in which the additional facilities are estimated to be placed in service is at least 110% of the Maximum Annual Debt Service on all Outstanding Long-Term Indebtedness (including the proposed Additional Indebtedness) in any future Fiscal Year in which Bonds will be Outstanding; provided that, if the principal amount of Long-Term Indebtedness, including such proposed Additional Indebtedness, issued

during the current Fiscal Year is not in excess of the 10% of Total Operating Revenues of the Corporation for the most recent Fiscal Year as shown by the Corporation's audited financial statements, and if the Maximum Annual Debt Service on all Outstanding Long-Term Indebtedness (including the proposed Additional Indebtedness) does not exceed 15% of the Corporation's Total Operating Revenues as shown on the Corporation's audited financial statements for the Corporation's most recently completed Fiscal Year, the Corporation may substitute for the report of the Consultant an Officer's Certificate of the Corporation setting forth the same information and stating the required conclusions.

(iii) The 110% requirements in clauses (2)(ii)(A) and (B) immediately above will be satisfied if such percentage is less than 110% but at least 100% if the Bond Trustee receives a written report from the Consultant stating that the principal reason for Income Available for Debt Service falling below 110% of Maximum Annual Debt Service on Long-Term Indebtedness is legislative, regulatory or administrative action by the federal or state government that is applicable to all hospitals of a similar size and nature.

(3) Additional Indebtedness may be issued to refund any Outstanding Long-Term Indebtedness only if, among other things: (i) Maximum Annual Debt Service on the Long-Term Indebtedness Outstanding after giving effect to the issuance of such Additional Indebtedness will, for the period during which all indebtedness not to be refunded remains Outstanding, be not greater than 110% of the Maximum Annual Debt Service on account of all Long-Term Indebtedness Outstanding immediately prior to the issuance of such Additional Indebtedness; or (ii) the requirements of clauses (2)(ii)(A) or (B) above are satisfied with respect to the issuance of the proposed Additional Indebtedness.

(4) The Corporation may incur Short-Term Indebtedness to provide for working capital needs provided that at no time may the aggregate amount of Outstanding Short-Term Indebtedness exceed the greater of 10% of Total Operating Revenues.

(5) The Corporation may incur Non-Recourse Indebtedness for any lawful corporate purpose, provided that such Non-Recourse Indebtedness does not exceed 20% of Total Operating Revenues.

(c) Transfer of Assets. The Corporation may sell, loan, transfer and dispose of Corporation property to non-Affiliates, in any Fiscal Year, subject to the following conditions:

(i) The Income Available for Debt Service for each of the two preceding Fiscal Years for which audited financial statements are available was not less than 125% of the Maximum Annual Debt Service on all Outstanding and proposed Long-Term Indebtedness as shown on a statement signed by an Accountant and approved by the Corporation; and

(ii) In the case of Unrestricted Cash and Investments, the value of such property to be sold, loaned, transferred or disposed of does not exceed $5,000,000 in any Fiscal Year.

(d) Removal of Covenants upon Rating Upgrade. If, at any time, the Corporation shall be rated in the second highest Rating Category from both Moody's and S&P, then the covenants set forth above in clauses (a), (b) and (c) shall not be in effect and Supplement No. 6 shall be read as if they had been deleted. If the Corporation shall be downgraded below the second highest Rating Category after achieving such rating, then the covenants set forth above in clauses (a), (b) and (c) shall be reinstated and shall remain in effect until the Corporation is in compliance with the first sentence of this summarized clause (d) again.

(Section 13)

Additional Remedies Upon Certain Events of Default

If an Event of Default shall occur as a result of (i) a failure by the Corporation to make any payment of the principal of, the redemption premium, if any, or interest on Obligation No. 5 when and as the same shall become due and payable, whether at maturity, by proceedings for redemption, or otherwise, in accordance with the terms thereof, of the Master Trust Indenture or Supplement No. 6, (ii) a failure by the Corporation duly to perform, observe or comply with any covenant or agreement on its part under Supplement No. 6 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 Corporation by the Master Trustee, or to the Corporation and the Master Trustee by the Holder of Obligation No. 5, or (iii) an event of default having occurred in connection with the Bonds or any resolution, indenture or loan agreement relating thereto and such event of default shall have continued beyond any applicable cure period provided for therein, then, notwithstanding any provisions of the Master Trust Indenture or Supplement No. 6 to the contrary, the Holder of Obligation No. 5 may, in addition to the other remedies set forth in the Master Trust Indenture and Supplement No. 6, require immediate acceleration of all payments thereunder by providing written notice to the Corporation and the Master Trustee declaring Obligation No. 5 immediately due and payable.

(Section 14)

[Remainder of page intentionally left blank.]

APPENDIX G

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the delivery of the Series 2015 Bonds, Harris Beach PLLC, Bond Counsel to the Issuer, proposes to deliver its legal opinion in substantially the following form:

_____, 2015

Monroe County Industrial Development Corporation
8100 CityPlace
50 West Main Street
Rochester, New York 14614

Re: $38,645,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015

Ladies and Gentlemen:

We have examined the record of proceedings in connection with the issuance by the Monroe County Industrial Development Corporation (the "Issuer") of its $38,645,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (Highland Hospital of Rochester Project), Series 2015 (the "Series 2015 Bonds" or the "Bonds") for the benefit of the Institution for the purpose of financing or refinancing the Project (as defined below). The Bonds are authorized to be issued pursuant to (a) Section 1411 of the Not-for-Profit Corporation Law of the State of New York, (b) Resolution No. 288 of 2009 of the Monroe County Legislature (the "County Resolution"), (c) a bond resolution (the "Bond Resolution") adopted by the members of the Issuer on August 11, 2015, for the purpose of providing funds to assist in the financing of the Project for the benefit of Highland Hospital of Rochester (the "Institution"), a not-for-profit corporation organized under the Laws of the State of New York and (d) a certain Indenture of Trust, dated as of September 1, 2015 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee").

The project being financed or refinanced with the proceeds of the Bonds (collectively, the "Project") consists of: (A)(i)(1) the construction and equipping of an approximately 38,500 square foot two (2)-story (with mechanical penthouse) expansion of the southeast corner of the Institution's 261-bed acute care hospital facility located at 1000 South Avenue in the City of Rochester, Monroe County, New York (the "Hospital") to house a perioperative suite with six (6) relocated operating rooms and an observation unit with twenty six (26) beds, together with ancillary and related facilities improvements, (2) the construction, renovation, equipping and modernization of various areas in the operating room/post-anesthesia care unit located in the Hospital, and (3) the construction and equipping of future space for a possible additional Interventional Radiology room and a platform for a possible replacement of the existing MRI machine in the Hospital (collectively, the "2015 Improvements") and (ii) the acquisition and installation in and around the 2015 Improvements of certain items of machinery, equipment,

fixtures, furniture and other incidental tangible personal property (collectively, the "2015 Equipment", and collectively with the 2015 Improvements, the "2015 Facility"); (B) the refunding of approximately $11,010,000 of the outstanding principal amount of the $20,000,000 original principal amount Fixed Rate Civic Facility Revenue Refunding Bonds (Highland Hospital of Rochester Project), Series 2005 (the "Series 2005 Refunding Bonds") issued by the County of Monroe Industrial Development Agency ("COMIDA") for the benefit of the Institution; (C) the refunding of approximately $7,365,000 of the outstanding principal amount of the $14,920,000 original principal amount Fixed Rate Civic Facility Revenue Project Bonds (Highland Hospital of Rochester Project), Series 2005 (the "Series 2005 New Money Bonds", and collectively with the Series 2005 Refunding Bonds, the "Series 2005 Bonds") issued by COMIDA for the benefit of the Institution; (D) the funding of capitalized interest; and (E) the payment of certain costs and expenses incidental to the issuance of the Series 2015 Bonds and the defeasance and/or redemption of the Series 2005 Bonds (items (A) through (E) hereinafter referred to as the "Project Costs").

The proceeds of the Series 2005 Refunding Bonds were applied to pay the costs of a certain project (collectively, the "2005 Refunding Project") consisting of: (A) the refunding of a portion of the then outstanding principal balance of the Dormitory Authority of the State of New York's $26,635,000 Highland Hospital of Rochester FHA-Insured Mortgage Hospital Revenue Bonds, Series 1997A (the "Series 1997A Bonds"), the proceeds of which were applied to pay the costs of a certain project (collectively, the "1997 Project") consisting of: (i) the acquisition, construction, expansion, renovation, and equipping of selected clinical and support areas of the Hospital, specifically the renovation of the maternity unit, expansion and development of a Women's Center, the expansion and renovation of existing space for use as a breast care center, expanded ultrasound imaging facilities, an osteoporosis screening program, a community OB/GYN service and community educational facilities, and the demolition of an existing parking garage and construction of a larger approximately 234,800 square foot, 682 space parking garage, including pedestrian connections to the Institution's other buildings and a bridge to a physician's office building and other improvements, and (ii) the refinancing of that portion of two commercial mortgage loans, the proceeds of which were used to construct portions of a 30,000 square foot, three story medical office building and an approximately 72,000 square foot, 230 space parking garage used exclusively by the Institution, its employees, patients and visitors, which is owned and operated by Highland Facilities Development Corporation ("HFDC"), a wholly controlled affiliate of the Institution and an organization described in Section 501(c)(3) of the Code, on property owned by the Institution and leased to HFDC pursuant to a ground lease (collectively, the "1997 Facility"); (B) the payment of certain costs and expenses incidental to the issuance of the Series 2005 Refunding Bonds; and (C) the funding of a debt service reserve fund for the Series 2005 Refunding Bonds.

The proceeds of the Series 2005 New Money Bonds were applied to pay the costs of a certain project (collectively, the "2005 New Money Project") consisting of: (A) the renovation and equipping of the Hospital and the construction, renovation and equipping of a total joint center of Orthopedics, Park Ridge Oncology, a Bariatric Surgery Center, two operating rooms for Orthopedics, one operating room for Bariatric Surgery and five inpatient suites located at 1555 Long Pond Road, Town of Greece, New York (collectively, the "2005 Facility", and collectively with the 1997 Facility and the 2015 Facility, the "Facility"); (B) the payment of certain costs and expenses incidental to the issuance of the Series 2005 New Money Bonds; and

(C) the funding of a debt service reserve fund for the Series 2005 New Money Bonds and the payment of capitalized interest.

All capitalized terms, not otherwise defined herein, shall have the meaning given such terms in the Indenture.

The Bonds are being purchased by Barclays Capital Inc., acting on behalf of itself, J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC (collectively, the "Underwriter"), pursuant to a certain Bond Purchase Contract, dated September 15, 2015, by and among the Issuer, the Underwriter and the Institution (the "Bond Purchase Contract").

Under the terms of a certain Loan Agreement, dated as of September 1, 2015 (the "Loan Agreement"), between the Issuer and the Institution, the Issuer has loaned the proceeds of the Bonds to the Institution to finance a portion of the costs of the Project with the loan payments thereunder to be in an amount sufficient to pay the principal of, premium, if any, and interest on the Bonds as the same become due and payable and to make certain other payments with respect to the Bonds as described therein.

As security for the Bonds, the Issuer assigned to the Trustee all of its rights (except Reserved Rights, as defined in the Indenture) under the Loan Agreement, pursuant to the terms of a certain Pledge and Assignment, dated as of September 1, 2015, from the Issuer to the Trustee (the "Pledge and Assignment").

As security for the Institution's obligations under the Loan Agreement, the Institution has issued its Obligation No. 5 to the Trustee by way of endorsement from the Issuer (the "Obligation No. 5"), pursuant to and in accordance with the Master Trust Indenture, dated as of June 1, 2005 (the "Original Master Indenture"), as supplemented by a Supplemental Indenture for Obligation No. 1, dated as of June 1, 2005 (the "Supplemental Indenture No. 1"), a Supplemental Indenture for Obligation No. 2, dated as of June 1, 2005 (the "Supplemental Indenture No. 2"), a Supplemental Indenture for Obligation No. 3, dated as of June 1, 2005 (the "Supplemental Indenture No. 3"), a Supplemental Indenture No. 4, dated as of June 1, 2010 (the "Supplemental Indenture No. 4"), a Supplemental Indenture No. 5 for Obligation No. 4, dated as of June 1, 2010 (the "Supplemental Indenture No. 5") and as further supplemented by a Supplemental Indenture No. 6 for Obligation No. 5, dated as of September 1, 2015 (the "Supplemental Indenture No. 6", and together with the Original Master Indenture, the Supplemental Indenture No. 1, the Supplemental Indenture No. 2, the Supplemental Indenture No. 3, the Supplemental Indenture No. 4 and the Supplemental Indenture No. 5, the "Master Trust Indenture" or the "Master Indenture") and each by and between the Institution and Manufacturers and Traders Trust Company, in its capacity as master trustee (the "Master Trustee").

The Issuer and the Institution have executed and delivered a certain Tax Compliance Agreement, dated the date hereof (the "Tax Compliance Agreement"), in which the Issuer and the Institution have made certain representations and covenants, established certain conditions and limitations and created certain expectations, relating to compliance with the requirements imposed by the Internal Revenue Code of 1986, as amended, and regulations and rulings of the United States Treasury Department promulgated thereunder (collectively, the "Code").

The Bonds are dated as of their date of issuance and bear interest from that date on the unpaid principal amount at the rates set forth in, and pursuant to the terms of, the Indenture and the Bonds. The Bonds are subject to prepayment or redemption prior to maturity, in whole or in part, at such time or times, or under such circumstances and in such manner as are set forth in the Bonds and the Indenture, respectively.

As Bond Counsel, we have examined originals or copies, certified or otherwise identified to our satisfaction, of such instruments, certificates and documents as we have deemed necessary or appropriate for the purposes of rendering the opinions set forth herein. In such examination, we have assumed the genuineness of all signatures, the authenticity and due execution of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion, we have relied upon, and assumed the accuracy and truthfulness of, the aforesaid instruments, certificates and documents, without having conducted any independent investigation.

In rendering the opinions set forth below, we have relied upon the opinion of Nixon Peabody, LLP, counsel to the Institution, of even date herewith, as to the matters set forth in such opinion without making any independent investigation of the factual basis therefor or the legal conclusions set forth therein.

Based upon and in reliance upon the foregoing, it is our opinion that:

(a) The Issuer is a local development corporation created pursuant to the Not-For-Profit Corporation Law of the State of New York and is duly organized and validly existing under the laws of the State of New York.

(b) The Issuer is duly authorized and entitled by law and the County Resolution to issue, execute, sell and deliver the Bonds for the purpose of financing the Project.

(c) The Bonds have been duly authorized, executed and delivered, have been duly issued for value by the Issuer and are valid and legally binding special obligations of the Issuer payable in accordance with their terms and are entitled to the benefit and security of the Indenture in accordance with its terms.

(d) The Bonds do not constitute a debt of Monroe County, New York or the State of New York, and neither Monroe County, New York nor the State of New York will be liable thereon.

(e) Under statutes, regulations, administrative rulings and court decisions existing as of the date hereof, interest on the Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code and is not an "item of tax preference" for purposes of computing the federal alternative minimum tax imposed on individuals and corporations. Interest on the Bonds is, however, included in the computation of "adjusted current earnings," a portion of which is taken into account in determining the federal alternative minimum tax imposed on certain corporations.

The difference between the principal amount of the Series 2015 Bonds maturing on July 1 in the years 2028 through 2032, inclusive, 2040, and 2045 (collectively, the "Discount Bonds")

and the initial offering price to the public (excluding bond houses, brokers and other intermediaries, or similar persons acting in the same capacity of underwriters or wholesalers), at which price a substantial amount of each maturity of such Discount Bonds is first sold, constitutes original issue discount, which is excluded from gross income for federal income tax purposes to the same extent as interest on the Discount Bonds.

(f) Under existing law, for so long as interest on the Bonds is and remains excluded from gross income for federal income tax purposes, such interest is exempt from personal income taxes imposed by the State of New York and any political subdivision thereof.

In rendering the opinions set forth in paragraphs (e) and (f) above we have relied upon, among other things, certain representations and covenants of (i) the Issuer in the Indenture, the Loan Agreement, the Tax Compliance Agreement and the General Certificate of the Issuer, dated the date hereof and (ii) the Institution in the Loan Agreement, the Tax Compliance Agreement and the General Certificate of the Institution, dated the date hereof. We call your attention to the fact that there are certain requirements contained in the Code with which the Issuer and the Institution must comply from and after the date of issuance of the Bonds in order for the interest thereon to be and remain excluded from gross income for federal income tax purposes, and consequently to remain exempt from personal income taxes imposed by the State of New York or any political subdivision thereof. The Issuer, the Institution or any other Person, by failing to comply with such requirements, may cause interest on the Bonds to become includable in gross income for federal income tax purposes and therefore subject to personal income taxes imposed by the State of New York and any political subdivision thereof, in each case, retroactive to the date of issuance of the Bonds. We render no opinion as to any federal, state or local tax consequences with respect to the Bonds, or the interest thereon, if any change occurs or action is taken or omitted under the Indenture, the Loan Agreement or the Tax Compliance Agreement by the Issuer, the Institution or any other Person, or under any other relevant documents without the advice or approval of, or upon the advice or approval of any Bond Counsel other than, Harris Beach PLLC.

Except for the opinions as set forth in paragraphs (e) and (f) above, we express no opinion regarding any other federal, state or local income tax consequences arising with respect to the purchase or ownership of the Bonds.

The foregoing opinions are qualified to the extent that the enforceability of the Bond Resolution, the Bonds, any of the Financing Documents and any other document executed in connection therewith may be limited by any applicable bankruptcy, insolvency or other similar law or equitable principle now or hereafter enacted by the State of New York or the federal government or pronounced by a court having proper jurisdiction, affecting the enforcement of creditors' rights generally.

We express no opinion as to (i) the title to the Facility; (ii) the sufficiency of the description of the Facility in the Indenture, the Loan Agreement or any other document; or (iii) the perfection or priority of any liens, charges or encumbrances, if any, on the Facility. Further, we have not been requested to examine and have not examined any documents or information relating to the Issuer or the Institution other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial information, or the adequacy thereof, which has been or may be supplied to the Trustee, the Underwriter or any other Person.

Insofar as the foregoing opinions express or involve conclusions as to compliance by the Issuer with the provisions of Article 8 of the Environmental Conservation Law of the State of New York or the regulations of the Department of Environmental Conservation promulgated thereunder (collectively "SEQR"), we have relied upon the accuracy, completeness and fairness of the information contained in the Institution's application submitted to the Issuer and the environmental assessment form relating to the Project submitted by the Institution to the Issuer, if any.

We give no opinion regarding the effect or possible future effect on the enforceability of the Bond Documents with regards to compliance by the Issuer or any other Person or entity with SEQR.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. We express no opinion herein except as to the laws of the State of New York and the federal laws of the United States.

Very truly yours,

[END OF APPENDIX G]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

Printed by: ImageMaster, LLC
www.imagemaster.com