NEW ISSUE **Standard & Poor's "A-"**
Full Book-Entry **(*See* "Rating" herein)**

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 2017 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 2017 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 2017 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 2017 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" in this Official Statement.

ROCHESTER REGIONAL HEALTH
Rochester General Hospital

$151,945,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(THE ROCHESTER GENERAL HOSPITAL PROJECT), SERIES 2017

Dated: Date of Delivery **Due: December 1, as shown on inside cover**

The Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2017 (the "*Series 2017 Bonds*") will be issued pursuant to an Indenture of Trust, dated as of May 1, 2017 (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 May 1, 2017 (the "*Loan Agreement*"), by and between the Issuer and The Rochester General Hospital (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 2017 Bonds as such payments become due. *See* "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 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, as Member of the Obligated Group, of an obligation (the "*Obligation No. 2*") to the Trustee, pursuant to the terms of a Master Trust Indenture, dated as of February 1, 2013, as amended and supplemented by a Supplemental Indenture for Obligation No. 2, dated as of May 1, 2017 (collectively, the "*Master Indenture*"), each by and between the Institution and Manufacturers and Traders Trust Company, as master trustee (the "*Master Trustee*"). Obligation No. 2 will be the joint and several obligation of the Institution and any other entities that may in the future agree to become obligated on Obligation No. 2 and any additional Obligations (as such term is defined herein) that may be issued under the Master Indenture in accordance with the provisions thereof (the Institution and any such other entities, individually, a "*Member*" and, collectively, the "*Obligated Group*"). Obligation No. 2 will be an obligation issued under the Master Indenture secured by a pledge of the Obligated Group's Gross Receipts (as such term is defined herein).

The Series 2017 Bonds are subject to redemption and purchase in lieu of redemption prior to maturity as described herein under the heading "THE SERIES 2017 BONDS – Redemption and Purchase in Lieu of Redemption Prior to Maturity."

The proceeds of the sale of the Series 2017 Bonds, together with other available funds, will be used to (i) finance or reimburse certain costs relating to the Facility (as defined under "PLAN OF FINANCE" herein), (ii) finance the payment of capitalized interest, if any, on a portion of the Series 2017 Bonds and (iii) pay certain costs of issuance of the Series 2017 Bonds. *See* "PLAN OF FINANCE" herein.

The Series 2017 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 2017 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 2017 Bonds. Interest on the Series 2017 Bonds will be payable on December 1, 2017, and semi-annually thereafter on June 1 and December 1 in each year until maturity.

THE SERIES 2017 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 2017 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 2017 Bonds of Harris Beach PLLC, Bond Counsel, and certain conditions. Certain legal matters will be passed upon for the Institution by its counsel, Bond, Schoeneck & King, PLLC. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach PLLC. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is anticipated that the Series 2017 Bonds will be available for delivery in New York, New York, or as may be agreed upon, on or about May 18, 2017.

BofA Merrill Lynch

J.P. Morgan **M&T Securities, Inc.** **KeyBanc Capital Markets Inc.**

May 10, 2017

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

$151,945,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(THE ROCHESTER GENERAL HOSPITAL PROJECT), SERIES 2017

Maturity (December 1,)	Principal Amount	Interest Rate	Yield	CUSIP Number†
2022	$1,670,000	5.00%	1.94%	61075TRA8
2023	2,220,000	4.00	2.14	61075TRB6
2024	2,770,000	5.00	2.36	61075TRC4
2025	2,910,000	4.00	2.63	61075TRD2
2026	3,200,000	5.00	2.79	61075TRE0
2027	3,550,000	5.00	2.93*	61075TRF7
2028	3,720,000	5.00	3.02*	61075TRG5
2029	3,910,000	5.00	3.15*	61075TRH3
2030	4,105,000	3.50	3.55	61075TRJ9
2031	4,245,000	5.00	3.29*	61075TRK6
2032	4,460,000	5.00	3.36*	61075TRL4
2033	4,680,000	3.75	3.80	61075TRM2
2034	4,860,000	5.00	3.48*	61075TRN0
2035	5,105,000	5.00	3.54*	61075TRP5
2036	5,355,000	5.00	3.58*	61075TRQ3
2037	5,625,000	4.00	3.95*	61075TRR1

$24,835,000 4.00% Term Bond Due December 1, 2041 to Yield 4.00% CUSIP Number† 61075TRS9

$64,725,000 5.00% Term Bond Due December 1, 2046 to Yield 3.76%* CUSIP Number† 61075TRT7

* Priced at the stated yield to the December 1, 2026 optional redemption date at a redemption price of 100%.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services ("*CGS*") is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. 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.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 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 2017 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 2017 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 2017 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 2017 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.

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.

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

of the

MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION

Relating to

$151,945,000
MONROE COUNTY INDUSTRIAL DEVELOPMENT CORPORATION
TAX-EXEMPT REVENUE BONDS
(THE ROCHESTER GENERAL HOSPITAL PROJECT), SERIES 2017

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 $151,945,000 aggregate principal amount of Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2017 (the "*Series 2017 Bonds*"). The following is a brief description of certain information concerning the Series 2017 Bonds, the Issuer and The Rochester General Hospital (the "*Institution*"). A more complete description of such information and additional information that may affect decisions to invest in the Series 2017 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 2017 Bonds, together with other available funds, will be used to (i) finance or reimburse certain costs relating to the Facility (as defined under "PLAN OF FINANCE" herein), (ii) finance the payment of capitalized interest, if any, on a portion of the Series 2017 Bonds and (iii) pay certain costs of issuance of the Series 2017 Bonds. *See* "PLAN OF FINANCE" herein.

Authorization of the Series 2017 Bonds

The Series 2017 Bonds are authorized to be issued pursuant to a resolution of the Issuer adopted on March 8, 2017 (the "*Resolution*"). The Series 2017 Bonds will be issued under an Indenture of Trust, dated as of May 1, 2017 (the "*Indenture*"), by and between the Issuer and Manufacturers and Traders Trust Company, as bond trustee (the "*Trustee*"). *See* "THE SERIES 2017 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, incorporated in 1847, is a New York not-for-profit corporation and is an organization described under Section 501(c)(3) of the Code. The Institution, with a total of 528 licensed beds, has expanded over the years into a major health care center providing a significant portion of the hospital inpatient and ambulatory health services in the Rochester area. *See* "APPENDIX A – Certain Information Concerning The Rochester General Hospital" hereto.

The Obligated Group

Upon the date of the issuance of the Series 2017 Bonds, the Institution is the only member of the Obligated Group pursuant to the Master Indenture (as defined below). The Institution and any other entities that join the Obligated Group in the future, are referred to herein individually as a "*Member*" and, collectively, as the "*Obligated Group*". *See* "APPENDIX A – Certain Information Concerning The Rochester General Hospital" hereto.

Limited Obligations of the Issuer

THE SERIES 2017 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 2017 BONDS SOLELY FROM THE TRUST ESTATE UNDER THE TERMS OF THE INDENTURE AND AVAILABLE FOR SUCH PAYMENT. THE SERIES 2017 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 2017 BONDS SHALL NOT BE PAYABLE FROM ANY OTHER FUNDS OF THE ISSUER. THE ISSUER HAS NO TAXING POWERS.

General

The Series 2017 Bonds will be issued as "book-entry-only" obligations to be held by The Depository Trust Company, as depository for the Series 2017 Bonds. *See* "THE SERIES 2017 BONDS – Book-Entry Only System" herein.

The Series 2017 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 2017 Bonds are special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2017 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 May 1, 2017 (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 2017 Bonds. The aforementioned revenues consist of the payments required to be made by the Institution under the Loan Agreement with respect to the Series 2017 Bonds on account of the principal and Redemption Price of and interest on the Series 2017 Bonds.

To secure the Series 2017 Bonds, the Issuer will execute and deliver to the Trustee a Pledge and Assignment with an acknowledgement thereof by the Institution, dated as of May 1, 2017, 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, as Member of the Obligated Group, of an obligation, dated May 18, 2017 ("*Obligation No. 2*"), pursuant to the terms of a Master Trust Indenture, dated as of February 1, 2013, as amended and supplemented from time to time prior to the date hereof and as further supplemented by a Supplemental Indenture for Obligation No. 2, dated as of May 1, 2017 (collectively, the "*Master Indenture*"), each by and between the Institution and Manufacturers and Traders Trust Company, as master trustee (the "*Master Trustee*").

Prior to the issuance of the Series 2017 Bonds, the Institution will have outstanding an Obligation ("*Obligation No. 1*") in the aggregate principal amount of $89,425,000 as of March 31, 2017 on parity with

Obligation No. 2 which represents security for the Institution's obligation relating to the Issuer's Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2013A, outstanding in the aggregate principal amount of $55,480,000 and the Issuer's Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2013B, outstanding in the aggregate principal amount of $33,945,000. Obligation No. 1, Obligation No. 2 and any additional Obligations that may be issued under the Master Indenture in accordance with the provisions thereof will be the joint and several obligations of the Obligated Group. Payments on Obligation No. 2 are required to be sufficient to pay in full the principal of, Sinking Fund Payments for, Redemption Price, if any, of and interest on the Series 2017 Bonds when due.

Additional Obligations may be issued under the Master Indenture upon the terms and subject to the conditions set forth in the Master Indenture, and, if issued, such additional Obligations will be on a parity with Obligation No. 2, except as permitted under the Master Indenture. (Obligation No. 2, Obligation No. 1 and any additional Obligations are hereinafter referred to as the "*Obligations*.") To secure the payment of the principal of, premium, if any, and interest on the Obligations and the performance and observance of all of the covenants and conditions contained in the Master Indenture, the Institution has granted to the Master Trustee a security interest in its Gross Receipts (as hereinafter defined) pursuant to the Master Indenture. The Master Indenture also contains covenants of the Obligated Group with respect to debt service coverage, restrictions on additional indebtedness, liens and other matters. *See* "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS – Master Indenture" herein and "APPENDIX F – Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture" hereto.

As of the date of issuance of the Series 2017 Bonds, the Institution will be the sole Member of the Obligated Group.

The purchase of the Series 2017 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 2017 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 2017 Bonds, the Master Indenture, Obligation No. 2, 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 2017 BONDS

Authorization

The Series 2017 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 2017 Bonds will mature on December 1 of the years and in the amounts shown on the inside cover page hereof. The Series 2017 Bonds will be dated the date of their delivery and will bear interest from such date. Interest on the Series 2017 Bonds will be payable on December 1, 2017, and semi-annually thereafter on each June 1 and December 1 at the rates per annum set forth on the inside cover page hereof. The Series 2017 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 2017 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 2017 Bonds. Purchasers will not receive certificates representing their interest in the Series 2017 Bonds. *See* "Book-Entry Only System" below.

Subject to the provisions of the Indenture, the principal of and premium, if any, on the Series 2017 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 2017 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 2017 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 2017 Bonds are registered at the close of business on the fifth (5th) day preceding the date of mailing. Payment of interest on the Series 2017 Bonds will be made by (i) check or draft mailed to the address of the Person in whose name such Series 2017 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 2017 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 2017 Bonds maturing after December 1, 2026 are subject to redemption by the Issuer at the option of the Institution on or after December 1, 2026, in whole or in part at any time, at a Redemption Price equal to 100% of the principal amount of the Series 2017 Bonds or portions thereof to be redeemed, plus accrued interest, if any, to the Redemption Date. The Trustee will call the Series 2017 Bonds for redemption 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 twenty (20) days prior to the Redemption Date or such fewer number of days as shall be acceptable to the Trustee and shall specify (i) the principal amount of Series 2017 Bonds so to be called for redemption and (ii) the Redemption Price.

Mandatory Sinking Fund Redemption Without Premium.

The Series 2017 Bonds maturing on December 1, 2041 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
2038	$5,850,000
2039	6,080,000
2040	6,325,000
2041†	6,580,000

† Stated Maturity.

The Series 2017 Bonds maturing on December 1, 2046 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
2042	$6,840,000
2043	13,430,000
2044	14,100,000
2045	14,805,000
2046†	15,550,000

† Stated Maturity.

Special Redemption. The Series 2017 Bonds are subject to redemption prior to maturity at the option of the Issuer (exercised at the direction of the Authorized Representative of the Institution), in whole or in part on any Interest Payment Date, at a redemption price equal to 100% of the principal amount of Series 2017 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 2017 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 2017 Bonds are called for redemption in whole or in part pursuant to the terms of the Indenture, the Series 2017 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 2017 Bonds called for redemption or for such lesser portion of such Series 2017 Bonds in denominations of $5,000 or any integral multiple in excess thereof. The Institution may direct the Trustee to purchase all or such lesser portion of the Series 2017 Bonds so called for redemption. Any such direction to the Trustee must: (i) be in writing; (ii) state either that all of the Series 2017 Bonds called for redemption are to be purchased or, if less than all of the Series 2017 Bonds called for redemption are to be purchased, identify those Series 2017 Bonds to be purchased; and (iii) be received by the Trustee no later than 12:00 noon, New York City time, one Business Day prior to the Redemption Date.

Notice of Redemption

When Series 2017 Bonds are to be redeemed, the Trustee shall give notice of the redemption of the Series 2017 Bonds in the name of the Issuer stating: (1) the Series 2017 Bonds to be redeemed; (2) the Redemption Date; (3) that such Series 2017 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 2017 Bond to be redeemed the Redemption Price thereof (except in the case of a mandatory sinking fund redemption of Series 2017 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 Article II of the Indenture) and (5) that from and after the Redemption Date interest thereon shall cease to accrue. With respect to any redemption described under the heading " – Optional Redemption" above, any such notice of redemption shall 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 Series 2017 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 Series 2017 Bonds shall not be required to be redeemed. The Trustee shall mail a copy of such notice postage prepaid, not less than twenty (20) 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 2017 Bonds.

Partial Redemption of Series 2017 Bonds

Upon surrender of any Series 2017 Bond for redemption in part only, the Issuer shall execute and the Trustee shall authenticate and deliver to the Holder thereof a new Series 2017 Bond or Series 2017 Bonds in an aggregate principal amount equal to the unredeemed portion of the Series 2017 Bond surrendered.

Selection of Bonds to be Called for Redemption

If less than all Series 2017 Bonds of the same series and maturity are to be redeemed, the Series 2017 Bonds of such series and maturity to be called for redemption shall be selected by lot. If less than all of the Series 2017 Bonds of the same series and different maturities are to be redeemed, the Series 2017 Bonds to be redeemed shall be as directed by the Authorized Representative of 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 2017 Bonds, payment of interest and other payments on the Series 2017 Bonds to DTC Participants or Beneficial Owners of the Series 2017 Bonds, confirmation and transfer of beneficial ownership interests in the Series 2017 Bonds and other bond-related transactions by and between DTC, the DTC Participants and Beneficial Owners of the Series 2017 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 2017 Bonds. The Series 2017 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 2017 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has the 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; nothing contained in such website is incorporated into this Official Statement.

Purchases of the Series 2017 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 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 2017 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 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 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 2017 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 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 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 2017 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2017 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the documents relating to the Series 2017 Bonds. For example, Beneficial Owners of Series 2017 Bonds may wish to ascertain that the nominee holding the Series 2017 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 2017 Bonds within a maturity of the Series 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 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 2017 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OF THE SERIES 2017 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2017 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 Master Indenture), the Issuer may issue Additional Bonds under the Indenture from time to time on a *pari passu* basis with the Series 2017 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 through redemption of any Outstanding Bonds issued under this Indenture and subject to such redemption; or (4) to pay the cost of any additional project approved by the Issuer.

Principal and Interest Requirements

The following table sets forth the amounts required to be paid by the Institution during each 12-month period ending December 31 of the years shown for the payment of the principal of and interest on the Series 2017 Bonds, debt service on other outstanding indebtedness of the Institution and the total debt service on all indebtedness of the Institution, including the Series 2017 Bonds. All amounts are rounded to the nearest whole dollar amount.

	Series 2017 Bonds				
12-Month Period Ending December 31,	Principal Payments	Interest Payments[1]	Total Debt Service on Series 2017 Bonds	Debt Service on Other Outstanding Indebtedness[2]	Total Debt Service
2017	$ -	$3,817,795	$ 3,817,795	$15,078,126	$18,895,921
2018	-	7,121,275	7,121,275	14,885,416	22,006,691
2019	-	7,121,275	7,121,275	14,882,816	22,004,091
2020	-	7,121,275	7,121,275	14,883,216	22,004,491
2021	-	7,121,275	7,121,275	12,247,578	19,368,853
2022	1,670,000	7,121,275	8,791,275	7,534,253	16,325,528
2023	2,220,000	7,037,775	9,257,775	7,068,102	16,325,877
2024	2,770,000	6,948,975	9,718,975	6,604,952	16,323,927
2025	2,910,000	6,810,475	9,720,475	6,606,252	16,326,727
2026	3,200,000	6,694,075	9,894,075	6,428,794	16,322,869
2027	3,550,000	6,534,075	10,084,075	6,243,730	16,327,805
2028	3,720,000	6,356,575	10,076,575	6,247,080	16,323,655
2029	3,910,000	6,170,575	10,080,575	6,245,230	16,325,805
2030	4,105,000	5,975,075	10,080,075	6,246,320	16,326,395
2031	4,245,000	5,831,400	10,076,400	6,246,460	16,322,860
2032	4,460,000	5,619,150	10,079,150	6,245,330	16,324,480
2033	4,680,000	5,396,150	10,076,150	6,247,750	16,323,900
2034	4,860,000	5,220,650	10,080,650	6,244,938	16,325,588
2035	5,105,000	4,977,650	10,082,650	6,244,938	16,327,588
2036	5,355,000	4,722,400	10,077,400	6,247,250	16,324,650
2037	5,625,000	4,454,650	10,079,650	6,245,250	16,324,900
2038	5,850,000	4,229,650	10,079,650	6,247,250	16,326,900
2039	6,080,000	3,995,650	10,075,650	6,247,500	16,323,150
2040	6,325,000	3,752,450	10,077,450	6,245,500	16,322,950
2041	6,580,000	3,499,450	10,079,450	6,245,750	16,325,200
2042	6,840,000	3,236,250	10,076,250	6,247,500	16,323,750
2043	13,430,000	2,894,250	16,324,250	-	16,324,250
2044	14,100,000	2,222,750	16,322,750	-	16,322,750
2045	14,805,000	1,517,750	16,322,750	-	16,322,750
2046	15,550,000	777,500	16,327,500	-	16,327,500
Total	$151,945,000	$154,299,520	$306,244,520	$206,157,281	$512,401,801

(1) All of the interest payable in 2017 has been funded and approximately 52% of the interest payable in 2018 through 2020 has been funded. *See* "SOURCES AND USES OF BOND PROCEEDS" herein.

(2) Includes debt service of the Institution on its Tax-Exempt Lease Purchase Agreements each with the Dormitory Authority of the State of New York and JPMorgan Chase Bank, N.A., a commercial banking affiliate of J.P. Morgan Securities LLC, one of the Underwriters of the Series 2017 Bonds. *See* "APPENDIX A – Certain Information Concerning The Rochester General Hospital – Outstanding Indebtedness" hereto.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS

Payment of the Series 2017 Bonds

The Series 2017 Bonds will be special and limited obligations of the Issuer. The principal and Redemption Price of and interest on the Series 2017 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 2017 Bonds. The aforementioned revenues consist of the payments required to be made by the Institution under the Loan Agreement with respect to the Series 2017 Bonds on account of the principal, Redemption Price of and interest on the Series 2017 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. 2 are general obligations of the Institution. Any payments made on Obligation No. 2 shall also be made directly to the Trustee.

Security for the Series 2017 Bonds

The Series 2017 Bonds will be secured by (1) all moneys and securities held from time to time by the Trustee for the Owners of the Series 2017 Bonds pursuant to the Indenture, including all Series 2017 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 2017 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 payments to be made by the Obligated Group to the Trustee under Obligation No. 2. In addition to other sources of payment described herein, principal of and interest and any redemption premium on the Series 2017 Bonds will be payable from moneys paid by the Obligated Group pursuant to Obligation No. 2. Obligation No. 2 shall be issued under the Master Indenture in a principal amount equal to, and bearing interest at the same rate as, the Series 2017 Bonds.

Subject to the terms of the Master Indenture, any persons which are not Members of the Obligated Group, and corporations which are successor corporations to any Member of the Obligated Group through merger or consolidation as permitted by the Master Indenture, may become additional Members of the Obligated Group. Pursuant to the Master Indenture, the Institution and any subsequent Member of the Obligated Group are subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and restricting, among other things, incurrence of indebtedness, existence of liens on Property, consolidation and merger, disposition of assets, addition of Members of the Obligated Group and withdrawal of Members from the Obligated Group. *See* "APPENDIX F – Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture – Master Trust Indenture" hereto.

THE MASTER INDENTURE PERMITS EACH MEMBER OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR OBLIGATION NO. 2, INCLUDING THE GROSS RECEIPTS OF EACH MEMBER, 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 2017 BONDS. THE MASTER INDENTURE PROVIDES THAT, UNDER CERTAIN CIRCUMSTANCES, AND SUBJECT TO CERTAIN LIMITATIONS CONTAINED THEREIN, ACCOUNTS RECEIVABLE OF ANY MEMBER OF THE OBLIGATED GROUP MAY BE SOLD, PLEDGED, ASSIGNED OR OTHERWISE DISPOSED OF OR ENCUMBERED. *SEE* "APPENDIX F – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2017 SUPPLEMENTAL INDENTURE" HERETO FOR A DESCRIPTION OF THE CONDITIONS WHEREBY THE MEMBERS MAY ISSUE ADDITIONAL OBLIGATIONS AND A DESCRIPTION OF CERTAIN PERMITTED LIENS AND ENCUMBRANCES ON THE GROSS RECEIPTS OF THE OBLIGATED GROUP.

Security for Obligation No. 2

Pursuant to the Master Indenture, each Obligation issued thereunder is a joint and several general obligation of each Member of the Obligated Group. Obligation No. 2 is secured by a security interest in the Gross Receipts of the Institution and each future Member of the Obligated Group. The Master Indenture permits each Member of the Obligated Group to encumber its property with Permitted Liens, as such term is defined in the Master Indenture.

Security Interest in Gross Receipts

As security for all Obligations issued under the Master Indenture, including Obligation No. 2, the Institution and each other Member of the Obligated Group has granted to the Master Trustee a security interest in its Gross Receipts. "*Gross Receipts*" are defined in the Master Indenture to mean all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof, as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; *provided however*, that Gross Receipts shall not include (x) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, and any income derived therefrom, to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement, (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group, or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property which constitutes real property. *See* "APPENDIX C – Schedule of Definitions" hereto.

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 which comply with the requirements of the UCC and each Member of the Obligated Group 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. The grant of a security interest in Gross Receipts may be subordinated to security interests constituting Permitted Liens and to the sale of certain Gross Receipts under the circumstances permitted by the Master Indenture.

Pursuant to the Master Indenture, each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens or as may be otherwise provided in the Master Indenture) or lien on the Gross Receipts and will not sell Gross Receipts except as permitted in the Master Indenture. *See* "APPENDIX F – Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture – Master Trust Indenture" hereto.

Rate Covenant

The Master Indenture contains certain financial covenants of the Members of the Obligated Group, including a rate covenant as described herein. Pursuant to the terms of the Master Indenture, the Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such prior Fiscal Year, subject to certain exceptions set forth in the Master Indenture. The Obligated Group covenants in the Master Indenture to retain a Consultant upon failure to comply with the Long-Term Debt Service Coverage Ratio. Pursuant to the Supplemental Indenture for Obligation No. 2, the Obligated Group covenants that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00 as of the end of any Fiscal Year and a failure to have a Long-Term Debt Service Coverage Ratio as of the end of any Fiscal Year of 1.00 or greater shall constitute an Event of Default under the Master Indenture. *See* "APPENDIX F – Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture – Master Trust Indenture" for a further description of the rate covenant and the other financial covenants contained in the Master Indenture.

Replacement of Obligation No. 2 with an Obligation Issued Under a Separate Master Indenture

The Indenture provides that Obligation No. 2 will be surrendered by the Trustee and delivered to the Master Trustee for cancellation upon satisfaction of certain requirements under the Indenture that include receipt by such Trustee and the Issuer of (i) a written request from the Obligated Group Representative requesting such surrender and delivery and stating that Members of the Obligated Group have become members of an obligated group under a replacement master indenture (other than the Master Indenture) and that a replacement obligation is being issued to such Trustee under such replacement master indenture (the "*Replacement Master Indenture*"); (ii) a properly executed replacement obligation issued under the Replacement Master Indenture and registered in the name of the Trustee with the same tenor and effect as Obligation No. 2 duly authenticated by the master trustee under the Replacement Master Indenture; (iii) a certified copy of the Replacement Master Indenture; (iv) written confirmation from each Rating Agency then rating the Series 2017 Bonds that the replacement of Obligation No. 2 will not, by itself, result in a reduction in the then-current ratings on the Series 2017 Bonds; and (v) certain opinions of counsel described in the Indenture and in the Master Indenture. *See* APPENDIX D – "Summary of Certain Provisions of the Indenture –Replacement of Obligation No. 2 with Obligation Issued Under Replacement Master Indenture."

Parity Indebtedness

Indebtedness may be incurred by the Institution, or any other Member of the Obligated Group and secured on a parity with Obligations issued under the Master Indenture, including, without limitation, Obligation No. 1 and Obligation No. 2, for the purposes, upon the terms and subject to the limitations and conditions provided in the Master Indenture. Subject to certain conditions contained therein, the Master Indenture also permits the Institution and any other Member of the Obligated Group to incur secured and unsecured indebtedness in addition to Obligations and to enter into Guarantees. *See* "APPENDIX F –

Summary of Certain Provisions of the Master Indenture and the Series 2017 Supplemental Indenture – Master Trust Indenture" hereto.

Amendment of the Master Indenture

Contemporaneously with the issuance, sale and delivery of the Series 2017 Bonds, the Master Indenture will be amended, pursuant to the Amendment No. 1 to the Master Trust Indenture, dated as of May 1, 2017 ("*Amendment No. 1*"), between the Institution and the Master Trustee. Amendment No. 1 contains provisions which amend the Master Indenture with respect to the treatment of operating leases by the Obligated Group for purposes of certain Master Indenture calculations and certifications. *See* the summary contained in "APPENDIX F – Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture" hereto.

These amendments to the Master Indenture will become effective, in accordance with the provisions of the Master Indenture, upon the receipt of consent of the Trustee, as holder of Obligation No. 2. By virtue of their purchase and acceptance of the Series 2017 Bonds, the purchasers of the Series 2017 Bonds will be deemed to have consented to Amendment No. 1 to the Master Indenture and thereby will be deemed to have directed the Trustee, as holder of Obligation No. 2, to consent to and approve the execution of Amendment No. 1. Amendment No. 1 will become effective upon the delivery of the Series 2017 Bonds.

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 2017 Bonds are special and limited obligations of the Issuer, payable solely as provided in the Indenture.

THE SERIES 2017 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 2017 Bonds, together with other available funds, will be applied for the purpose of financing or reimbursing costs relating to that certain project (collectively, the "*Project*") consisting of: (A)(i) the construction and equipping of an approximately 312,457 square foot new seven-story Critical Care addition to the main hospital located at 1425 Portland Avenue in the City of Rochester, Monroe County, New York (the "*Hospital Campus*"), to contain one hundred and eight (108) private patient rooms, twenty (20) private post-partum rooms, fourteen (14) private neonatal rooms, twenty (20) replacement operating rooms, a twenty-six (26) bed post anesthesia care unit, fifty-four (54) pre-op and post-op patient

areas, a sterile processing space and a café/gift shop, together with ancillary and related site improvements (collectively, the "*Critical Care Facility Improvements*") and (ii) the construction, renovation, equipping and modernization of approximately 64,002 square feet of space on various existing floors and facilities throughout the main hospital on the Hospital Campus, including, but not limited to, existing patient rooms, Central Stores, the lobby, three (3) heart operating rooms and Women's Care space (collectively, the "*Renovation Improvements*", and collectively with the Critical Care Facility Improvements, the "*Improvements*"); (B) the acquisition and installation in and around the Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "*Equipment*", together with the Improvements, the "*Facility*"); (C) the funding of capitalized interest and (D) paying certain costs and expenses incidental to the issuance of the Series 2017 Bonds (the costs associated with items (A) through (D) above being hereinafter collectively referred to as the "*Project Costs*"). A portion of the Project is expected to be financed using proceeds of the Series 2017 Bonds and a portion will be financed through fundraising and Institution equity. *See* "APPENDIX A – Certain Information Concerning The Rochester General Hospital – The Project."

SOURCES AND USES OF BOND PROCEEDS

Proceeds of the Series 2017 Bonds are to be applied as follows:

Sources of Funds:	
Par Amount of the Series 2017 Bonds	$151,945,000
Original Net Issue Premium	13,054,706
Total Sources of Funds	$164,999,706
Uses of Funds:	
Deposit to the Project Fund	$148,171,769
Deposit to Capitalized Interest Account of the Project Fund [(1)]	14,928,625
Costs of Issuance [(2)]	1,899,312
Total Uses of Funds	$164,999,706

(1) Capitalized interest is expected to pay a portion of the interest payments of the Series 2017 Bonds prior to the completion date of the Facility.

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

[Remainder of Page Intentionally Left Blank]

BONDHOLDERS' RISKS

The following discussion of risks to holders of the Series 2017 Bonds is not intended to be exhaustive, but rather to summarize certain matters which could affect payment of the Series 2017 Bonds, in addition to other risks described throughout this Official Statement.

The revenue and expenses of the Obligated Group 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 Obligated Group to an extent that cannot be determined at this time.

As of the date of issuance of the Series 2017 Bonds, the Institution will be the sole Member of the Obligated Group.

General

The Series 2017 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, payments by the Obligated Group pursuant to Obligation No. 2, the funds and accounts held by the Trustee pursuant to the Indenture (except the Rebate Fund) and certain investment income thereon. The Issuer has no taxing power. No representation or assurance can be made that revenues will be realized from the Obligated Group in amounts sufficient to provide funds for payment of debt service on the Series 2017 Bonds when due and to make other payments necessary to meet the obligations of the Obligated Group. Further, there is no assurance that the revenues of the Obligated Group can be increased sufficiently to match increased costs that may be incurred.

The receipt of future revenues by the Obligated Group 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 each Member of the Obligated Group of future changes in federal, state and private policies cannot be determined at this time. Loss of established managed care contracts by certain Members of the Obligated Group could also adversely affect the future revenues of the Obligated Group.

Future revenues and expenses of the Obligated Group 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 Members of the Obligated Group; the receipt of grants and contributions; referring physicians' and self-referred patients' confidence in the Members of the Obligated Group; and increased use of discounted payment schedules through contracts with health maintenance organizations ("*HMOs*"), preferred provider organizations ("*PPOs*") and other payors. Other factors which may affect revenues and expenses include the ability of the Obligated Group to provide services required by patients; the relationship of the Obligated Group with physicians; the success of the Obligated Group's strategic plans; the degree of cooperation among and competition with other hospitals in the Obligated Group's area; changes in 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 Obligated Group 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 above referred-to factors could affect the Obligated Group's ability to make payments pursuant to the Loan Agreement and under Obligation No. 2. *See* "APPENDIX A – Certain Information Concerning The Rochester General Hospital", "APPENDIX B – Financial Statements of The Rochester General Hospital and Independent Auditors' Report" hereto.

Health Care Reform

The discussion herein describes risks associated with certain existing federal and state laws, regulations, rules, and governmental administrative policies and determinations to which the Obligated Group and the healthcare industry are subject. While these are regularly subject to change, many of the existing provisions were enacted by or promulgated pursuant to the ACA (defined below), to which opposition has been expressed by President Trump and the Secretary of DHHS, as well as the majority leaders of each chamber of Congress and members of their caucuses. It is not possible to predict with any certainty whether or when the ACA or any specific provision or implementing measure will be repealed, withdrawn or modified in any significant respect, but a unified administration and majority in both chambers of Congress could enact legislation, withdraw, modify or promulgate rules, regulations and policies, or make determinations affecting the healthcare industry and the Members of the Obligated Group, any of which individually or collectively could have a material adverse effect on the operations, financial condition and financial performance of the Obligated Group.

The following discussion should be read with the understanding that significant changes could occur in 2017 and beyond in many of the statutory and regulatory matters discussed.

Affordable Care Act

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 (collectively, the "*ACA*"), substantial changes are anticipated in the United States health care system. Some of the provisions of the ACA took effect immediately, while others will take effect at later dates or will be phased in over time. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, payment to health care providers and the legal obligations of health insurers, providers, employers and consumers. These provisions are slated to take effect at specified times over approximately the next decade and, therefore, the full consequences of the ACA on the health care industry will not be immediately realized. Due to the complexity of the ACA, the ramifications of federal health care reform legislation 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.

The changes in the health care industry brought about by the ACA may have both positive and negative effects, directly and indirectly, on the nation's hospitals and other health care providers, including the Obligated Group. 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. However, the extent to which Medicaid expansion, which is now optional on a state by state basis, is either not pursued or results in a shifting of significant numbers of commercially-insured individuals to Medicaid, or health insurance options on exchanges are limited or unaffordable, as well as the cost containment measures and pilot programs that the ACA requires, may offset these benefits. A negative impact to the hospital industry overall will likely result from scheduled cumulative reductions in Medicare payments; such reductions are substantial. The legislation's cost-cutting provisions to the Medicare program include reduction in Medicare market basket updates to hospital reimbursement rates under the inpatient prospective payment system ("*IPPS*"), additional reductions to or elimination of Medicare reimbursement for certain patient readmissions and hospital-acquired conditions, as well as anticipated reductions in rates paid to Medicare managed care plans that may ultimately be passed on to providers. Industry experts also expect that government cost reduction actions may be followed by private insurers and payors because approximately 28% of the net patient services revenues of the Institution, for its fiscal year ended December 31, 2016 were from Medicare spending (including original fee for service Medicare and both fee-for service and capitated managed care arrangements), the reductions may

have a material impact, and could offset any positive effects of the ACA. *See* also "Medicare and Medicaid Reimbursement" below.

Health care providers could be further subjected to decreased reimbursement as a result of implementation of recommendations of the Independent Payment Advisory Board ("*IPAB*"). In the event that the projected Medicare per capita growth rate exceeds a target growth rate in any year, the IPAB is directed to make recommendations for cost reduction, and those recommended reductions will be automatically implemented unless Congress adopts alternative legislation that meets equivalent savings targets. Hospitals are largely exempted from recommendations from the IPAB until 2020. The IPAB was to begin submitting its annual recommendations no later than January 15, 2014. However, no members of the IPAB have yet been appointed. Additionally, the Chief Actuary of the Centers for Medicare and Medicaid Services' ("*CMS*") has concluded that the projected Medicare per capita growth rate has not yet exceeded the target growth rate and there will be no need for IPAB activity at least through 2017. Nevertheless, there have been unsuccessful Congressional efforts to repeal the IPAB to date.

The ACA likely will affect some health care organizations differently 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 organizations and providers with demonstrable achievements in quality care. The ACA proposes 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 legislation 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. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded, 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 funding for enforcement and 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 compliance and ethics programs. While the government has already increased its enforcement efforts, failure to implement certain core compliance program features provide 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.

Some of the specific provisions of the ACA that may affect the Obligated Group's operations, financial performance or financial condition are described below. *This listing is not intended to be, nor should be considered by the reader as, comprehensive. The ACA is complex and comprehensive, and includes myriad programs and initiatives and changes to existing programs, policies, practices and laws. The reader is encouraged to review the ACA, itself and/or more comprehensive summaries and analyses of the ACA available in the public media.*

Market Basket Reductions. Commencing upon enactment of the ACA and through September 30, 2019, the annual Medicare market basket updates for hospitals have been, and will be, reduced. The market basket adjustments for inpatient hospital care have averaged approximately 2% to 4% annually in recent years. The ACA calls for reductions in the annual market basket updates ranging from 0.10% to 0.75% each year through federal fiscal year 2019. The market basket reduction for fiscal year 2017 is -0.75%. In addition, the market basket updates are subject to productivity adjustment. The productivity adjustment for fiscal year 2017 is -0.3%. The reductions in market basket updates and the productivity adjustments will have a disproportionately negative effect upon those providers that are more dependent upon Medicare than other providers. These reductions and the productivity adjustments have had, and will continue to have, a disproportionately negative effect upon those providers (such as the Members of the Obligated Group) that are relatively more dependent upon Medicare than other providers. In addition, the reductions in market basket updates were effective prior to the periods during which insurance coverage and the insured consumer base began to expand, which may have an interim negative effect on revenues. The combination of reductions to

the market basket updates and the imposition of the productivity adjustments may result in reductions in Medicare payment per discharge on a year-to-year basis.

Hospital Acquired Conditions Penalty. Beginning in federal fiscal year 2015, Medicare inpatient payments to hospitals that are in the top quartile nationally for frequency of certain "hospital-acquired conditions" will be reduced by 1% for all discharges for the applicable federal fiscal year. In addition, the ACA provides that, as of July 1, 2011, CMS shall no longer provide federal funding to states for any amounts expended by providers in treating so-called provider-preventable conditions. CMS has also directed states to submit amendments to their Medicaid state plans to require payment denials for the cost of treating such conditions, consistent with the prohibition on federal reimbursement. The New York State Department of Health ("*DOH*") issued an emergency regulation, effective December 6, 2011, that denied payment for several "potentially preventable negative outcomes," retroactive to Medicaid discharges from July 1, 2011. The conditions included under this emergency regulation are far more extensive than those included in the Medicare "hospital-acquired conditions," although New York State estimates that they are limited to less than 0.1% of Medicaid discharges.

Readmission Rate Penalty. Beginning in federal fiscal year 2013, Medicare inpatient payments to those hospitals with excess readmissions compared to the national average for three patient conditions (acute myocardial infarction, pneumonia and heart failure) are reduced based on a risk-adjusted measure of the hospital's readmissions performance. The maximum penalty was 1% in fiscal year 2013, which increased to 3% in fiscal year 2015. In fiscal year 2015, the patient conditions assessed for this penalty was expanded to include acute exacerbation of chronic obstructive pulmonary disease, elective total hip arthroplasty, and total knee arthroplasty. Effective fiscal year 2017, CMS expanded the program to include patients admitted for coronary artery bypass graft ("*CABG*") surgery.

DSH Funding. Beginning in federal fiscal year 2014, hospitals receiving supplemental disproportionate share hospital ("*DSH*") payments from Medicare (i.e., those hospitals that care for a disproportionate share of Medicare beneficiaries) are slated to have their DSH payments reduced by potentially 75% (offset however, by the level of uninsured that remains). The base 25% will be supplemented by additional payments based on the volume of uninsured and uncompensated care provided by each such hospital, and is anticipated to be offset by a higher proportion of covered patients as other provisions of the ACA go into effect. Separately, beginning in federal fiscal year 2014, Medicaid DSH allotments to each state also will be reduced, based on a methodology to be determined by the United States Department of Health and Human Services ("*DHHS*"), accounting for statewide reductions in uninsured and uncompensated care. On September 13, 2013, CMS issued a final rule confirming its methodology, which accounted for statewide reductions in uninsured and uncompensated care, and reduced Medicaid DSH allotments to each state. Under this final rule, the federal share of Medicaid DSH payments was reduced by $500 million in fiscal year 2014 and $600 million in fiscal year 2015. Such reductions have been delayed several times, most recently under the Medicare Access and CHIP Reauthorization Act of 2015 ("*MACRA*"), but are scheduled to take effect October 1, 2018, while extending cuts through fiscal year 2025. *See* "Medicare and Medicaid Reimbursement – DSH Payments" herein for background about DSH funding.

Payments to Medicare Advantage Plans. Hospitals also receive payments from health plans under the Medicare Advantage program. The ACA includes significant changes to federal payments to Medicare Advantage plans. Payments to plans were frozen for fiscal year 2011. Beginning in fiscal year 2012, federal payments to Medicare Advantage plans have been tied to the level of fee-for-service spending in the applicable county, resulting in a reduction below the fiscal year 2011 level for certain Medicare Advantage plans. These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

The ACA addresses almost all aspects of hospital and provider operations and health care delivery, and has changed and is changing how health care services are covered, delivered, and reimbursed. These changes will result in new payment models with the risk of lower health care provider reimbursement from Medicare, utilization changes, increased government enforcement and the necessity for health care providers to

assess, and potentially alter, their business strategy and practices, among other consequences. While most providers will receive reduced payments for care, millions of previously uninsured Americans may gain insurance coverage. "*Health insurance exchanges*" could fundamentally alter the health insurance market and negatively impact health care providers, enabling insurers to aggressively negotiate rates. The constitutionality of the ACA has been challenged in courts around the country, including in the U.S. Supreme Court. Efforts to repeal or substantially modify provisions of the ACA are from time to time pending in Congress. In November 2015, the Bipartisan Budget Act of 2015 (the "*BBA*") repealed a provision of the ACA which would require employers that offer one or more health benefits plans and have more than 200 full-time employees to automatically enroll new full-time employees in a health plan. The ultimate outcomes of legislative attempts to repeal or amend the ACA and legal challenges to the ACA are unknown.

To date, most fundamental aspects of the ACA have been upheld, but the future of the law remains in question as President Trump and the Republican-led Congress have committed to repeal it. In his first day in office, President Trump signed an executive order directing the Secretary of the United States DHHS and other agencies to interpret regulations flexibly to minimize the ACA's financial burden and Congress recently passed a budget resolution aimed at limiting funding as its first step in repealing the law. As Congress is Republican-controlled, there is a substantial likelihood that at least a portion of the ACA will be repealed, replaced or amended. If a full repeal proves politically impossible, the ACA may instead be dismantled piecemeal through various legislative efforts, funding measures and/or executive orders. The outcome of future legal challenges, legislative changes (including repeal, replacement or amendment) or executive orders cannot be predicted. However, any major modification or repeal of the ACA could have a destabilizing effect on the healthcare and insurance markets and could materially and adversely affect the financial condition of the Obligated Group.

General Economic Conditions, Bad Debt, Indigent Care and Investment Performance

Health care providers are economically influenced by the environment in which they operate. Any national economic difficulties may constrain corporate and personal spending, limit the availability of credit and increase the national debt and federal and certain state government deficits. To the extent that unemployment rates are high, employers reduce their workforces and their budgets for employee health care coverage or private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Economic downturns and lower funding of federal Medicare and state Medicaid and other state health care programs may increase the number of patients who are unable to pay for some or all of their medical and hospital services. These conditions may give rise to increases in health care providers' uncollectible accounts, or "bad debt," uninsured discount and charity care and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Investment losses (even if unrealized) may trigger debt covenant violations and may jeopardize hospitals' economic security. Losses in pension and other post-retirement benefit funds may result in increased funding requirements for hospitals and health systems. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease or be delayed, which may cause health care providers to use more of their unrestricted funds for capital planning.

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, 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 Obligated Group Members. 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 Obligated Group cannot be predicted. The Obligated Group is exploring the possibility of forming accountable care organizations and health homes and entering into risk based (capitation) agreements, which would change the mentality of care delivery to one of 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 Obligated Group 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 Obligated Group-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 for all years through and including 2013. 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. The Obligated Group is not aware of any allegations of noncompliance that could have a material adverse effect on the consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

Legislation is periodically introduced in Congress and in the New York Legislature that could result in limitations on the Obligated Group'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 Members of the Obligated Group. 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 Obligated Group cannot be predicted.

State Budget and the New York Medicaid Redesign Team

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 the State'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.

For FY 2017, the Medicaid Global Spending Cap is projected to grow at the indexed rate of 3.4%, consistent with the Medicaid Global Spending Cap, to $17.7 billion. In total, State-funded Medicaid will increase to $18.5 billion. The bump is based on cost of care increases and utilization increases but also decreased in consideration of planned investments. There is no guarantee that ongoing Medicaid Redesign Team Phase V recommendations will continue to achieve the level of gap closing savings anticipated or limit the rate of annual growth in State Medicaid spending as projected.

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

Medicare and Medicaid Reimbursement

A portion of the Obligated Group'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."

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.

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. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "*MMA*") contained many significant changes to the Medicare program, including the availability of prescription drug coverage. The Deficit Reduction Act of 2005 (the "*DRA*") also contained significant changes including, among other things, various provisions to decrease spending growth in the Medicare program while increasing health care providers' focus on quality and efficient delivery of health care services. The ACA has continued this trend toward greater cost containment and performance-based payments. *See* "Health Care Reform" herein. 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. It is impossible to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on the operations of the Obligated Group.

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 each Obligated Group Member'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 each Obligated Group Member is located. The standardized amounts are 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. *See* "Health Care Reform – Market Basket Reductions." 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. 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 Obligated Group Members 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.

Effective October 1, 2013, CMS adopted a policy known as the Inpatient Hospital Prepayment Review "Probe & Educate" review process or the "Two-Midnight" rule. The "Two-Midnight" rule specifies that hospital stays spanning two or more midnights after the beneficiary is properly and formally admitted as an inpatient will be presumed to be "reasonable and necessary" for purposes of inpatient reimbursement. With some exceptions, stays not expected to extend past two midnights should not be admitted and instead should be billed as outpatient. Enforcement of the "Two-Midnight" rule was ultimately delayed until the end of 2015. Effective October 1, 2015, responsibility for initial review of inpatient admissions shifted from Medicare administrative contractors to quality improvement organizations ("*QIO*"), and recovery audit contractors will only conduct reviews for providers that have been referred by the related QIO. The Outpatient PPS Final Rule, issued in November 2015 and effective January 1, 2016, revised the Two-Midnight Rule to allow an exception for Medicare Part A payment on a case-by-case basis for inpatient admissions that do not satisfy the two-midnight benchmark if documentation in the medical records supports that the patient required inpatient care. CMS has announced that it will not continue to impose an inpatient payment cut to hospitals under the "Two-Midnight" rule starting in 2017 following ongoing industry criticism and a legal challenge. In the 2017 Medicare IPPS final rule released on August 2, 2016, CMS removed the inpatient payment cuts under the "Two-Midnight" rule for fiscal year 2017 and onward and provided a temporary increase of 0.6% payment in fiscal year 2017 to help offset the fiscal year 2014-2016 cuts under the "Two-Midnight" rule. The "Two-Midnight" rule has had and will likely continue to have an adverse financial impact for hospitals.

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. The actual cost of care, including capital costs, may be more or less than the reimbursements. Generally, Medicare payment rates to hospitals for outpatient hospital services are adjusted annually based on estimated cost increases and other factors, including productivity and budget neutrality adjustments. These adjustments are typically positive, and often range from 0.5% to 2.5%. However, occasionally, because of statutory formulas and other legislative and administrative actions, these adjustments can be negative, and Medicare payments to hospitals can be reduced as a result. Moreover, Congress often takes action to specify payment update reductions, which can have the effect of constraining or reducing hospital payments. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

There can be no assurance that the hospital OPPS rate will be sufficient to cover the actual costs of the Obligated Group Members 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 Obligated Group Members 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. On April 16, 2015, President Obama signed into law MACRA, legislation that when implemented in 2017, will substantially alter how physicians and other practitioners are paid by Medicare for services furnished to program beneficiaries. CMS previously relied on a formula known as the Sustainable Growth Rate ("*SGR*"), which imposed a limit on the growth of Medicare payments for physician services based on changes to the U.S. Gross Domestic Product over a ten-year period. MACRA permanently replaced the SGR formula with statutorily prescribed physician payment updates and incentives based upon performance measures that began in January 2017. This legislation increases Medicare physician reimbursement by 0.5% annually until 2019 and then provides for no additional increases to base physician reimbursement through 2025.

MACRA moved Medicare physician reimbursement from a fee-for-service to a pay-for-performance model that will continue to control the growth of physician payments based on clinical outcomes and quality reporting. In addition to the base payment methodology, physicians can earn merit-based payments based on factors including compliance with meaningful use of certified electronic health records technology ("*CEHRT*") and demonstration of quality-based medicine.

Beginning January 1, 2019, and carrying through 2025, physician payment adjustments will occur through the Quality Payment Program's two reimbursement tracks – the Merit-based Incentive Payment System ("*MIPS*") or an Advanced Alternative Payment Model ("*APM*"). In calculating physician payment adjustments, MIPS streamlines existing quality and value programs, accounting for physician performance under the meaningful use of electronic health records incentive program, the value-based modifier, and physician quality reporting system. Payments to physicians participating in APMs similarly accounts for performance under such programs. Beginning January 1, 2026, and effective January 1 of each subsequent calendar year, physician payments will be increased 0.75% for physicians who adequately participate in APMs, and 0.25% for those in MIPS. Notably, CMS has designated calendar year 2017 as the "transition year" during which physician reporting obligations for participation in these programs are substantially reduced. The outcomes of these programs, including the likelihood of being revised or expanded or their effect on health care organizations revenues or financial performance cannot be predicted, and it remains unclear what effect this legislation will have on EMC. For example, these programs may encourage more physicians to retire, not accept Medicare (or only accept Medicare Advantage). Alternatively, or in addition to other externalities of the implementation of these programs, increased focus and performance scoring on resource use may impact utilization of health care resources by EMC. Furthermore, implementation of a quality payment system will likely require regular reporting to CMS and greater internal resources to monitor performance and prevent payment reductions.

Off-Campus Provider-Based Departments. Beginning January 1, 2017, off-campus hospital outpatient departments established on or after November 2, 2015 will not be eligible for payment under the OPPS for non-emergency services. Instead, CMS has proposed that non-emergency services performed at these facilities will be paid under the physician fee schedule in fiscal year 2017, and at a to-be-determined rate in subsequent years. The new payment methodology for these locations and services will likely result in lower payments to

hospitals than in previous years for providing the same services, if the services are provided in a new off-campus outpatient department or a new service added to an existing off-campus outpatient department. A hospital outpatient department is considered to be "off-campus" if it is located more than 250 yards from a main provider hospital or a remote location of a hospital. Administrative and judicial review are unavailable for determinations relating to applicable payment systems or determinations whether a provider department is considered an off-campus hospital outpatient department.

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 each Obligated Group Member.

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

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.

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 Obligated Group Members. There can be no assurance that the Obligated Group Members will continue to receive The Joint Commission accreditation in the future.

CMS also has announced an initiative to require all Medicare-certified providers, including hospitals, to revalidate their Medicare enrollment records by March 2015 in order for CMS to implement new screening criteria mandated by the ACA. Under this initiative, Medicare contractors will send mandatory revalidation requests to providers, who will have a limited time to respond to the requests. Failure to timely revalidate Medicare enrollment records for any hospital facility could result in deactivation or termination of a hospital's provider agreement, which could adversely affect the hospital's patient services revenues and financial performance.

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. Management believes the Obligated Group, on a yearly contracting basis, has developed equitable pricing arrangements with most of the payors with which it contracts. As part of these negotiated contracts, the Obligated Group 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 Obligated Group. 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. The Obligated Group's financial condition may be adversely affected by these trends.

Medicaid Partnership Plan 1115 Waiver

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. Prior amendments to the Partnership Plan 1115 Waiver further extended the groups eligible and required to enroll in Medicaid managed care, which resulted in an increase in Medicaid managed care admissions. Additionally, following a 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 were 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. Since 1997, the Partnership Plan 1115 Waiver has been extended several times, most recently as of August 2011, effective through December 31, 2014, New York currently is in the process of requesting approval from CMS to extend the Partnership Plan 1115 Waiver for an additional five years, from January 1, 2015 through December 31, 2019, and has requested permission for the state to reinvest federal savings generated by the state's Medicaid Redesign Team reform efforts. A series of temporary extensions have been granted while CMS continues to evaluate the extension application, the most recent of which is effective through June 15, 2016.

State Children's Health Insurance Program

The State Children's Health Insurance Program ("SCHIP") provides federal matching funds to states that cover 65% to 84% of the costs of health care coverage, primarily for low-income children. CMS administers SCHIP, but each state creates its own program based on minimum federal guidelines, or the state may apply for a waiver, which allows the state to create its own program using the federal funds, but often

with different criteria for eligibility. New York's SCHIP program, known by its marketing name Child Health Plus, was created by the New York Legislature in 1990.

While generally considered to be beneficial for both patients and providers because it reduces the number of uninsured children, it is difficult to assess the fiscal impact of SCHIP payments on the Members of the Obligated Group. Moreover, each state must periodically submit its SCHIP plan to CMS for review to determine if it meets the federal requirements. If a state does not meet the federal requirements, it may lose its federal funding for its program. From time to time Congress and/or the President seek to expand or contract SCHIP. Under MACRA, federal funding for SCHIP was extended through September 30, 2017. The loss of federal approval for a state's SCHIP program or a reduction in the amounts available under SCHIP could have an adverse impact on the financial condition of the Obligated Group.

Litigation and Claims

The Obligated Group Members are involved in litigation and claims which are not considered unusual to their 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 Obligated Group.

See "APPENDIX A – Certain Information Concerning The Rochester General Hospital – Litigation and Investigations" 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 Members of the Obligated Group. The Obligated Group 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 Obligated Group 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 are affecting 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 Obligated Group's ability to control costs and its financial performance.

In order to recruit and retain professional and nursing staff to strengthen clinical services, the Obligated Group has offered, and in the future intends to offer, competitive salaries to both newly recruited individuals and existing staff. In some years such salaries have increased, and in the future may continue to increase, more than the rate of inflation. Such increases in the future may exceed increases in the Obligated Group'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 Obligated Group 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 The Rochester General Hospital – Employee Matters" hereto.

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

Risks Related to Construction of the Facility

The Facility 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 Obligated Group, contractors or subcontractors. If completion of the Facility is delayed beyond the estimated construction period, receipt of revenues projected from the operations of the 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 Obligated Group to meet the debt service payments on the Bonds and the operating expenses of the Members of the Obligated Group.

Management of the Obligated Group believes that the proceeds of the Series 2017 Bonds, together with other funds of the Obligated Group, will be sufficient to finance the costs of the Facility. The cost of the Facility may be increased, however, if there are change orders. Further, the cost of construction of the Facility may be affected by other factors beyond the control of the Obligated Group, 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. 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.

In June 2016, the DOJ issued a rule that more than doubles civil monetary penalties under the FCA. Effective August 1, 2016, these penalties are based on the Bureau of Labor Statistics' Consumer Price Index for October 2015 and increase to $10,781 (minimum) to $21,563 (maximum) per claim for violations occurring after November 2, 2015. The increased penalty range significantly increases the potential financial exposure resulting from an FCA violation.

The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called "qui tam" actions. Qui tam plaintiffs, or "whistleblowers," can share in the damages recovered by the federal government or recover independently if the government does not participate. The FCA has become one of the federal government's primary weapons against health care fraud and suspected fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital and other health care providers. Some regulators and whistleblowers have asserted that claims submitted to governmental payors that do not comply fully with regulations or guidelines come within the scope of the FCA.

In June 2016, the United States Supreme Court announced its decision in *Universal Health Services, Inc. v. United States ex rel. Escobar*, No. 15-7 (I.S. June 16, 2016). Prior to Escobar, lower courts had split on the issue of whether the FCA extended to so-called "implied certification" of compliance with laws, and whether such compliance was limited to express conditions of payment or extended to conditions of participation. The United States Supreme Court affirmed the theory of "implied certification" and rejected the distinction between conditions of payment and conditions of participation for these purposes, ruling that the relevant inquiry is whether the alleged noncompliance, if known to the government, would have in fact been material to the government's determination as to whether to pay the claim. There is considerable uncertainty as to the application of the Escobar holding, but depending on how it is interpreted by the lower courts, it could result in an expanded scope of potential FCA liability for noncompliance with applicable laws, regulations and subregulatory guidance

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 Obligated Group Members.

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 Obligated Group, to treat or conduct an appropriate and uniform medical screening for emergency conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital.

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.

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 Obligated Group.

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

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 Obligated Group 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 Obligated Group to sanctions as well as repayment obligations.

The American Recovery and Reinvestment Act of 2009 (the "*Stimulus Act*")

The Stimulus Act includes several provisions that are intended to provide financial relief to the health care sector, including $86.6 billion in federal payments to states to fund the Medicaid program and $24.7 billion to provide a 65% subsidy to the recently unemployed for health insurance premium costs. The Stimulus Act also includes: $19 billion to establish a framework for the implementation of a nationally-based health information technology ("*HIT*") program, including incentive payments to hospitals which commenced in fiscal year 2011; $10 billion for health research and construction of NIH facilities; and $1 billion for prevention and wellness programs. As a component of the federal objective of implementing electronic health records ("*EHRs*") for all Americans by 2014, the Health Information Technology for Economic and Clinical Health Act ("*HITECH Act*") included in the Stimulus Act requires the development of regulations to establish HIT standards to which the Obligated Group physicians and acute care hospitals will be subject. Compliant physicians and acute care hospitals that are also "meaningful users" of EHRs were eligible for Medicare and

Medicaid incentive payments which began in fiscal year 2011. However, physicians must choose between receiving payments through the Medicare or Medicaid program, and hospital-based physicians are not eligible for the incentives. Hospitals and eligible physicians that do not comply will face Medicare penalties beginning in fiscal year 2015. The Members of the Obligated Group are participating in the EHR incentive programs; however, the effect of the Stimulus Act and any future regulatory actions on the Obligated Group cannot be determined at this time.

Department of Health Regulations

The Members of the Obligated Group are subject to regulations of DOH. Compliance with such regulations may require substantial expenditures for administrative or other costs. The Obligated Group'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 Obligated Group's ability to make changes to its service offerings and respond to changes in the environment may be limited.

New York State Executive Order

On January 18, 2012, Governor Andrew Cuomo signed Executive Order 38 (the "**Executive Order**") limiting spending for administrative costs and executive compensation at state-funded service providers. The Obligated Group's receipt of State Medicaid funding 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 85% of State-authorized payments be used for direct care or services, rather than administrative costs. The Executive Order and final regulations became effective July 1, 2013. However, many questions regarding implementation remain, and the way in which the final regulations may affect the Obligated Group remains unclear. Accordingly, it is impossible at this time to predict what changes in accounting or practices might be required of the Obligated Group as a result of these regulations. On April 8, 2014, in a case entitled *Agencies for Children's Therapy Services, Inc., v. New York State Department of Health, et. al*, the New York Supreme Court for Nassau County held that the Executive Order and regulations promulgated by the Department of Health are invalid and may not be enforced. On April 27, 2015, the New York Supreme Court Appellate Division, Second Judicial Department in the same case determined that the Supreme Court for Nassau County should have declared the Executive Order and implementing regulations both valid and enforceable. The New York Supreme Court Appellate Division, Second Judicial Department remitted the case to the Supreme Court for Nassau County for entry of an order declaring the Executive Order and implementing regulations valid and enforceable. Additionally, on July 29, 2014, the Supreme Court for Suffolk County upheld the Department of Health regulations promulgated under the Executive Order, in a case entitled *Concerned Home Care Providers, Inc. v. New York State Department of Health*.

Other Governmental Regulation

The Members of the Obligated Group are 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 Obligated Group. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Obligated

Group's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

Not-for-Profit Status

As a non-profit tax-exempt organization, each Member of the Obligated Group 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 Members of the Obligated Group conduct large-scale complex business transactions and are significant employers in their geographic areas. 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 nonprofit 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. 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.

Internal Revenue Service Examination of Compensation Practices and Community Benefit

The IRS has been historically concerned about executive compensation practices of tax-exempt hospitals. In 2004, the IRS began a compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "*IRS Final Report*") that examined tax-exempt organizations' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicated that the IRS will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations and, in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The IRS Final Report determined that the reporting of community benefit by nonprofit hospitals varied widely, both as to types of programs and expenditures classified as community benefit and the measurement of community benefits. As a result, the Form 990 requires detailed 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 a compliance risk. The Form 990 also requires the disclosure of information on community benefit as well as reporting of information related to tax-exempt bonds, 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. The Form 990 is intended to provide enhanced transparency as to the operations of exempt organizations. It is likely that the IRS will use detailed information to assist in its enhanced enforcement efforts.

The ACA also contains new requirements for tax-exempt hospitals. Under the ACA, each tax-exempt hospital facility is required 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 qualify 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. In addition, 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 501(c)(3) hospitals may increase the likelihood that Congress will require such hospitals to provide a minimum level of charity care in order to retain tax-exempt status and may increase IRS scrutiny of particular 501(c)(3) hospital organizations.

Internal Revenue Code Limitations

Private Inurement and Excess Benefit Transactions. The Code contains restrictions on the issuance of tax-exempt bonds for the purpose of financing and refinancing different types of health care facilities for not-for-profit organizations, including facilities generating taxable income. Consequently, the Code could adversely affect the Obligated Group's ability to finance its future capital needs and could have other adverse effects on the Obligated Group that cannot be predicted at this time. The Code continues to subject unrelated business income of nonprofit organizations to taxation.

As tax-exempt organizations, the Members of the Obligated Group are limited with respect to the use of practice income guarantees, reduced rent on medical office space, below market rate interest loans, joint venture programs, and other means of recruiting and retaining physicians. The IRS has recently intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals and affiliated entities, including Members of the Obligated Group, and has issued detailed hospital audit guidelines suggesting that field agents scrutinize numerous activities of hospitals in an effort to determine whether any action should be taken with respect to limitations on, or revocation of, their tax-exempt status or assessment of additional tax. The IRS has also commenced intensive audits of select health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has indicated that, in certain circumstances, violation of the fraud and abuse statutes could constitute grounds for revocation of a hospital's tax-exempt status.

Any suspension, limitation, or revocation of the tax-exempt status of the Members of the Obligated Group or assessment of significant tax liability could have a material adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Series 2017 Bonds.

Revocation of the tax-exempt status of the Members of the Obligated Group 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 2017 Bonds. Section 501(c)(3) of the Code specifically conditions the continued exemption of all Section 501(c)(3) organizations upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its tax-exempt status under Section 501(c)(3) of the Code. The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law and no regulations or public advisory rulings that address many common arrangements between exempt health care providers and nonexempt individuals or entities. There can be no assurance concerning the outcome of an audit or other investigation given the lack of clear authority interpreting the range of activities undertaken by the Members of the Obligated Group.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the disqualified person receiving such excess benefit

and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it will involve "excess benefit." "Excess benefit transactions" include transactions in which a disqualified person receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair market value or, to the extent provided in regulations yet to be promulgated, is determined in whole or in part by the revenues of one or more activities of such organization. "Disqualified persons" include "insiders" such as board members and officers, senior management, and members of the medical staff, who in each case are in a position to substantially influence the affairs of the organization; their family members; and entities which are more than 35% controlled by a disqualified person.

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

Charity Care. Hospitals are permitted to have tax-exempt status under the Code because the provision of health care historically has been treated as a "charitable" enterprise. This treatment arose before most Americans had health insurance, and when charitable donations were required to fund the health care provided to the sick and disabled. Some have posited that, with the onset of employer health insurance and government reimbursement programs, there is no longer any justification for special tax treatment for the not-for-profit health care sector, and the availability of tax-exempt status should be eliminated. Management of the Obligated Group cannot predict the likelihood for such a dramatic change in the law. Federal and state tax authorities are beginning to demand that tax-exempt hospitals justify their tax-exempt status by documenting their charitable care and other community benefits.

Tax Audits

Taxing authorities historically have conducted tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. None of the Obligated Group Members are currently under audit.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, 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 Members of the Obligated Group, from time to time, may be involved in joint contracting activity with hospitals or other providers. The degree to which these or similar joint contracting activities may expose a participant to antitrust risk from governmental or private sources is dependent on a myriad of factors that may change from time to time. If any provider with whom the Obligated Group is or becomes affiliated is determined to have violated the antitrust laws, the Members of the Obligated Group 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. 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 Obligated Group 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*") 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 Obligated Group has implemented HIPAA training and ongoing monitoring, which have been in place since April 2003. 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 Obligated Group.

HITECH Act

The HITECH Act increases the maximum civil monetary penalties for violation of HIPAA and grants broad enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond "covered entities," (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities' marketing communications. Within the next three years, DHHS is required to establish

procedures for individuals harmed by a breach of these privacy provisions to recover a percentage of the monetary penalties or settlement paid by violators.

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. 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 Medicare payments are set to begin to be reduced for entities and individuals that fail to adopt these systems.

The HITECH Act revises the civil monetary penalties associated with violations of HIPAA as well as provides state attorneys general with authority to enforce the HIPAA privacy and security regulations in some cases through a damages assessment of $110 per violation or an injunction against the violator. The revised civil monetary penalty provisions establish a tiered system, ranging from a minimum of $110 per violation for an unknowing violation to $1,100 per violation for a violation due to reasonable cause, but not willful neglect. For a violation due to willful neglect, the penalty is a minimum of $11,002 or $55,010 per violation, depending on whether the violation was corrected within 30 days of the date the violator knew or should have known of the violation. Maximum penalties may reach $1,650,300 for identical violations.

Criminal penalties will be enforced against persons who knowingly obtain or disclose personal health information in violation of HIPAA. The Office for Civil Rights ("*OCR*"), the administrative office that is tasked with enforcing HIPAA, is also beginning to perform periodic audits of health care providers and group health plans to ensure that required policies under HIPAA (as amended by the HITECH Act) are in place. Finally, OCR is working to establish a methodology under which an individual who is harmed by an offense punishable under HIPAA may be able to recover a percentage of the civil monetary penalty or monetary settlement collected with respect to the offense. These enforcement actions may significantly increase the number of HIPAA-related complaints from individuals, as well as increase penalty and settlement amounts.

OCR has stated that it has now moved from education to enforcement in its implementation of the law. Recent settlements of HIPAA violations for breaches involving lost data have reached the millions of dollars. Any breach of HIPAA, regardless of intent or scope, may result in penalties or settlement amounts that are material to a covered health care provider or health plan.

The HITECH Act also established programs under Medicare and Medicaid to provide incentive payments to certain eligible hospitals and health care professionals ("*Eligible Providers*") that demonstrate the "meaningful use" of CEHRT. Eligible Providers demonstrate meaningful use of CEHRT by meeting and attesting to meaningful use objectives and associated measures specified by CMS for using CEHRT and by reporting on certain quality measures. Incentive payments under the Medicare program sunset in 2016. Pursuant to the HITECH Act, and commencing in 2015, Eligible Providers who have not satisfied the performance and reporting criteria for demonstrating meaningful use in the applicable meaningful use reporting year will have their Medicare payments reduced. The payment reduction starts at 1% and increases each year that an eligible hospital or professional does not demonstrate meaningful use, up to a maximum 5% reduction. CMS has engaged a contractor that conducts pre-payment and post-payment audits of certain selected Eligible Providers that have submitted meaningful use attestations. An Eligible Provider that fails the audit will have an opportunity to appeal. Ultimately, Eligible Providers that elect not to appeal or fail on appeal will have to repay any incentive payments that they received through these programs or refund Medicare reimbursement that would have been reduced as part of the payment reductions.

Moreover, MACRA ends the payment reductions for physicians who fail to demonstrate meaningful use after 2018. However, beginning in 2019, use of CEHRT will be a performance category under MACRA's

MIPS for certain physicians and other health care professionals who do not meet MACRA's thresholds for participation in certain alternative payment models designated by Medicare. A physician's failure to use CEHRT consistent with MIPS' requirements would lower the physician's performance score under MIPS and could result in reduced Medicare reimbursement for professional services performed by the physician. CMS has issued a final rule to implement MIPS with numerous, complex requirements. The need to implement technology, operational and other changes to address MIPS requirements for use of CEHRT may have a material adverse impact on EMC. Generally, MACRA did not change hospital participation in the Medicare EHR Incentive Program or participation for physicians in the Medicaid EHR incentive program.

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 Members of the Obligated Group 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 Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

Affiliation, Merger, Acquisition and Divestiture

As part of its ongoing planning and property management functions, the Members of the Obligated Group review 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 Obligated Group may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the Obligated Group in the future, or about the potential sale of some of the operations and properties of the Obligated Group. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Members of the Obligated Group, are held on an intermittent, and usually confidential, basis. As a result, it is possible that the assets currently owned by the

Members of the Obligated Group may change from time to time, subject to the provisions in the financing documents that apply to merger, sale, disposition or purchase of assets.

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 Obligated Group.

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

Certain Accreditations

The Members of the Obligated Group are subject to periodic review by the Joint Commission. The Members of the Obligated Group have each received accreditation from the Joint Commission. 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 Members of the Obligated Group sponsor 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 The Rochester General Hospital – Licensure and Accreditation" hereto.

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 Members of the Obligated Group have 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 2017 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 Obligated Group's capabilities and the financial conditions and results of operations of the Obligated Group.

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 2017 Bonds and the interest thereon as the same become due. The obligation of the Obligated Group to make such payments is secured by Obligation No. 2, which, in turn, is secured by, among other things, a security interest granted to the Master Trustee in the Gross Receipts of the Obligated Group. *See* "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS – Master Indenture – Security Interest in Gross Receipts." The lien on Gross Receipts may become subordinate to certain Permitted Liens under the Master Indenture. Gross Receipts paid by the Members of the Obligated Group 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 Obligated Group has not provided an opinion with regard to the enforceability of the Lien on Gross Receipts of the Obligated Group, where such Gross Receipts are derived from the Medicare and Medicaid programs.

In the event of bankruptcy of a Member of the Obligated Group, transfers of property by the bankrupt entity, including the payment of debt or the transfer of any collateral, including receivables and Gross Receipts on or after the date which is 90 days (or, in some circumstances, one year) prior to the commencement of the case in bankruptcy court, may be subject to avoidance or recoupment as preferential transfers. Under certain circumstances a court may have the power to direct the use of Gross Receipts to meet expenses of the Member of the Obligated Group before paying debt service on the 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 a Member of the Obligated Group under certain circumstances. If any required payment is not made when due, the Members of the Obligated Group must transfer or pay over immediately to the Master Trustee any Gross Receipts with respect to which the security interest remains perfected pursuant to law. Any Gross Receipts thereafter received shall upon receipt by a Member of the Obligated Group be transferred to the Master Trustee without such Gross Receipts being commingled with other funds, in the form received (with necessary endorsements) up to an amount equal to the amount of the missed payment. The value of the security interest in the Gross Receipts could be diluted by the incurrence of additional Indebtedness secured equally and ratably with the Bonds as to the security interest in the Gross Receipts or by the issuance of debt secured on a basis senior to the Bonds. *See* "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2017 BONDS – Master Indenture."

Enforceability of the Master Indenture

Under New York law, a not-for-profit corporation may guarantee the debt of another corporation only if such guaranty is in furtherance of the corporate purposes of such guarantor not-for-profit corporation. In addition, it is possible that the security interest granted by a Member of the Obligated Group and the joint and several obligation of a Member of the Obligated Group to make payments due under an Obligation, including Obligation No. 2, relating to bonds issued for the benefit of another Member, may be declared void in an action brought by a third-party creditor pursuant to the New York fraudulent conveyance statutes or may be avoided by a Member of the Obligated Group or a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested. An obligation may be voided under the federal Bankruptcy Code or under the New York fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the

obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, a joint and several obligation of a Member of the Obligated Group under the Master Indenture to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members of the Obligated Group, may be held to be a "transfer" which makes such Member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. Also, one of the Members of the Obligated Group may be deemed to have received less than "fair consideration" for such obligation because none or only a portion of the proceeds of the indebtedness are to be used to finance projects occupied or used by such Member. While the Members of the Obligated Group may benefit generally from the projects financed from the indebtedness for the other Members, the actual cash value of this benefit may be less than the joint and several obligation. The rights under the New York fraudulent conveyance statutes may be asserted for a period of up to six years from the incurring of the obligations or granting of security under the Master Indenture.

In addition, the assets of any Member of the Obligated Group may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others if a Member of the Obligated Group has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such Member were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of the State. In the absence of clear legal precedent in this area, the extent to which the assets of any Member of the Obligated Group can be used to pay Obligations issued by or on behalf of others cannot be determined at this time.

In addition, 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.

An action to enforce a charitable trust and to see to the application of its funds could also arise if an action to enforce the obligation to make payments on an Obligation issued for the benefit of another Member of the Obligated Group would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which payment is requested.

Exercise of Remedies under Master Indenture

"Events of Default" under the Master Indenture include the failure of the Obligated Group to make payments on any Obligation Outstanding under the Master Indenture (such as Obligation No. 2) 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 Members of the Obligated Group, 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 25% 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 2017 Bonds and an acceleration of the maturity of the Series 2017 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 2017 Bonds Outstanding is at least equal to 25% 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 25% of all Obligations Outstanding under the Master Indenture.

Bankruptcy

The Series 2017 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 2017 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 2017 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 2017 Bonds are subject to various provisions of Title 11 of the United States Code (the "*Bankruptcy Code*"). If the Obligated Group 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 Obligated Group and its property. The Obligated Group would not be permitted or required to make payments of principal or interest under the Loan Agreement and Obligation No. 2, 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 2017 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 Obligated Group, 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 Obligated Group'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 Obligated Group under the Obligation, 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 Obligated Group 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 Obligated Group 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 Members of the Obligated Group to incur additional indebtedness, including Additional Bonds.

Such indebtedness would increase the Obligated Group's debt service and repayment requirements and may adversely affect debt service coverage on the Series 2017 Bonds.

Risks Related to Interest Rate Swaps

The Obligated Group may from time to time enter into hedging arrangements to hedge the interest payable or manage interest cost on certain of its indebtedness, assets, or other derivative arrangements. Changes in the market value of such agreements could have a negative impact on the Obligated Group's operating results and financial condition, and such impact could be material. Any such future hedging agreement may be subject to early termination upon the occurrence of certain events. If either the Obligated Group or the counterparty terminates any hedge agreement entered into in the future when such agreement has a negative value to the Obligated Group, the Obligated Group could be obligated to make a substantial termination payment, which could materially adversely affect the financial condition of the Obligated Group.

Other Risk Factors

In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Obligated Group, or the market value of the Series 2017 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 Obligated Group, 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 Obligated Group 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 Obligated Group, 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 Obligated Group's facilities.

- Adoption of a so-called "flat tax" federal income tax, a reduction in the marginal rates of federal income taxation or replacement of the federal income tax with another form of taxation, any of which might adversely affect the market value of the Series 2017 Bonds and the level of charitable donations to the Obligated Group.

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 2017 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 one hundred sixty-five (165) days after the close of its fiscal year in each year commencing December 31, 2017 (the "*Annual Report*"), and to provide notices of the occurrence of certain enumerated events.

The Annual Report shall contain annual information concerning the Institution consisting of (1) consolidated annual financial statements of the Institution prepared in accordance with generally accepted accounting principles ("*GAAP*") and audited by an independent firm of certified public accountants in accordance with generally accepted auditing standards, (2) financial and operating data of the type included in this Official Statement, which shall include information as described in "APPENDIX A – Certain Information Concerning The Rochester General Hospital" and "APPENDIX B-1 – Financial Statements of The Rochester General Hospital and Independent Auditor's Report" hereto, relating to the following: (a) utilization statistics of the type set forth under the heading "Utilization", (b) revenue and expense data of the type set forth under the heading "Summary of Historical Revenue and Expenses", (d) data of the type set forth under the heading "Maximum Annual Debt Service Coverage", (e) data of the type set forth under the heading "Liquidity and Investments", and (f) data of the type set forth under the heading "Payor Mix", and (3) such narrative explanation, as may be necessary to avoid misunderstanding, and to assist the reader in understanding, the presentation of financial and operating data concerning the Institution and in judging the financial and operating condition of 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 2017 Bonds, not later than ten (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 2017 Bonds; (7) modifications to the rights of holders of the Series 2017 Bonds, if material; (8) bond calls, if material; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2017 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 2017 Bonds, to provide to the Electronic Municipal Market Access ("*EMMA*") system of the Municipal Securities Rulemaking Board ("*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.

The Annual Report will be filed with the EMMA system of the MSRB or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule. 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. This undertaking has been made in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

In addition, the Institution, on behalf of the Obligated Group, has agreed in the Supplemental Indenture for Obligation No. 2 to furnish, or cause to be furnished certain quarterly information, not later than sixty (60) days after the end of each of the Obligated Group's first three fiscal quarters and not later than seventy-five (75) days after the end of the Obligated Group's fourth fiscal quarter, commencing with the fiscal quarter ending June 30, 2017 (the "*Quarterly Report*"). The Obligated Group's Quarterly Report shall contain quarterly unaudited consolidated financial statements of the Obligated Group (including balance sheet, statement of operations, changes in net assets and cash flows), and quarterly utilization and operating data of

the Obligated Group of the type described in "APPENDIX A – Certain Information Concerning The Rochester General Hospital" hereto under the headings "Utilization", "Liquidity and Investments – Days Cash on Hand" and "Payor Mix" hereto and construction updates on the Facility during the construction period of the Facility.

The Institution, on behalf of the Obligated Group, has further agreed in the Supplemental Indenture for Obligation No. 2 to provide to EMMA of the MSRB and the Trustee copies of the Audited Financial Statements of Rochester Regional Health, not later than one hundred eighty (180) days subsequent to the last day of each fiscal year.

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 2017 Bonds is excluded from gross income for federal income tax purposes, pursuant to Section 103 of the Internal Revenue Code of 1986 (the "Code"). Furthermore, Bond Counsel is of the opinion that interest on the Series 2017 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 2017 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 2017 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 2017 Bonds maturing on December 1 in the years 2030 and 2033 (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 such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in 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 2017 Bonds maturing on December 1 in the years 2022 through 2029, inclusive, 2031, 2032, 2034, 2035, 2036, 2037, and 2046 (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 2017 Bonds in order that interest on the Series 2017 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 2017 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 2017 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issue of the Series 2017 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 2017 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 2017 Bonds should be aware that the accrual or receipt of interest on the Series 2017 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 2017 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 2017 Bonds, (ii) interest on the Series 2017 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 2017 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 2017 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 2017 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 2017 Bonds.

State Income Taxes

In the opinion of Bond Counsel, under existing law as of the date of the issuance of the Series 2017 Bonds, for so long as interest on the Series 2017 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 2017 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 or 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 2017 Bonds.

Interest on the Series 2017 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 2017 Bonds under the laws of such other state or local jurisdictions. Each purchaser of the Series 2017 Bonds should consult his or her own tax advisor

regarding the taxable status of the Series 2017 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 2017 Bonds may adversely affect the value of, or the tax status of interest on, the Series 2017 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 federal, state or local tax consequences with respect to the Series 2017 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.

No assurance can be given that any future legislation or governmental actions, including amendments to the Code or State income tax laws, regulations, administrative rulings, or court decisions, will not, directly or indirectly, cause interest on the Series 2017 Bonds to be subject to federal, State or local 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 2017 Bonds for audit examination or the course or result of an audit examination of the Series 2017 Bonds or of obligations which present similar tax issues, will not affect the market price, value or marketability of the Series 2017 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 2017 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 2017 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 2017 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 2017 BONDS.

INDEPENDENT AUDITORS

The consolidated financial statements for the Institution as of December 31, 2016 and 2015 and for the years then ended, included in "APPENDIX B-1" of this Official Statement, have been audited by Freed Maxick, CPAs, P.C., independent auditors, as stated in their report appearing herein.

The consolidated financial statements for Rochester Regional Health as of December 31, 2016 and 2015 and for the years then ended, included in "APPENDIX B-2" of this Official Statement, have been audited by Freed Maxick, CPAs, P.C., independent auditors, as stated in their report appearing herein.

FINANCIAL ADVISOR

Raymond James & Associates, Inc. (the "*Financial Advisor*") New York, New York was engaged by the Institution to provide financial advisory services for the development and implementation of a capital

financing plan for the Institution and to advise on the issuance of the Series 2017 Bonds. Although the Financial Advisor has assisted in the preparation of this Official Statement, the Financial Advisor was not and is not obligated to undertake, and has not undertaken to make, an independent verification and assumes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

RATING

S&P Global Ratings Inc. ("*S&P*") has assigned the Series 2017 Bonds the rating of "A-" (stable outlook). Such rating reflects only the views of such organization and an explanation of the significance of such rating may be obtained from the rating agency furnishing the same. There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by such rating agency, if in the judgment of such rating agency the circumstances so warrant. Any downward revision or withdrawal of such rating may have an adverse effect on the market price of the Series 2017 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 2017 Bonds or the proceedings or authority under which the Series 2017 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 2017 Bonds are subject to the approval of Harris Beach PLLC, Bond Counsel, whose approving opinion will be delivered with the issuance of Series 2017 Bonds. Certain legal matters will be passed upon for the Issuer by its counsel, Harris Beach PLLC. Certain legal matters will be passed upon for the Institution by its counsel, Bond, Schoeneck & King, PLLC. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP.

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated, for itself and as representative of J.P. Morgan Securities LLC ("*JPMS*"), M&T Securities, Inc. and KeyBanc Capital Markets Inc. (collectively, the "*Underwriters*"), has agreed to purchase the Series 2017 Bonds at a price equal to $164,521,079.20 (which is the aggregate principal amount of the Series 2017 Bonds, plus an original net issue premium of $13,054,705.95 less an Underwriters' discount of $478,626.75, pursuant to a bond purchase agreement entered

into by and among the Issuer, the Underwriters, and the Institution (the "*Bond Purchase Agreement*"). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2017 Bonds, if any are purchased. The obligation of the Underwriters to accept delivery of the Series 2017 Bonds is subject to various conditions contained in the Bond Purchase Agreement.

JPMS, one of the Underwriters of the Series 2017 Bonds, has entered into negotiated dealer agreements (each, a "*Dealer Agreement*") with each of Charles Schwab & Co., Inc. ("*CS&Co*.") and LPL Financial LLC ("*LPL*") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase the Series 2017 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017 Bonds that such firm sells.

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 2017 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 2017 Bonds is to be construed as a contract with the holders of the Series 2017 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 2017 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 2017 Bonds, the 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/ Jeffrey R. Adair*
Jeffrey R. Adair, Executive Director

THE ROCHESTER GENERAL HOSPITAL

By: */s/ Thomas Crilly*
Thomas Crilly, Chief Financial Officer,
Executive Vice President

APPENDIX A

Certain Information Concerning
The Rochester General Hospital

TABLE OF CONTENTS

Appendix A: Certain Information Concerning The Rochester General Hospital

Introduction and Background

The following information is provided by The Rochester General Hospital ("RGH" or the "Hospital") in connection with the issuance of its tax-exempt bonds, Series 2017 (the "Series 2017 Bonds" or the "Bonds").

RGH is a 528-bed tertiary care facility located in the suburban northeast section of Rochester, New York. RGH is the flagship hospital of a five hospital system known as Rochester Regional Health ("RRH", "Rochester Regional" or the "System") offering a full array of services to meet the medical needs of upstate New York, including nationally recognized programs in cardiac, cancer, orthopedic, vascular, surgical and diabetes care. RGH operates the largest emergency department in the Rochester area which served over 128,777 patients in 2016 and also one of the largest cardiac programs in New York State. Since its incorporation in 1847, the Hospital has been a key provider of healthcare services for the Rochester community and has developed into a major community teaching and referral center. In addition to the hospital, RGH operates an outpatient clinic, several related facilities providing medical, surgical and other health care services, as well as physician liability insurance company.

Rochester Regional is a vertically integrated health care delivery system that provides patient care, senior housing, laboratory services, and community outreach to residents and other clients in Monroe, Genesee, Ontario and Wayne counties, and several surrounding counties in New York. Rochester Regional (formerly, RU System, Inc.) was formed in 2014 by Rochester General Health System ("RGHS") and Unity Health System ("UHS"), with the subsequent integration of Clifton Springs Hospital & Clinic ("CSH&C") and United Memorial Medical Center ("UMMC"). RGHS, which was formerly known at different times as ViaHealth and Rochester Health Care, Inc., became the sole member of the Hospital in the mid-1980s until the creation of Rochester Regional Health in 2014. Rochester Regional serves as the active parent of the various entities formerly under RGHS and UHS; Rochester Regional is the sole member and co-operator of each of the System's licensed entities and is the sole member or a stockholder of non-licensed entities. See "Corporate Structure" in this Appendix A.

The mission of RRH is to enhance lives and preserve health by enabling access to a comprehensive, fully integrated network of the highest quality and most affordable care, delivered with kindness, integrity and respect, and the System's vision is to lead the evolution of healthcare to enable every member of the communities it serves to enjoy a better, healthier life. The System believes it can best serve its community by offering an integrated, premier health care delivery system, with inpatient and outpatient hospital services, coupled with long term care, housing and other options in the healthcare continuum to best meet patient needs.

THE HOSPITAL IS THE SOLE MEMBER OF THE OBLIGATED GROUP. NEITHER THE SYSTEM NOR ITS AFFILIATES OTHER THAN THE HOSPITAL ARE MEMBERS OF THE OBLIGATED GROUP AND, THEREFORE, THEY ARE NOT OBLIGATED WITH RESPECT TO THE SERIES 2017 BONDS. NO ASSETS OR REVENUES OF THE SYSTEM OR ITS OTHER AFFILIATES ARE PLEDGED TO SECURE THE SERIES 2017 BONDS.

Unless otherwise indicated, all references to financial and statistical data are for RGH only and refer to the fiscal year ended December 31. All tables contained herein are provided by RGH management, unless otherwise indicated. All references to municipalities are located in New York.

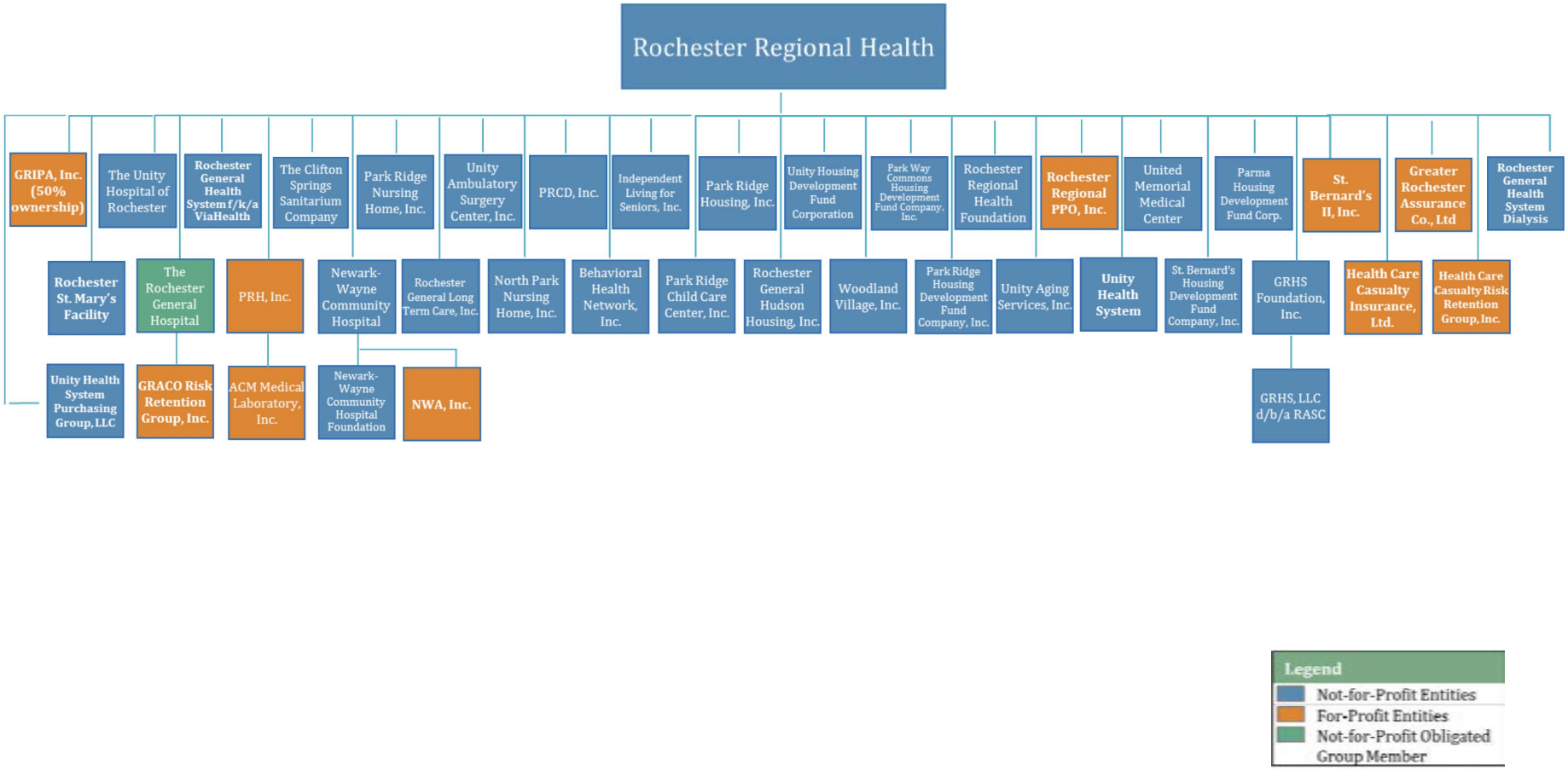
Corporate Structure

RGH is a New York not-for-profit corporation and is qualified as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The sole corporate member of the Hospital is Rochester Regional, also a New York not-for-profit corporation qualified as an exempt organization under Section 501(c)(3) of the Code. RRH coordinates and manages the regional healthcare services of its many affiliates (as defined herein), each of which is governed by its own board of directors. The affiliates ("Affiliates"), including RGH, maintain their own operating certificates and licenses for regulated services.

RRH owns 100% of the stock of Greater Rochester Assurance Company, Ltd. ("GRACO"), an offshore captive insurance company that provides most of the insurance for RRH and its Affiliates. Additionally, RRH owns a 50% interest in an independent physician practice association known as the Greater Rochester Independent Practice Association ("GRIPA"). GRIPA is a clinically integrated physician-hospital organization with over 1,300 physician owners. GRIPA has been approved by the Federal Trade Commission.

The Hospital is a participant in the RRH Workers' Compensation Trust, which provides a group insurance program for workers' compensation claims on behalf of the Affiliates, and owns 100% of the Class A stock of GRACO RRG, Inc., a South Carolina for-profit corporation that provides professional liability insurance to physicians in the Rochester area.

RGH is the only member of the Obligated Group. An organizational chart of RRH follows on the next page:


Rochester Regional Health
GRIPA, Inc. (50% ownership)
The Unity Hospital of Rochester
Rochester General Health System f/k/a ViaHealth
The Clifton Springs Sanitarium Company
Park Ridge Nursing Home, Inc.
Unity Ambulatory Surgery Center, Inc.
PRCD, Inc.
Independent Living for Seniors, Inc.
Park Ridge Housing, Inc.
Unity Housing Development Fund Corporation
Park Way Commons Housing Development Fund Company, Inc.
Rochester Regional Health Foundation
Rochester Regional PPO, Inc.
United Memorial Medical Center
Parma Housing Development Fund Corp.
St. Bernard's II, Inc.
Greater Rochester Assurance Co., Ltd
Rochester General Health System Dialysis
Rochester St. Mary's Facility
The Rochester General Hospital
PRH, Inc.
Newark-Wayne Community Hospital
Rochester General Long Term Care, Inc.
North Park Nursing Home, Inc.
Behavioral Health Network, Inc.
Park Ridge Child Care Center, Inc.
Rochester General Hudson Housing, Inc.
Woodland Village, Inc.
Park Ridge Housing Development Fund Company, Inc.
Unity Aging Services, Inc.
Unity Health System
St. Bernard's Housing Development Fund Company, Inc.
GRHS Foundation, Inc.
Health Care Casualty Insurance, Ltd.
Health Care Casualty Risk Retention Group, Inc.
Unity Health System Purchasing Group, LLC
GRACO Risk Retention Group, Inc.
ACM Medical Laboratory, Inc.
Newark-Wayne Community Hospital Foundation
NWA, Inc.
GRHS, LLC d/b/a RASC
Legend
Not-for-Profit Entities
For-Profit Entities
Not-for-Profit Obligated Group Member

Governance and Executive Staff

Governance

Established by the Public Health and Health Planning Council under the Active Parent governance model, Rochester Regional coordinates and manages the delivery of health care related services and education of its affiliates. RRH is the sole member and co-operator of each of the licensed entities of the System and the sole member or a stockholder of non-licensed entities.

The Rochester Regional Health Board of Directors (the "RRH System Board") has the authority to appoint and remove the board members of its Affiliates as well as to approve operating and capital budgets, strategic plans and take other actions necessary to assure that the Affiliates are acting in a manner consistent with their respective missions and philosophies. This model leaves decision making on operational details to the Affiliates. As a result, decisions in areas such as regulatory compliance, standards of care and medical staff credentialing are made by the boards of directors of the Affiliates and not by the System.

In its capacity as the sole corporate member of the Hospital, Rochester Regional elects the Hospital's directors and has reserved to itself certain powers, including among others the right to amend the Hospital's by-laws and the right to approve major transactions such as mergers, acquisitions and new indebtedness in excess of certain thresholds fixed from time to time by the RRH System Board.

The committees of the RRH System Board include the Executive Committee, Investment Committee and Audit & Compliance Committee and other committees as the RRH System Board shall authorize. The Executive Committee has the authority of the RRH System Board with respect to managing and conducting the affairs of the Hospital between Board meetings. The Investment Committee is responsible for oversight and goal setting recommendations to the RRH System Board for managing the investment funds of the System. The Investment Committee reviews these goals and objectives at least once per year and may recommend amendments to the RRH System Board. The board of directors of RRH consists of 13 directors, including Dr. Eric Bieber, President and Chief Executive Officer, RRH.

The RRH System Board members and officers, including their year of first appointment, term expiration and occupation, are as follows:

Name / Title	Originally Appointed	Term Expires	Occupations
Robert Dobies, Chairman	2014	2021	Retired Exxon Mobil Executive
Michael R. Nuccitelli, Vice Chair	2014	2023	President and CEO, Parlec Inc.
Eric Bieber, M.D. (ex-officio)	2014	-	President/CEO, RRH
Efrain Rivera, Treasurer	2014	2023	Senior Vice President, Chief Financial Officer, and Treasurer, Paychex
Robert Sands, Secretary	2014	2023	President/CEO, Constellation Brands
Rachel Adonis	2014	2023	Vice President Relationship Manager, Champlin & Associates
William Destler, Ph.D.	2014	2021	President, Rochester Institute of Technology
Nancy Ferris, Ph.D.	2014	2022	Director, Kodak Research Labs Vice President, Intellectual Property Solutions Division
Thomas Houseknecht	2014	2022	President, Moffet Turf Equipment
Anna Lynch	2014	2021	Partner, Underberg & Kessler, LLP
Leonard Olivieri	2014	2022	Executive Vice President and CFO, Peko Precision Products, Inc.
David Riedman	2017	2021	President, Riedman Development Corp.
Justin Smith	2014	2022	President and COO, Brite Computers
Corporate Officer:			
Hugh Thomas, Assistant Secretary	2014	-	Chief Administrative Officer, RRH

Established in January 2017, the new Health Care Services Board ("HCSB") of Directors is a local hospital/subsidiary Board that has a mirrored governing body for the following affiliates: (i) The Rochester General Hospital; (ii) The Unity Hospital of Rochester; (iii) Behavioral Health Network, Inc.; (iv) Independent Living for Seniors (ElderONE); (v) North Park Nursing Home, Inc. (Edna Tina Wilson Living Center); (vi) Park Ridge Nursing Home, Inc.; (vii) Rochester General Hudson Housing, Inc.; and (viii) Rochester General Long Term Care, Inc. (Hill Haven).

The HCSB only has the authority to approve local goals, targets and procedures for credentialing, quality, patient safety and patient experience; granting of privileges and credentialing, regulatory compliance and accreditation and the community needs assessment as applicable. The committees of the HCSB include the Quality Committee, Community Services Committee and Community Affairs/Health Care for the Homeless. The Quality Committee receives recommendations from the Medical Staff and makes final recommendations to the HCSB on all applications for initial appointment and reappointment to the Medical Staff. The HCSB has similar authority to the United Memorial Medical Center, Clifton Springs Hospital

and Clinic, and Newark-Wayne Community Hospital Boards. The HCSB is a completely separate group of individuals than the RRH System Board. Currently, the Hospital has 9 Directors as follows:

Name / Title	Originally Appointed	Term Expires	Occupations
Daniel Meyers, Chairman	2011	2021	Retired from Al Sigl Community of Agencies (President)
Karen M. Gallina, Vice Chair	2014	2023	Community Volunteer
Jeffrey C. Mapstone, Treasurer/Secretary	2014	2022	Founding Partner, Mapstone Veritas
Linda Becker	2009	2021	President, Northstar Networks
Ralph DeStephano	2014	2021	Owner/Manager at Buckmans Enterprise
Elizabeth Patton, Ph.D.	2014	2022	Retired from Eastman Kodak Co.
Thomas Riley	2014	2022	Retired owner of TPR Associates, LLC
Leon T. Sawyko	2014	2023	Retired Attorney from Harris Beach PLLC
Kevin Casey, M.D.	2016	2018	President, RGH Medical & Dental Staff

Conflicts of Interest and Compliance

The Health Care Services Board conflict of interest policy requires any duality of interest or possible conflict of interest on the part of any member of the Health Care Services Board to be disclosed to the RRH Board and made a matter of record. If a member of the Health Care Services Board has a conflict of interest or a possible conflict of interest on any matter, the member may not vote or use his or her personal influence on the matter, nor be counted in determining the quorum for the meeting at which such vote is to occur.

Executive Staff

The executive staff of RRH and RGH is comprised of the following individuals. Certain staff members serve a dual role and function both within RRH and RGH, as noted.

Eric Bieber, M.D., President and Chief Executive Officer, Rochester Regional (age 56)

Dr. Bieber joined RRH as President and Chief Executive Officer in 2014. With over 20 years of progressive leadership experience in highly diverse organizations, Dr. Bieber has a strong record of significant accomplishments. His expertise is focused in delivering exceptional operational performance while evolving and meeting system strategic goals. His leadership style emphasizes staff empowerment and partnering to drive ever-improving financial performance, clinical outcomes, quality improvement and an outstanding patient experience.

Prior to joining RRH, Dr. Bieber was the President of Community Hospitals West Region, University Hospitals in Cleveland, Ohio, as well as President, University Hospitals Accountable Care Organizations and System Chief Medical Officer, University Hospitals. He also held several positions at Geisinger Health System, including Executive Vice President,

Strategic Network Development and Chief Medical Officer. Dr. Bieber was also an Associate Professor at the University of Chicago.

Dr. Bieber received a bachelor's degree from Illinois Wesleyan University and his Doctor of Medicine Degree from Loyola University's Stritch School of Medicine. He also holds a Master's degree in Microbiology from Illinois State University and a Master's degree in Healthcare Management from Harvard University. Dr. Bieber completed his residency training at Rush St. Luke's Presbyterian Hospital in Chicago, IL and his fellowship at the University Of Chicago. He is a Board Certified Obstetrician/Gynecologist and Reproductive Endocrinologist.

Robert Nesselbush, CPA, Executive Vice President, Chief Operating Officer, Rochester Regional (age 53)

Mr. Nesselbush was appointed Chief Operating Officer of RRH in 2015. Prior to this appointment, Mr. Nesselbush acted as President of RGH from 2012-2014, and Chief Financial Officer of RGHS from 2007-2012. He began his career with RGHS in 1993 as the Director of Financial Reporting and Accounting, and since then, has taken on varied and expanding leadership roles and responsibilities. Mr. Nesselbush completed his undergraduate studies at Bucknell University and his M.B.A. through the Rochester Institute of Technology. He is a Certified Public Accountant.

Hugh Thomas, Executive Vice President, Chief Administrative Officer, General Counsel, Rochester Regional (age 55)

Mr. Thomas was appointed Chief Administrative Officer of RRH in 2014. Mr. Thomas joined RGHS in 2001 as General Counsel and is responsible for general corporate and governance matters, corporate compliance and risk management, managed care and government relations. In 2012, he was appointed the additional responsibility of Senior Vice President of the Ambulatory Services Division, a new department of the Hospital. Prior to joining RGHS, he was a partner in the Health Services and Business Transaction Practice Areas of Harris Beach, LLP. He has a Juris Doctorate degree from the University of Maryland School of Law and a bachelor's degree in economics from Johns Hopkins University.

Thomas Crilly, CPA, Executive Vice President, Chief Financial Officer, Rochester Regional (age 55)

Mr. Crilly has been Chief Financial Officer of RRH since July 2014. Prior to this appointment, Mr. Crilly served as Chief Financial Officer of Unity Health System from 2010-2014 and served as the Vice President and Corporate Controller at Unity Health System from 2001 - 2009. He joined Park Ridge Health System (which was the sole corporate member of Unity Hospital until 1997) in 1991 as Director of Accounting. Mr. Crilly serves as a Board Member of many local not-for-profit organizations and holds a bachelor's degree in Accounting from St. Bonaventure University. He is a certified public accountant and a certified fellow in the Healthcare Financial Management Association (HFMA). Mr. Crilly has held a number of leadership positions within HFMA.

Robert Mayo, M.D., Executive Vice President, Chief Medical Officer, Rochester Regional (age 54)

Dr. Mayo was appointed the Executive Vice President, Chief Medical Officer of RRH in July 2014. He joined the RGHS medical and dental staff as a Nephrologist in 2002 and later was appointed Vice President and Patient Safety Officer for the Institute of Patient Safety and Clinical Excellence in 2009. In addition to having held numerous Clinical Instructor and Assistant Professor faculty positions at the University of Rochester School of Medicine and Dentistry, Dr. Mayo has also served as the President-elect (2008 -2010), President (2010 - 2012) and Past-President of the RGH Medical and Dental Staff. He was appointed Chief Medical Officer of RGHS in October 2012 and was named Chief Medical Officer of RRH in 2014. Dr. Mayo completed his internship and residency training at St. Mercy Hospital in Ann Arbor, Michigan and his fellowship at the University of Michigan Hospitals also in Ann Arbor, Michigan. He is board certified in internal medicine and specializes in nephrology.

Janine Schue, Executive Vice President, Chief Human Resources Officer, Rochester Regional (age 54)

Ms. Schue joined RGHS in 2010 and was appointed Executive Vice President and Chief Human Resources Officer of RRH in 2014. She is responsible for aspects of Human Resources operations for the System including benefits, compensation, recruitment, employee relations, education and training, workers compensation and employee health. Ms. Schue is also responsible for providing leadership for all Human Resources strategy. Ms. Schue held various human resources roles as the Global Talent Director at Constellation Brands, Senior Vice President of Human Resources at Home Properties, Inc. and Director of Human Resources at Wegmans Food Markets, Inc., prior to joining RGHS. She holds both a bachelor's and master's degree in education from the State University of New York at Albany.

John Glynn, Executive Vice President, Chief Information Officer, Rochester Regional (age 54)

Mr. Glynn was appointed Executive Vice President and Chief Information Officer of RRH in 2014. Previously, he served as Senior Vice President and Chief Information Officer of Unity Health System from 2005-2014. Prior to joining the health system, Mr. Glynn served as Information Technology Director, Associate CIO at the University of Rochester Medical Center.

Mr. Glynn earned his M.B.A. in management information systems from Syracuse University and his bachelor's degree in computer science from Le Moyne College.

John Foley, Executive Vice President, Strategy & Business Development, Rochester Regional (age 56)

Mr. Foley joined RRH as Executive Vice President, Strategy & Business Development in January 2016. Prior to this appointment, he was Chief Information Officer at University Hospitals in Cleveland (2012-2015) and at West Penn Allegheny Health System (2008-2012). In addition, Mr. Foley has founded five technology and consulting companies over the course of his career. Mr. Foley earned his M.B.A. from Carnegie Mellon University's Tepper School of

Business. He earned his master's degree in chemical engineering from Princeton University and his bachelor's degree in nuclear engineering from University of Cincinnati.

Michele Grazulis, President of Rochester Regional Health Foundations (age 48)

Ms. Grazulis was named President of the Rochester Regional Health Foundations in May 2016. Prior to this appointment, Ms. Grazulis worked as the Foundations' Executive Director for Operations. Her career also includes roles as Rochester Regional's Senior Vice President of Human Resources, Unity Health System's Vice President for Human Resources, and a variety of sales, HR and management positions at Xerox. Ms. Grazulis has a Degree in economics from Siena College in Loudonville, New York.

Paula Tinch, CPA, Senior Vice President, Finance, Rochester Regional (age 46)

Ms. Tinch has been Senior Vice President, Finance, of RRH since July 2014. She joined RGHS in 2008 as the Vice President of Finance, and in June 2012 she was appointed Interim Chief Financial Officer of RGHS, overseeing all financial strategy and financial management functions of the health system. Prior to joining RGHS, Ms. Tinch was with Excellus Health Plan, Inc., in Rochester, serving in various capacities including the Regional Director of Finance and Director of Medicare Finance. She holds a bachelor's degree in accounting from Binghamton University and is a Certified Public Accountant.

Nancy Tinsley, RN, MBA-HCA, FACHE, President, RGH (age 53)

Ms. Tinsley was appointed President of RGH in October 2016. She comes from University Hospitals (Cleveland, OH), where she served as president of the 325-bed Parma Medical Center. Prior to this, she held a number of progressively responsible positions at University Hospitals, including Vice President of Clinical Operations, Vice President of the Neurological Institute, and Administrative Director of Service Line Development. Ms. Tinsley earned a master's degree in business-healthcare administration from Cleveland State University, and her bachelor's degree in nursing from Kent State University (Kent, OH). She is a Fellow of the American College of Healthcare Executives, for which she is also a state of Ohio Regent; and a Certified Professional in Healthcare Quality (Healthcare Quality Certification Board Registered Nurse for the state of Ohio).

Bridgette Wiefling, M.D., Senior Vice President, Primary Care Institute, Rochester Regional (age 46)

Dr. Wiefling has been leading The Rochester Regional Health Primary Care Institute since October 2016. She previously served as Senior Vice President, Chief Quality & Innovation Officer from 2014-2016. Dr. Wiefling joined RGHS in 2013. Prior to that, she was the President and CEO of Anthony Jordan Health Center for eight years. Dr. Wiefling has been an FDA Pediatric Advisory Committee Consultant, and helped to establish the NYS DSRIP Finger Lakes Performing Provider System, as well as the Rochester Integrated Health Network and Greater Rochester Health Home Network. Dr. Wiefling is board certified in medicine and pediatrics. She earned her doctor of medicine degree in 2001 from University of Wisconsin College of Medicine and her bachelor's degree in biology from Slippery Rock University of Pennsylvania.

Ralph Pennino, M.D., FACS, Senior Vice President, Rochester Regional Health Specialty Medicine & Surgical Group, System Chair of Surgery, Rochester Regional (age 62)

Dr. Pennino began his academic career at the Hospital as Plastic Surgery Residency Program Director in July of 2006. His RGH appointments include Associate Chief of Surgery and Chief of Plastic Surgery (2001-2010), and Chief of Surgery (2011). Dr. Pennino was named System Chair of Surgery for RRH in March 2016 and Senior Vice President, Rochester Regional Health Specialty Medicine & Surgical Group in October 2016.

Dr. Pennino earned his medical degree from Georgetown University Medical School and his undergraduate degree from the University of Notre Dame. Following his studies, he completed a plastic surgical residency and hand fellowship at the University of New Mexico, general surgical residency at the University of Rochester Medical Center, and an esthetic Fellowship at Manhattan Eye, Ear, Nose, and Throat Hospital in New York City. He is board certified in hand surgery, plastic surgery, and laser surgery.

Scope of Services

The Hospital is the flagship facility of RRH and offers a full range of services to meet the healthcare needs of its patients including nationally recognized specialty programs in Cardiac, Cancer, Orthopedics, Vascular, Diabetes Care, Breast and Surgical Care. The following services are offered:

Inpatient Services

- Coronary Care
- Intensive Care
- Maternity
- Medical Surgery
- Neonatal Continuing Care
- Neonatal ICU
- Neonatal Intermediate Care
- Nursery - Routine
- Pediatric
- Physical Medicine & Rehabilitation
- Psychiatric

Authorized Ancillary Services

- Acute Renal Dialysis
- Blood Bank
- Cardiac Catheterization (Adult)
- Cardiopulmonary
- Chronic Renal Dialysis
- CT Scanner
- Cytoscopy
- Laboratory
- Linear Accelerator
- Lithotripter
- MRI
- Non-Surgical Eye Care
- Nuclear Medicine (Diagnostic)
- Nuclear Medicine (Therapeutic)
- Open Heart Surgery (Adult)
- Operating Room
- Pharmacy
- Radiology (Diagnostic)
- Respiratory Therapy
- Social Work Service
- Speech Language Pathology
- Therapeutic Radiology
- Ultrasound

Outpatient Services

- Abortion
- Alcohol Rehabilitation
- Ambulatory Surgery
- Arterial Blood Gas Test
- Audiology
- Cancer Detection
- Chronic Renal Dialysis
- Clinical Lab Services
- Dental
- Diagnostic Radiology
- Drug Abuse Screening
- Drug Rehabilitation
- EKG
- EEG
- Emergency Department
- Family Planning
- Health Education
- Home Dialysis Training
- Hyperbaric Chamber
- Immunology
- Medical Rehabilitation
- Methadone Maintenance
- Nutritional
- Nursing
- Occupational Therapy
- Optometry
- Part-Time Clinics
- Pediatrics
- Pharmaceutical Services
- Physical Medicine & Rehabilitation
- Physical Therapy
- Podiatry
- Prenatal
- Primary Medical Care
- Psychiatric
- Psychological
- Pulmonary Function Analysis
- Respiratory Therapy
- Social Work Services
- Speech Language Pathology
- TB Respiratory
- Therapeutic Radiology
- Transfusion Services
- Venereal Diseases
- Vocational Rehabilitation
- Well Child Care

RGH provides a full range of acute care services and is licensed to operate 528 beds as shown below:

Service	**Licensed Beds**
Medical / Surgical	378
Coronary Care	6
Intensive Care	34
Maternity	26
Neonatal Continuing Care	5
Neonatal Intensive Care	2
Neonatal Intermediate Care	7
Pediatric	24
Physical Medicine & Rehab	16
Psychiatric	30
Total Beds	**528**

[Remainder of Page Intentionally Left Blank]

In addition, the Hospital provided primary care services in 2016 through the following on- and off-site and school-based primary care centers:

On-Site	School-Based
• Northeast Medical Group	• Charlotte High School
• OPD Medical Clinic	• Edison Tech & Occupational Center
• Pediatric Care Center (RGPA)	• Dr. Freddie Thomas High School
• TWIG Health Center	• John James Audubon School #33
• Women's Center	• Dr. Martin Luther King Jr. School #9

Off-Site

- Bay Creek Medical Group
- Clinton Family Health Center
- Farmington Family Practice
- Finger Lakes Medical Associates
- Gananda Family Practice
- GHS Medical Group
- Internal Medicine Assoc of Webster
- Internal Medicine at Parnall
- Linden Oaks Medical Group
- Long Pond Medical Group
- Midtown Physical Therapy
- Newark Health Center
- NorthRidge Medical Group
- OT/PT – Primary Care Services – 10 Hagen Drive
- PennFair Medical Center
- RGH Imaging at Alexander Park
- RGH Oncology Services – 20 Hagen Dr.
- Ridgeplex Medical Group
- RRH Family Practice at RIT
- Seneca Ridge Medical Complex
- Sodus Health Center
- Surgical Consultation
- Urology Practice – Wayne County
- Victor Healthy Living
- Wayne Medical Group
- Webster Family Medicine
- Wolcott Medical Center

Strategic Initiatives

Rochester Regional's strategic imperative is to be the premier health care delivery system in the region as the provider of choice; creating value while improving the health of the communities it serves. The System's strategic focus areas are: (i) Patient Experience, Quality and Safety; (ii) Operational Excellence and Integration; (iii) Network Development; and (iv) Innovation and Population Health. In the past two plus years, Rochester Regional successfully brought together four health systems to improve quality and access of care, while also improving the operational efficiency and financial strength of the five Rochester Regional hospitals and other Rochester Regional affiliates. RGH and RRH executed a number of strategic

initiatives as described below. Management believes that many of these initiatives will also serve to position RGH and RRH well to address the challenges of healthcare reform.

- Implementing a system-wide patient flow and throughput initiative, which has enabled the System to reduce overcapacity days and boarding times, maintain steady state/slight growth in volume despite reduced length of stay, and improve patient experience.
- Implementing a system-wide Quality, Safety, & Innovation Institute
- Adopting system-wide Electronic Medical Records (EMR) and Enterprise Resource Planning (ERP), which has and continues to improve System operational efficiencies in order to drive performance and cost savings.
- Development of a network of hospital-based and community ambulatory care destination campuses and urgent care centers to provide patients with access to convenient, high quality and cost effective care close to home.
- Expanding and strengthening network through both owned and employed practices and physicians as well as affiliated physicians and practices.
- Capitalizing on Delivery System Reform Incentive Payment program (DSRIP) implementation and strategic population health efforts.
- Investments in Outpatient Destination Campuses and Urgent Care

Riedman Health Center: Rochester Regional held a groundbreaking ceremony in October 2016 for the Riedman Health Center, a 76,000-square foot building that has been designed to bring together a variety of patient care programs in a convenient, state-of-the-art facility in Irondequoit. Construction began in November 2016. The Riedman Health Center will house a number of outpatient services that are currently located at the Hospital and other Rochester Regional facilities. The center will be a destination for primary care, pediatrics, dental, behavioral health, physical therapy, pharmacy, a blood draw station and more. The site was chosen, in part, because of its convenient location, right off Rt. 104 and proximity to two RTS bus lines. RRH has contracted with LeChase Construction to complete the renovations with a goal of a Leadership in Energy and Environmental Design (LEED) silver certification. The center is expected to open in September 2017.

Urgent Care: Rochester Regional expanded its relationship with TeamHealth and Rochester Immediate Care in Batavia, Greece, Henrietta, LeRoy, Penfield and Webster, a move that underscores the System's commitment to providing care in a variety of diverse settings across the region. The Rochester Immediate Care urgent care facilities, which were renamed Rochester Regional Health Immediate Care, are the region's only Joint Commission-accredited urgent care centers, and have been repeatedly voted "Rochester's Choice: Best Urgent Care Center." Rochester Regional has been building a comprehensive system of care that enables RRH to serve the community as a truly integrated health system, a system that includes both traditional providers like hospitals and physicians, as well as unique programs and services like ElderONE, skilled nursing and senior living centers.

DSRIP

The Delivery System Reform Incentive Payment program (DSRIP) is set of system transformation practices that creates provider delivery networks to coordinate care, offer better care transitions, synchronize community care guidelines, and strengthen information technology infrastructure. Once in place, the delivery system will provide better access to care, increase quality of care and reduce unnecessary hospital admissions.

There are 25 performing provider systems in New York State. Together, using DSRIP practices, the goal is to work to reduce avoidable hospital use by 25% over five years. To achieve this goal, creation of a system that supports individuals who may require a wide network, including social service and clinical care, is crucial.

The Finger Lakes Performing Provider System ("FLPPS") is a partnership comprised of 19 hospitals, 6,700 healthcare providers and more than 600 healthcare and community-based organizations in a 13 county region (Allegany, Cayuga, Chemung, Genesee, Livingston, Monroe, Ontario, Orleans, Seneca, Steuben, Wayne, Wyoming and Yates Counties). Together, DSRIP will be used to change the way care is delivered to more than 400,000 Medicaid and uninsured patients across the Finger Lakes region. As transformation in the delivery system occurs, FLPPS' goal is to move closer to the Triple Aim (better access to care, increase quality of care and reduced cost) and prepare the partner network for value based payment.

2016 Achievements

- Development of comprehensive strategic plans: Cultural Competency/Health Literacy (CC/HL) Strategic Plan and Training Strategy; Primary Care Plan; Community Based Organization (CBO) Engagement Strategy.
- Initial implementation of 150 connectivity plans between FLPPS partners and the RHIO, which creates the basic information technology foundation for the FLPPS Integrated Delivery System (IDS).
- Formation of regional partnerships with organizations such as the Finger Lakes Health System Agency and United Way to further the shared vision for health throughout our region.
- Distribution of $38.5 million to 150 partners as transition of care delivery begins.

Clinical and Quality Awards

RGH has the largest emergency department in the Rochester area based on total volume, and it has been ranked as the 12th busiest emergency department in the country. RGH also has one of the largest cardiac programs in New York State. Cardiac Care, General Surgery, Oncology, Stroke, Pediatrics, Women's Health and Psychiatric Services are also areas of excellence.

As evidenced by the following list of awards and designations, the Hospital has earned a reputation for excellence in clinical quality.

Award	Awarding Agency	Year
Nuclear Medicine Accredited Facility	American College of Radiology	2017
A Top Regional Hospital	US News & World Report	2016
Get With the Guidelines – Stroke Gold Plus Achievement Award	American Heart/American Stroke Associations	2016-2017
One of America's 100 Best Hospitals and Distinguished Hospital for Clinical Excellence	Healthgrades	2016
Silver Level Beacon Award for Excellence – Medical Intensive Care Unit (MICU)	American Association of Critical-Care Nurses	2016
Gold-Level Beacon Award for Excellence – Surgical Intensive Care Unit (SICU)	American Association of Critical-Care Nurses	2016
Silver-Level Beacon Award for Excellence – Cardiothoracic Intensive Care Unit (CTICU)	American Association of Critical-Care Nurses	2016
Blue Distinction Center + for Maternity Care Designation	BlueCross BlueShield	2016, 2015
#1statewide in Overall Medical Care	CareChex	2016
#1statewide in Heart Failure Treatment	CareChex	2016
#1 statewide in Stroke Care	CareChex	2016
#1 statewide in Pneumonia Care	CareChex	2016
#2 statewide in Joint Replacement	CareChex	2016
#3 statewide in Overall Surgical Care	CareChex	2016
#3 statewide in Neurological Care	CareChex	2016
#3 statewide in Orthopedic Care	CareChex	2016
Baby-Friendly Hospital	World Health Organization	2016
Primary Stroke Center recertification	The Joint Commission	2016
Gold-Certified Safe Sleep Champion	Cribs for Kids	2016
IAC Gold Seal of Approval (Neurovascular Lab - Vascular Testing Accreditation)	Intersocietal Accreditation Commission	2016
#1 statewide in Major Cardiac Surgery and Heart Attack Treatment	CareChex	2015
#2 statewide in Major Orthopedic Surgery	CareChex	2015
#3 statewide in Cardiac Care	CareChex	2015
#3 statewide in Joint Replacement	CareChex	2015
#3 statewide in Overall Hospital Care	CareChex	2015

Facilities

The Hospital's main campus is located approximately three miles from downtown Rochester at 1425 Portland Avenue in Rochester. The following graphic depicts the locations and listings of Rochester Regional's key facilities.

Rochester Regional Health – Main Facilities

Hospitals	ASCs / Various Outpatient Services (cont'd)	Long-Term Care Facilities (cont'd)	Lab / Behavioral Health / Other
1) Rochester General Hospital	13) RRH at Chili	25) Hill Haven	36) Behavioral Health Network - Rochester
2) Unity Hospital	14) RRH at Parkway	26) Park Ridge Living Center[3]	37) Evelyn Brandon Health Center (Behavioral Health)
3) Newark-Wayne Community Hospital	15) RRH at Ridgeway	27) Unity Living Center (St. Mary's Campus)	38) RRH Corporate & Support Services
4) United Memorial Medical Center	16) RRH at Spencerport	**Housing**	**Urgent Care**
5) Clifton Springs Hospital & Clinic	17) St. Mary's Campus	28) Hilton Park	39) Urgent Care - Batavia
ASCs / Various Outpatient Services	18) Victor (Proposed)	29) Moore Park Senior Apartments	40) Urgent Care - Greece
6) Alexander Park	**Long-Term Care Facilities / ElderONE**	30) Park Ridge Commons	41) Urgent Care - Henrietta
7) Bay Creek	19) Clifton Springs Nursing Home	31) Resch Commons	42) Urgent Care - LeRoy
8) Henrietta	20) DeMay Living Center	32) The Village at Unity	43) Urgent Care - Penfield
9) Joseph C. Wilson Building	21) Edna Tina Wilson Living Center	33) Woodland Village	44) Urgent Care - Unity-Walk-In Care Center
10) Linden Oaks Medical Campus[1]	22) ElderONE - Emerson[2]	**Lab / Behavioral Health / Other**	45) Urgent Care - Webster
11) Riedman Health Center	23) ElderONE - Hudson[2]	34) ACM Medical Laboratory	
12) RRH at Brockport	24) ElderONE - North Park[2]	35) Behavioral Health Network - Genesee	

(1) Includes Linden Surgery Center and Rochester Ambulatory Surgery Center.
(2) PACE program that includes over 660 members.
(3) Park Ridge Living Center includes Wegman Family Cottages, a nursing home with four cottages each home to 20 people, and 40-bed Timothy R. McCormick Transitional Care Center.

RGH IS THE SOLE MEMBER OF THE OBLIGATED GROUP. THE AFFILIATES DESCRIBED BELOW ARE NOT MEMBERS OF THE OBLIGATED GROUP AND ARE NOT OBLIGATED WITH RESPECT TO THE SERIES 2017 BONDS.

Unity Hospital

Unity Hospital ("Unity") is a 351-bed acute care teaching hospital located in Rochester. After a four-year total renovation in 2014, Unity is now the only Monroe County hospital to feature all private patient rooms. Unity offers a broad range of specialty centers, including the Golisano Restorative Neurology & Rehabilitation Center; the Charles J. August Joint Replacement Center and the August Family Birth Place. The hospital is also a New York State-designated Stroke Center.

Newark-Wayne Community Hospital

Newark-Wayne Community Hospital ("NWCH") is a 120-bed acute care hospital in Wayne County that offers services including cardiology, obstetrics and gynecology, orthopedics and pulmonary care, as well as an innovative telemedicine program. The hospital has a renovated birthing center and emergency department. NWCH is a New York State-designated Stroke Center, a NICHE (Nurses Improving Care for Healthsystem Elders) Exemplar hospital and a recent recipient of the WHO Baby-Friendly designation. Rehabilitative and long-term care services are provided through DeMay Living Center, an attached facility.

United Memorial Medical Center

United Memorial Medical Center ("UMMC") is a 131-bed acute care hospital in Batavia, serving residents of Genesee County and surrounding rural communities. UMMC features a new, state-of-art surgical department, a wound care center, a telemedicine program for intensive care, a Joint Replacement Center of Excellence, two urgent care centers and a number of primary and specialty physician offices. United Memorial is a NICHE hospital and a New York State-designated Stroke Center. UMMC is the sole Maternity services provider for Genesee and Orleans Counties. UMMC manages the New York State Cancer Services Partnership Grant for Orleans and Genesee Counties and provides orthopedic services in Genesee, Orleans and Wyoming Counties. UMMC joined Rochester Regional in January 2015.

Clifton Springs Hospital & Clinic

Clifton Springs Hospital & Clinic ("CSH&C") is a 154-bed community hospital and 108 bed nursing home located in the Village of Clifton Springs in the Finger Lakes Region of Ontario County. The nursing home comprises 108 of the 262 total beds. CSH&C joined Rochester Regional in April 2015.

Joseph C. Wilson Building

The Joseph C. Wilson Building is an approximately 83,000 square foot medical office building located on the RGH campus adjacent to the Hospital. Services located in the Joseph C. Wilson Building include orthopedics, physical medicine, rehabilitation, radiology,

gastroenterology, blood drawing and lab work. The Joseph C. Wilson Building leases 18,600 square feet to Lifetime Health, a primary care and urgent care practice group.

Alexander Park

Alexander Park is an approximately 100,000 square foot medical office building located on Alexander Street in Rochester. Services at Alexander Park include Rochester General Medical Group ("RGMG") administration, allergy/rheumatology, diabetes/endocrinology, internal medicine, imaging, nutrition and weight management and women's health (Ob/Gyn) services.

Rochester Ambulatory Surgery Center

The Rochester Ambulatory Surgery Center is a 29,000 square-foot expansion to the medical office building located at 360 Linden Oaks in Rochester. The facility includes six operating rooms and two minor procedure room equipped with state of the art equipment and instrumentation.

Linden Surgery Center

Linden Surgery Center is a freestanding, multispecialty ambulatory surgery center where surgeons perform a broad range of outpatient surgical procedures located in Rochester. The center offers four operating rooms and two procedure rooms which are fully equipped with preoperative and post-anesthesia care areas in order to provide high quality care and safety in a convenient outpatient surgery setting.

Edna Tina Wilson Living Center

Edna Tina Wilson Living Center is a 120-bed skilled nursing facility located in Rochester.

DeMay Living Center

DeMay Living Center ("DeMay") is a 180-bed home-like facility that provides short-term rehabilitation services after a hospital stay and also serves as a place of residence for those who can no longer live independently. DeMay offers a variety of services for seniors including skilled nursing care, ventilator dependent patient care, rehabilitation and adult day care services. DeMay is located on campus at NWCH.

Hill Haven Living and Nursing Rehabilitation Center ("Hill Haven")

Located in a park-like setting in Webster, Hill Haven is a 288-bed skilled nursing facility which provides 24-hour skilled nursing care to those in need of long-term care, rehabilitation, transitional care (or short-term rehabilitation), hospice care or care for Alzheimer's-type dementia.

Park Ridge Living Center (Wegman Family Cottages and McCormick Transitional Care Center)

Park Ridge Living Center is a licensed skilled nursing facility with 120 beds. Park Ridge Living Center includes Wegman Family Cottages, a nursing home with four cottages each home to 20 people, and 40-bed Timothy R. McCormick Transitional Care Center which serves a population of residents that require short term stays for restorative rehabilitation to regain functional independence.

Unity Living Center

Unity Living Center is a 120-bed skilled nursing facility located on two recently renovated floors on the Rochester Regional St. Mary's campus in Rochester.

ElderONE

ElderOne is a PACE program designed to help older adults continue to stay in the familiar surroundings of their own homes as they age and their physical abilities decline. The ElderOne team of professionals works with patients and their families to arrange for and monitor all the medical, social and daily living supportive services needed to stay well, be safe and live life as fully as possible. Services are either provided at the patient's home or at one of Rochester Regional's three ElderONE PACE Centers.

Behavioral Health Network

With 5 locations across the area, Behavioral Health Network, Inc. (the "Behavioral Health Network") treats mental and behavioral health conditions in adults, children, adolescents and seniors. Through the inpatient and outpatient facilities, the Behavioral Health Network provides comprehensive behavioral health services and dedicated mental health and substance abuse professionals, working to help patients and families achieve their full potential to live and work.

Housing Affiliates

Rochester Regional's Housing Affiliates division is an unincorporated group of eight companies affiliated with the System that own and operate senior living facilities in Greece and Rochester. The Village at Unity is a brand used for two of the Housing Affiliates entities that are also separate 501(c)(3) organizations with common governance:

1. Park Ridge Housing, Inc., which is comprised of East Village, a 150-unit independent living facility; James J. Bell Sr. Hamlet, a 40-unit assisted living facility licensed by New York State Department of Health; and Bell Grove, a 20-unit assisted living memory care facility licensed by New York State Department of Health.

2. Woodland Village, Inc., a 122-unit independent living facility.

The Housing Affiliates Division also includes three HUD facilities: (i) Park Ridge Commons, 50 units on the campus of Unity Hospital; (ii) Resch Commons, 55 units located on

the Parkway Health Care Campus; and (iii) Hudson Housing, 55 units located adjacent to the ElderOne Daycare program in Irondequoit.

In addition, the Housing Affiliates Division includes two tax-credit facilities: (i) Moore Park, 33 units of one- and two-bedroom affordable apartments on the Unity St. Mary's Health Care Campus and (ii) Hilton Park, 69 one- and two-bedroom affordable apartments located in the Village of Hilton property.

The eighth Housing Affiliates company, Unity Aging Services, Inc., provides administrative services to the associated affiliate Housing companies as well as other like housing facilities in the Rochester community.

Rochester Regional Health Immediate Care

Rochester Regional Health Immediate Care brand is a joint venture between Rochester Regional and TeamHealth, a leading physician services organization. Rochester Regional is the majority owner of the joint venture and maintains a 65% ownership stake. Rochester Regional Health Immediate Care has 6 locations in the greater Rochester region.

ACM Medical Laboratory

ACM Medical Laboratory, Inc. provides clinical trial services to pharmaceutical companies and contracted research organizations on a global basis, and also provides medical laboratory services to RRH hospital affiliates.

Rochester General Medical Group

RGMG operates as a division of RGH. RGMG has more than 40 practices in Monroe and Wayne counties with employed physicians and other providers specializing in allergy/rheumatology, dermatology, diabetes/endocrinology, family medicine, geriatrics, internal medicine, nutrition & weight management, orthopedics, pediatrics, physical medicine & rehabilitation, vascular surgery & vein care and women's health (Ob/Gyn). In addition to hospital locations, RGMG also operates two full-service outreach campuses at Alexander Park and Linden Oaks.

Unity Medical Group

Unity Medical Group operates as a division of Unity Hospital. Unity Medical Group has 28 office based and hospital based locations, with employed physicians and other providers, in Monroe and Genesee County. The services offered by Unity Medical Group include geriatrics, palliative care, skilled nursing home support, endocrinology, dental care, internal medicine, pediatrics, family medicine, obstetrics, gynecology, pulmonary services, sleep services, infectious disease treatment, orthopedic spine treatment, progressive neurovascular service with neurology specialty outpatient care and endovascular surgical acute care. There are also a specialized vascular surgery group and nephrology with comprehensive dialysis services.

The Project

The proceeds of the Series 2017 Bonds will be used, together with other moneys available, for the financing of all or a portion of the following costs (collectively, the "Project"), some of which have already been incurred by the Hospital and will reimbursed with the proceeds of the Series 2017 Bonds. The Project includes the construction of a new seven story building connected to the northeast side of the existing hospital. Of RGH's 528-bed certified capacity, the new building will contain 108 private patient rooms (Med/Surg/ICU) and a 14-bed neonatal unit (Continuing/Intermediate/Intensive). The new building will also contain 20 private post-partum rooms. Regarding RGH's surgical program, the new building will contain 20 replacement operating rooms, a 26-bed PACU and 54 pre-op and post-op patient areas and a new sterile processing area. The Project will allow RGH to better meet the needs of the residents of Monroe County and the entire Finger Lakes region by:

- Creating 100% private rooms that will enhance infection prevention, reduce noise and provide an environment that promotes healing. Attainment of 100% private room is accomplished through the new construction and, upon completion, conversion of the existing semi-private rooms in the existing hospital to single-occupancy rooms.
- Creating a new perioperative platform.
- 20 state-of-the-art ORs designed to modern standards and technology.
- 26 bed post anesthesia care unit (PACU).
- 54 pre-anesthesia/phase 2 recovery patient areas that will be used flexibly throughout the day.
- New Sterile Processing Department and support space.
- Nine new elevators that are dedicated for specific uses.
- Energy conservation and sustainability.

The Project is expected to cost approximately $260,000,000. A portion of the Project is expected to be financed using proceeds of the Series 2017 Bonds and a portion will be financed through RGH equity and fundraising. As of April 1, 2017, RGH has received fundraising commitments in excess of $30,000,000 for the Project, $20,000,000 from one donor and more than $10,000,000 from smaller donations.

RGH expects to execute a guaranteed maximum price construction contract with LeChase Construction Services, LLC as the construction manager for the Project in November 2017. LeChase Construction Services, LLC has served as construction manager for a construction project for RGH and a large scale construction project at Unity, an affiliate of RRH. Construction of the Project will be done in three phases over a five year period, as to not impact operations of RGH. RGH is expected to break ground on the Project in May 2017 and is expected to complete construction in August 2022.

Medical Staff and Physician Strategy

Medical Staff

As of December 31, 2016, RGH had 1,602 active Medical Staff members, including 538 employed physicians, 566 staff physicians and 498 physician assistants and medical support staff. The table on the following page presents a summary by clinical specialty of the physician component of the Medical Staff.

[Remainder of Page Intentionally Left Blank]

Physician Composition as of December 31, 2016

Department	Physicians	Average Age	% Board Certified
Anesthesia	51	49	94%
Cardiac Services	68	53	84%
Emergency Medicine	66	43	76%
Family Practice	46	48	93%
Medicine	327	50	80%
Neurology	29	46	93%
OB/GYN	64	52	92%
Ophthalmology	42	53	90%
Orthopedics and Podiatry	55	53	89%
Pathology and Lab Medicine	24	49	100%
Pediatrics	144	50	91%
Physical Medicine and Rehab	8	42	83%
Psychiatry	38	53	71%
Radiation	26	49	96%
Radiation Oncology	5	50	75%
Surgery	111	52	84%
Total	**1,104**	**50**	**85%**

As of December 31, 2016, the top ten surgical and primary care physicians, ranked by number of inpatient discharges, had an average age of 53 years and comprised 11.1% of the total admissions to RGH. The following chart describes these ten physicians by their specialty, age and percent of total discharges. Of the top ten admitting physicians, many are employed by RGH and all belong to GRIPA.

Top Ten Admitting Physicians by Volume[(1)]

Physician Specialty	Age of Physician[(2)]	Inpatient Discharges	Percent of RGH Inpatient Discharges
Pediatrics	45	926	2.85%
General Surgery	59	417	1.28%
Internal Medicine	34	312	0.96%
Cardiothoracic Surgery	66	311	0.96%
Orthopedic Surgery	52	309	0.95%
Cardiothoracic Surgery	64	306	0.94%
Orthopedic Surgery	57	261	0.80%
Psychiatry	56	258	0.79%
Internal Medicine	49	249	0.77%
General Surgery	39	248	0.76%
Other	-	28,883	88.93%
Total	**53**	**32,480**	**100%**

[(1)] Excludes hospitalists activity
[(2)] Age as of 3/31/17

RGH's physician staff for the periods ending December 31, 2016, 2015, and 2014 is shown in the following table:

Total Active Physician Staff

	December 31,		
	2014	**2015**	**2016**
Employed Physicians	462	501	538
Staff Physicians	568	542	566
Active Physician Staff	**1,030**	**1,043**	**1,104**

RGH's total medical staff for the periods ending December 31, 2016, 2015, and 2014 is shown in the following table:

Year Ending December 31,	All Medical Staff	Excluding NP, PA, CRNA, CNM
2014	1,502	1,030
2015	1,559	1,043
2016	1,602	1,104

Physician Strategy

RGH and RRH have developed a comprehensive physician strategy which management believes offers a range of models for community physicians to align with RGH and the System to achieve clinical and financial integration. These models include:

- Private practice support in which RGH might provide back-office support to physicians with admitting privileges at RGH;
- Joint ventures such as GRIPA, the 1,250-physician, clinically integrated physician-hospital organization of which RRH is a 50% owner; and
- Direct employment, which is the model used for RGMG, which operate more than 40 practices in Monroe and Wayne counties

RRH Physician Services is responsible for recruiting physicians for all Affiliates, among other activities, and is in the process of recruiting new medical staff members. Management believes RGH and RRH offer physicians an attractive alternative to an academic medical center setting.

Educational Programs

Rochester Regional prides itself on professional development and lifelong learning, and the organization is extremely proud of its community presence and imprint on those served. Realizing that preceptors grow in parallel to the students they work with, the System hosts students from numerous colleges and universities. Students from over 40 specialty programs from associate, baccalaureate, masters and doctoral degree programs throughout New York State

and beyond partake in clinical experiences at RRH. In addition to clinical specialties such as medicine, nursing, physical therapy and pharmacy, additional student specialties include art therapy, Clinical Pastoral Education, Dietetics and Nutritional Care, Exercise & Sport Sciences and Therapeutic Recreation. The variety of clinical experiences offered allows RRH to deliver the holistic care required by the diverse population it serve.

Undergraduate nursing students care for individual patients and families through clinical groups, participate in observational experiences throughout the inpatient, outpatient and long term care settings, and work one-on-one with experienced nurses through capstones placements. Nurse practitioner, certified nurse midwife and clinical nurse specialist students are paired with masters and doctoral-prepared advanced practice nurses. These graduate students work side-by-side with RRH nurse experts while developing educational programs, and conducting evidence-based practice and research projects.

RRH is affiliated with numerous medical schools, including the University of Rochester, Lake Erie College of Osteopathic Medicine, Saba SOM, Ross SOM, and the American University of the Caribbean. Students rotate to RGH, Unity, and UMMC into departments that may include Medicine, Surgery, OBGYN, Pediatrics, Radiology, Heme-Onc, and Infectious Disease. These students work on teams with our residents and attending, and gain valuable clinical experiences that leaves them well-prepared to enter residency. They also have the opportunity to participate in research projects while they are here, and have presented their work at our Internal Medicine residency program's poster day.

RRH embraces students from all levels and throughout all settings, and looks forward to continuing this legacy for many years to come.

Graduate Medical Education Programs:

Approximately 270 residents in the 18 residency programs listed below train at the Hospital for all or part of each year. RGH administers six of these programs: Internal Medicine, Obstetrics & Gynecology, Diagnostic Radiology; Interventional Radiology, Dentistry, and Podiatry(1). The remaining residency programs are administered by the University of Rochester Medical Center ("URMC"). RGH also provides rotations for Hematology-Oncology fellows from Roswell Park Cancer Institute in Buffalo, NY (5-7 fellows yearly).

- Adolescent Medicine
- Dentistry*
- Family Medicine
- General Surgery
- Hematology and Oncology
- Internal Medicine*
- Internal Medicine / Pediatrics
- Interventional Radiology*
- Neonatal-Perinatal Medicine
- Neurological Surgery
- Obstetrics & Gynecology*
- Ophthalmology
- Pathology-Anatomic and Clinical
- Pediatric Hematology/Oncology
- Pediatrics
- Plastic Surgery
- Podiatry[(1)]*
- Diagnostic Radiology*

** Indicates RGH independent residency programs*
[(1)] Podiatry program begins July 1, 2017

Nursing Education Programs

The Hospital is currently affiliated with the following educational programs for nursing:

Nursing Program	Affiliated Institution
Certified Nursing Assistant Training Program	Wayne Finger Lakes BOCES; Monroe Community College; Bryant and Stratton
Licensed Practical Nurse Training Program	Isabella Graham Heart School of Practical Nursing; Genesee / Livingston / Steuben / Wyoming County BOCES; REOC; Wayne Finger Lakes BOCES; REOC
Master of Science in Nursing Programs	St. John Fisher College; Roberts Wesleyan College; University of Rochester; University of Cincinnati; Frontier Nursing Service; Keuka College; Stony Brook University; St. Xavier University; SUNY Downstate University; Walden University; Birthwise Midwifery
Registered Nurse Program (Associate Degree)	Monroe Community College; University of Rochester; Finger Lakes Community College; Genesee Community College; Adelphi University; Alfred University; D'Youville University; Keuka College; Nazareth College; Roberts Wesleyan College; St. John Fisher College; SUNY Brockport; SUNY Plattsburgh
Registered Nurse Programs (Bachelor's Degree)	Adelphi University; Alfred University; SUNY Brockport; D'Youville University; Keuka College; Nazareth College; SUNY Plattsburgh; Roberts Wesleyan College; St. John Fisher College; University of Rochester; Chamberlain University; Binghamton University; Canton; SUNY Empire State; Frontier Valley; Niagara University; SUNY University of Buffalo; SUNY Delphi; Walden University

Source: Rochester Regional Health Education Department

Allied Health Education Programs

The Hospital is currently affiliated with the following health education programs:

Allied Health Education Program	Affiliated Institution
Dietician Program	Rochester Institute of Technology; Syracuse University; University of Buffalo; University of Rochester; University of Oneonta
Health Information Technology	SUNY Alfred; University of Illinois;
Laboratory Medical Technician	
Laboratory Phlebotomist Program	RGH School of Medical Technology;
Medical Assistant	Anderson University; Monroe County BOCES
Medical Technologist	#1; Houghton College; Wells College; Canisius College; College of Saint Rose; Keuka College; Mount Saint Mary College; Paul Smith's College; Roberts Wesleyan; University of Fredonia; University of Upstate; Elmira College; Hartwick College; University of Brockport
Occupational Therapist Programs	Ithaca College; Keuka College; Nazareth College; St. Francis University; Utica College; Kent State University
Pharmacist Programs	BOCES 2; Everest College; Rochester Business Institute; Albany College of Pharmacy; D'Youville College; Ohio Northern University College of Pharmacy; St. John Fisher College; University of Buffalo
Physical Therapy Programs	Anderson University; Houghton College; Wells College; D'Youville College; Ithaca College; University of Buffalo; University of Stony Brook; University of Upstate; Genesee Community College; Kent State University
Physician Assistant Programs	Duquesne University; Ithaca College; Chatham University; Daemen College; D'Youville College; Le Moyne College; University of Upstate; Clarkson University; Gannon University; Rochester Institute of Technology
Radiology & Nuclear Medicine Program	St. John Fisher College; University of Albany; LeCom College; Massachusetts College of Pharmacy; University of Buffalo; University of Florida; Rochester Institute of Technology; Monroe Community College

Radiation Therapy Program	Daemen College; SUNY Upstate
Respiratory Therapy Program	Ithaca College; SUNY Upstate; Genesee Community College
Social Work Affiliated Programs	Rochester Institute of Technology; A.T. Still University; Arcadia University; Daemen College; Duquesne University; East Virginia Medical School; Essex University; Gannon College; George Washington University; Kings College; LeMoyne College; Long Island University; Marywood University; Pennsylvania College of Technology; South University; SUNY Upstate; Nazareth College; Roberts Wesleyan College; St. Bonaventure University; St. John Fischer College; University of Brockport; University of Buffalo
Speech & Language Pathology Programs	Sanford Brown Institute; Erie Community College; Monroe Community College; University of Fredonia; Ithaca College
Ultrasound Program	Erie Community College; SUNY Upstate

Source: Rochester Regional Health Education Department

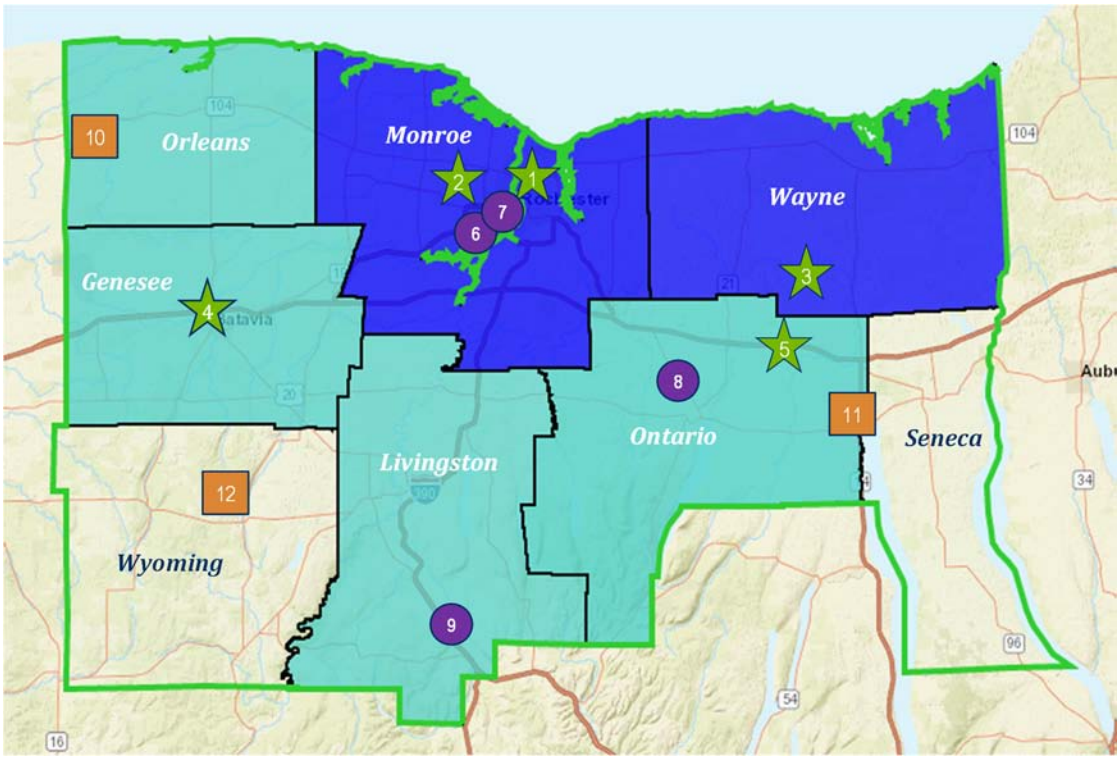
Service Area

RGH offers primary, secondary and tertiary levels of care to the greater Finger Lakes region of New York State. RGH's Primary Service Area ("PSA") consists of Monroe and Wayne Counties, for which RGH provides the full spectrum of primary, acute and chronic care services. RGH provides secondary in the surrounding Secondary Service Area ("SSA"), consisting of Genesee, Livingston, Ontario, and Orleans Counties.

While the PSA is composed of Monroe and Wayne Counties, 89% of the market population for the PSA resides in Monroe County. The majority of patients who receive care at RGH reside in Northern Monroe County, Eastern Monroe County and the City of Rochester. These communities represent a significant number of patients at RGH. Additionally, RGH draws patients from Western Wayne County and the remaining areas of Monroe County.

As a major referral center, RGH also draws patients for its specialized services from the broader Finger Lakes region. For example, patients referred for cardiology, cardiac surgery, oncology and other special surgical care (such as bariatric surgery) are frequently residents of the SSA as well as other communities that border the Finger Lakes.

The Rochester General Hospital – Competitive Landscape



Service Area Legend
Primary Service Area
Secondary Service Area
RRH PSA & SSA

Affiliation Legend
Rochester Regional Health
UR Medicine
Other

Source: ESRI Business Analyst

Map Legend			
Hospital	**Beds**	**Hospital**	**Beds**
1) The Rochester General Hospital*	528	7) Highland Hospital	261
2) Unity Hospital of Rochester	351	8) F.F. Thompson Hospital	113
3) Newark-Wayne Community Hospital	120	9) Nicholas H. Noyes Memorial Hospital	67
4) United Memorial Medical Center	131	10) Medina Memorial Hospital	39
5) Clifton Springs Hospital & Clinic	154	11) Geneva General Hospital	132
6) Strong Memorial Hospital	838	12) Wyoming County Community Hospital	62

Source: NYS Department of Health; American Hospital Directory

* *Member of the Obligated Group.*

Population and Demographic Trends

In 2010, the population for the PSA (Monroe and Wayne Counties) was 838,116, and the population for the PSA and SSA was 1,114,402. The Hospital's service area is estimated to experience slight growth overall between 2010 and 2021, with the highest growth rates occurring in older age groups.

Historical and Projected Population Growth

By Market Area	2010	2016	2021	% CAGR '10 – '16	% CAGR '16 – '21
Primary Service Area	838,116	843,378	847,854	0.1%	0.1%
Secondary Service Area	276,286	279,655	281,194	0.2%	0.1%
Total Market Area	1,114,402	1,123,033	1,129,048	0.1%	0.1%

By Age Group	2010	2016	2021	% CAGR '10 – '16	% CAGR '16 – '21
0 - 14	203,067	191,712	186,258	(1.0%)	(0.6%)
15 - 44	437,492	431,603	430,104	(0.2%)	(0.1%)
45 - 64	315,721	314,852	299,405	(0.0%)	(1.0%)
65 - 84	132,786	157,519	185,813	2.9%	3.4%
85+	25,336	27,347	27,468	1.3%	0.1%
Total	1,114,402	1,123,033	1,129,048	0.1%	0.1%

Source: ESRI Business Analyst. 2010 U.S. Census Data and ESRI forecasts for 2016 and 2021.

Other Hospitals and Market Share Data

Hospital	Acute Beds	FY 2015 PSA Discharges	PSA Market Share
RGH[(1)]	528	26,363	29.4%
Strong Memorial Hospital ("URMC")[(2)]	838	25,522	28.4%
Unity Hospital[(1)]	351	15,550	17.3%
Highland Hospital[(2)]	261	15,273	17.0%
Newark-Wayne Community Hospital[(1)]	120	4,533	5.0%
Other Hospitals	-	2,526	2.8%
Total PSA		89,767	100.0%

The data above represents values and percentages within RGH's Primary Service Area.
Source: NYS DOH SPARCS data
(1) Member of Rochester Regional
(2) Member of UR Medicine

Utilization

The following chart sets forth RGH utilization statistics for the years ended December 31, 2014, 2015, and 2016:

	Year Ended December 31,		
	2014	**2015**	**2016**
Licensed Beds	528	528	528
Inpatient Indicators			
Discharges by Service			
Medical & Cardiology	16,909	16,968	18,973
Surgery	7,151	7,065	7,533
OB/Gyn	3,152	2,944	2,535
Pediatric Medicine	2,784	2,759	2,597
Total Acute Care Discharges	29,996	29,736	31,638
Rehab Unit Discharges	143	122	0
Psychiatry Discharges	803	915	842
Total Inpatient Discharges	30,942	30,773	32,480
Observation Visits & Cardiology Extended Recovery	16,136	13,200	11,154
Acute Care Patient Days	155,230	151,304	154,453
Acute Care Length of Stay	5.2	5.1	4.9
Outpatient Indicators			
Cath Lab Cases	4,782	5,139	5,027
Dialysis Treatments	92,012	92,918	92,437
Emergency Department Visits	124,101	124,706	128,777
Endoscopy Procedures	8,037	8,898	9,348
E. P. Lab Cases	1,291	1,348	1,720
Oncology Treatments	44,507	47,973	47,840
Outpatient OR	15,137	15,763	15,476
Therapies	48,161	46,292	43,432
Radiology Procedures	198,594	197,063	197,488
Medical Group Encounters	407,984	533,059	592,608

Management's Discussion of Utilization

RGH's annual inpatient discharges increased to 32,480 in 2016, from 30,942 in 2014; this represents growth of almost 5%. Acute care length of stay has decreased by over 5% during the same timeframe. RGH has expanded its presence with primary care and specialty care physician practices, as well as growth in premier service lines like cardiology and cardiac services, which have contributed to the discharges growth.

RGH also operates the 12th busiest emergency department in the United States, as cited by Becker's Hospital Review. The emergency department has experienced continued year-over-year growth, ending 2016 with 128,777 visits.

With the continued investments and recruiting of RRH physicians, the medical group encounters have reached over 592,000 in 2016. RGH has also had steady volumes within oncology, radiology, dialysis and other outpatient areas overall.

[Remainder of Page Intentionally Left Blank]

Summary of Historical Revenues and Expenses

The following consolidated statements of revenue and expenses for the years ended December 31, 2014, 2015 and 2016 are derived from the audited consolidated financial statements of the Hospital. This information should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2015 and 2016 together with the Report of Independent Auditors, which are included in Appendix B-1 of this Official Statement. As of December 31, 2016, RGH represented 48.6% of RRH total revenues and 48.9% of RRH total assets.

($ in thousands)	Year Ended December 31,		
	2014	**2015**	**2016**
Unrestricted Revenues			
Patient Service Revenue, Net of Contractual Allowances and Discounts	$848,060	$895,411	$918,608
Provision for Bad Debts	(16,138)	(16,078)	(15,933)
Net Patient Service Revenue	831,922	879,333	902,675
Other Revenue	26,563	42,278	42,172
Total Unrestricted Revenues	858,485	921,611	944,847
Expenses			
Salaries and Wages	378,711	431,558	455,899
Employee Benefits	81,114	90,001	87,147
Professional Fees	93,923	96,918	91,629
Purchased Services and Supplies	223,018	226,135	231,669
Depreciation and Amortization	40,473	41,124	40,978
Malpractice and Workers' Compensation	15,119	10,032	13,014
Interest Expense	5,353	5,579	4,648
Total Expenses	837,711	901,347	924,985
Income from Operations	20,774	20,264	19,862
Non-Operating Revenue (Expense):			
Loss on Sale of Property and Equipment	(67)	(44)	-
Other Non-Operating Gains and Losses	-		17
Investment Income, Net	11,882	7,334	5,010
Excess of Revenue Over Expenses	$32,589	$27,554	$24,889

Management's Discussion of Recent Financial Performance

Overview

RGH consistently has generated operating margins that have exceeded its budgeted goals. During 2016, total net assets for RGH increased $55.5 million to $462.6 million as of

December 31. The increase was mainly driven by continued positive operating margins coupled with unrealized gains on the investment portfolio. Total assets of the hospital were $944.1 million, with cash and investments (including board-designated funds) at $322.8 million. RGH has consistently generated operating margins that have exceeded its budgeted goals.

Year December 31, 2016

The Hospital recognized income from operations of $19.9 million during 2016. When non-operating income is taken into account, the Hospital posted an excess of revenue over expenses of $24.9 million.

Net patient service revenue, which represents over 95% of the hospital's revenue, increased by more than $23 million from the prior year. After other revenue and support is recognized, the hospital posted total revenue for the year of $944.8 million. Operating expenses of almost $925 million consisted of salaries and benefits of $543 million, purchased services and other supplies costs associated with the delivery of care, as well as depreciation and interest. Salaries and benefits increased by 4.1% over 2015, driven by general wage and market adjustments, as well as growth in the employment base at RGH.

Net investment income comprised the majority of the total non-operating revenue of $5.0m for the year.

Years December 31, 2015 and 2014

For the years ended December 31, 2015 and 2014, excess of revenue over expenses were $27.6 million and $32.6 million, respectively. Total net assets were $407.1 million and $393.4 million, respectively.

Net patient service revenue of $879.3 million in 2015 represented growth of 5.7% over 2014 at $831.9 million. Total revenue recognized in 2015 was $921.6 million, which was a growth overall of $63.1 million over 2014 total revenue of $858.5 million.

Total expenses for 2015 were $901.3 million, with salaries and benefits comprising more than $522 million. Total expenses grew over $63 million, comprised mainly as a result of annual wage and market increases for employees, continued growth in employees and clinical personnel, and other support service expenses related to patient volume. For the same time period, purchased services, supplies and other expenses associated with delivery of care to the patients grew by slightly over 4% from 2014 to 2015.

Financial Planning and Budget Process

RRH has developed ongoing strategic plans that continually assess new challenges and market realities that emerge through the adoption of healthcare reform legislation, among other changes. These updates and imperatives are routinely reviewed and incorporated into establishing targets, guidelines and goals in the annual capital and operating budgets, as well as the longer term strategic initiatives and System goals.

RRH's annual capital and operating budgets are initially developed before the start of each fiscal year. Targets are developed by the Finance Department of RRH in conjunction with management and teams at the operational level, and are based on measurements of productivity and certain other objective targets designed to achieve positive operating results and high quality care at low cost. These preliminary budgets are further reviewed by the senior management teams of RGH and RRH. Administration, Operations and Finance prepare and review the annual capital and operating budgets, which are sent to the RRH Finance Committee for initial approval with final approval by the Board of Directors occurring either in December of the current fiscal year or January of the following fiscal year. Financial performance is monitored monthly by Hospital Administration, Operations and Finance and the RRH Finance Committee.

Maximum Annual Debt Service Coverage

The following table sets forth RGH's "Income Available for Debt Service" for the three years ended December 31, 2014, 2015 and 2016. The following table also shows the resulting coverage of the maximum annual debt service ("MADS") on a historical and pro forma basis:

	Year Ended December 31,		
($ in thousands)	**2014**	**2015**	**2016**
Funds Available for Debt Service:			
Excess of Revenue over Expenses	$32,589	$27,554	$24,889
Plus: Loss on Sale of Property and Equipment	67	44	-
Plus: Depreciation and Amortization	40,473	41,124	40,978
Plus: Interest	5,353	5,579	4,649
Income Available for Debt Service	$78,482	$74,301	$70,516
Historical MADS for All Outstanding Debt[1][2]	$14,014	$11,857	$15,078
Historical MADS Coverage	5.6x	6.3x	4.7x
Pro Forma MADS for All Outstanding Debt[1][3]	$19,369	$19,369	$19,369
Pro Forma MADS Coverage	4.1x	3.8x	3.6x

[1] *Includes capital leases.*

[2] *RGH entered into a new 10-year Tax-Exempt Lease Purchase Agreement for $20.0 million on June 16, 2016. JPMorgan Chase Bank, N.A. serves as lessor and The Dormitory Authority of the State of New York and RGH are the lessee and sub-lessee, respectively. JPMorgan Chase Bank, N.A. is a commercial banking affiliate of J.P. Morgan Securities LLC, one of the Underwriters of the Series 2017 Bonds.*

[3] *Includes debt service on the Series 2017 Bonds, net of debt funded capitalized interest during the construction period.*

Liquidity and Investments

Liquidity Policy

RRH's and RGH's cash management policy aims to provide appropriate liquidity for routine operating and capital expenditures. The goal for the various investment funds maintained by the System is to achieve the best possible rate of total return within an acceptable level of market value volatility, while providing a dependable source of liquidity as needed. The Investment Committee of the System Board routinely reviews liquidity throughout the portfolio

of investment funds to ensure that appropriate liquidity levels are maintained for operational and other financial needs, while looking to maximize the investment returns. Investments and assets whose use is limited consist of financial instruments directly owned by RGH, including the Hospital's portion of a pooled investment fund administered by the System. Additionally, assets whose use is limited are amounts that have been designated by the Board of Directors for future capital improvements and facility use and are invested accordingly. Additional information related to the investment allocation of RGH is contained in the audited consolidated financial statements for the years ended December 31, 2014, 2015 and 2016 together with the Report of Independent Auditors, which are included in Appendix B-1 of this Official Statement.

Philanthropy

Total contributions received by RGH, which include gifts received by RGHF excluding capital contributions, were $6.9 million in 2014, $8.4 million in 2015 and $30.3 million in 2016.

	December 31,			
	2014	**2015**	**2016**	**Total**
RGHF	$6,161,069	$6,344,930	$27,997,129	$40,503,128
RGH	774,823	2,034,566	2,299,826	5,109,215
Total	$6,935,892	$8,379,496	$30,296,955	$45,612,343

Days Cash on Hand

The following table sets forth "Days Cash on Hand" for the three years ended December 31, 2014, 2015 and 2016.

	December 31,		
($ in thousands)	**2014**	**2015**	**2016**
Cash and Cash Equivalents	$ 64,643	$ 42,351	$37,826
Marketable Securities & Investments	13,403	54,739	65,755
Board Designated Funds	210,407	213,775	219,260
Total Cash and Investments	$ 288,453	$ 310,865	$322,841
Operating Expenses	$ 837,711	$ 901,347	$924,985
Less: Depreciation and Amortization	40,473	41,124	40,978
Adjusted Operating Expenses	$ 797,238	$ 860,223	$884,007
Days Cash on Hand	**132 days**	**132 days**	**133 days**

Payor Mix

The Hospital's major sources of patient service revenue are Medicare, Medicaid, Excellus BlueCross BlueShield ("Excellus"), MVP Health Care ("MVP"), Other Commercial and Self Pay. Excellus and MVP are regional not-for-profit health insurance companies providing various health benefit plans, including commercial and Medicare Advantage plans. RGH participates with both Excellus and MVP as a contracted provider. The following table illustrates the payor mix for RGH for each of the three years ended December 31, 2014, 2015 and 2016:

RGH Percentage of Net Revenue by Payor (Inpatient and Outpatient Services)

	FY 2014			FY 2015			FY 2016		
	IP	**OP**	**TOTAL**	**IP**	**OP**	**TOTAL**	**IP**	**OP**	**TOTAL**
Medicare	28%	15%	21%	31%	21%	25%	35%	21%	28%
Medicaid	6%	5	6%	6%	5%	5%	6%	6%	6%
Excellus	39%	46%	43%	41%	44%	43%	38%	46%	42%
MVP	18%	20%	19%	15%	16%	16%	14%	14%	14%
Other Commercial	6%	7%	6%	4%	7%	6%	5%	7%	6%
Self-Pay & Other	3%	7%	5%	3%	7%	5%	2%	6%	4%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

Payment Methodologies

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

Medicare is a federal healthcare program created by Title XVIII of the Social Security Act. Medicare covers both hospital and physician services for eligible individuals who are elderly, disabled or subject to certain chronic conditions.

Inpatient-Based Payment System

Medicare covers hospital services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as RGH, for most general medical/surgical services provided to eligible inpatients under a prospective payment system ("PPS") known as "inpatient PPS." Under the inpatient PPS, hospitals receive a predetermined payment amount for each Medicare discharge. This PPS payment is a standard national amount based on the diagnosis-related group ("DRG") for the discharge subject to a geographic adjustment that takes into account wage differentials. Since October 2008, CMS has utilized a new DRG system intended to ensure that payments more accurately reflect the costs of services provided by hospitals by better recognizing the severity of a patient's illness. The new DRG system, referred to as the Medicare-Severity DRGs, modifies the basic logic of the

previous system and includes three severity levels: major complication and comorbidities ("MCC"), complication and comorbidities ("CC") and non-CC. DRGs classify treatments for illnesses according to the estimated costs of hospital resources necessary to furnish care for each patient's principal diagnosis and establish a payment amount for that diagnosis treatment group. Hospitals are thus at financial risk for providing services to a patient at an actual cost greater than the applicable DRGs payment. DRG weights are recalibrated annually.

DRG rates are updated annually (the update factor) based on a statistical estimate of the increase in the cost of goods and services used by hospitals in providing care (the market basket). Historically, the increases to the DRG rates have often been lower than the percentage increases in the costs of goods and services purchased by hospitals. Under provisions of the Patient Protection and Affordable Care Act (the "ACA"), there are further reductions in the market basket percentage increase, consisting of both a flat percentage reduction and an economic productivity adjustment. The annual market basket increase is contingent upon a hospital's submission of certain quality of care measures; hospitals that fail to report the quality information receive a 2% reduction in their market basket updates. RGH submitted the quality data necessary to obtain full inpatient rate increases for all applicable years. There is no assurance, however, that these payments will be sufficient to cover the actual cost of providing hospital services.

Furthermore, payments may be restricted for hospital acquired conditions. CMS implemented a provision of the Deficit Reduction Act of 2005 (the "DRA") that aims to prevent Medicare from paying hospitals for the additional costs of treating a patient who acquires a condition (including an infection) during a hospital stay. The DRA requires hospitals to report diagnoses that are present at the time of patient admission. Medicare no longer pays hospitals for cases with these conditions at the higher rate unless the diagnosis was present upon admission.

The hospital IPPS payment was adjusted for discharges on or after October 1, 2012, to reflect any applicable adjustments under the Hospital Value Based Purchasing ("VBP") and Hospital Readmissions Reduction Program ("HRRP").Under the VBP program, a portion of the hospital payment rate is reduced to fund the value-based incentive payments, based on the hospitals overall performance. Hospitals may earn back more than, all, or less than the annual payment reduction. Under the HRRP, a portion of payments are reduced for those hospitals with excess readmissions.

Outpatient-Based Payment System

Most hospital outpatient services are also paid on a PPS basis. Payments under the outpatient PPS ("OPPS") are based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. APC rates are adjusted annually and are subject to a geographic adjustment that takes into account wage differentials and the average amount of resources required to provide the service (*e.g.,* visit, chest x-ray, surgical procedure). Hospitals are eligible to receive additional payments for certain new or high cost drugs and devices as well as certain outlier payments. There can be no assurance that the Hospital OPPS rate, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the services.

OPPS applies to most hospital outpatient services, other than ambulance and rehabilitation services, clinical diagnostic laboratory services, dialysis for end-stage renal disease, non-implantable durable medical equipment, prosthetic devices and orthotics. Outpatient services not covered by OPPS are reimbursed on the basis of fee schedules, the lower of costs or charges, or a blend of fee schedules and costs.

The Tax Relief and Health Care Act of 2006 ("TRHCA") required the Secretary of Health and Human Services to develop measures to make it possible to assess the quality of care (including medication errors) provided by hospitals in outpatient settings. Under the calendar year 2016 OPPS Final Rule, effective January 1, 2016, 26 outpatient measures are required for hospitals to receive the full outpatient prospective payment system market basket update for calendar year 2018.

Additional Supplemental Payments

Certain hospitals, including RGH, receive additional payment from Medicare for the direct costs of graduate medical education ("GME"). There are two forms of payment for GME: Direct Graduate Medical Education ("DGME") and Indirect Medical Education ("IME") payments. DGME payments support the direct costs of training (e.g., resident stipends, supervision), while IME payments support the higher infrastructure relating to teaching, greater patient acuity and their extensive "stand-by" capabilities. DGME costs are reimbursed under a prospective methodology based on a hospital-specific approved amount per resident. Additional payments are available to PPS teaching hospitals for the IME costs attributable to their approved graduate medical education programs. The IME payment is an additional payment calculated as a percentage add-on to the inpatient DRG payment. The payment is based on a formula that incorporates a hospital's ratio of residents to beds in use and total inpatient PPS revenue. DGME and IME reimbursement is subject to certain limitations, such as a cap on a hospital's reimbursable residents based on the number of residents in a base year and reductions for training taking place in non-hospital settings unless certain criteria are met. Congress has repeatedly sought to limit GME reimbursement. In calendar year 2016, RGH received $23.3 million in reimbursement for DGME and IME.

Certain hospitals, including RGH, receive additional payment from Medicare for treating a disproportionate share of low-income patients. These types of hospitals are referred to as Disproportionate Share Hospitals ("DSH"). Under provisions of the ACA, effective October 1, 2013, hospitals receive 25 percent of the amount they previously would have received under the pre-October 1, 2013 Medicare DSH payments. The remaining 75 percent is available for an uncompensated care payment after the amount is reduced for changes in the percentage of individuals who are uninsured. In calendar year 2016, RGH received $20.9 million in reimbursement for DSH.

Hospitals receive additional payments for other costs. In certain circumstances, CMS makes an additional payment for new services and technologies if the estimated charges for the new service or technology exceed the DRG payment amount by a threshold amount and the new service or technology is a substantial clinical improvement relative to technologies previously available. Hospitals also receive additional payments, known as outlier payments, for cases for which costs exceed the inpatient prospective payment system payment plus an additional fixed

dollar amount (a threshold). There is no assurance that these payments, considered together with the DRG patient, will be sufficient to cover the actual cost of providing hospital services or that they will continue at their current payment levels.

Certain hospital inpatient facilities or units providing specialized services, such as psychiatric units, are reimbursed under different reimbursement methodologies. Medicare implemented a distinct PPS for inpatient psychiatric services whereby hospitals will receive a pre-determined per diem payment with adjustments for factors such as patient characteristics, DRG, hospital teaching status and geographic area wage levels. Psychiatric PPS rates are also subject to the market basket reductions included in the healthcare reform legislation. There is no assurance that these payments are sufficient to cover the actual cost of providing hospital services.

Medicare Advantage

Medicare Advantage plans (formerly known as Medicare+Choice Plans) are alternate insurance products offered by private companies that engage in direct managed care risk contracting with the Medicare program. Under the Medicare Advantage program, these private companies agree to accept a fixed, per beneficiary payment from the Medicare program to cover all care that the beneficiary may require.

Another aspect of Medicare's payment methodologies is the ability of CMS-authorized auditors, including Recovery Audit Contractors, to conduct audits to identify Medicare overpayments and underpayments and to impose retroactive payment adjustments on providers.

The Medicare program has experienced frequent legislative, regulatory and administrative revisions in its payment methodologies and other provisions, many of which have sought to reduce the level of payment and rate of increase in the cost of the program. One of the most significant areas of concern for cuts to the Medicare program is IME. Another significant change was seen in 2013. This change is referred to as "Pay for Performance" and incorporates either an increase or decrease to the Medicare base payment rate, based on the results of quality measures that a hospital must submit to Medicare. The intention of Pay for Performance is to reimburse for quality delivery of care, not simply quantity. It is likely that revisions will continue, some of which may adversely affect the Medicare payments RGH receives.

Medicaid, Blue Cross and Commercial Insurance Carriers

As periodically updated and renewed, the New York State payment methodologies govern non-Medicare payments to hospitals in New York State. Under the New York State payment methodologies, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid, workers' compensation and no-fault payers pay hospital rates promulgated by DOH on a prospective basis. Every year, RGH must have its Medicaid payment rates certified for the forthcoming year by the New York State Commissioner of Health and approved by the State Director of Budget, recognizing economic and budgetary considerations. In addition, Medicaid rate methodologies are subject to approval at the federal level by CMS, which may routinely request information

about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until RGH is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for Medicaid will continue to be made in future years.

New York State payment methodologies include a system of state-imposed assessments and surcharges on various categories of third-party payers for healthcare services that fund annual state-operated pools for indigent care, healthcare initiatives and professional education. In 2010, funds from the professional education pool were transferred to the indigent care pool and distributed to hospitals on a methodology utilizing uninsured patient volume. There will be continued changes in the methodology used to determine the amount of the distributions to be made to hospitals and in the methodology used to determine the cap on the amount of the distributions that are ultimately passed on to hospitals. These issues could negatively affect RGH. Charity care has become an area of intense focus by both federal and state governments. The teaching component of Medicaid and managed Medicaid payment, which is distributed outside the pools, is expected to continue to be paid by the state directly to the hospitals. In 2016, RGH received $9.2 million in payments from the indigent care pool. No assurances can be given that substantial subsequent changes in these programs will not occur, nor that subsequent payments will remain at levels comparable to the present level.

In New York State, Medicaid is a jointly funded federal-state-county program administered by the state by which hospitals receive payment for services provided to eligible infants, children, adolescents and indigent adults. The federal share of the state's Medicaid expenditures is approximately 50%. Since its application for a federal Medicaid waiver under Section 1115 of the Social Security Act was first approved in 1997, the state of New York has mandated that a significant portion of its Medicaid population be assigned and enrolled into private managed care plans. Under the waiver, Medicaid recipients are required to enroll in one of several managed care options, unless they fall into an exempt or excluded category enumerated in the New York statute. Management believes that Medicaid fee-for-service payments will likely constitute a reduced percentage of RGH's inpatient revenue as Medicaid managed care plans contract with hospitals on a negotiated-rate basis. See "Payment Methodologies - Managed Care" herein.

Effective December 1, 2009, a revised inpatient rate system has been implemented for Medicaid, worker's compensation and no-fault payors. DOH has issued a blended rate effective October 1, 2010 based on a single statewide base price that combines Medicaid fee-for-service and Medicaid managed care rates. This rate is to be used as the default and contract base prices for Medicaid Managed Care inpatient stays.

In 2011, the New York State Budget included further cuts to payments to providers in a wide variety of areas. In addition, many modifications occurred as a result of the "Medicaid Redesign Team." One of the key provisions is an overall state spending cap, which if exceeded, will result in further payment cuts Nevertheless, it remains uncertain whether the state will be able to keep spending below the limit in future years without resorting to additional rate cuts.

Beginning December 2008, the DOH implemented a significant change in the payment methodology for outpatient services, including hospital-based services, free-standing clinics and

emergency department services. Payment for outpatient services are now paid based on Ambulatory Patient Groups ("APGs"), which are case rates determined on the basis of resource utilization and intensity, rather than traditional fee-for-service reimbursement. In addition, the payment methodology for outpatient psychiatry moved to APGs.

Payments made to healthcare providers under the Medicaid program are subject to change as a result of federal or state legislative and administrative actions, including changes in the methods for calculating payments, the amount of payments that will be made for covered services and the types of services that will be covered under the program. Such changes have occurred in the past and may be expected to occur in the future, particularly in response to federal and state budgetary constraints.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes cannot presently be determined. Future changes in the Medicaid program and any reduction of funding could have an adverse impact on RGH.

Managed Care

Managed care programs, which include various payment methodologies and utilization controls through the use of primary care physicians, case managers and other care coordinators are increasingly being offered by traditional insurance companies and managed care organizations in New York State. 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 healthcare services are delivered and paid for in the future. The Patient Protection and Affordable Care Act of 2010 triggered a fundamental shift in healthcare payment by moving from payment for service volume to payment based on quality care and maintaining the wellness of patients. Pay for performance, gain sharing and global capitation arrangements are becoming more frequent with the managed care programs. RGH is leveraging its partnership with the GRIPA to explore quality based payment arrangements with the area payors.

High deductible health insurance plans are becoming more popular as employers continue to shift the costs of healthcare to their employees. RGH's financial condition may be adversely affected by this trend as the amount owed by patients increase but payments collected decrease due to the continued poor economic conditions.

RGH has established relationships with most managed care companies in the market and these contracts cover most products (health maintenance organization ("HMO"), point of service, preferred provider organization ("PPO") and payor types (Medicare, Medicaid, Commercial)). The four managed care companies that represent the largest component of managed care business for RGH are Excellus BlueCross BlueShield, MVP Health Care, Aetna and UnitedHealthcare.

The majority of managed care payment is paid on either a discounted fee-for-service basis or case rate according to contracted rates. Financial terms are established based upon the

size of health plan membership and the ability of the company to direct patients to RGH. Separate rates are established for each product line (Medicare, Medicaid and Commercial). Most contracts are either on a DRG-based per case rate for all acute services or include per diem rates for general inpatient services and an extensive number of DRG-based case rates for tertiary and quaternary care. Psychiatric services are generally negotiated on a per diem basis. Global rates, which are composite rates that include hospital and physician services, have been established for select cardiac and transplant services. Outpatient services are paid on a percent of charges or fixed fee schedule basis.

Employee Matters

As of December 31, 2016, the Hospital had 7,237 employees representing 6,139 full-time equivalent employees ("FTEs"). Currently the Hospital has 6 union employees, who are employed under a collective bargaining agreement with the International Union of Operating Engineers.

RGH and other Rochester Regional Health Affiliates are self-insured for its employee medical plan, and employee benefits additionally include dental and life insurance, tuition assistance, disability coverage, employee assistance programs and a defined benefit pension plan. A 403(b) plan is also offered and is 100% funded by employee contributions (no employer match or contribution).

Nursing Staff

As of December 31, 2016, the Hospital employed approximately 1,060 FTEs on its nursing staff, including 45 nurse leaders, 760 unit technicians, secretaries and others. The vacancy rate for registered nurses during 2016 was over 20%. The Hospital has aggressively managed recruitment of new registered nurses, and utilizes minimal external agency support. There have been no bed closings due to nursing shortages in many years.

Pension Programs

The Hospital provides retirement benefits through participation in the RGHS Employee Retirement Plan, a defined benefit pension plan sponsored by the System for its Affiliates that covers substantially all of the System's affiliate employees (the "Pension Plan"). The Pension Plan bases benefits upon both credited years of service and final average earnings. It is the policy of the System to fund at least the minimum amounts required by the Employee Retirement Income Security Act. The funding policy is based on actuarially determined cost methods allowable under IRS regulations. The Hospital's pension expense, which represents allocable contributions to the plan, was approximately $26.3 million and $25.3 million in 2016 and 2015, respectively. As of December 31, 2016, the underfunded status of the Pension Plan was $214.6 million.

The Hospital also provides certain healthcare and life insurance benefits for retired employees through its participation in a postretirement plan sponsored by the System for its Affiliates. Full-time employees who retire after age 62 with 20 years of full-time service and dependents of employees who retired before January 1, 1994, are eligible for medical benefits. For medical benefits, employees who retired prior to January 1, 1994 receive the full premium,

with the System directly paying the premium cost to a third-party administrator. Employees who retire on or after January 1, 1994, receive an amount which is fixed at the System's share of the 1993 premium level. Dental benefits cover full-time employees and dependents of employees who retired before January 1, 1994, after age 62 with 20 years of service. Life insurance benefits cover employees working at least 30 hours per week who retire at age 55 or older. The System has the right to modify or terminate this plan in the future. Postretirement benefit expense, which represents allocable contributions for the Hospital, for 2016 and 2015, was approximately $587,000 and $601,000, respectively.

The Hospital also has a non-contributory tax-exempt 403(b) tax sheltered annuity plan covering employees meeting certain eligibility requirements. In addition, the Hospital has a deferred compensation plan which permits certain key employees to defer a portion of their compensation. The deferred compensation, which is funded through investments with third-party financial services companies, is distributable in cash after retirement or termination of employment and is separately recorded in the accompanying consolidated balance sheets as an asset and a liability.

Financial Assistance Policy

RRH recognizes the need in its community to provide financial counsel and assistance to those patients with limited income who find it difficult to meet the expenses incurred in receiving health care services at Rochester Regional. In keeping with our mission and values to enhance lives and preserve health of our community and patients by enabling access to a comprehensive, fully integrated network of the highest quality and most affordable care, delivered with kindness, integrity, and respect, RRH offers a Financial Assistance Program. The Financial Assistance Program consists of a process where patients are provided financial counseling and assistance in applying for publicly sponsored New York State health insurance programs and/or are evaluated for possible eligibility for a Financial Assistance Discount. Financial Assistance Discounts are available for uninsured and underinsured patients who reside in New York State and whose household income is equal to or less than 400% of the most recent Federal Poverty Guidelines. Financial Assistance Discounts are also available to eligible patients to decrease the cost of coinsurance, co-payments and deductibles.

Licensure and Accreditation

On October 1, 2016, RGH was granted a three-year accreditation from the Joint Commission (formerly the Joint Commission on Accreditation of Healthcare Organizations). The next Joint Commission review will take place in 2019 The Hospital also has a current Operating Certificate from the New York State Department of Health to provide the services denoted above.

Professional and General Liability Insurance Program

The Hospital is an insured of GRACO, an RRH wholly owned offshore captive insurance company. Through this captive, the Hospital purchases its professional and general liability insurance with limits of $3.5 million per claim and $25 million in the aggregate per policy year under a retrospectively rated claims-made policy based upon the experience of GRACO's

insureds. The Hospital has recorded expenses for related premiums on the basis of the group's experience.

The Hospital purchases claims-made excess professional and general liability insurance from an insurance company under a policy that insures RRH and its Affiliates. This policy provides $43.5 million insurance, per claim and $65.0 million in the aggregate, in excess of the primary insurance limits provided by GRACO.

The Hospital is a participant in the RRH Workers' Compensation Trust (the "Trust"), which provides a group insurance program for workers' compensation claims for RRH Affiliates. Losses are accrued based upon the Trust's estimate of the aggregate liability for claims incurred by members, net of amounts recoverable through reinsurance (in excess of $400,000), based on actuarially-determined amounts and the Hospital contributes its proportionate share to the Trust.

The Hospital also carries directors' and officers' liability insurance, as well as insurance to cover all other normal business exposures.

Litigation and Investigations

The Hospital has no litigation or proceedings pending, or, to the knowledge of management, threatened against it which would materially adversely affect its results of operations or financial condition. Certain professional and general liability claims have been asserted against the Hospital in the normal course of its operations and there are known incidents that may result in the assertion of additional claims. Management believes, based upon prior experience, that adequate self-insurance reserves and excess professional and general liability insurance are maintained by the Hospital to provide for all material professional and general liability claims.

Outstanding Indebtedness

In 2011, RGH entered into a tax-exempt financing agreement with the DASNY and JPMorgan Chase Bank, N.A. for $54,969,000 ("2011 TELP Agreement"). The 2011 TELP Agreement is a tri-party financing agreement that enabled RGH to purchase capital equipment on a tax-exempt basis. The TELP Agreement was used primarily to finance the purchase of capital equipment related to the CareConnect EMR system. All equipment purchased under the TELP Agreement has been placed in service. RGH will continue to make payments on the financing agreement through 2021.

In February 2013, Monroe County Industrial Development Corporation ("MCIDC") issued Series 2013 Tax-Exempt Revenue Bonds (the "Series 2013 Bonds") in the amount of $101,520,000 on behalf of the Hospital. The funds received were used to (A) defease previously outstanding 2005 revenue bonds, (B) provide financing for certain Hospital renovations and expansions (the "2013 Project"), and (C) fund related issuance costs associated with the Series 2013 Bonds The 2013 Project was concentrated on enhancement and development of three core areas: Ambulatory Continuum of Care, Surgery and Oncology and Hematology. The Ambulatory Continuum of Care projects included the planning, design, construction and fit-up of: (1) a new state-of-the-art surgery center at 360 Linden Oaks to replace the existing Lattimore

Surgery Center; (2) imaging services at Alexander Park; and (3) the Bay Creek Ambulatory campus for dialysis and primary care expansion. The Surgery projects included planning, design, construction and fit-up related to enhancement of the Hospital's Peri-Operative unit and planning, design, construction and fit-up for the implementation of a biplane for comprehensive endovascular stroke treatment. The Oncology and Hematology projects included replacement of the Hospital's existing linear accelerator with a new Intensity Modulated Radiation Therapy linear accelerator and improvement of infusion access and capacity through expansion at the Hospital.

In 2016, RGH entered into a tax-exempt financing agreement with the DASNY and JPMorgan Chase Bank, N.A. for $20,000,000 ("2016 TELP Agreement"). The 2016 TELP Agreement is a tri-party financing agreement that enabled RGH to purchase capital equipment on a tax-exempt basis. The TELP Agreement was used primarily to finance the purchase of medical equipment and IT hardware and software. All equipment purchased under the TELP Agreement has been placed in service. RGH will continue to make payments on the financing agreement through 2026.

The table below depicts the outstanding debt for RGH as of December 31, 2016.

RGH Outstanding Debt[1]	**Existing Principal Outstanding**	**Pro Forma Principal Outstanding**	**Year of Final Maturity**
	(Unaudited)	(Unaudited)	
2017 Revenue Bonds	$ -	$ 151,945,000	2046
2016 TELP[2]	18,412,794	18,412,794	2026
2013 Revenue Bonds - Series A	55,480,000	55,480,000	2042
2013 Revenue Bonds - Series B	33,945,000	33,945,000	2035
2011 TELP[2]	27,709,638	27,709,638	2021
Capital Lease Obligations	195,559	195,559	2017
Total	$ 135,742,991	$ 287,687,991	

[1] Par amount outstanding. Does not include unamortized premium, discount or deferred issuance costs of the debt.
[2] Outstanding debt held by JPMorgan Chase Bank, N.A., a commercial banking affiliate of J.P. Morgan Securities LLC, one of the Underwriters of the Series 2017 Bonds.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B-1

Financial Statements of The Rochester General Hospital and Independent Auditors' Report

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONSOLIDATED FINANCIAL STATEMENTS

Rochester General Hospital and Affiliates
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

Rochester General Hospital and Affiliates

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

Contents

FreedMaxick CPAs, P.C.

Independent Auditor's Report

The Board of Directors
Rochester Regional Health

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rochester General Hospital and Affiliates (the "Hospital"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 consolidated financial position of Rochester General Hospital and Affiliates at December 31, 2016 and 2015, and the consolidated results of their operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of selected financial ratios is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Rochester, NY
April 3, 2017

Rochester General Hospital and Affiliates

Consolidated Balance Sheets

Assets	December 31, 2016	2015
Current assets:		
Cash and cash equivalents	$ 37,826,196	$ 42,351,198
Investments	65,754,629	54,738,550
Current portion of assets whose use is limited	872,365	872,645
Patient accounts receivable, net of allowance for doubtful accounts of $14,611,000 in 2016 and $12,875,000 in 2015	58,954,391	55,828,143
Estimated third-party payor receivables	11,538,711	14,414,062
Due from affiliates	72,521,743	64,253,433
Inventories	1,519,650	2,214,876
Prepaid expenses and other	17,607,807	15,094,630
Total current assets	266,595,492	249,767,537
Assets whose use is limited:		
Funds held by bond trustees	7,230,733	12,620,949
Board-designated funds	219,259,732	213,775,112
Deferred compensation	2,023,536	2,071,474
	228,514,001	228,467,535
Property and equipment - net	314,473,899	281,459,290
Other assets:		
Interest in net assets of Rochester General Hospital Foundation, Inc.	58,530,779	35,588,522
Estimated third-party payor receivables, less current portion	3,383,405	2,333,553
Insurance recoveries receivable	53,365,758	48,289,501
Other	19,258,003	17,736,314
	134,537,945	103,947,890
Total assets	$ 944,121,337	$ 863,642,252

See accompanying notes.

Rochester General Hospital and Affiliates

Consolidated Balance Sheets (Continued)

Liabilities and net assets	December 31, 2016	2015
Current liabilities:		
Accounts payable	$ 38,825,050	$ 36,875,239
Accrued salaries, vacations, and payroll taxes	35,179,765	31,532,002
Accrued expenses	35,224,557	30,659,445
Accrued interest payable	406,093	425,040
Estimated liabilities for third-party settlements, net	15,754,212	27,422,520
Current portion of long-term debt, net of deferred financing costs	10,111,033	7,282,481
Due to affiliates	10,193,084	9,903,379
Total current liabilities	145,693,794	144,100,106
Long term debt, less current portion, net of deferred financing costs	130,121,261	122,258,396
Accrued insured and self-insured liabilities	90,215,394	86,606,253
Estimated third-party payor payables	113,268,628	101,490,730
Deferred compensation	2,185,124	2,071,474
Total liabilities	481,484,201	456,526,959
Net assets:		
Unrestricted	405,694,422	373,286,205
Temporarily restricted	48,123,105	25,719,659
Permanently restricted	8,819,609	8,109,429
Total net assets	462,637,136	407,115,293
Total liabilities and net assets	$ 944,121,337	$ 863,642,252

See accompanying notes.

Rochester General Hospital and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

	For the Years Ended December 31, 2016	2015
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 918,607,890	$ 895,410,924
Provision for bad debts	(15,932,993)	(16,077,537)
Net patient service revenue, less provision for bad debts	902,674,897	879,333,387
Other revenue, gains, and support	42,171,808	42,277,299
Total unrestricted revenues, gains, and other support	944,846,705	921,610,686
Expenses:		
Salaries and wages	455,898,829	431,558,275
Employee benefits	87,147,639	90,001,371
Professional fees	91,628,959	96,917,821
Purchased services and supplies	231,668,694	226,134,838
Depreciation and amortization	40,977,879	41,123,620
Malpractice and workers' compensation expense	13,014,437	10,032,387
Interest	4,648,505	5,578,696
Total expenses	924,984,942	901,347,008
Income from operations	19,861,763	20,263,678
Non-operating revenue (expense):		
Other non-operating gains (losses), net	16,913	(44,110)
Investment income, net	5,010,733	7,334,230
Total nonoperating revenue, net	5,027,646	7,290,120
Excess of revenue over expenses	$ 24,889,409	$ 27,553,798

See accompanying notes.

Rochester General Hospital and Affiliates

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at January 1, 2015	$ 359,722,402	$ 25,571,317	$ 8,107,711	$ 393,401,430
Excess of revenues over expenses	27,553,798	-	-	27,553,798
Net unrealized loss on investments	(11,176,993)	-	-	(11,176,993)
Changes in interest in net assets of Rochester General Hospital Foundation, Inc.	17,679	148,342	1,718	167,739
Contributions for capital acquisitions from Rochester General Hospital Foundation, Inc.	939,413	-	-	939,413
Grants	7,393	-	-	7,393
Capitalization of Rochester General Long Term Care, Inc.	(4,938,741)	-	-	(4,938,741)
Other	1,161,254	-	-	1,161,254
Increase in net assets	13,563,803	148,342	1,718	13,713,863
Balance at December 31, 2015	373,286,205	25,719,659	8,109,429	407,115,293
Excess of revenues over expenses	24,889,409	-	-	24,889,409
Net unrealized gain on investments	6,941,024	-	-	6,941,024
Changes in interest in net assets of Rochester General Hospital Foundation, Inc.	(171,369)	22,403,446	710,180	22,942,257
Contributions for capital acquisitions from Rochester General Hospital Foundation, Inc.	750,313	-	-	750,313
Other	(1,160)	-	-	(1,160)
Increase in net assets	32,408,217	22,403,446	710,180	55,521,843
Balance at December 31, 2016	$ 405,694,422	$ 48,123,105	$ 8,819,609	$ 462,637,136

See accompanying notes.

Rochester General Hospital and Affiliates

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2016	2015
Cash flows from operating activities:		
Change in net assets	$ 55,521,843	$ 13,713,863
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net unrealized (gain) loss on investments	(6,941,024)	11,176,993
Depreciation and amortization	40,977,879	41,123,620
Amortization of debt issuance costs	137,600	137,600
Loss on sale of property and equipment	-	44,110
Provision for bad debts	15,932,993	16,077,537
Increase in interest in net assets of the Foundation	(22,942,257)	(167,739)
Restricted contributions	(750,313)	(939,413)
Changes in operating assets and liabilities:		
Patient accounts receivable	(19,059,241)	(25,124,252)
Estimated third-party payor receivables/payables, net	1,935,089	4,713,481
Other current assets	(1,817,951)	(461,391)
Due from/to affiliates, net	(7,978,605)	(384,749)
Other noncurrent assets	(6,597,946)	(1,711,466)
Accounts payable and other current liabilities	10,143,739	21,258,882
Other noncurrent liabilities	3,722,791	1,000,500
Net cash provided by operating activities	62,284,597	80,457,576
Cash flows from investing activities:		
Expenditures for property and equipment	(73,992,488)	(47,643,818)
Increase in investments and assets whose use is limited, net	(4,121,241)	(46,224,383)
Net cash used in investing activities	(78,113,729)	(93,868,201)
Cash flows from financing activities:		
Restricted contributions	750,313	939,413
Proceeds from long-term debt	20,000,000	-
Principal payments of long-term debt	(9,446,183)	(9,819,841)
Net cash provided by (used in) financing activities	11,304,130	(8,880,428)
Net decrease in cash	(4,525,002)	(22,291,053)
Cash and cash equivalents - beginning of year	42,351,198	64,642,251
Cash and cash equivalents - end of year	$ 37,826,196	$ 42,351,198

See accompanying notes.

Note 1. Organization and Consolidation

Rochester General Hospital and Affiliates (collectively, the Hospital) comprise a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) that is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital owns and operates a 528-bed hospital, outpatient clinic, and other related facilities providing medical, surgical, and other health care services in the Rochester, New York area.

The Hospital owns 100% of the Class A stock of the GRACO Risk Retention Group (GRACO RRG). GRACO RRG provides professional liability insurance to physicians in the Rochester, New York area. Additionally, the Hospital controls Western New York Medical Practice, P.C., which is a tax-exempt captive professional corporation, formed to provide health care services to the community. All significant inter-affiliate accounts and transactions have been eliminated in the accompanying consolidated financial statements.

The Hospital owns 19% and 28% at December 31, 2016 and 2015, respectively, of the membership interest in Lattimore Services Organization, LLC, which is a limited liability company organized to provide oversight and administrative services to Rochester Ambulatory Surgical center (f/k/a Lattimore Community Surgical Center, Inc.). The Hospital owns a 50% interest in Greater Rochester Independent Practice Association, an independent physician practice association.

The sole corporate member of the Hospital is Rochester Regional Health (Rochester Regional), a New York not-for-profit corporation that coordinates and manages the delivery of health care related services and education of its affiliates (Affiliates).

The Hospital is also affiliated with several other health care corporations, including four hospitals (Unity Hospital of Rochester, Newark Wayne Community Hospital, United Memorial Medical Center, Clifton Springs Hospital and Clinic and Affiliates), several fund raising foundations, and other companies engaged in behavioral health and elderly care, laboratory services, housing, and other long-term care facilities, all of which operate as part of the Rochester Regional's group of providers. Additionally, the Hospital is an insured of the Greater Rochester Assurance Company, Ltd. (GRACO), a Rochester Regional owned offshore captive insurance company, and is a participant in the Rochester General's Workers' Compensation Trust (the Trust), which provides a group insurance program for workers' compensation claims on behalf of certain Rochester Regional Affiliates.

Note 2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP).

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies (Continued)

Performance Indicator

The performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in unrealized gain or loss on investments of other-than-trading securities (excluding other-than-temporary declines in investments), changes in interest in the net assets of the Rochester General Hospital Foundation, Inc. (RGH Foundation), transfers of net assets to and from Affiliates, grants and contributions of long-lived assets (including assets acquired using contributions that, by donor restriction, are to be used for the purpose of acquiring such assets) and their release from restrictions for the intended purpose.

Cash Equivalents

All highly liquid investments with original maturities of three months or less when purchased are considered to be cash and cash equivalents. Cash equivalents are measured at fair value in the consolidated balance sheets and exclude amounts restricted, board designated, or held in trusts. At times, the amount included in cash and cash equivalents accounts may exceed federally insured limits. The Hospital has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Investments and Assets Whose Use Is Limited

Investments and assets whose use is limited consist of financial instruments directly owned by the Hospital and the Hospital's allocated share of pooled investment funds administered by Rochester Regional (the Pooled Investment Funds). The Pooled Investment Funds are comprised of the Rochester Regional's Master Investment Plan and the Rochester Regional's Short-Term Investment Fund. Investments owned directly by the Hospital are recorded at fair value. The Hospital's share of the Pooled Investment Funds is recorded at the Hospital's unitized investment value. Interest, dividends, realized and unrealized gains and losses and other-than-temporary impairment related to the Pooled Investment Funds are allocated to participants based upon their pro rata share of the investments.

Assets whose use is limited are amounts that have been designated by the Rochester Regional's Board of Directors for future capital improvements and facility use, amounts deposited with trustees under a mortgage bond indenture agreement, and amounts deposited with trustees for deferred compensation agreements.

Investment income or loss (including realized gains and losses on investments, interest income, other-than-temporary impairment, and dividends) is included in the excess of revenues over expenses. Investment income is also offset by expenses related to the investments of approximately $526,000 and $475,000 in 2016 and 2015, respectively. Unrestricted investment income or loss is reported as other revenue, except for investment income or loss on board-designated and capital improvement fund investments, which are reported as nonoperating gains or losses. Unrealized gains and losses on unrestricted investments are reported as increases or decreases in unrestricted net assets, except for unrealized losses considered to be other-than-temporary.

Note 2. Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

As defined in US GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value provisions apply to all assets and liabilities that are being measured and reporting on a fair value basis. US GAAP required disclosures that establish a framework for measuring fair value. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. US GAAP requires that the assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following is a description of the Hospital's valuation methodologies for investments and the Rochester Regional's valuation methodology for the Pooled Investment Funds. Fair value for Level 1 is based upon quoted market prices received from third-party pricing services. 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.

The methods described above may produce a fair value 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.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments owned directly by the Hospital are recorded at fair value except for limited partnerships and other investments which are recorded at cost. The Hospital's share of the Pooled Investment Funds is recorded at amounts reported to the Hospital from Rochester Regional. Rochester Regional records investments in the Pooled Investment Funds at fair value, except for certain amounts related to limited partnerships that are recorded at either cost or utilizing the equity method of accounting. The valuation of cost basis limited partnerships is evaluated annually for impairment. Investments in a loss position are evaluated on a regular basis to determine if the impairment is other-than-temporary. Other-than-temporary losses for the year ended December 31, 2016 approximated $530,000. There were no other-than-temporary losses for the year ended December 31, 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

The Hospital's Revenue Bonds are not required to be carried at fair value. The fair value of the Revenue Bonds is estimated based on current rates offered to the Hospital for debt of the same remaining maturities and other valuation considerations.

Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. The Hospital maintains an allowance for doubtful accounts based on the expected collectability of accounts receivable. The significant concentrations of gross accounts receivable for services to patients include the following at December 31:

	2016	2015
Self-pay	12%	16%
Medicare	28	25
Medicaid	9	8
Commercial and other payors	51	51
	100%	100%

Inventories

Inventories (consists primarily of drugs, medical supplies, dietary and housekeeping supplies) are stated at the lower of cost (first-in, first-out method) or market.

Property and Equipment

Property and equipment are recorded at cost, less allowances for depreciation. Depreciation is provided for in amounts sufficient to amortize the cost of the related assets, on a straight-line basis, over their estimated useful lives ranging from 3 to 25 years. Leasehold improvements and equipment under capital lease obligations are amortized on a straight-line basis over the shorter period of the lease term or the estimated useful life of the leasehold improvement or equipment and the amortization is reported in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Expenditures for routine repairs and maintenance are charged to operations as incurred.

Expenditures for software purchases and software developed for internal use are capitalized and reported within equipment. Depreciation is provided on a straight-line basis over the estimated useful lives, which are generally three to ten years. For software developed for internal use, certain costs are capitalized, including external direct costs of materials and services associated with developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with internal use software projects. Capitalization of these costs ceases when the project is substantially complete and ready for its intended use. Costs associated with the preliminary project stage activities, training, maintenance, and other post-implementation stage activities are expensed as incurred. Unamortized internally developed software approximated $21,300,000 and $18,183,000 as of December 31, 2016 and 2015, respectively. Associated amortization expense of approximately $3,177,000 was recognized in the accompanying financial statements in 2016 and 2015.

Note 2. Summary of Significant Accounting Policies (Continued)

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

Interest in Net Assets of the RGH Foundation

The Hospital and the RGH Foundation are deemed to be financially interrelated organizations. Accordingly, the Hospital records its interest in the net assets of the RGH Foundation as a noncurrent asset and as unrestricted, temporarily restricted, and permanently restricted net assets, as appropriate.

Impairment of Long-Lived Assets

Under the provisions of US GAAP, the Hospital evaluates the recoverability of long-lived assets and the related estimated remaining useful lives at each consolidated balance sheet date. The Hospital would record an impairment charge or change the useful life if events or changes in circumstances indicated that the carrying amount may not be recoverable or the remaining useful life has changed.

Contributions

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 statement of activities 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 financial statements.

Permanently and Temporarily Restricted Net Assets

The accompanying combined financial statements have been prepared in conformity with the disclosure and display requirements of US GAAP. US GAAP requires that resources be classified for reporting purposes into three net asset categories (temporarily restricted, permanently restricted and unrestricted) according to the existence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose or time period. The majority of the Hospital’s temporarily restricted net assets as of December 31, 2016 and 2015 are restricted for the purchase of property plant and equipment. Permanently restricted net assets were created through a bequest requiring the principal amount be held in perpetuity. Any interest or investment earnings derived from the funds are recorded as temporarily restricted and may be used for the operations when appropriated by the Hospital.

Note 2. Summary of Significant Accounting Policies (Continued)

Net Patient Service Revenue

The Hospital recognizes revenue associated with services provided to patients and reported at estimated net realizable amounts from patients, third-party payors, and others and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews, and investigations. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates.

Payment arrangements include prospectively determined rates per discharge, reimbursed costs, and per diem payments. 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. Net retroactive adjustments increased net patient service revenue by approximately $1,589,000 in 2016 and decreased net patient service revenue by $869,000 in 2015.

Provision for Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts related to self-pay patients. In evaluating the collectability of accounts receivable, the Hospital analyzes its historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractual amounts due and provides an allowance aging. For receivables associated with self-pay patients, which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The Hospital follows established guidelines for placing certain past due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the Hospital. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written off against the allowance for doubtful accounts.

Patient service revenue for the years ended December 31, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts) was approximately $892,887,000 and $877,865,000 from third–party payors, and $25,721,000 and $17,546,000, from self-pay payors (based on primary insurance designation), respectively.

Uncompensated Care and Charity Care

Charity care is reported at estimated direct and indirect costs. The Hospital utilizes a cost-to-charge ratio methodology for the cost analysis. The Hospital accepts all patients, regardless of their ability to pay, pursuant to its established policies. Management considers uncompensated care to include three elements: charity care, bad debts, and governmental shortfall.

Note 2. Summary of Significant Accounting Policies (Continued)

The Hospital's established policies define charity services as those medically necessary services for which patients have the obligation and willingness to pay but do not have the ability to pay. Patients that provide the necessary information to qualify for charity care are provided services at a reduced fee or no fee.

During the registration, billing, and collection process, a patient's eligibility for charity care is determined. Care given to patients who are determined to be eligible for charity care under the Hospital's charity care policy, but not paid for, is classified as charity care. Receivables for care given to patients who were determined by the Hospital to have the ability to pay but did not are deemed uncollectible and classified as bad debt expense. Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full evaluation of a patient's ability to pay.

The Hospital receives certain funds to offset or subsidize charity services provided, which are included in net patient service revenue. These funds are primarily received from uncompensated care programs sponsored by New York State, whereby health care providers within the state pay into an uncompensated care fund, and the pooled funds are then redistributed based on specific criteria.

Governmental shortfall is management's estimate of the difference between the payments received and the cost of care provided to patients who are covered by the government entitlement program of Medicaid. A summary of the estimates of uncompensated care follows for the years ending December 31:

	2016	2015
Charity care, estimated at cost	$ 18,254,000	$ 16,104,000
Funds received to offset or subsidize charity services	$ 10,542,000	$ 10,595,000
Provision for bad debt	$ 15,933,000	$ 16,078,000
Governmental shortfall	$ 25,587,000	$ 26,187,000

Non-Medicare Payments

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation, and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation, and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the federal level by the Centers for Medicare & Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Note 2. Summary of Significant Accounting Policies (Continued)

Medicare Payments

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

Revenue Estimation

The Hospital 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 hospital-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 the Medicare program, have been audited by the Medicare fiscal intermediary and settled through 2013.

Subsequent years remain open for audit and settlement as well as numerous issues related to the New York State Medicaid program for prior years. 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.

The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the accompanying consolidated financial statements and believes that it is in compliance with all applicable laws and regulations.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal and state governments, cannot presently be determined.

Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 28 percent and 6 percent, respectively, of the Hospital's net patient revenue for 2016, and 27 percent and 7 percent, respectively, of the Hospital's net patient revenue for 2015.

Incentive Payments for Using Electronic Health Records

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments depends on providers demonstrating meaningful use of EHR technology in each period over a four-year period.

Note 2. Summary of Significant Accounting Policies (Continued)

Initial Medicaid incentive payments are available to providers that adopt, implement, or upgrade certified EHR technology.

In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Hospitals that do not successfully demonstrate meaningful use of EHR are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

The Hospital uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this accounting policy, EHR incentive payment revenue is recognized when the Hospital is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received.

For the years ended December 31, 2016 and 2015, the Hospital received EHR incentive payment revenue from Medicare of approximately $1,130,000 and $2,178,000, respectively, and from Medicaid of approximately $1,805,000 and $1,874,250, respectively, which is included in other revenue, gains and other support. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the Federal government and/or the New York State Department of Health.

Supplemental Cash Flow Disclosures

There were no capital leases for equipment entered into for the year ended December 31, 2016 and 2015. Additionally, accounts payable and accrued expenses related to purchases of equipment of approximately $5,007,000 and $13,903,000 at December 31, 2016 and 2015, respectively, were excluded from the consolidated statements of cash flows and will be reflected when paid.

Recent Accounting Pronouncements

Effective for the year ended December 31, 2016, the Hospital retroactively adopted the provisions of the FASB Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU. As a result of the adoption, the Hospital has reclassified unamortized bond issuance costs in the amount of $1,446,000 from other assets on the accompanying consolidated balance sheet for the year ended December 31, 2015, and presented bonds payable, net of deferred financing costs, as required by the ASU. Additionally, the Hospital has reclassified amortization of the deferred financing costs of approximately $138,000 from amortization expense on the accompanying consolidated statement of activities for the year ended December 31, 2015 to interest expense, as required by the ASU.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

Note 3. Investments and Assets Whose Use Is Limited

Investments and assets whose use is limited consisted of the following at December 31:

	2016	2015
Investments – current:		
Master Investment Plan	$ 10,129,067	$ 3,533,707
Middle Tier Fund	23,686,967	21,419,220
Mutual Funds	25,350,822	25,080,871
Other	6,587,773	4,704,752
	$ 65,754,629	$ 54,738,550
Current portion of assets whose use is limited:		
Funds held by bond trustees:		
Cash and cash equivalents	$ 872,365	$ 872,645
Assets whose use is limited:		
Funds held by bond trustees:		
Money market funds and commercial paper	$ 240,744	$ 243,829
Cash	6,989,989	-
Mutual funds	-	12,377,120
	7,230,733	12,620,949
Board-designated funds:		
Middle Tier Fund	50,000,000	50,000,000
Master Investment Plan	169,259,732	163,775,112
	219,259,732	213,775,112
Deferred compensation:		
Mutual funds	2,023,536	2,071,474
	$ 228,514,001	$ 228,467,535

The following summarizes investment returns and their classification in the consolidated statements of operations and changes in net assets for the years ended December 31:

	2016	2015
Dividends and interest, net of investment expenses	$ 3,190,776	$ 4,249,799
Net realized gain on investments	2,542,788	4,797,502
Gain from equity method investments in Pooled Investment Funds	1,618,632	201,527
Other-than-temporary decline in investments	(530,207)	-
Net unrealized gain (loss) on investments	6,941,024	(11,176,993)
	$ 13,763,013	$ (1,928,165)

Note 3. Investments and Assets Whose Use Is Limited (Continued)

Reported as follows:

	2016	2015
Other revenue	$ 1,811,256	$ 1,914,598
Non-operating investment income, net	5,010,733	7,334,230
Net unrealized gain (loss) on investments included in unrestricted net assets	6,941,024	(11,176,993)
	$ 13,763,013	$ (1,928,165)

The Hospital owned approximately 66% and 64% of the Master Investment Plan as of December 31, 2016 and 2015, respectively, and approximately 73% of the Middle Tier Fund as of December 31, 2016 and 2015. The total Pooled Investment Funds include a diversified portfolio that comprises:

	Master Investment Plan	Middle Tier Fund
Cash	1%	- %
Money market funds	4	-
Common / preferred stock	9	-
Equity mutual funds	15	-
Fixed income:		
Mutual funds	7	27
Government investments	-	15
Corporate securities	-	24
Common collective trusts	3	-
Limited partnerships	61	34
	100%	100%

The Master Investment Plan investments, excluding limited partnerships that are reported at cost, are classified as 92% and 93% Level 1 and 8% and 7% Level 2 at December 31, 2016 and 2015, respectively.

The Middle Tier Fund investments, excluding limited partnerships that are reported at cost, are classified as 60% and 54% Level 1 and 40% and 46% Level 2 at December 31, 2016 and 2015, respectively. Fair value for Level 1 investments is based upon quoted market prices and such investments include money market funds, cash, domestic common and preferred stock, fixed income mutual funds, and equity mutual funds. Fair value for common collective trusts and government and corporate fixed income securities, which are classified as Level 2 investments, are based on net asset value or quoted prices for similar instruments in active markets, or quoted prices for identical or similar instruments in markets that are not active. Inputs are obtained from various sources including market participants, dealers, and brokers.

Note 3. Investments and Assets Whose Use Is Limited (Continued)

Investments in limited partnerships and certain other investments recorded at cost are held in Rochester Regional's Master Investment Plan and Middle Tier Fund. The Master Investment Plan had total unfunded capital commitments of $23,413,000 and $21,952,000 at December 31, 2016 and 2015, respectively. There were no unfunded capital commitments related to the Middle Tier Fund.

Fair Value Measurements

The fair value of the investments and assets whose use is limited owned directly by the Hospital is recorded based upon quoted market prices for Level 1 investments and other measures as described in Note 2 for Level 2 investments. The following table presents these financial assets carried at fair value on a recurring basis according to the fair value hierarchy as of December 31:

	2016	2015
Level 1:		
Money market funds	$ 240,744	$ 243,829
Cash	7,862,354	872,645
Mutual funds	27,374,358	27,152,345
	35,477,456	28,268,819
Level 2:		
Mutual funds	-	12,377,120
Total	$ 35,477,456	$ 40,645,939

The fair value table above excludes limited partnerships and other investments which are recorded at cost. The total value of other investments was approximately $6,588,000 and $4,705,000 at December 31, 2016 and 2015, respectively.

Note 4. Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015
Land	$ 2,968,355	$ 2,968,355
Land improvements	4,909,902	4,664,790
Buildings and improvements	311,269,869	300,829,067
Equipment	293,759,375	278,832,323
Construction-in-progress	69,100,107	21,625,975
Equipment under capital leases	14,388,268	14,388,268
	696,395,876	623,308,778
Less accumulated depreciation and amortization	381,921,977	341,849,488
	$ 314,473,899	$ 281,459,290

Note 5. Long-Term Obligations

Long-term debt consists of the following at December 31:

	Interest Rate(s)	Due Date	2016	2015
2013 Revenue Bonds – A	4.00% – 5.00%	Through 2042	$ 55,480,000	$ 55,480,000
2013 Revenue Bonds – B	3.00% – 4.00%	Through 2035	33,945,000	35,160,000
Capital lease obligations	0.27% – 3.25%	Through 2017	195,559	969,170
Tax-exempt financing Agreement - 2016	1.56%	Through 2026	18,412,794	-
Tax-exempt financing Agreement - 2011	2.33%	Through 2021	27,709,638	33,162,387
			135,742,991	124,771,557
Unamortized premium			5,797,748	6,215,348
Deferred financing costs			(1,308,445)	(1,446,028)
Current portion, net of next years deferred financing costs amortization			(10,111,033)	(7,282,481)
			$ 130,121,261	$ 122,258,396

In February 2013, Monroe County Industrial Development Corporation issued Series 2013 Tax-Exempt Revenue Bonds (2013 Revenue Bonds) in the amount of $101,520,000 on behalf of the Hospital. The funds received were used to defease previously outstanding 2005 Revenue Bonds and provided financing for certain Hospital renovations and expansions. The 2013 Revenue Bonds will mature from December 2013 to 2042 and were issued at coupon rates ranging from 1.5% to 5.0%. The 2013 Revenue Bonds are secured by the pledge and assignment of a security interest in the gross receipts of the Hospital. Under the terms of the 2013 Revenue Bonds indenture, the Hospital is required to maintain certain deposits with a trustee.

Such deposits are included with assets whose use is limited in the accompanying consolidated balance sheets and consist of the following funds at December 31:

	2016	2015
2013 Revenue Bonds Series A project fund	$ 6,989,990	$ 12,447,768
2013 Revenue Bonds Series B project fund	154,330	154,320
2013 Revenue Bonds Series A bond fund	663,261	455,270
2013 Revenue Bonds Series B bond fund	209,104	417,375
2013 Revenue Bonds Series A capital interest fund	12,407	-
2013 Revenue Bonds Series A earnings fund	73,969	18,847
2013 Revenue Bonds Series B earnings fund	37	14
	8,103,098	13,493,594
Current portion	(872,365)	(872,645)
	$ 7,230,733	$ 12,620,949

Note 5. Long-Term Obligations (Continued)

The fair value of the 2013 Revenue Bonds is estimated based on the current rates offered to the Hospital for debt of the same remaining maturities and other valuation considerations and is classified as Level 2 in the fair value hierarchy. The recorded amounts of other long-term debt and long-term liabilities approximate fair value.

The fair values and carrying values of the 2013 Revenue Bonds approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2013 Revenue Bonds - Series A	$ 59,633,000	$ 55,480,000	$ 61,298,000	$ 55,480,000
2013 Revenue Bonds - Series A	34,820,000	33,945,000	36,420,000	35,160,000
	$ 94,453,000	$ 89,425,000	$ 97,718,000	$ 90,640,000

In 2016, the Hospital entered into a tax-exempt financing agreement with the Dormitory Authority of New York and JPMorgan Chase Bank, N.A. for $20,000,000. The agreement is a tri-party financing agreement that enabled the Hospital to purchase capital equipment on a tax-exempt basis. All equipment purchased under this agreement has been placed in service. The Hospital will continue to make monthly payments of approximately $290,000, including interest, on the financing agreement through 2026.

In 2011, the Hospital entered into a tax-exempt financing agreement with the Dormitory Authority of New York and JPMorgan Chase Bank, N.A. for $54,969,000. The agreement is a tri-party financing agreement that enabled the Hospital to purchase capital equipment on a tax-exempt basis. All equipment purchased under this agreement has been placed in service. The Hospital will continue to make quarterly payments of approximately $1,545,000, including interest, on the financing agreement through 2021.

Future maturities on long-term obligations for the next five years are scheduled as follows:

	Principal	Bond Premium Amortization	Deferred Financing Costs Amortization
2017	$ 10,248,633	$ 417,600	$ 137,600
2018	10,290,104	417,600	137,600
2019	10,526,030	417,600	137,600
2020	10,770,937	417,600	137,600
2021	8,382,520	417,600	137,600
Thereafter	85,524,767	3,709,748	620,445
	$ 135,742,991	$ 5,797,748	$ 1,308,445

Interest payments approximated $4,911,000 and $5,009,000 in 2016 and 2015, respectively.

Note 5. Long-Term Obligations (Continued)

During 2016 and 2015, the Hospital capitalized interest, net in the amount of approximately $514,000 and $143,000 respectively.

Operating Leases

Operating lease rental expense, relating primarily to the rental of facilities and equipment, was approximately $19,343,000 and $19,571,000 for the years ended December 31, 2016 and 2015, respectively.

Future minimum rental commitments under noncancelable operating leases (with an initial or remaining term in excess of one year) at December 31, 2016 are as follows:

2017	$ 12,667,648
2018	10,583,086
2019	9,452,260
2020	8,484,469
2021	7,707,078
Thereafter	25,222,869
	$ 74,117,410

Note 6. Commitments and Contingencies

The Hospital records reserves and related insurance recoveries receivable for professional and general liability, health care for employees and workers' compensation losses, and loss adjustment expenses. These reserves include estimates for claims incurred but not reported (IBNR) and estimates of future trends in loss severity and frequency and other factors, which could vary as the losses are ultimately settled. Accordingly, the actual amounts incurred and recovered may vary significantly from the estimated amounts included in the accompanying consolidated financial statements.

Professional and General Liability

The Hospital purchases its primary professional and general liability insurance, with limits of $3,500,000 per claim and $25,000,000 in the aggregate per policy year, through GRACO under a retrospectively rated claims-made policy based upon the experience of GRACO's insureds. The Hospital has prepaid expenses of approximately $10,806,000 and $15,252,000 at December 31, 2016 and 2015, respectively, for related premiums on the basis of the group's experience, which is included in due from affiliates on the accompanying consolidated balance sheets.

The Hospital purchases claims-made excess professional and general liability insurance from an insurance company under a policy that insures certain Affiliates. This policy provides $43,500,000 insurance per claim and $65,000,000 in the aggregate per policy year for the participating Affiliates, in excess of the primary insurance limits provided by GRACO.

Professional liability and other claims have been filed against the Hospital and subscribing physician and non-physician providers by various claimants. In addition, other claims for which damages are as yet unspecified could also exist. Management does not anticipate that any future effects of such claims would have a significant impact on the Hospital's financial condition.

Note 6. Commitments and Contingencies (Continued)

The Hospital's allocation of the actuarially determined estimate for professional liability claims, including outstanding and IBNR claims, at an estimated present value using a discount rate of 2% for 2016 and 2015, are as follows and are included in accrued insured and self-insured liabilities in the accompanying consolidated balance sheets:

	2016	2015
Professional liability reserves	$ 53,848,127	$ 48,369,170
Reinsurance recoveries receivable	42,287,858	37,527,242
Net exposure for insured and self-insured claims	$ 11,560,269	$ 10,841,928

Workers' Compensation Trust

The Hospital participates in a group insurance program for workers' compensation claims for certain Affiliates of the Rochester Regional. The Hospital has a deposit of approximately $15,042,000 and $14,659,000 at December 31, 2016 and 2015, respectively, with the Trust, which is classified as other long-term assets in the accompanying consolidated balance sheets. Losses are accrued based upon the trustee's estimate of the aggregate liability for claims incurred by members, gross of amounts recoverable through reinsurance (claims in excess of $500,000 in 2016 and 2015), based on actuarially determined amounts. Total costs incurred by the Hospital approximated $2,049,000 and $5,889,000 in 2016 and 2015, respectively.

The Hospital's portions of the actuarially determined reserve for workers' compensation at an estimated present value using a discount rate of 2% for 2016 and 2015 are as follows, and are included in accrued insured and self-insured liabilities in the accompanying consolidated balance sheets:

	2016	2015
Workers' compensation reserve	$ 36,367,267	$ 38,237,083
Insurance recoveries receivable	11,077,900	10,762,259
Net exposure for insured and self-insured claims	$ 25,289,367	$ 27,474,824

Health

The Hospital has a self-insured Medical Health Plan (the Health Plan). The Health Plan maintains stop-loss insurance coverage for losses exceeding $500,000 per insured per year. The Hospital provides for its portion of the estimated cost of IBNR claims, which approximated $3,009,000 and $4,231,000 as of December 31, 2016 and 2015, respectively, and is included in accrued expenses in the accompanying consolidated balance sheets.

Note 7. Pension Plan

The Hospital provides retirement benefits through participation in the Rochester General Health System Employee Retirement Plan (the Pension Plan), a defined benefit pension plan sponsored by Rochester General Health System (Plan Sponsor) for participating Affiliates that covers substantially all of the participating Affiliate's employees. The Pension Plan bases benefits upon both credited years of service and final average earnings. It is the policy of the Plan Sponsor to fund at least the minimum amounts required by the Employee Retirement Income Security Act. The funding policy is based on actuarially determined cost methods allowable under Internal Revenue Service (IRS) regulations. The Hospital's pension expense, which represents allocable contributions to the Pension Plan, approximated $26,344,000 and $25,255,000 in 2016 and 2015, respectively.

The Pension Plan had total assets of approximately $557,022,000 and $524,138,000 at December 31, 2016 and 2015, respectively. The Pension Plan had a projected benefit obligation of approximately $771,581,000 and $714,712,000 at December 31, 2016 and 2015, respectively.

The Hospital also provides certain health care and life insurance benefits for retired employees through its participation in a postretirement plan sponsored by Rochester General Health System (Plan Sponsor) for participating Affiliates. Full-time employees who retire after age 62 with 20 years of service and dependents of employees who retired before January 1, 1993, are eligible for medical benefits.

For medical benefits, employees who retired prior to January 1, 1993 receive the full premium, with the Plan Sponsor directly paying the premium cost to a third-party administrator. Employees who retire on or after January 1, 1993, receive an amount that is fixed at the Plan Sponsor's share of the 1993 premium level. Dental benefits cover full-time employees and dependents of employees who retired before January 1, 1994, after age 62 with 20 years of service. Life insurance benefits cover employees working at least 30 hours per week who retire at age 55 or older. The Plan Sponsor has the right to modify or terminate this plan in the future. Postretirement benefit expense, which represents allocable contributions for the Hospital, for 2016 and 2015 approximated $601,000 and $587,000, respectively.

The Hospital also has a noncontributory tax-exempt 403(b) tax sheltered annuity plan covering employees meeting certain eligibility requirements. In addition, the Hospital has a deferred compensation plan that permits certain key employees to defer a portion of their compensation. The deferred compensation, which is funded through investments with third-party financial services companies, is distributable in cash after retirement or termination of employment and is separately recorded in the accompanying consolidated balance sheets as an asset and a liability.

Note 8. Net Assets

At December 31, 2016 and 2015, temporarily and permanently restricted net assets include the beneficial interest in net assets of the RGH Foundation.

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Education and research	$ 12,458,587	$ 11,962,111
Equipment and facility improvements	29,675,239	5,917,204
Hospital support and clinical programs	5,989,279	7,840,344
	$ 48,123,105	$ 25,719,659

Permanently restricted net assets are available for the following purposes at December 31:

	2016	2015
Education and research	$ 971,989	$ 820,584
Hospital support and clinical programs	7,847,620	7,288,845
	$ 8,819,609	$ 8,109,429

RGH Foundation maintains endowments consisting of numerous individual donor-restricted funds established for a variety of purposes, which are held in perpetuity. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

RGH Foundation has attempted to provide a predictable stream of funding to programs supported by their endowments while seeking to maintain the purchasing power of the endowment assets. RGH Foundation funds are invested with a goal of producing the highest long-term rate of return without materially exceeding an acceptable level of long-term volatility. Endowment assets are invested in the Pooled Investment Funds.

Total return on donor-designated endowment funds is reported in temporarily restricted net assets. The total amounts accumulated are considered available for distribution. Unrestricted funds are distributed in the same year as the investment returns are received. Restricted funds are distributed based on requests received from the Hospital and approved by the RGH Foundation Board of Directors.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift. There were no deficiencies as of December 31, 2016 or 2015.

Note 8. Net Assets (Continued)

Interpretation of Relevant Law

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity. The Hospital follows the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) passed into law effective September 2010 as they relate to its permanently restricted net assets. Prior to the enactment of the law, the Hospital followed the requirements of the Uniform Management of Institutional Funds Act (UMIFA). The Hospital has interpreted NYPMIFA, which did not have a significant effect on the Hospital's endowment policies that were in effect prior to the enactment, as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. The Hospital classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Returns on the permanent endowment are used in accordance with the direction of the applicable donor gift. Returns on permanently restricted net assets are classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Hospital; and (8) the investment and spending policies of the Hospital. The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment.

Changes in Endowment Net Assets

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	$ 1,770,551	$ 8,107,711	$ 9,878,262
Investment return:			
Investment income	459,447	-	459,447
Net appreciation (realized and unrealized)	(492,472)	-	(492,472)
Total investment return	(33,025)	-	(33,025)
Contributions	-	1,718	1,718
Appropriation of endowment assets for expenditure	(392,844)	-	(392,844)
Endowment net assets, December 31, 2015	$ 1,344,682	$ 8,109,429	$ 9,454,111

Note 8. Net Assets (Continued)

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 1,344,682	$ 8,109,429	$ 9,454,111
Investment return:			
Investment income	339,567	-	339,567
Net appreciation (realized and unrealized)	307,788	-	307,788
Total investment return	647,355	-	647,355
Contributions	-	710,180	710,180
Appropriation of endowment assets for expenditure	(569,250)	-	(569,250)
Endowment net assets, December 31, 2016	$ 1,422,787	$ 8,819,609	$ 10,242,396

Note 9. Transactions with Affiliates

The Hospital and other Affiliates of the Rochester Regional have entered into an agreement for financial support that requires the Hospital to fund a prorated share of corporate management and general operating expenses. The Hospital's allocated costs aggregated approximately $102,117,000 for 2016 and $91,430,000 for 2015, which are included in the accompanying consolidated statements of operations and changes in net assets.

The Hospital provides stop-loss insurance coverage to Independent Living for Seniors, Inc. d/b/a ElderOne, an affiliate, for inpatient expenses that exceed a $63,000 deductible per participant per year in 2016 and 2015. Under the terms of the agreement, ElderOne remitted approximately $99,000 per year in 2016 and 2015 in reinsurance premiums to the Hospital. The Hospital had reimbursements to ElderOne of approximately $603,000 and $406,000 for claims exceeding the attachment point for the years ended December 31, 2016 and 2015, respectively.

The Hospital is one of a group health of care providers who are affiliates as a result of their association with the System. The net payable or receivable represents the difference in the amount of disbursements made on behalf of affiliates and cash receipts received. Amounts due from affiliates at December 31, 2016 and 2015 approximated $72,522,000 and $64,253,000, respectively. Amounts due to affiliates at December 31, 2016 and 2015 approximated $10,193,000 and $9,903,000, respectively.

Note 10. Functional Expenses

The Hospital provides health care and other services. Expenses related to providing these functions are as follows for the years ended December 31:

	2016	2015
Health care services	$ 725,038,015	$ 716,551,355
General and administrative	199,946,927	184,795,653
Total expenses	$ 924,984,942	$ 901,347,008

Note 11. Subsequent Events

Effective January 1, 2017, Rochester General Hospital Foundation, Inc. ("RGHF") was a participant in a corporate merger whereby Unity Health System Foundation, a related party, merged into RGHF whereby RGHF continued as the surviving organization. As of the effective date, the certificate of incorporation was amended to rename RGHF, Rochester Regional Health Foundation.

Subsequent events have been evaluated through April 3, 2017, which is the date the consolidated financial statements were issued.

Rochester General Hospital and Affiliates

Schedule of Selected Financial Ratios

	December 31, 2016	December 31, 2015
Debt service coverage ratio		
Income from operations	$ 19,861,763	$ 20,263,678
Interest expense	4,648,505	5,578,696
Depreciation and amortization expense	40,977,879	41,123,620
Adjusted income [1]	$ 65,488,147	$ 66,965,994
Interest expense	$ 4,648,505	$ 5,578,696
Current portion of long-term debt at December 31, 2016	10,111,033	7,282,481
Total debt service [2]	$ 14,759,538	$ 12,861,177
Debt service coverage ratio [1/2]	4.44	5.21
Days cash on hand		
Cash and cash equivalents, investments, and Board-designated assets whose use is limited at December 31, 2016 [3]	$ 322,840,557	$ 310,864,860
Operating expenses, net of depreciation and amortization expense [4]	$ 884,007,063	$ 860,223,388
Days cash on hand [3/4 * 365]	133.30	131.90

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B-2

Financial Statements of Rochester Regional Health and Independent Auditors' Report

[THIS PAGE INTENTIONALLY LEFT BLANK]

Consolidated Financial Statements and Supplementary Information

Rochester Regional Health and Affiliates
Year Ended December 31, 2016 and 2015
With Report of Independent Auditors

Rochester Regional Health and Affiliates

Consolidated Financial Statements
and Supplementary Information

Year Ended December 31, 2016 and 2015

Contents

FreedMaxick CPAs, P.C.

Independent Auditor's Report

The Board of Directors
Rochester Regional Health

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Rochester Regional Health and Affiliates (the "System"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Greater Rochester Assurance Company, a wholly-owned subsidiary, which statements reflect total assets constituting 4% of consolidated total assets at December 31, 2016 and 2015, and total revenues constituting less than 1% of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for Greater Rochester Assurance Company, is based solely on the report of the other auditors. 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 of 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 based on our audits and the report of the other auditor, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rochester Regional Health and Affiliates at December 31, 2016 and 2015, and the results of their operations and changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating balance sheet and consolidating statement of operations on pages 64 – 84 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditor, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Freed Maxick CPAs, P.C.

Rochester, NY
April 17, 2017

Rochester Regional Health and Affiliates

Consolidated Balance Sheets
(in thousands of dollars)

Assets	**December 31,**	
	2016	**2015**
Current assets:		
Cash and cash equivalents	$ 143,293	$ 134,394
Investments	100,876	88,041
Current portion of assets whose use is limited	33,322	27,793
Patient accounts receivable, net of allowance for doubtful accounts of approximately $33,902 and $33,042, respectively	153,506	145,637
Estimated third-party payor receivables	24,178	24,139
Pledges receivable, net	6,288	1,235
Inventories	13,902	15,782
Prepaid expenses and other	33,889	31,753
Total current assets	509,254	468,774
Assets whose use is limited:		
Funds held by bond trustees	36,243	39,373
Board designated funds	272,980	265,027
Assets held for self-insurance programs	84,289	83,061
Escrow fund	3,410	3,700
Donor restricted	56,327	49,265
Deferred compensation	11,050	11,359
Total assets whose use is limited, net of current portion	464,299	451,785
Property and equipment - net	867,621	817,138
Other assets:		
Interest in net assets of affiliated foundations	2,772	5,966
Estimated third-party payor receivables, less current portion	6,876	7,998
Goodwill	26,552	21,036
Insurance recoveries receivable	17,246	17,800
Other assets	37,645	23,223
Total assets	$ 1,932,265	$ 1,813,720

See accompanying notes.

Rochester Regional Health and Affiliates

Consolidated Balance Sheets (Continued)
(in thousands of dollars)

Liabilities and Net Assets	**December 31,**	
	2016	**2015**
Current liabilities:		
Accounts payable	$ 75,229	$ 69,507
Accrued salaries, vacation, and payroll taxes	78,114	82,526
Accrued expenses and other	60,948	61,808
Accrued interest payable	5,531	5,593
Estimated third-party payor payables	35,764	54,609
Current portion of long-term debt, net of deferred financing costs	22,685	19,688
Total current liabilities	278,271	293,731
Long-term liabilities:		
Long-term debt, net of deferred financing costs, less current portion	505,596	490,341
Interest rate swap contract	2,043	2,636
Accrued pension and postretirement benefits	359,382	328,664
Accrued insured and self-insured liabilities	131,995	130,352
Estimated third-party payor payables, less current portion	169,128	143,407
Deferred compensation	10,891	11,445
Other	9,919	7,773
Total long-term liabilities	1,188,954	1,114,618
Total liabilities	1,467,225	1,408,349
Net assets:		
Unrestricted	377,388	345,348
Noncontrolling interest in net assets of affiliates	4,139	705
Total unrestricted net assets	381,527	346,053
Temporarily restricted	63,190	40,136
Permanently restricted	20,323	19,182
Total net assets	465,040	405,371
Total liabilities and net assets	$ 1,932,265	$ 1,813,720

See accompanying notes.

Rochester Regional Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets
(in thousands of dollars)

	For The Years Ended December 31,	
	2016	**2015**
Unrestricted revenues, gains, and other support		
Patient service revenue, net of contractual allowances and discounts	$ 1,829,439	$ 1,760,199
Provision for bad debts	(36,557)	(39,973)
Net patient service revenue, less provision for bad debts	1,792,882	1,720,226
Capitation fees	62,058	60,690
Other revenue, gains and other support	87,243	87,329
Net assets released from restrictions for operations	2,101	5,510
Total unrestricted revenues, gains, and other support	1,944,284	1,873,755
Expenses		
Salaries and wages	916,958	877,234
Employee benefits	185,679	188,373
Professional fees	200,573	189,787
Purchased services and supplies	449,567	430,811
Depreciation and amortization	87,635	85,382
Malpractice and workers' compensation expense	27,536	20,948
Interest	23,774	25,688
Other expenses	7,554	7,028
Total expenses	1,899,276	1,825,251
Income from operations before other items	45,008	48,504
Inherent contribution - UMMC and CSHC affiliations (see note 2)	-	48,077
Change in accounting estimates (see note 3)	-	(26,826)
Asset impairment charges (see note 8)	-	(10,353)
Income from operations	45,008	59,402
Income tax expense	(4,103)	(5,368)
Nonoperating revenue:		
Other non-operating gains, net	779	560
Noncontrolling interest in net income of subsidiaries	286	310
Investment income, net	7,494	9,870
Total nonoperating revenue, net	8,559	10,740
Excess of revenues over expenses	$ 49,464	$ 64,774

See accompanying notes.

Rochester Regional Health and Affiliates

Consolidated Statement of Operations and Changes in Net Assets (Continued)
(in thousands of dollars)

For The Years Ended December 31, 2016 and 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at January 1, 2015	$ 318,358	$ 34,939	$ 15,196	$ 368,493
Excess of revenues over expenses	64,774	-	-	64,774
Inherent contributions	-	3,169	2,633	5,802
Net unrealized loss on investments	(16,665)	(1,737)	(861)	(19,263)
Change in pension and postretirement liability to be recognized in future periods	(25,960)	-	-	(25,960)
Net assets released from restrictions for operations	-	(5,510)	-	(5,510)
Restricted contributions and grants	3,076	7,566	13	10,655
Investment gains (losses) on restricted assets	-	47	(11)	36
Change in beneficial interest of UMMC Foundation	157	(100)	-	57
Change in beneficial interest of Clifton Springs Foundation	177	1,675	2,212	4,064
Other	2,136	87	-	2,223
Increase in net assets	27,695	5,197	3,986	36,878
Balance at December 31, 2015	$ 346,053	$ 40,136	$ 19,182	$ 405,371
Excess of revenues over expenses	49,464	-	-	49,464
Change in noncontrolling interest	3,434	-	-	3,434
Net unrealized gain on investments	10,425	752	-	11,177
Change in pension and postretirement liability to be recognized in future periods	(29,515)	-	-	(29,515)
Net assets released from restrictions for operations	-	(2,101)	-	(2,101)
Contributions for capital acquisitions	2,853	-	-	2,853
Restricted contributions and grants	-	24,166	717	24,883
Investment gains on restricted assets	-	479	85	564
Change in beneficial interest of UMMC Foundation	49	(38)	-	11
Other	(1,236)	(204)	339	(1,101)
Increase in net assets	35,474	23,054	1,141	59,669
Balance at December 31, 2016	$ 381,527	63,190	20,323	$ 465,040

See accompanying notes

Rochester Regional Health and Affiliates

Consolidated Statement of Cash Flows
(in thousands of dollars)

	For The Years Ended December 31, 2016	2015
Cash flows from operating activities:		
Change in net assets	$ 59,669	$ 36,878
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Inherent contributions	-	(53,879)
Net unrealized (gain) loss on investments	(11,177)	19,263
Investment gains on restricted assets	(564)	(36)
Change in pension and postretirement liability to be recognized in future periods	29,515	25,960
Restricted contributions and grants	(24,883)	(10,655)
Contributions for capital acquisitions	(2,853)	-
Depreciation and amortization	87,635	85,382
Amortization of debt issuance costs	2,389	1,981
Asset impairment	-	10,353
Provision for bad debts	36,557	39,973
Changes in operating assets and liabilities:		
Patient accounts receivable	(44,426)	(42,196)
Estimated third-party payor receivables/payables, net	7,959	16,566
Pledges receivable	(5,053)	1,172
Other current assets	(256)	(2,990)
Other non-current assets	(16,191)	(7,056)
Accounts payable and other current liabilities	389	21,964
Other non-current liabilities	3,845	(4,163)
Net cash provided by operating activities	122,555	138,517
Cash flows from investing activities:		
Expenditures for property and equipment	(138,118)	(88,069)
Net cash acquired (as part of acquisitions)	-	17,347
Increase in investments and assets whose use is limited – net	(19,701)	(75,038)
Net cash used in investing activities	(157,819)	(145,760)
Cash flows from financing activities:		
Restricted contributions and grants	24,883	10,655
Contributions for capital acquisitions	2,853	-
Investment gains on restricted assets	564	36
Proceeds from issuance of long-term debt	41,410	-
Principal payments on long-term debt	(25,547)	(24,878)
Net cash provided by (used in) financing activities	44,163	(14,187)
Net increase (decrease) in cash and cash equivalents	8,899	(21,430)
Cash and cash equivalents - beginning of year	134,394	155,824
Cash and cash equivalents - end of year	$ 143,293	$ 134,394

See accompanying notes.

1. Organization and Reporting Entity

Rochester Regional Health (the System) is a New York not-for-profit corporation that coordinates and manages the delivery of health care related services and education of its affiliates.

Rochester Regional Health was formed on July 1, 2014, through a corporate restructuring which brought together Rochester General Health System (RGHS) and its affiliates and Unity Health System (Unity) and its affiliates. Rochester Regional accounted for this business combination by applying the carryover method as described in the Financial Accounting Standards Board Accounting Standards Codification (FASB Codification) 958-805, which resulted in no significant adjustments to the individual accounting policies of RGHS or Unity or to eliminate intra-entity balances.

The accompanying financial statements are presented on a consolidated basis and include the accounts of the System and all of its controlled entities (the Affiliates), collectively referred to herein as the System. All significant intra-entity balances and transactions have been eliminated in consolidation.

Affiliates	Affiliates
ACM Medical Laboratory, Inc. (ACM)	Parma Senior Housing LLC (PSH)
Aid to Hospitals, Inc.	PRCD, Inc.
Behavioral Health Network, Inc. d/b/a Rochester Mental Health Center, Inc. (RMHC)	PRH, Inc.
Big Tree Glen Properties, Inc. (BTG)	RIC Management Co. LLC (RICM)
Clifton Springs Hospital and Clinic (CSHC)	Rochester General Health System
Clifton Springs Hospital and Clinic Foundation (CSHCF)	Rochester General Health System Dialysis. Inc.
Continuing Care Network, Inc. (CCN - inactive)	Rochester General Health System Workers' Compensation Trust (WCT)
Corporate Care of the Finger Lakes	Rochester General Hospital (RGH)
GRACO Risk Retention Group, Inc.(GRACO RRG)	Rochester General Hospital Association
Greater Rochester Assurance Company, Ltd. (GRACO)	Rochester General Hospital Foundation, Inc. (RGHF)
Greater Rochester Health System Foundation, Inc. (GRHSF)	Rochester General Housing, Inc. (RGHI)
Greater Rochester Immediate Care, PLLC d/b/a/ Rochester Immediate Care	Rochester General Hudson Housing, Inc. (RGHH)
Greater Rochester Independent Practice Association, Inc. (GRIPA)	Rochester General Long-Term Care, Inc. d/b/a Hill Haven (RGLTC)
GRHS, LLC (formerly Lattimore Community Surgicenter, Inc. d/b/a Rochester Ambulatory Surgery Center (GRHS)	Rochester Regional Health, Inc.
Health Care Casualty Insurance Company, Ltd. (HCCI)	Rochester Medicine, PLLC
Health Care Casualty Risk Retention Group, Inc. (HCCR)	The Rochester St. Mary's Residence Facility, LLC (St. Mary's)
Independent Living for Seniors, Inc. d/b/a/ ElderOne (ILS)	The Unity Hospital of Rochester
Jerome Redevelopment, Inc. (JRD)	United Memorial Medical Center (UMMC)
Lattimore Services Organization, LLC	Unity Aging Services, Inc.
LOSC Management, LLC (LOSC)	Unity Health System
Newark Wayne Community Hospital (NWCH)	Unity Health System Foundation
Newark Wayne Community Hospital Foundation (NWCHF)	Unity Health System Purchasing Group, LLC. (UHSPG)
North Park Nursing Home, Inc. d/b/a Edna Tina Wilson Center	Unity Housing Development Fund Corporation (UHDFC) and Subsidiaries d/b/a Moore Park
NW Associates, L.P. (NWALP)	

(In Thousands of Dollars)

1. Organization and Reporting Entity (Continued)

Affiliates	Affiliates
NWA, Inc.	Unity Linden Oaks Surgery Center, LLC (ULOSC)
Park Ridge Apothecary, Inc.	Unity Senior Housing Associates, LP (USHA)
Park Ridge Child Care Center, Inc.	Unity Senior Housing Corp. (USHC) (general partner of Unity Senior Housing Associates, L.P.)
Park Ridge Housing Development Fund Co., Inc. d/b/a Ridge Commons	ViaHealth Home Care I (VHHC I - inactive)
Park Ridge Housing, Inc. and Subsidiary d/b/a The Village at Park Ridge	ViaHealth Home Care II (VHHC II - inactive)
Park Ridge Nursing Home, Inc.	ViaHealth PPO, Inc.
Parkway Commons Housing Development Fund Co., Inc. d/b/a Ridge Commons	Western New York Medical Practice, P.C. (WNYMP)
Parma Housing Development Fund Corporation (PHDFC) and Subsidiaries d/b/a Hilton Park	Woodbury Enterprises (inactive)
Parma Senior Housing Associates, L.P. (PSHA)	Woodland Village, Inc.

Noncontrolling Interest

The System has recognized noncontrolling interests attributable to entities included in the accompanying consolidated financial statements for which it does not have a 100% ownership interest.

Unity Senior Housing Corp. and Parma Senior housing, LLC are the sole general partners in the limited partnerships and, therefore, combine the limited partnerships in their financial statements. As managing general partners of the limited partnerships, the general partners have the ability to exercise significant influence over operating and financial policies. This influence is evident in terms of the respective partnership agreements, participations in the policy-making process, and the employment of the partnership's management personnel. As such, the System has reflected a noncontrolling interest of $418 and $705 in the accompanying consolidated balance sheets for the 99.99% investment of the limited partners at December 31, 2016 and 2015, respectively.

On August 1, 2016, PRH, Inc. purchased 42.5% of the outstanding common shares of RIC Management Company LLC, bringing total ownership in the company to 67.5%. As a result of the acquisition of the controlling interest, PRH Inc. consolidated RIC Management Company LLC effective at the closing date. The System has reflected a noncontrolling interest of $3,721 in the consolidated balance sheets for the 32.5% investment of the remaining partner at December 31, 2016.

(In Thousands of Dollars)

2. Affiliation Agreements

Effective January 1, 2015, the System became the sole corporate member of United Memorial Medical Center (UMMC), an acute care hospital located in Batavia, New York. The System accounted for this business combination by applying the acquisition method as described in FASB Codification 958-805, which resulted in no significant adjustments to the individual accounting policies of UMMC or to eliminate intra-entity balances. No significant consideration was transferred in connection with this transaction.

As of the effective date, the fair value of the assets acquired and liabilities assumed by the System are as follows:

Cash	$	14,142
Investments		10,258
Accounts receivable, net		7,047
Property and equipment, net		40,408
Other		8,528
Total assets	$	80,383
Accounts payable and accrued expenses	$	9,108
Long-term debt		21,695
Accrued pension		16,292
Other liabilities		2,489
Total liabilities	$	49,584

As a result of this transaction, the System recognized a total inherent contribution of $30,799, which was recognized as an operating gain of $28,553, and an increase to temporarily restricted net assets of $1,960 and an increase in permanently restricted net assets of $286 in its consolidated statement of operations and changes in net assets for the year ended December 31, 2015.

Effective April 1, 2015, the System became the sole corporate member of Clifton Springs Hospital and Clinic (CSHC), an acute care hospital located in Clifton Springs, New York. As a result, the accompanying consolidated financial statements include the activities and accounts of CSHC from April 1, 2015. The System accounted for this business combination by applying the acquisition method as described in FASB Codification 958-805, which resulted in no significant adjustments to the individual accounting policies of CSHC or to eliminate intra-entity balances. No significant consideration was transferred in connection with this transaction.

As of the effective date, the fair value of the assets acquired and liabilities assumed by the System are as follows:

Cash	$	3,205
Accounts receivable, net		7,630
Property and equipment, net		16,449
Other		7,987
Total assets	$	35,271
Accounts payable and accrued expenses	$	7,390
Long-term debt		2,381
Other liabilities		2,420
Total liabilities	$	12,191

(In Thousands of Dollars)

2. Affiliation Agreements (Continued)

As a result of this transaction, the System recognized a total inherent contribution of $23,080, which was recognized as an operating gain of $19,524, and an increase to temporarily restricted net assets of $1,209 and an increase in permanently restricted net assets of $2,347 in its consolidated statement of operations and changes in net assets for the year ended December 31, 2015.

In connection with the acquisition of the UMMC and CSHC, the following information is presented in accordance with FASB Codification 954-805 for the year of acquisition (2015).

	UMMC	CSHC
Revenue attributable to acquiree since acquisition date:	$ 93,448	$ 47,848
Changes in net assets attributable to acquiree since acquisition date:		
Unrestricted	$ 5,492	$ 878
Temporarily restricted	$ (45)	$ 294
Permanently restricted	$ -	$ -
Performance indicator attributable to acquiree since acquisition date:	$ 3,791	$ 1,257

Unaudited Proforma System Consolidated Information:

	UMMC	CSHC
Revenue as if acquisition occurred on January 1, 2015:	$ 93,448	$ 61,525
Changes in net assets as if acquisition occurred on January 1, 2015:		
Unrestricted	$ 5,492	$ 1,335
Temporarily restricted	$ (45)	$ 32
Permanently restricted	$ -	$ -
Performance indicator as if acquisition occurred on January 1, 2015:	$ 3,791	$ 912

3. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (US GAAP).

3. Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP 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 consolidated financial statements. Estimates also affect the amounts of revenue and expenses reported during the period. Actual results could differ from those estimates.

Performance Indicator

The performance indicator is excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in unrealized gain or loss on investments of other-than-trading securities (excluding other-than-temporary declines in investments), pension and post retirement liability adjustments, beneficial interest in affiliated foundations and restricted contributions and grants (including assets acquired using contributions which by donor restriction are to be used for the purpose of acquiring such assets) and their release from restrictions for the intended purpose.

Cash Equivalents

All highly liquid investments with original maturities of three months or less when purchased are considered to be cash and cash equivalents. Cash equivalents are measured at fair value in the consolidated balance sheets and exclude amounts restricted, board designated, or held in trusts. At times, the amount included in cash and cash equivalents accounts may exceed federally insured limits. The System has not experienced any losses in its cash and equivalents and believes it is not exposed to any significant credit risk with respect to its cash and equivalents.

Investments and Assets Whose Use Is Limited

Investments and assets whose use is limited with readily determinable fair values are recorded at fair value. The System also owns investments in limited partnership hedge funds which invest in marketable securities. Investments in hedge funds held in the pooled investment fund, in which the System has an interest, in excess of 5% of the respective investee's equity are recorded using the equity method of accounting, and hedge funds in which the System has an interest below 5% of the respective investee's equity are recorded at the lower of cost or fair value. Limited partnership hedge funds within the pension investment portfolio are recorded at fair value.

Investments in hedge funds typically have liquidity restrictions. Amounts can be divested only at specified times based on terms in the partnership agreements. The financial statements of the limited partnerships are independently audited annually, generally as of December 31.

Assets whose use is limited are amounts that have been designated by the Board of Directors for future capital improvements and facility use, pension funding, amounts deposited with trustees under bond agreements, investments of restricted assets, assets held for self-insurance programs, and amounts deposited with trustees for deferred compensation agreements.

3. Summary of Significant Accounting Policies (Continued)

Investment income or loss (including realized gains and losses on investments, interest income, other-than-temporary impairment and dividends) is included in the excess of revenues over expenses. Investment income includes realized gains and losses, interest, and dividends. Unrestricted investment income or loss is reported as other revenue, except for investment income or loss on board-designated and capital improvement fund investments which are reported as non-operating gains or losses. Unrealized gains and losses on unrestricted investments, are reported as increases or decreases in unrestricted net assets, except for unrealized losses considered to be other-than-temporary. Investment gains on restricted assets are reported as increases to temporarily restricted net assets.

The System invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated financial statements.

Accounting for Equity Method Investments

Investments in entities in which the System has the ability to exercise significant influence, generally 20% to 50% ownership, are reported using the equity method of accounting. Investments with an ownership of less than 20% are recorded at cost and are periodically evaluated for impairment.

Fair Value Measurements

As defined in US GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value provisions apply to all assets and liabilities that are being measured and reported on a fair value basis. US GAAP requires disclosures that establish a framework for measuring fair value. This enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to disclose fair values. US GAAP requires that the assets and liabilities carried at fair value to be classified and disclosed in one of the three categories:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

3. Summary of Significant Accounting Policies (Continued)

The following is a description of the System's valuation methodologies for investments. Fair value for Level 1 is based upon quoted market prices received from third-party pricing services. 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.

The fair value for Level 3 investments in limited partnerships are based on net asset value information provided by the respective fund manager as an allocable practical expedient. Investments held by the partnerships include securities that do not have readily determinable values. The values of the securities that do not have readily determinable fair values are determined based on historical cost, appraisals, or other valuation estimates that require varying degrees of judgment. The System records its ownership interest in the net asset value of the respective partnership.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the System 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.

Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, and accounts payable are reasonable estimates of fair value due to the short-term nature of these financial instruments. Investments owned directly by the System are recorded at fair value except for limited partnerships and other investments which are recorded at cost. Pooled investments are recorded at fair value, except for certain amounts related to limited partnerships that are recorded at either cost or utilizing the equity method of accounting. The valuation of cost basis limited partnerships in the pooled investment fund is evaluated annually for impairment. Investments in a loss position are evaluated on a regular basis to determine if the impairment is other-than-temporary. Other-than-temporary losses for the year ended December 31, 2016 approximated $769. There were no other-than-temporary losses for the year ended December 31, 2015.

Long-term debt (see Note 9) is not required to be carried at fair value. The fair value of the long-term debt is estimated based on current rates offered to the System for debt of the same remaining maturities and other valuation considerations.

Patient Accounts Receivable

Patient accounts receivable consist of amounts due from government programs, commercial insurance companies, private pay patients, and other group insurance programs. The System maintains an allowance for doubtful accounts based on the expected collectability of accounts receivable.

(In Thousands of Dollars)

3. Summary of Significant Accounting Policies (Continued)

The significant concentrations of gross accounts receivable for services to patients include the following at December 31:

	2016	2015
Medicare	24%	24%
Medicaid	13	12
Self-pay	16	15
Commercial and other payors	47	49
	100%	100%

Pledges Receivable

Unconditional promises to give are reported at fair value by the System at the date the promise is received, using a discount rate that is commensurate with the term of the pledge. The System assesses the collectability of pledges and records an allowance for uncollectable pledges if necessary. Pledges receivable are recorded as limited use assets restricted by donor in the accompanying consolidated balance sheet.

The System is the beneficiary of certain charitable remainder trusts. The System's policy is to record charitable remainder trusts at fair value, which approximates the present value of the estimated future benefits to be received when the trust's assets are distributed to the System. When notice is received of a trust's existence, the System records a temporarily restricted or permanently restricted contribution based upon the trust agreement, as well as assets limited to use. Adjustments to estimated future benefits are recorded currently as change in fair value of charitable remainder trusts. Included in assets restricted by donor are $530 of charitable remainder trusts at December 31, 2016 ($508 – 2015).

In addition, the System is the named beneficiary in certain revocable charitable remainder trusts. As of December 31, 2016 the fair value of assets held by these trusts totaled approximately $298 ($370 – 2015). These trusts will be recognized as contributions when the System's interest become irrevocable.

Inventories

Inventories (consists primarily of supplies and pharmaceuticals) are stated at the lower of cost (first-in, first-out method) or market.

Deferred Compensation

The System sponsors a deferred compensation plan under which related assets are held in a rabbi trust. The System recognizes the fair value of the plan's investments as an asset and a liability in the accompanying consolidated balance sheet. Changes in the asset balance are recorded consistent with the System's accounting policy for marketable securities. Changes in the liability are recorded as compensation cost and are included in salaries and wages in the accompanying statements of operations and changes in net assets. Included in deferred compensation assets is the System's investment in split-dollar life insurance policies on certain key employees. The System's investment is equal to the premiums paid on the policies.

3. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at cost, less allowances for depreciation, or if donated, at fair market value at date of gift. Depreciation is provided for in amounts sufficient to amortize the cost of the related assets, on a straight-line basis, over their estimated useful lives (ranging from 1 to 40 years). Leasehold improvements and equipment under capital lease obligations are amortized on a straight-line basis over the shorter period of the lease term or the estimated useful life of the leasehold improvement or equipment, and the amortization is reported in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Expenditures for routine repairs and maintenance are charged to operations as incurred.

Expenditures for software purchases and software developed for internal use are capitalized and reported within equipment. Depreciation is provided on a straight-line basis over the estimated useful lives, which are generally three to ten years. For software developed for internal use, certain costs are capitalized, including external direct costs of materials and services associated with developing or obtaining the software, and payroll and payroll-related costs for employees who are directly associated with internal-use software projects. Capitalization of these costs ceases when the project is substantially complete and ready for its intended use. Costs associated with the preliminary project stage activities, training, maintenance, and other post-implementation stage activities are expensed as incurred. Unamortized internally developed software approximated $21,300 as of December 31, 2016 ($18,183 – 2015). Associated amortization expense of approximately $3,177 was recognized in the accompanying consolidated financial statements in 2016 and 2015.

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

Interest in Net Assets of Affiliated Foundations

United Memorial Medical Center recognizes an interest in the net assets of United Memorial Medical Center Foundation. The Foundation, a not-for-profit organization, accepts contributions from donors and agrees to transfer those assets, the return on investment of those assets, or both, to UMMC, as specified by the donor. As the Hospital and Foundation are financially interrelated organizations, UMMC is required to recognize their interest in the net assets of the Foundation as a noncurrent asset and as unrestricted, temporarily restricted, and permanently restricted net assets, as appropriate.

Effective January 1, 2016, Clifton Springs Hospital Foundation and Clinic was consolidated into the financial statements of the System. Prior to January 1, 2016, Clifton Springs Hospital and Clinic recognized an interest in the net assets of the Foundation.

3. Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill represents the excess of the purchase price paid over the value of the tangible and identifiable intangible assets acquired. Goodwill is annually tested for impairment. Goodwill of $26,552 is included in other assets in the accompanying consolidated balance sheets ($21,036 – 2015).

Residents' Funds Held in Trust

Residents' funds (included in other assets) are principally comprised of amounts deposited with certain affiliates on behalf of long-term care residents for their discretionary use. These funds are administered by the affiliates with the corresponding liability (included in other long-term liabilities) to the residents reflected in the accompanying consolidated balance sheet.

Impairment of Long-Lived Assets

Under the provisions of US GAAP, the System evaluates the recoverability of long-lived assets and the related estimated remaining useful lives at each balance sheet date. The System would record an impairment charge or change the useful life if events or changes in circumstances indicated that the carrying amount may not be recoverable or the remaining useful life has changed.

Derivatives and Hedging Activities

Derivative financial instruments, such as interest rate swaps, are recognized as assets or liabilities in the balance sheets at fair value.

The System accounts for changes in the fair value of derivative instruments depending on whether they are designated and qualified as part of a hedging relationship and further, on the type of hedging relationship. The System has designated all derivative instruments as cash flow hedges. Accordingly, the changes in fair value of derivative instruments that are determined to be effective are recorded as a change in unrestricted net assets in the statements of operations and changes in unrestricted net assets.

Contributions

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 statement of activities 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 financial statements.

3. Summary of Significant Accounting Policies (Continued)

Permanently and Temporarily Restricted Net Assets

The accompanying consolidated financial statements have been prepared in conformity with the disclosure and display requirements of US GAAP. US GAAP requires that the resources be classified for reporting purposes into three net asset categories (temporarily restricted, permanently restricted and unrestricted) according to the existence or absence of donor-imposed restrictions. Temporarily restricted net assets are those whose use has been limited by donors to a specific purpose or time period. The majority of the System's temporarily restricted net assets as of December 31, 2016 and 2015 are restricted for the purchase of property, plant and equipment. Permanently restricted net assets were created through a bequest requiring the principal amount be held in perpetuity. Any interest or investment earnings derived from the funds are recorded as temporarily restricted and may be used for the operations when appropriated by the System.

Net Patient Service Revenue

The System recognizes revenue associated with services provided to patients at the estimated net realizable amounts from patients, third-party payors, and others and includes estimated retroactive revenue adjustments due to ongoing and future audits, reviews, and investigations. Certain affiliates have agreements with third-party payors that provide for payments to the Affiliates at amounts different from their established rates.

Payment arrangements include prospectively determined rates per discharge, reimbursed costs and per diem payments. 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. There were no adjustments to current year revenue based on previous periods.

Clinical Trials Revenue

ACM Medical Laboratories, Inc. (ACM), a System affiliate, provides clinical trial services to pharmaceutical companies and contracted research organizations on a global basis. Amounts billed for clinical trial services are generally recognized as revenue as laboratory specimens are processed, which represents the substantial completion of the earnings process. Amounts received in advance of service provision are recorded as deferred revenue.

Capitation Fees

As a program of All-Inclusive Care for the Elderly (PACE), Independent Living for Seniors, Inc. d/b/a ElderOne (ElderOne) records capitation fees paid on a per-member, per-month basis primarily from Medicare and Medicaid. ElderOne is responsible for and financially at risk for providing all necessary covered services which include primary, acute, and long-term care. The majority of the contracted services are provided by affiliates of the System.

Provision for Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts related to self-pay patients. In evaluating the collectability of accounts receivable, the System analyzes its historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators for each of its major payor sources of revenue to estimate the appropriate allowance aging and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

3. Summary of Significant Accounting Policies (Continued)

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractual amounts due and provides an allowance aging. For receivables associated with self-pay patients which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill, the System records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The System follows established guidelines for placing certain past due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts as determined by the System. The difference between discounted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is written-off against the allowance for doubtful accounts. The System has not experienced significant changes in write-off trends and has not changed its charity care policy for the years ended December 31, 2016 and 2015.

Patient service revenue for the years ended December 31, 2016 and 2015, net of contractual allowances and discounts (but before the provision for bad debts) was approximately $1,771,000 and $1,698,000, respectively, from third-party payors, and $58,000 and $62,000, respectively from self-pay payors (based on primary insurance designation).

Deductibles and copayments under third-party payment programs within the third-party payor amounts above are the patient's responsibility and the System considers these amounts in its determination of the provision for bad debts based on collection experience.

Uncompensated Care and Charity Care

Charity care is reported at estimated direct and indirect costs. The System utilizes a cost-to-charge ratio methodology for the cost analysis. The System accepts all patients, regardless of their ability to pay, pursuant to the System's established policies. Management considers uncompensated care to include three elements: charity care, bad debts, and governmental shortfall.

The System's established policies define charity care services as those medically necessary services for which patients have the obligation and willingness to pay but do not have the ability to pay. Patients that provide the necessary information to qualify for charity are provided services at a reduced fee, or no fee.

During the registration, billing and collection process, a patient's eligibility for charity care is determined. Care given to patients who are determined to be eligible for charity care under the System's charity care policy, but not paid for is classified as charity care. Receivables for care given to patients who were determined by the System to have the ability to pay but did not, are deemed uncollectible and classified as bad debt expense. Distinguishing between bad debt and charity care is difficult in part because services are often rendered prior to full examination of a patient's ability to pay.

(In Thousands of Dollars)

3. Summary of Significant Accounting Policies (Continued)

Certain affiliates of the System receive certain funds to offset or subsidize charity services provided, which are included in net patient service revenue. These funds are primarily received from uncompensated care programs sponsored by New York State, whereby health care providers within the state pay into an uncompensated care fund and the pooled funds are then redistributed based on specific criteria.

Governmental shortfall is management's estimate of the difference between the payments received and the cost of care provided to patients who are covered by the government entitlement program of Medicaid.

A summary of the estimates of uncompensated care follow for the year ending December 31:

	2016	2015
Charity care, estimated at cost	$ 39,329	$ 37,044
Funds received to offset or subsidize charity services	$ 18,428	$ 19,301
Provision for bad debts	$ 36,557	$ 38,242
Governmental shortfall	$ 52,267	$ 51,556

Non-Medicare Payments

In New York State, hospitals and all non-Medicare payors, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payors are billed at hospitals' established charges. Medicaid, workers' compensation, and no-fault payors pay hospital rates promulgated by the New York State Department of Health. Effective December 1, 2009, the New York State payment methodology was updated such that payments to hospitals for Medicaid, workers' compensation, and no-fault inpatient services are based on a statewide prospective payment system, with retroactive adjustments; prior to December 1, 2009, the payment system provided for retroactive adjustments to payment rates, using a prospective payment formula. Outpatient services also are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the federal level by the Centers for Medicare & Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS is not recognized until the Affiliates are reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payors will continue to be made in future years.

Medicare Payments

Hospitals are paid for most Medicare inpatient and outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on industry-wide and hospital-specific data.

3. Summary of Significant Accounting Policies (Continued)

Revenue Estimation

The System 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 hospital-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 the Medicare program, have been audited by the Medicare fiscal intermediary and settled through various periods dating to 2008 for certain affiliates.

Subsequent years remain open for audit and settlement as well as numerous issues related to the New York State Medicaid program for prior years. 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.

The System is not aware of any allegations of non-compliance that could have a material adverse effect on the accompanying consolidated financial statements and believe that they are in compliance with all applicable laws and regulations.

There are various proposals at the federal and state levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the federal and state governments, cannot presently be determined.

Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the System. Additionally, certain payors' payment rates for various years have been appealed by certain Affiliates. If the appeals are successful, additional revenue applicable to those years might be realized.

Revenue from Medicare and Medicaid programs accounted for approximately 30 percent and 13 percent, respectively, of the System's net patient service revenue for 2016, and 28 percent and 9 percent, respectively, of the System's net patient revenue for 2015.

Incentive Payments for Using Electronic Health Records

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH). The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology. Eligibility for annual Medicare incentive payments depends on providers demonstrating meaningful use of EHR technology in each period over a four-year period.

Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology.

In subsequent years, providers must demonstrate meaningful use of such technology to qualify for additional Medicaid incentive payments. Providers that do not successfully demonstrate meaningful use of EHR are subject to payment penalties or downward adjustments to their Medicare payments beginning in federal fiscal year 2015.

3. Summary of Significant Accounting Policies (Continued)

The System uses a grant accounting model to recognize revenue for the Medicare and Medicaid EHR incentive payments. Under this model, EHR incentive payment revenue is recognized when the System is reasonably assured that the EHR meaningful use criteria for the required period of time were met and that the grant revenue will be received.

For the years ended December 31, 2016 and 2015 the System received EHR incentive payment revenue from Medicare of approximately $1,939 and $4,754, respectively, and from Medicaid of approximately $2,492 and $2,540, respectively, which is included in other revenue. Income from Medicare incentive payments is subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated. Additionally, the System's attestation of compliance with the meaningful use criteria is subject to audit by the Federal government and/or the New York State Department of Health.

Income Taxes

The System and its affiliates, with the exception of PRH, Inc. and Subsidiaries (which includes ACM Medical Laboratory, Inc.), Unity Housing Development Fund Corporation and Subsidiaries, Parma Housing Development Fund Corporation and Subsidiaries, Linden Oaks Management Company, LLC, GRACO, GRACO RRG, and certain other entities with limited or no activity, are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to 501(a) of the Code. PRH, Inc. and subsidiaries are for-profit taxable corporations.

Unity Housing Development Fund Corporation and Subsidiaries and Parma Housing Development Fund Corporation and Subsidiaries are limited partnerships and no income tax provision has been included in the accompanying consolidated financial statements since the profit or loss of the partnerships is required to be reported by the respective partners on their income tax returns. Linden Oaks Management Company, LLC is a limited liability company and no income tax provision has been included in the accompanying consolidated financial statements since the profit or loss of the partnerships is required to be reported by the respective partners on their income tax returns.

With respect to the System's for-profit affiliates, income taxes are provided for the effects of transactions reported in the financial statements and consist of taxes currently due and deferred taxes related to differences in the timing of reporting certain items for financial and income tax reporting purposes. Deferred tax assets and liabilities represent the future tax consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Foreign Currency Translation Adjustment

The functional currencies associated with ACM foreign operations include the British Pound Sterling, the Indian Rupee, and the Singapore Dollar. The financial statements of ACM's foreign operations have been translated into U.S. dollars. All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Income statement amounts have been translated using average monthly exchange rates.

Accumulated net translation adjustments have been reported in other changes in unrestricted net assets in the consolidated financial statements.

3. Summary of Significant Accounting Policies (Continued)

Supplemental Cash Flow Disclosures

There were no capital leases for equipment entered into for the years ended December 31, 2016 and 2015. Capital leases are excluded from the consolidated statements of cash flows and will be reflected through principal payments as financing activities in future periods. Additionally, accounts payable and accrued expenses related to purchases of equipment of approximately $6,411 and $8,179 at December 31, 2016 and 2015, respectively, were excluded from the consolidated statements of cash flows and will be reflected when paid.

Change in Accounting Estimates

Rochester Regional Health was formed through a corporate restructuring which brought together Unity Health System and its Affiliates and Rochester General Health System and its Affiliates which occurred in fiscal year 2014. The change in accounting estimates represent the alignment of reserve methodologies related to accounts receivable, third party balances, and self-insurance balances to Rochester Regional Health methodologies. The change in accounting estimates amounted to $26,826 for the year ended December 31, 2015. There were no changes in accounting estimates for the year ended December 31, 2016.

Recent Accounting Pronouncements

Effective for the year ended December 31, 2016, the System retroactively adopted the provisions of the FASB Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The ASU is limited to simplifying the presentation of debt issuance costs, and the recognition and measurement guidance for debt issuance costs is not affected by the ASU. As a result of the adoption, the System has reclassified unamortized bond issuance costs in the amount of $13,573 from other assets on the accompanying consolidated balance sheet for the year ended December 31, 2015, and presented long term debt obligations, net of deferred financing costs, as required by the ASU. The adoption had no effect on the System's consolidated net assets, consolidated statement of operations or consolidated statement of cash flows for the year ended December 31, 2015.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

(In Thousands of Dollars)

4. Investments and Assets Whose Use is Limited

Investments and assets whose use is limited consisted of the following at December 31:

	2016	2015
Investments – current:		
Cash and cash equivalents	$ 1,450	$ 342
Mutual funds	25,351	25,081
Master investment plan	10,631	3,998
Middle tier fund	45,563	42,642
Equity securities	4,240	3,445
Emerging markets	140	131
Fixed income	4,830	6,202
Real estate investment trusts	50	-
Other	8,621	6,200
	$ 100,876	$ 88,041

	2016	2015
Current portion of assets whose use is limited:		
Funds held by bond trustees:		
Cash and cash equivalents	$ 18,163	$ 12,163
Fixed income	1,382	1,379
	19,545	13,542
Assets held for self-insurance programs		
Cash and cash equivalents	$ 13,777	$ 4,860
Master investment plan	-	9,391
	13,777	14,251
	$ 33,322	$ 27,793
Assets whose use is limited:		
Funds held by bond trustees:		
Money market funds and commercial paper	$ 4,061	$ 647
Cash and cash equivalents	15,770	9,939
Guaranteed investment contract	16,412	16,410
Mutual funds	-	12,377
	36,243	39,373
Board-designated funds:		
Cash and cash equivalents	$ 2,110	$ 2,100
Pooled investment fund – master investment plan	214,859	207,096
Pooled investment fund – middle tier	56,010	55,831
Mutual funds	1	-
	272,980	265,027
Funds held for self-insurance programs:		
Money market funds	$ 28	$ 5
Fixed income investments	63,624	62,477
Equity securities	20,637	20,579
	84,289	83,061

(In Thousands of Dollars)

4. Investments and Assets Whose Use is Limited (Continued)

	2016	2015
Escrow fund:		
Money market fund	$ 132	$ 99
Cash and cash equivalents	628	1,225
Fixed income mutual funds	2,650	2,376
	3,410	3,700
Donor-restricted funds:		
Cash and cash equivalents	$ 1,082	$ 241
Land restricted for specific purpose	2,685	2,285
Equity securities	2,208	139
Private market equity	1,356	1,319
Fixed income mutual funds	999	144
Funds held in trust by other	2,323	2,238
Other	1,417	1,956
Limited partnerships	6	20
Master investment plan	44,251	40,923
	56,327	49,265
Deferred Compensation:		
Cash and cash equivalents	$ 198	$ 3
Fixed income	2,187	350
Life insurance policies	5,117	4,877
Equity securities	1,323	145
Mutual funds	2,225	5,984
	11,050	11,359
	$ 464,299	$ 451,785

The following table presents the financial instruments included in the Pooled Investment Fund – Master Investment Plan as of December 31:

	2016	2015
Cash	$ 1,050	$ 759
Money market funds	10,770	6,658
Fixed income mutual funds	19,173	29,372
Common and preferred stock	24,534	25,851
Equity mutual funds	41,736	52,196
Common collective trusts	8,114	8,909
Limited partnership hedge funds	164,364	137,663
Total Pooled Investment Fund – Master Investment Plan	$ 269,741	$ 261,408

The following table presents the financial instruments included in the Pooled Investment Fund – Middle Tier as of December 31:

(In Thousands of Dollars)

4. Investments and Assets Whose Use is Limited (Continued)

	2016	2015
Cash	$ 309	$ 816
Fixed income:		
Mutual funds	26,864	29,145
Government investments	14,718	14,618
Corporate securities	24,885	34,544
Limited partnership hedge funds	34,797	19,350
Total Pooled Investment Fund – Middle Tier	$ 101,573	$ 98,473

Investment income is offset by expenses related to the investments of approximately $1,155 in 2016 ($1,196 – 2015). The following summarizes investment returns and their classification in the consolidated statements of operations and changes in net assets for the years ended December 31:

	2016	2015
Dividends and interest, net of investment expenses	$ 6,357	$ 9,706
Net realized gain on investments	5,666	9,913
Gain from equity method investments in Pooled Investment Funds	1,898	293
Other than temporary decline in investments	(769)	-
Net unrealized gain (loss) on investments	11,177	(19,263)
	$ 24,329	$ 649
Reported as follows:		
Other revenue	$ 5,094	$ 10,006
Non-operating investment income, net	7,494	9,870
Investment gain on restricted net assets	564	36
Net unrealized gain (loss) on investments included in unrestricted and temporarily restricted net assets	11,177	(19,263)
	$ 24,329	$ 649

5. Fair Value Measurements of Financial Instruments

The following tables present the financial instruments carried at fair value on a recurring basis according to the valuation hierarchy:

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market funds[a]	$ 69,526	$ -	$ -	$ 69,526
Mutual funds[b]	119,104	-	-	119,104
Fixed income securities[c]	39,899	71,727	-	111,626
Equity securities[d]	52,983	-	-	52,983
Common collective trusts[e]	-	8,114	-	8,114
Funds held in trust by others[f]	-	-	2,323	2,323
Private market equity[g]	-	-	1,356	1,356
Total	$ 281,512	$ 79,841	$ 3,679	$ 365,032

(In Thousands of Dollars)

5. Fair Value Measurements of Financial Instruments (Continued)

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and money market funds[a]	$ 39,857	$ -	$ -	$ 39,857
Mutual funds[b]	156,853	-	-	153,853
Fixed income securities[c]	37,585	81,985	-	119,570
Equity securities[d]	50,288	-	-	50,288
Common collective trusts[e]	-	8,909	-	8,909
Funds held in trust by others[f]	-	-	2,238	2,238
Private market equity[g]	-	-	1,319	1,319
Total	$ 284,583	$ 90,894	$ 3,557	$ 379,034

[a] Cash and money market funds – Includes cash and investments in funds that invest primarily in short-term debt securities including U.S. Treasury bills, commercial paper, and certificates of deposits.

[b] Mutual funds – Investments in equity and fixed income mutual funds that maintain diverse portfolios of exchange traded equity securities and short-term high quality bonds, actively managed across the mortgage-backed security, U.S. Treasury, corporate and international fixed income sectors.

[c] Fixed income securities – Includes units of corporate bonds, U.S. Treasury notes and Treasury bills with maturities ranging from less than one year to thirty-five (35) years.

[d] Equity securities – Includes large cap common stock and call options of corporations primarily domiciled in the United States.

[e] Common collective trusts – Includes investments in emerging markets equity funds to achieve long-term capital growth and investments in credit products in the US credit, high yield, securitized and bank loan sectors that offer attractive long-term value. Liquidity provisions very per fund, with most being permitted on the valuation date with written notification at least one month prior to redemption. The valuation date ranges by fund, but ranges mainly from weekly to monthly. Fund managers can reserve the right to suspend redemptions under certain market conditions; no such conditions existed as of December 31, 2016 and through the date of this report.

[f] Funds held in trust by others – Includes publicly traded stocks, corporate bonds, step-up bonds and money market funds.

[g] Private market equity – Includes equity securities in a privately held company. The estimated fair value is based on annual financial information received from the company.

The fair value table above excludes limited partnerships and other investments, which are recorded at cost. The total cost of limited partnerships and other investments was $233,465 at December 31, 2016 ($188,585 – 2015).

Investments in limited partnerships and other investments recorded at cost are held in Rochester Regional's Master Investment Plan and Middle Tier Fund. The Master Investment Plan had total unfunded capital commitments of $23,413 and $21,952 at December 31, 2016 and 2015, respectively. These investments have varying redemption policies, frequencies and redemption notification requirements. There were no unfunded capital commitments related to the Middle Tier Fund.

(In Thousands of Dollars)

5. Fair Value Measurements of Financial Instruments (Continued)

The following is a reconciliation of the beginning and ending balances for the System's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2016 and 2015:

	Funds Held in Trust by Others	Private Market Equity
Balance at January 1, 2015	$ -	$ -
Acquired in affiliation	2,249	1,052
Change in fair value	(11)	267
Balance at December 31, 2015	$ 2,238	$ 1,319
Balance at December 31, 2015	$ 2,238	$ 1,319
Acquired in affiliation	-	-
Change in fair value	85	35
Balance at December 31, 2016	$ 2,323	$ 1,354

6. Pledges Receivable

Pledges receivable at December 31 are as follows:

	2016	2015
Current portion:		
Due in less than one year	$ 6,488	$ 1,391
Less allowances for doubtful accounts	(200)	(156)
	6,288	1,235
Long-term portion:		
One year to five years	16,480	5,447
More than five years	5,472	1,130
Long-term portion included in other assets	21,952	6,577
	$ 28,240	$ 7,812

7. Property and Equipment

Property and equipment consist of the following at December 31:

	2016	2015
Land	$ 10,286	$ 12,506
Land improvements	17,446	17,229
Buildings and improvements	996,571	938,175
Equipment	622,410	594,122
Equipment under capital leases	67,064	62,443
Construction-in-progress	87,316	40,504
	1,801,093	1,664,979
Less accumulated depreciation and amortization	933,472	847,841
	$ 867,621	$ 817,138

Depreciation expense was $85,631 for the year ended December 31, 2016 ($85,245 – 2015).

(In Thousands of Dollars)

8. Intangible Assets

Goodwill is subject to an annual assessment for impairment by performing a qualitative assessment or by applying a fair-value based test of the reporting unit, which is conducted each year. Changes in goodwill were as follows for the year ended December 31:

	2016	2015
Balance at January 1,	$ 21,036	$ 29,770
Impact of foreign currency exchange rate fluctuations	(3,226)	(1,076)
Goodwill acquisitions	8,742	2,695
Impairment losses	-	(10,353)
Balance at December 31,	$ 26,552	$ 21,036

ACM has recognized goodwill in connection with the acquisitions of Pivotal Labs in 2009 and Phoenix Pharma Central Services in 2014. At the respective acquisition dates, the goodwill acquisitions had functional currencies of the British Pound Sterling and Singapore Dollar, respectively. When translated to U.S. dollars using currency rates at the acquisition dates, goodwill of approximately $18,064 and $2,168, respectively was recognized. Changes in the reported balance of goodwill since the acquisition dates are due to fluctuations in foreign currency exchange rates.

In 2012, Unity Health System recognized goodwill of approximately, $7,078 in connection with the acquisition of ULOSC. In addition, Unity Hospital recognized the goodwill of approximately $500 in connection with the acquisition of a physician practice. In December 2015, the respective reporting units were tested for impairment based on a combination of qualitative and fair-value techniques. Impairment loss of $7,658 was recognized.

In 2015, the System purchased the outstanding shares of Linden Oaks Management Company, Inc. (LOMC) resulting in exclusive control and voting rights of LOMC. As a result of the purchase the System acquired approximately $2,695 of goodwill. The System subsequently impaired the goodwill of the company.

In 2016, PRH Inc. purchased 42.5% of the outstanding common shares of RIC Management Company LLC, bringing total ownership in the company to 67.5%. As a result of this acquisition, PRH Inc. recorded $8,742 of goodwill.

(In Thousands of Dollars)

9. Long-Term Obligations

Long-term debt consists of the following at December 31:

	Interest Rate(s)	Due Date	2016	2015
Rochester General Hospital:				
2013 Revenue Bonds - A	4.00% - 5.00%	Through 2042	$ 55,480	$ 55,480
2013 Revenue Bonds - B	3.00% - 4.00%	Through 2035	33,945	35,160
Tax-exempt financing agreement - 2016	1.56%	Through 2026	18,413	-
Tax-exempt financing agreement - 2011	2.33%	Through 2021	27,710	33,162
Capital lease obligations	0.27%-3.25%	Through 2017	196	969
			$ 135,744	$ 124,771
Newark Wayne Hospital:				
2011 Series A Mortgage Revenue Bonds	3.95%	Through 2041	$ 10,040	$ 10,275
2011 Series C Mortgage Revenue Bonds	3.55%	Through 2021	2,850	3,360
			$ 12,890	$ 13,635
GRHS Foundation:				
2012 Linden Oaks Mortgage	5.53%	Through 2019	$ 1,343	$ 1,386
2012 Linden Oaks Mortgage	5.53%	Through 2019	6,365	6,570
2012 Linden Oaks Mortgage	3.69%	Through 2022	17,547	18,391
Ridgeway Building	8.91%	Through 2030	21,262	21,791
2016 Revenue Bonds A	2.12%	Through 2041	19,995	-
2016 Revenue Bonds B	3.17%	Through 2041	1,110	-
Capital lease obligations	11.05%	Through 2017	1	14
			$ 67,623	$ 48,152
Unity Hospital:				
Revenue Bonds	4.20% - 5.75%	Through 2039	$ 196,825	$ 200,720
Note Payable	7.50%	Through 2017	17	50
Capital lease obligations	1.85%	Through 2017	608	1,930
			$ 197,450	$ 202,700
St. Mary's Residence Facility, LLC:				
Mortgage Note Payable	2.84%	Through 2023	$ 9,037	$ 10,369
North Park Nursing Home:				
Mortgage Note Payable	3.75%	Through 2023	$ 4,721	$ 5,317
Park Ridge Nursing Home:				
Series 2008 Revenue Bonds	Various	Through 2041	$ 16,830	$ 17,180
Woodland Village:				
Series 2006 Revenue Bonds	5.15% - 5.50%	Through 2033	$ 18,000	$ 18,590
Park Ridge Housing:				
Series 2012 Revenue Bonds	Various	Through 2041	$ 27,495	$ 28,125
Park Ridge Housing Development Fund Co., Inc.:				
Mortgage Note Payable	6.2%	Through 2042	$ 1,682	$ 1,708

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

	Interest Rate(s)	Due Date	2016	2015
Unity Housing Development Fund Corp:				
Mortgage Notes Payable	Various	Various	$ 1,293	$ 1,293
AHP Subsidiary	Various	N/A	260	260
			$ 1,553	$ 1,553
Parma Senior Housing:				
Series 2005 Revenue Bonds	6.5%	Through 2042	$ 2,315	$ 2,345
Mortgage Notes Payable	Various	Various	2,053	2,053
AHP Subsidiary	Various	N/A	350	350
			$ 4,718	$ 4,748
United Memorial Medical Center:				
Civic Facility Revenue Bonds	5.00%	Through 2032	$ 8,115	$ 8,445
Promissory Note	Various	Through 2032	9,503	9,909
Promissory Note	4.41%	Through 2020	817	1,039
Promissory Note USDA	3.75%	Through 2032	1,123	1,178
Cancer Services Building Bond	Various	Through 2036	3,962	4,050
Cancer Services Equipment Bond	Various	Through 2023	1,665	1,800
Capital lease obligations	4.00%	Through 2019	78	112
			$ 25,263	$ 26,533
Clifton Springs Hospital Clinic:				
Series 1994 Revenue Bonds	8.00%	Through 2020	$ 1,085	1,310
Note Payable	4.99%	Through 2016	-	15
Other	Various	Through 2017	-	6
Capital lease obligations	Various	Through 2017	5	185
			$ 1,090	1,516
Total Outstanding Debt			$ 524,096	504,897
Deferred financing costs			(13,466)	(13,573)
Unamortized Premium			17,651	18,885
Current Portion, net of next years deferred financing costs amortization			(22,685)	(19,688)
			$ 505,596	$ 490,341

Future maturities on long-term obligations for the next five years are scheduled as follows:

	Principal	Bond Premium Amortization	Deferred Financing Cost Amortization
2017	$ 23,460	$ 1,323	$ 775
2018	23,591	1,317	770
2019	31,070	1,294	757
2020	24,654	1,269	742
2021	22,538	1,243	742
Thereafter	398,783	11,205	9,680
	$ 524,096	$ 17,651	$ 13,466

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

Interest payments approximated $22,879 and $25,262 in 2016 and 2015, respectively.

During 2016 and 2015, the System capitalized interest of approximately $514 and $143, respectively.

Rochester General Hospital and Affiliate (RGH)

In February 2013, Monroe County Industrial Development Corporation issued Series 2013 Tax-Exempt Revenue Bonds (2013 Revenue Bonds) in the amount of $101,520 on behalf of RGH. The funds received were used to defease previously outstanding 2005 Revenue Bonds and provided financing for certain RGH renovations and expansions. The 2013 Revenue Bonds will mature from December 2013 to 2042 and were issued at coupon rates ranging from 1.5% to 5.0%. The 2013 Revenue Bonds are secured by the pledge and assignment of a security interest in the gross receipts of RGH. Under the terms of the 2013 Revenue Bonds indenture, RGH is required to maintain certain deposits with a trustee.

Such deposits are included with assets whose use is limited in the accompanying consolidated balance sheets, and consist of the following funds at December 31:

	2016	2015
2013 Revenue Bonds Series A project fund	$ 6,990	$ 12,448
2013 Revenue Bonds Series B project fund	154	154
2013 Revenue Bonds Series A bond fund	663	455
2013 Revenue Bonds Series B bond fund	209	418
2013 Revenue Bonds Series A capital earnings fund	13	-
2013 Revenue Bonds Series A earnings fund	74	19
	8,103	13,494
Current portion	(872)	(873)
	$ 7,231	$ 12,621

The fair value of the 2013 Revenue Bonds is estimated based on the current rates offered to RGH for debt of the same remaining maturities and other valuation considerations and is classified as Level 2 in the fair value hierarchy. The recorded amounts of other RGH long-term debt and long-term liabilities approximate fair value.

The fair values and carrying values of the 2013 Revenue Bonds approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2013 Revenue Bonds - Series A	$ 59,633	$ 55,480	$ 61,298	$ 55,480
2013 Revenue Bonds - Series B	34,820	33,945	36,420	35,160
	$ 94,453	$ 89,425	$ 97,718	$ 90,640

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

In 2016, the Hospital entered into a tax-exempt financing agreement with the Dormitory Authority of New York and JPMorgan Chase Bank, N.A. for $20,000. The agreement is a tri-party financing agreement that enabled the Hospital to purchase capital equipment on a tax-exempt basis. All equipment purchased under this agreement has been placed in service. The Hospital will continue to make monthly payments of approximately $290, including interest, on the financing agreement through 2026.

In 2011, RGH entered into a tax-exempt financing agreement with the Dormitory Authority of New York and JPMorgan Chase Bank, N.A. for $54,969. The agreement is a tri-party financing agreement that enabled RGH to purchase capital equipment on a tax-exempt basis. All equipment purchased under this agreement has been placed in service. The hospital will continue to make quarterly payments of approximately $1,545 including interest, on the financing agreement through 2021.

Newark Wayne Community Hospital (NWCH)

In November 2011, the Wayne County Civic Facility Development Corporation issued $19,775 of its revenue bonds to defease outstanding 1993 Series A Hospital Revenue Improvement and Refunding Bonds, FHA insured 1993 Series B Federal Housing Administration Mortgage Revenue Bonds and to provide financing for certain NWCH renovations and expansion. The debt financing, together with the equity funding from NWCH, provided the funding for planned capital expenditures that included renovation and expansion of the Emergency department, Endoscopy suite, and creation of a Patient Access Center. NWCH facilities at the Newark Campus are pledged as collateral on these bonds. Under the terms of the bond indentures, NWCH is required to maintain certain deposits with a trustee. Such deposits are included in assets whose use is limited in the accompanying consolidated balance sheet. In addition, bond indentures and insurance policies place limits on the incurrence of additional borrowings and require that NWCH satisfy certain measures of financial performance. NWCH is in compliance with the financial requirements for the year ending December 31, 2016 and 2015. The fair value of the 2011 Mortgage Revenue Bonds are estimated based on a discounted cash flow model, and are classified as Level 2.

The fair values and carrying values of the 2011 Mortgage Revenue Bonds approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2011 Series A Mortgage Revenue Bonds	$ 10,017	$ 10,040	$ 10,292	$ 10,275
2011 Series C Mortgage Revenue Bonds	2,819	2,850	3,335	3,360
	$ 12,836	$ 12,890	$ 13,627	$ 13,635

Greater Rochester Health System Foundation, Inc. (GRHSF)

In June 2016, the Monroe County Industrial Development Corporation ("MCIDC") issued tax-exempt Series 2016A and taxable Series 2016B revenue bonds, in the amount of $21,410 to GRHSF. The funds received were used to acquire and renovate a medical office building. The Series 2016 revenue bonds are payable to the MCIDC through June 1 2041, bearing interest at rates 2.12% and 3.17%, respectively.

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

In June 2012, GRHSF entered into a term note of $21,050 with M&T Bank for the purchase of three buildings at the Linden Oaks campus. In addition to this note, GRHSF also assumed four mortgages from M&T Bank approximating $20,770 related to these purchases. GRHSF immediately paid $12,204 to pay-off two of these loans. The fair value of the mortgages are estimated based on a discounted cash flow model, and are classified as Level 2.

In 2010, Unity Health System entered into a noncancellable agreement to lease a professional office building in Rochester, New York. The lease was recorded as a capital lease. The term of the lease is through March 2030 and requires monthly payments of $201, which increase by 1.5% each year for the first ten years of the lease and then by 2% each year thereafter. Additionally, the lease requires a monthly payment of $76 for maintenance and operating charges. In 2015, the building and the associated lease was transferred to GRHSF.

The fair values and carrying values of the GRHSF obligations approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2012 Linden Oaks Mortgage	$ 1,343	$ 1,343	$ 1,386	$ 1,386
2012 Linden Oaks Mortgage	6,365	6,365	6,570	6,570
2012 Linden Oaks Mortgage	17,547	17,547	18,391	18,391
2016 Revenue Bonds A	19,995	19,995	-	-
2016 Revenue Bonds B	1,110	1,110	-	-
Ridgeway Building	21,262	21,262	21,791	21,791
	$ 67,622	$ 67,622	$ 48,138	$ 48,138

Unity Hospital

In November 2010, the Monroe County Industrial Development Corporation ("MCIDC") issued Series 2010 Mortgage Revenue Bonds, with an aggregate principal amount of $205,250 to Unity Hospital of Rochester. The Revenue Bonds Series 2010 are payable to the MCIDC through August 2040, bearing interest from 4.20% to 5.75%. The proceeds from the sale of these bonds were for the expansion and modernization of The Unity Hospital of Rochester. In addition, the proceeds were utilized to refund the January 2005 Park Ridge Hospital Revenue Bonds. A mortgage note was signed in connection with the bond issuance. The mortgage note is insured by HUD under section 242 Title II of the National Housing Act. HUD has a security interest in certain debt service, construction, and other escrow accounts, which were created to ensure completion of the project and secure repayment of the bonds. These escrow accounts are recorded by Unity as assets limited as to use. Scheduled mortgage note payments into the escrow account began on October 1, 2014, and continue through September 1, 2039, in the monthly amount of $1,219. The Series 2010 Bonds require a letter of credit, which may be drawn upon to pay principal and interest to bondholders. During 2015 requirements related to the letter of credit were satisfied and the letter of credit was closed.

The Hospital is required to comply with certain financial covenants related to the HUD insured Series 2010 Mortgage Revenue Bond. The Hospital is in compliance with the provisions of these covenants as of December 31, 2016.

In 2007, Unity entered into a note payable to Anthony J. Costello & Son Development, LLC in monthly installments of approximately $3 including interest of 7.5% per annum through 2017.

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

Unity entered into various capital leases that are payable in monthly installments of approximately $122, including interest at 1.85%, expiring in May 2017, secured by leased equipment.

Unity's long-term obligations are secured by substantially all of the Hospital's assets.

The fair value of long-term obligations was estimated using Level 2 inputs and was estimated by discounted cash flow analysis using current borrowing rates for similar types of arrangements. Judgment is required in certain circumstances to develop estimates of fair value and estimates may not be indicative of the amounts that could be realized in current market exchange.

The fair values and carrying values of the long-term obligations approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Revenue Bonds	$ 216,635	$ 196,825	$ 221,608	$ 200,720
Note Payable	15	17	46	50
	$ 216,650	$ 196,842	$ 221,654	$ 200,770

St. Mary's Residence Facility, LLC

In 2013, St. Mary's Residence Facility, LLC executed a mortgage note payable to Red Mortgage Capital, LLC in the amount of approximately $13,102. St. Mary's Residence Facility, LLC executed a new mortgage note payable to Red Mortgage Capital, LLC. The mortgage note is insured by HUD under Section 232 of the National Housing Act. The note is payable in monthly installments of approximately $126 including interest at 2.84% through August 2023.

The fair values and carrying values of the long-term obligations approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Amount	Fair Value	Carrying Amount
Mortgage Note Payable	$ 7,714	$ 9,037	$ 9,106	$ 10,369

North Park Nursing Home

In 2011, North Park Nursing Home refinanced its existing mortgage through the sale of Village of East Rochester housing Authority Revenue Refunding Bonds Series 2011 in the amount of $7,500. Additionally, North Park Nursing Home entered into a Bond Purchase Agreement, whereby Key Bank agreed to purchase the entire amount of the bond issue. The obligations of North Park Nursing Home to Key Bank under the Bond Purchase Agreement and the Series 2011 bonds are secured by a first lien mortgage interest in the assets of North Park Nursing home and a pledge of North Park Nursing Home's gross receipts.

9. Long-Term Obligations (Continued)

Park Ridge Nursing Home

In December 2008, the Village of East Rochester Housing Authority issued its Park Ridge Nursing Home, Inc. Variable Rate Demand Housing Revenue Bonds, Series 2008, with an aggregate principal amount of $18,750 which may be drawn upon to pay principal and interest to bondholders.

Woodland Village

In July 2006, Woodland Village entered into a trust indenture with the Village of East Rochester Housing Authority. Funds were provided by the Housing Authority from the sale of its Series 2006 Senior Living Facility Revenue Bonds, with an aggregate principal amount $22,740. Woodland Village's principal and interest payment obligations under the trust indenture are equal to the Housing Authority's debt service requirements on the Series 2006 bonds. The Series 2006 bonds are subject to mandatory sinking fund installment redemption at annual amounts ranging from $50 to $3,005, which commenced in 2007.

The aforementioned obligation to the Housing Authority is secured by a first lien mortgage interest in certain assets of Woodland Village, an assignment of rents and leases, and a contribution agreement executed by Woodland Village. Additionally, the Housing Authority has a security interest in certain debt service, construction, and other escrow accounts, which were created to ensure completion of the project and secure repayment of the bonds. These escrow accounts are recorded by Woodland Village as assets limited as to use.

Park Ridge Housing

In April 2011, Monroe County Industrial Development Corporation (MCIDC) issued its Series 2012 Revenue Bonds. Proceeds from issuance were used to renovate and expand the Park Ridge Housing senior living facilities, including constructing a new senior center and memory care unit. Additionally, approximately $12,600 of the proceeds from the bond issuance were used to repay the Authority of the State of New York Series 2000 Revenue Bonds. In connection with the bond issue, Park Ridge Housing entered into a bond purchase agreement with MCIDC and JPMorgan Chase Bank, N.A., whereby JPMorgan Chase Bank agreed to purchase the entire principal amount of the $30,000 bond issue. The obligation to MCIDC and JPMorgan Chase Bank is secured by a first lien mortgage interest in the assets of Park Ridge Housing and an assignment of leases and rents.

Park Ridge Housing Development Fund Co., Inc.

In February 2007, Park Ridge entered into a $1,886 mortgage agreement with Lancaster Pollard Mortgage Company for the purposes of refinancing existing debt. The mortgage is insured by HUD under Section 223(f).

Unity Housing Development Fund Corp.

Unity Housing received $793 from the New York State Housing Trust Fund Corporation for the construction of senior housing, known as Moore Park. Interest is only payable once the project has excess cash flow from operations as defined by the mortgage agreement. The company has a mortgage note payable to Monroe County of annual payments of interest at 1% from excess cash flows through March 2035 amounting to $500.

9. Long-Term Obligations (Continued)

Parma Senior Housing

In December 2005, the County of Monroe Industrial Development Agency (COMIDA) issued its Parma Senior Housing Associates, L.P. Project, Industrial Development Revenue Bonds, Series 2005 with an aggregate principal amount of $4,000. The bonds were issued to finance the construction of Parma Senior Housing. In June 2007, the term bonds in the amount of $1,475 for the construction loan portion were repaid with investor funds.

Parma received $1,785 from the New York State Housing Trust Fund Corporation for the construction of senior housing, known as Parma Housing. Interest and principal is only payable once the project has excess cash flow from operations as defined by the mortgage agreement. The company has a mortgage note payable to Monroe County of annual payments of interest at 1% from excess cash flows through March 2036 amounting to $300.

United Memorial Medical Center (UMMC)

In September 2015, UMMC entered into a $4,050 bond offering through the Genesee County Industrial Development Agency d/b/a Genesee County Economic Development Center (the Issuer) and the Bank of Castile (Trustee) for the purpose of constructing the Cancer Services building owned by UMMC and payment of bond issuance costs. The Bond is collateralized by assets and property of UMMC, payable in monthly installments of $22, maturing in 2036, including interest at a fixed rate of the six year FHLB rate, at that time, plus 2.00%, less the product of 33% and the FHLB rate through September 1, 2020. Effective September 1, 2020 and every fifth year after, the rate will be fixed at the five year FHLB rate, at the time, plus 2.00%, less the product of 33% and the FHLB rate.

In September 2015, UMMC entered into a $1,800 bond offering through the Genesee County Industrial Development Agency d/b/a Genesee County Economic Development UMMC (the Issuer) and the Bank of Castile (Trustee) for the purpose of equipment purchases for the Cancer Services building owned by UMMC and payment of bond issuance costs. The Bond is collateralized by assets and property of UMMC, payable in monthly installments of $24, maturing in 2023, including interest at a fixed rate of the seven year FHLB rate, at that time, plus 2.15%, less the product of 33% and the FHLB rate.

UMMC is required to comply with certain financial and operational covenants related to the bond offerings referred to above. UMMC is in compliance with the provisions of these covenants as of December 31, 2016.

In April 2007, UMMC entered into a $14,800 bond offering through the Genesee County Industrial Development Agency d/b/a Genesee County Economic Development Center (the Issuer) and the Bank of New York (Trustee) for the purpose of refinancing qualifying portions of certain outstanding taxable indebtedness, renovating and converting the first floor of a UMMC building to house an outpatient diagnostic center, (consisting of radiology, laboratory and cardiology services), demolition of a single story building owned by UMMC and payment of bond issuance costs. The funds were provided by the Issuer from the sale of three separate bonds comprising the $14,800 Civic Facility Revenue Bonds (United Memorial Medical Center Project) series 2007 (the Bonds). The three Bonds are repaid in stated principal amounts on December 1 of each year and mature in 2014, 2027 and 2032. The bond interest is paid semi-annually on June 1 and December 1 of each year. Additionally, certain fund accounts were established to ensure completion of the financing purpose. UMMC is required to comply with certain financial and operational covenants related to the bond offering referred to above. UMMC is in compliance with the provisions of these covenants as of December 31, 2016.

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

A promissory note was entered into with the Bank of New York to fund the UMMC's 2010 surgical expansion project. The loan is collateralized by assets and property of UMMC, payable in monthly installments of $69, including fixed interest at a rate of 4.23% through December 1, 2021. Effective December 1, 2021 and every fifth year after, the rate will be fixed at the Federal Home Loan Bank (FHLB) rate, at the time, plus 2.00%. A final payment of unpaid principal and accrued interest will be due December 1, 2032.

A term note payable was entered into with the Bank of New York and is collateralized by all assets and property of UMMC, payable in monthly installments of $22, including fixed interest at a rate of 4.41% through the duration of the note. A final payment of unpaid principal and accrued interest will be due May 1, 2020.

A promissory note was entered into with the United States Department of Agriculture and is payable in monthly installments of $8, including fixed interest at a rate of 3.75% through December 1, 2032. A final payment of unpaid principal and accrued interest will be due December 1, 2032.

The capital lease is payable in monthly installments of $3, including interest at 4.0%, expiring at various times through May 2019, secured by the leased equipment.

The fair values, which are estimated based on current rates offered for similar issues and carrying values of the long-term debt approximate the following at December 31:

	2016		2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2007 Revenue Bonds	$ 11,519	$ 8,115	$ 12,242	$ 8,445
Promissory Note	11,368	9,503	12,126	9,909
Promissory Note	553	817	758	1,039
Promissory Note USDA	1,411	1,123	1,506	1,178
2015 Revenue Bonds	4,955	3,962	5,104	4,050
2015 Revenue Bonds	1,767	1,665	1,928	1,800
	$ 31,573	$ 25,185	$ 33,664	$ 26,421

Prior to 2016, UMMC entered into two revolving line of credit agreements with a bank which provided for aggregate borrowings of up to $3,000. In 2015, UMMC closed one of the line of credit agreements with available borrowings of up to $1,000, therefore, resulting in available borrowings of up to $2,000 for the year ended December 31, 2015. The balance outstanding under the remaining agreement amounted to $0 for the years ended December 31, 2016 and 2015. The borrowing bears interest at the bank's prime rate not to be lower than the bank's established floor rate (4.0% as of December 31, 2016). The Note is secured by substantially all assets of UMMC and will mature on May 5, 2018.

(In Thousands of Dollars)

9. Long-Term Obligations (Continued)

Clifton Springs Hospital Clinic (CSHC)

In February 1994, CSHC issued $12,500 Hospital Revenue Improvement and Refunding Bonds, Series 1994 pursuant to a trust indenture with Manufacturers and Traders Trust Company (the Trustee). The Bonds were issued to provide financing for renovations and new construction to CSHC's facilities as well as to refinance approximately $7,000 of existing debt. The Series 1994 Bonds were issued as two Term Bonds. The Series A bonds were retired in 1999. The remaining bonds mature in varying installments through January 1, 2020 and bear interest at 8% per annum. Interest is payable on the first day of each January and July. Substantially all of the property owned by CSHC in connection with its facilities is pledged as collateral (excluding the Medical Office Building).

As conditions of this borrowing, CSHC must, under certain circumstances, obtain Trustee approval for additional borrowings, maintain a minimum debt service coverage ratio, days cash level, quick ratio and make certain deposits into a sinking fund. As of December 31, 2016 CSHC was in compliance with all required financial covenants.

Operating Leases

Operating lease rental expense, relating primarily to the rental of facilities and equipment, was approximately $33,831 for the year ended December 31, 2016 ($33,522 – 2015).

Future minimum rental commitments under non-cancelable operating leases (with an initial or remaining lease term in excess of one year) at December 31, 2016 are as follows:

2017	$ 22,534
2018	17,743
2019	15,311
2020	14,088
2021	12,371
Thereafter	56,290
	$ 138,337

10. Interest Rate Swap Contracts

Certain Affiliates of the System have entered into interest rate swap contracts in order to reduce its risk of exposure to changes in cash flow associated with changes in interest rates. The interest rate swap contracts with a total outstanding notional amount of $49,331 at December 31, 2016, effectively convert the variable rate of the Affiliates bonds to a fixed rate of interest ($50,867 – 2015). During the terms of these transactions, the Affiliates pay interest at a fixed rate and receives interest at a variable rate based on the London Interbank Offered Rate (LIBOR). The swap agreements are designated as cash flow hedging instruments and are recorded at fair value in the accompanying balance sheets as of December 31, 2016 and 2015. Changes in value of the swaps determined to arise from ineffectiveness of the instruments, as determined through the hypothetical derivative method, are recorded as a component of other gains (losses) in the accompanying consolidated statement of operations and changes in net assets.

(In Thousands of Dollars)

10. Interest Rate Swap Contracts (Continued)

The following table summarizes fair value of the Affiliates' interest rate swap agreements classified as noncurrent liabilities as of December 31:

Swap Type	Expiration Date	System Pays	System Receives	Fair Value (level 2) at December 31, 2016	Fair Value (level 2) at December 31, 2015
Fixed	2018	2.44%	68% of LIBOR	$ 481	$ 536
Fixed	2021	4.30%	74% of LIBOR + 2.25%	1,533	2,039
Fixed	2024	2.76%	65% of LIBOR + 2.25%	29	61
				$ 2,043	**$ 2,636**

Fair value of the Affiliates' interest rate swap contracts are valued using level 2 inputs. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument. A derivative valuation specialist calculates the future payments required by the derivative financial instrument, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the derivative financial instrument.

The fair values of the Affiliates' interest rate swaps were as follows at December 31:

Derivatives Designated as Hedging Instruments	Location	2016 Fair Value Level 2	2015 Fair Value Level 2
Interest rate swap contracts	Noncurrent Liabilities	$2,043	$2,636

The effect of derivative instruments on the statements of operations and change in net assets was as follows for the year ended December 31:

Interest Rate Swap Contracts	2016	2015
Effective portion of gain recognized in other changes in net assets	$592	$110

(In Thousands of Dollars)

11. Commitments and Contingencies

ACM is committed to purchase certain supplies and services for laboratory equipment. The approximate future minimum payments under these purchase commitments are summarized as follows:

2017	$ 4,762
2018	3,497
2019	3,108
2020	958
2021	230
	$ 12,555

Expenses incurred in 2016 under these purchase agreements were $4,306 ($2,771 – 2015).

The System records reserves and related insurance recoveries receivable for professional and general liability, health care for employees and workers' compensation losses, and loss adjustment expenses. These reserves include estimates for claims incurred but not reported (IBNR) and estimates of future trends in loss severity and frequency and other factors, which could vary as the losses are ultimately settled. Accordingly, the actual amounts incurred and recovered may vary significantly from the estimated amounts included in the accompanying consolidated financial statements.

Professional and General Liability

The affiliates of the System purchase their primary professional and general liability insurance, with limits of $3,500 per claim and $25,000 in the aggregate per policy year, through GRACO under a retrospectively rated claims-made policy based upon the experience of GRACO's insureds.

The affiliates purchase claims-made excess professional and general liability insurance from an independent insurance company. This policy provides $43,500 of insurance coverage per claim and $65,000 in the aggregate per policy year, in excess of the primary insurance limits provided by GRACO.

Professional liability and other claims have been filed against the affiliates and subscribing physician and non-physician providers by various claimants. In addition, other claims for which damages are as yet unspecified also exist. Management does anticipate that any future effects of such claims would have a significant impact on certain affiliate's financial condition.

The actuarially determined estimate for professional liability claims, including outstanding and IBNR claims, at an estimated present value using a discount rate of 2% for the years ended December 31, 2016 and 2015, are $68,276 and $58,499, respectively, and are included in accrued insured and self-insured liabilities in the accompanying consolidated balance sheets.

11. Commitments and Contingencies (Continued)

Unity Health System

Effective January 1, 2016, the former Unity Health System affiliates purchased professional and general liability insurance with limits of $2,000 per claim and $25,000 in the aggregate per policy year through GRACO. Prior to January 1, 2016 the affiliates arrangement for general and professional liability coverage includes a program whereby the affiliates are self-insured for the first $2,000 of coverage. The affiliates maintain a trust to fund this level of retention. Under this program, effective August 1, 2013, the affiliates are insured under a claims-made policy with retention of $2,000 and aggregate liability up to $20,000 with Healthcare Casualty Insurance Limited (HCCI). HCCI is a company organized under the laws of the Cayman Islands, in which the affiliates participate as a shareholder. Prior to August 1, 2013, the affiliates were insured under a claims-made policy with retention of $1,000 and aggregate liability up to $20,000 with HCCI. Prior to August 1, 2006, the affiliates were insured under a claims-made policy with retention of $1,000 and aggregate liability up to $10,000 with HCCI and an additional policy with a commercial carrier for additional aggregate liability up to $10,000. All of these policies have retroactive coverage to December 1, 1996. An actuary determines the estimated liability for both asserted and unasserted claims and related expenses up to self-insured limits using a discount rate of 3.5%.

Estimated accrued self-insurance claims, including IBNR, as of December 31, 2016 were $5,281 and are recorded in the accompanying consolidated balance sheet in accrued insured and self-insured liabilities ($11,583 – 2015). The affiliates are covered under a tail insurance policy for all claims incurred prior to December 31, 1996. Claims related to the former St. Mary's Hospital prior to December 31, 1996, are covered under the Ascension Health self-insurance occurrence based program.

United Memorial Medical Center (UMMC)

Effective January 1, 2016, UMMC purchased insurance affiliates purchased professional and general liability insurance with limits of $1,000 per claim and $25,000 in the aggregate per policy year through GRACO. Prior to January 1, 2016 UMMC was insured for medical malpractice risks through a claims-made professional liability insurance policy. Should the annual claims-made policy not be renewed or replaced with equivalent insurance, claims based on incidents during its term, but reported subsequently, will be uninsured. Certain malpractice claims have been asserted against UMMC by various claimants. Although UMMC's management and legal counsel are unable to conclude as to the ultimate outcome of the actions, it is the opinion of UMMC's management that adequate insurance is maintained to provide for all asserted or potential claims.

Any amounts to be reimbursed from an insurance company should be presented discretely. In accordance with FASB issued guidance, amounts should be recognized only when the likelihood of payment is both probable and measurable. For the year ended December 31, 2016, $250 has been recognized in these statements as a liability for cases experiencing negative development during the year ($250 – 2015). A corresponding receivable has been recorded to record the anticipated recovery from the insurance company.

(In Thousands of Dollars)

11. Commitments and Contingencies (Continued)

Clifton Springs Hospital and Clinic and Affiliates (CSHC)

Effective January 1, 2016, CSHC purchased insurance for professional and general liability insurance with limits of $1,000 per claim and $25,000 in the aggregate per policy year through GRACO. Prior to January 1, 2016 CSHC is insured for medical malpractice risks through an occurrence professional liability insurance policy. Coverage under the plan is limited to $1,000 per occurrence and $3,000 in the aggregate. Certain malpractice claims have been asserted against CSHC by various claimants. Although CSHC's management and legal counsel are unable to conclude as to the ultimate outcome of the actions, it is the opinion of the CSHC's management that adequate insurance is maintained to provide for all asserted or potential claims.

Any amounts to be reimbursed from an insurance company should be presented discretely. In accordance with FASB issued guidance, amounts should be recognized only when the likelihood of payment is both probable and measurable. For the year ended December 31, 2016, $850 has been recognized in these statements as a liability for cases experiencing negative development during the year ($850 – 2015). A corresponding receivable has been recorded to record the anticipated recovery from the insurance company.

Workers' Compensation Trust

Rochester General Health System Workers' Compensation Trust (WCT)

WCT provides a group insurance program for workers' compensation claims for the former affiliates of Rochester General Health System. WCT maintains stop-loss insurance coverage for all individual claims with a loss value exceeding $500. Reinsurance premiums amounted to $420 for the year ended December 31, 2016. Reinsurance premiums have been reported as a reduction of other revenue.

Losses are accrued based upon WCT's estimate of the aggregate liability for claims incurred by members, gross of amounts recoverable through reinsurance (claims in excess of $420 in 2015) based on actuarially determined estimates. The affiliates total cost incurred related to workers' compensation liabilities to be paid from WCT approximated $7,148 in 2016 and is included in purchased services and supplies in the accompanying consolidated statements of operations and changes in net assets ($7,288 – 2015).

The actuarially determined reserve for workers' compensation at an estimated present value using a discount rate of 2% at December 31, 2016 and 2015, is as follows, and is included in accrued insured and self-insured liabilities in the accompanying consolidated balance sheet:

	2016	2015
Workers' compensation reserve	$ 54,317	$ 52,677
Insurance recoveries receivable	16,147	16,119
Net exposure for insured and self-insured claims	$ 38,170	$ 36,558

As of December 31, 2016 and 2015 the letter of credit amounted to $39,639 and is unsecured.

11. Commitments and Contingencies (Continued)

Unity Health System

Effective January 1, 2016, the affiliates ceased participation in the worker's compensation self-insurance trust and became insured through WCT. Prior to January 1, 2016, the former affiliates of Unity Health System participated in a workers' compensation self-insurance trust from December 1, 1999 through December 31, 2013, whereby workers' compensation expense was determined by the actuary of the trust. All members of the trust are jointly and severally liable for all workers' compensation obligations incurred by the trust. Prior to that date, the affiliates participated in Ascension Health's pooled risk program for workers' compensation. Effective January 1, 2013, the affiliates of obtained workers compensation insurance through a commercial insurer whereby the affiliates were self-insured for each claim up to a maximum of $350 per claim. Estimated accrued self-insurance claims, including IBNR, at December 31, 2016, was $3,020 and are recorded in the accompanying consolidated balance sheet in accrued insurance and self-insurance liabilities ($6,712 – 2015).

UMMC and CSHC

Effective January 1, 2016, UMMC and CSHC purchased insurance through WCT. Prior to January 1, 2016 UMMC and CSHC were self-insured for workers' compensation insurance through the New York Health Providers Workers' Compensation Trust (Trust). The Trust paid claims and judgments relating to workers' compensation and charged UMMC and CSHC a predetermined annual amount, as recommended by the actuary based upon the UMMC and CSHC's specific experience. Effective January 1, 2011, the Trust was terminated and UMMC and CSHC are insured through the New York State Workers Compensation Fund (NYSWCF).

Health

Rochester General and Unity Health Systems

The affiliates of the former Rochester General and Unity Health Systems, are self-insured for its Medical Health Plan (the Health Plan). The Health Plan maintains stop-loss insurance coverage for losses exceeding $500 per insured per year. The affiliates' reserve for the cost of IBNR claims approximated $5,622 as of December 31, 2016, and is included in accrued expenses in the accompanying consolidated balance sheet ($8,536 – 2015).

12. Guarantees and Other Commitments

Certain affiliates have guaranteed the performance of other affiliates under the terms of contractual agreements established in connection with senior housing initiatives. These guarantees relate to the delivery of tax credits, compliance, operational, reserve and development funding, and other related commitments.

In 1995, Rochester General Hudson Housing (RGHH) borrowed $3,358 on a 40-year mortgage note from the U.S. Department of Housing and Urban Development (HUD) under the Capital Advance Program (the Program) for the purpose of building the Rochester General Senior Apartments (Apartments). The note, which matures June 23, 2035, does not bear interest and repayment is not required as long as the Apartments remain available for very low-income elderly persons in accordance with Section 202 of the Housing Act of 1959. The note provides that if (1) the Apartments have remained available for occupancy by eligible families through the maturity date of the note, and (2) the note has not otherwise become due and payable by reason default under the note or the related mortgage or regulatory agreement, the note shall be deemed to be paid and discharges on the maturity date. The principal balance becomes due and payable with interest at 6.625% if RGHH defaults under the terms of the note, mortgage, or regulatory agreements. RGHH is in compliance with the requirements of the note and related agreements. The advance has been included in other long-term liabilities.

During 1993, Parkway Commons Housing Development Fund Co., Inc. received $2,299 from HUD for the construction of a senior housing building known as Parkway Commons. The financing is secured by a non-interest-bearing mortgage note for which repayment is required only if the project does not remain available for the low-income elderly population it was built to serve for a period of not less than 40 years. The advance has been included in other long-term liabilities.

13. Pension and Postretirement Benefit Plans

Rochester General Health System

Employees of participating affiliates of the former Rochester General Health System receive retirement benefits through sponsorship of the Rochester General Health System Employee Retirement Plan (Pension Plan), a defined benefit pension plan that covers substantially all of the affiliates' employees. The Pension Plan determines benefits based upon both credited years of service and final average earnings. It is the policy of the Pension Plan to fund at least the minimum amounts required by the Employee Retirement Income Security. The funding policy is based on actuarially determined cost method allowable under Internal Revenue Service regulations.

In addition, the affiliates receive health care and life insurance benefits for retired employees through participation in a postretirement plan (Postretirement Plan) for those affiliates who elect to participate. Full-time employees who retire after age 62 with 20 years of service and dependents of employees who retired before January 1, 1993, are eligible for medical benefits. For medical benefits, employees who retired prior to January 1, 1993, receive the full premium less payments made by government programs and other group coverage. Employees who retire on or after January 1, 1993 receive an amount which is fixed at the 1993 premium level. Dental benefits cover full-time employees and dependents of employees who retired before January 1, 1994, after age 62 with 20 years of service. Life insurance benefits cover former employees who worked at least 30 hours per week who retire at age 55 or older. The affiliates have the right to modify or terminate the Postretirement Plan in the future. The affiliates fund the cost of such benefits as they are paid to retirees.

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The affiliates recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its postretirement benefit plans in the consolidated balance sheets, with a corresponding adjustment to unrestricted net assets. The amounts recorded in unrestricted net assets will be subsequently recognized as net periodic pension cost in the future periods pursuant to the affiliates' accounting policy for amortizing such amounts.

Included in unrestricted net assets at December 31, 2016 and 2015, are the following amounts that have not yet been recognized in net periodic benefit cost for the pension and postretirement benefit plans:

	2016	2015
Unrecognized prior service credit	$ 1,365	$ 1,932
Unrecognized actuarial loss	(194,218)	(168,467)
Total	$ (192,853)	$ (166,535)

The expected amortization of unrecognized items in the next year's expense is estimated to be $567.

Changes in plan assets and benefit obligations recorded in unrestricted net assets included the following for the year ended December 31:

	2016	2015
Amortization of prior service credit	$ 567	$ 567
Current year actuarial loss	25,751	27,521
Total	$ 26,318	$ 28,088

The expected amortization of net loss in the next year's expense is estimated to be $11,963 ($9,878 – 2015).

As of December 31, 2016, the Pension Plan accumulated benefit obligation was approximately $702,650 ($643,822 – 2015). The following sets forth a summary of the changes in the benefit obligation and plan assets measured at December 31, 2016 and 2015, and the resulting funded status for the aforementioned benefit plans, on a consolidated System basis:

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 714,711	$ 719,748	$ 16,976	$ 17,308
Service cost	32,567	33,179	462	486
Interest cost	25,693	28,677	608	674
Actuarial losses (gains)	43,234	(20,124)	(170)	(870)
Benefits paid	(44,625)	(46,769)	(639)	(622)
Benefit obligation at end of year	$ 771,580	$ 714,711	$ 17,237	$ 16,976

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Changes in plan assets:				
Fair value of plan assets at beginning of year	$ 524,138	$ 554,869	$ -	$ -
Actual return (loss) on plan assets	46,308	(13,962)	-	-
Employer contributions	31,200	30,000	639	622
Benefits paid	(44,625)	(46,769)	(639)	(622)
Fair value of plan assets at end of year	$ 557,021	$ 524,138	$ -	$ -
Underfunded status of the plan	$ (214,559)	$ (190,573)	$ (17,237)	$ (16,976)

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Amounts recognized in the consolidated balance sheets consist of:				
Accrued expenses and other	$ -	$ -	$ (978)	$ (1,009)
Accrued pension and postretirement benefits	(214,559)	(190,573)	(16,259)	(15,967)
	$ (214,559)	$ (190,573)	$ (17,237)	$ (16,976)

The components of net periodic benefit expense for 2016 and 2015 are as follows:

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Components of net periodic benefit cost:				
Service cost	$ 32,567	$ 33,179	$ 463	$ 486
Interest cost	25,693	28,677	608	674
Expected return on plan assets	(38,873)	(41,452)	-	-
Amortization of actuarial losses	9,733	6,677	144	222
Net amortization of prior service credit	(567)	(567)	-	-
Net periodic benefit expense	$ 28,553	$ 26,514	$ 1,215	$ 1,382

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The assumptions used to determine pension and postretirement benefit obligations at the measurement date of December 31, 2016 and 2015, are as follows:

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Weighted-average assumptions to determine benefit obligation as of December 31:				
Discount rate	4.31%	4.52%	4.25%	4.47%
Compensation growth rate	3.90%	3.90%	N/A	N/A

The assumptions used to determine net periodic pension and postretirement benefit cost for the year ended December 31, 2016 and 2015, are as follows:

	2016 RGHS Pension Plan	2015 RGHS Pension Plan	2016 RGHS Postretirement Plan	2015 RGHS Postretirement Plan
Weighted-average assumptions to determine net cost as of December 31:				
Discount rate	4.52%	4.10%	4.47%	4.00%
Compensation growth rate	3.90%	3.90%	N/A	N/A
Expected return on plan assets	7.50%	7.50%	N/A	N/A

In 2016, the mortality assumption for healthy lives was updated to the RP-2016 table.

Pension Plan assets are trusteed assets and are invested as follows at December 31:

	2016	2015
Cash and money market funds	7%	7%
Common collective trusts	10	5
Common and preferred stock	9	7
Equity mutual funds	7	14
Fixed income mutual funds	11	12
Limited partnerships	56	55
	100%	100%

The Pension Plans' investment strategy is long-term oriented, which are managed via a target asset allocation. Investment guidelines target equity securities, fixed income/bond, and other alternative investments. To develop the expected long-term rate of return on assets assumption, the plan sponsors considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolios are invested, and the expectations for future returns of each asset class.

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

Since the Plan Sponsors' investment policy is to actively manage certain asset classes where the potential exists to outperform the broader market, the expected returns for those asset classes were adjusted to reflect the expected additional returns. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption.

The following table represents the financial instruments in Pension Plans, measured at fair value on a recurring basis based on the valuation hierarchy as of December 31:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash collateral on deposit with brokers	$ 9,965	$ -	$ -	$ 9,965
Money market funds	27,932	-	-	27,932
Common collective trusts	-	-	-	56,000
Domestic common stocks	50,894	-	-	50,894
Equity mutual funds	41,740	-	-	41,740
Fixed income mutual funds	60,950	-	-	60,950
Exchange traded futures	544	-	-	544
Limited partnerships:				
Public equity focused	-	-	-	42,526
Private equity focused	-	-	-	91,004
Real estate/commodity focused	-	-	-	5,056
Fixed income focused	-	-	-	36,054
Multistrategy focused	-	-	-	133,962
Cash	-	-	-	394
Total plan assets at fair value	$ 192,025	$ -	$ -	557,021

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash collateral on deposit with brokers	$ 5,622	$ -	$ -	$ 5,622
Money market funds	30,382	-	-	30,382
Common collective trusts	-	-	-	27,275
Domestic common stocks	37,051	-	-	37,051
Equity mutual funds	71,869	-	-	71,869
Fixed income mutual funds	63,110	-	-	63,110
Limited partnerships:				
Public equity focused	-	-	-	24,073
Private equity focused	-	-	-	77,335
Real estate/commodity focused	-	-	-	17,202
Fixed income focused	-	-	-	20,467
Multistrategy focused	-	-	-	149,606
Cash	-	-	-	146
Total plan assets at fair value	$ 208,034	$ -	$ -	$ 524,138

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

In accordance with ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented elsewhere in the notes for total Plan investments.

	Fair Value at 12/31/16	Fair Value at 12/31/15	Unfunded Commitments at 12/31/16	Unfunded Commitments at 12/31/15
Common collective trusts	$ 56,000	$ 27,275	$ -	$ -
Limited Partnerships:				
Private equity focused	91,004	77,335	34,207	29,861
Public equity focused	42,526	24,073	-	-
Fixed income focused	36,054	20,467	5,000	7,500
Multistrategy focused	133,962	149,606	392	622
Cash	394	146	-	-
Real estate/commodity	5,056	17,202	-	-
Total	$ 364,996	$ 316,104	$ 39,599	$ 37,983

At December 31, 2016, the redemption frequencies of the assets of the Pension Plan are as follows: less than one week (44%), monthly (24%), less than six months (16%) and greater than six months (16%). At December 31, 2015, the redemption frequencies of the assets of the Pension Plan are as follows: less than one week (42%), monthly (29%), less than six months (14%) and greater than six months (16%).

The Redemption Notice Period for Limited Partnerships varies dependent on type investment structure. Notice requirements for limited partnerships generally range from 3 to 120 days for those funds having redemption provisions.

The affiliates expect to contribute approximately $34,578 to the pension and postretirement plans in 2017. The following benefit payments are expected to be paid each year as follows:

	RGHS Pension Plan	RGHS Postretirement Plan
2017	$ 45,792	$ 978
2018	$ 47,206	$ 1,017
2019	$ 51,321	$ 1,039
2020	$ 56,546	$ 1,068
2021	$ 53,028	$ 1,017
2022-2026	$ 285,303	$ 5,909

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	50	(430)
Effect on postretirement benefit obligation	467	(414)

For measurement purposes, annual rate of increases in the per capita cost of covered health care benefits was assumed to be in a range of 6.4% - 6.7% for 2016 (6.6% - 7.0% - 2015). The rate was assumed to decrease gradually to 4.5%-5.0% and remain at that level thereafter.

Unity Health System

The affiliates of the former Unity Health System maintain a noncontributory defined benefit pension plan (the Plan) covering all eligible employees of the affiliates. Benefits under the Plan are based on each participant's years of service, as defined, and compensation during the last five years of credited service. The affiliates annually contribute an amount to the Plan required to satisfy the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA).

In addition, the affiliates also sponsor a defined benefit health care plan for former affiliates' employees that provides postretirement medical benefits to employees who meet certain conditions of employment. The postretirement plan is contributory, with retiree contributions adjusted in conjunction with their years of service. Effective September 1, 1998, this plan was amended so that no retirees after December 31, 1998, are eligible for postretirement benefits.

Included in unrestricted net assets at December 31 2016 and 2015 are the following amounts that have not yet been recognized in net periodic benefit cost for the pension and postretirement benefit plans:

	2016	2015
Unrecognized actuarial loss	$ (124,428)	$ (121,025)
Total	$ (124,428)	$ (121,025)

Changes in plan assets and benefit obligations recorded in unrestricted net assets included the following for the year ended December 31:

	2016	2015
Current year actuarial loss (gain)	$ 3,403	$ (1,037)
Total	$ 3,403	$ (1,037)

The expected amortization of net loss in the next year's expense is estimated to be $10,995 ($10,190 – 2015).

As of December 31, 2016, the Pension Plan accumulated benefit obligation was approximately $299,959 ($267,555 – 2015).

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The following sets forth a summary of the changes in the benefit obligation and plan assets measured at December 31, 2016 and 2015, and the resulting funded status for the aforementioned benefit plans, on a consolidated System basis:

	2016 UHS Pension Plan	2015 UHS Pension Plan	2016 UHS Postretirement Plan	2015 UHS Postretirement Plan
Change in projected benefit obligation:				
Benefit obligation at beginning of year	$ 287,853	$ 285,418	$ 630	$ 638
Service cost	14,332	11,890	-	-
Interest cost	11,858	12,337	27	25
Actuarial losses (gains)	13,610	(12,910)	-	82
Benefits paid	(9,207)	(8,882)	(49)	(115)
Benefit obligation at end of year	$ 318,446	$ 287,853	$ 608	$ 630
Changes in plan assets:				
Fair value of plan assets at beginning of year	$ 177,844	$ 176,780	$ -	$ -
Actual return (loss) on plan assets	13,679	(8,054)	49	115
Employer contributions	20,500	18,000	(49)	(115)
Benefits paid	(9,207)	(8,882)	-	-
Fair value of plan assets at end of year	$ 202,816	$ 177,844	$ -	$ -
Underfunded status of the plan	$ (115,630)	$ (110,009)	$ (608)	$ (630)

	2016 UHS Pension Plan	2015 UHS Pension Plan	2016 UHS Postretirement Plan	2015 UHS Postretirement Plan
Amounts recognized in the consolidated balance sheet consist of:				
Accrued pension and postretirement benefits	$ (115,630)	$ (110,009)	$ (608)	$ (630)
	$ (115,630)	$ (110,009)	$ (608)	$ (630)

The components of net periodic benefit expense for 2016 and 2015 are as follows:

	2016 UHS Pension Plan	2015 UHS Pension Plan	2016 UHS Postretirement Plan	2015 UHS Postretirement Plan
Components of net periodic benefit cost:				
Service cost	$ 14,332	$ 11,890	$ -	$ -
Interest cost	11,858	12,337	27	25
Expected return on plan assets	(13,848)	(14,606)	-	-
Amortization of actuarial losses (gains)	10,377	10,787	-	(50)
Net periodic benefit expense	$ 22,719	$ 20,408	$ 27	$ (25)

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The assumptions used to determine pension and postretirement benefit obligations at the measurement date of December 31, 2016 and 2015, are as follows:

	2016 UHS Pension Plan	2015 UHS Pension Plan	2016 UHS Postretirement Plan	2015 UHS Postretirement Plan
Weighted-average assumptions to determine benefit obligation as of December 31:				
Discount rate	4.50%	4.59%	4.59%	4.59%
Compensation growth rate	2.50%	2.50%	N/A	N/A

The assumptions used to determine net periodic pension and postretirement benefit cost for the year ended December 31, 2016 and 2015, are as follows:

	2016 UHS Pension Plan	2015 UHS Pension Plan	2016 UHS Postretirement Plan	2015 UHS Postretirement Plan
Weighted-average assumptions to determine net cost as of December 31:				
Discount rate	4.59%	4.20%	4.20%	4.20%
Compensation growth rate	2.50%	2.50%	N/A	N/A
Expected return on plan assets	7.50%	8.00%	N/A	N/A

In 2016, the morality assumption for healthy lives was updated utilizing the RP-2000 table projected generationally using Scale BB.

Pension Plan assets are trusteed assets and are invested as follows at December 31:

	2016	2015
Cash and money market funds	8%	7%
Common stock	11	9
Equity mutual funds	16	21
Fixed income mutual funds	7	13
Limited partnerships	49	42
Collective trusts	9	8
	100%	100%

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and projected asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management resulted compared to benchmark returns and for the effect of expenses paid from Plan assets.

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The following table represents the financial instruments in Pension Plans, measured at fair value on a recurring basis based on the valuation hierarchy as of December 31:

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash	$ 15,451	$ -	$ -	$ 15,451
Common stock	22,767	-	-	22,767
Equity mutual funds	32,563	-	-	32,563
Fixed income mutual funds	14,260	-	-	14,260
Common collective trusts	-		-	18,343
Limited partnerships:				
Public equity focused	-	-	-	18,215
Private equity focused	-	-	-	25,453
Real estate/commodity focused	-	-	-	1,522
Fixed income focused	-	-	-	13,300
Multistrategy focused	-	-	-	40,942
Total plan assets at fair value	$ 85,041	$ -	$ -	$ 202,816

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash	$ 12,864	$ -	$ -	$ 12,864
Common stock	16,527	-	-	16,527
Equity mutual funds	37,230	-	-	37,230
Fixed income mutual funds	22,427	-	-	22,427
Common collective trusts	-	-	-	13,331
Limited partnerships:				
Public equity focused	-	-	-	1,028
Private equity focused	-	-	-	36,441
Fixed income focused	-	-	-	24,882
Multistrategy focused	-	-	-	13,114
Total plan assets at fair value	$ 89,048	$ -	$ -	$ 177,844

In accordance with ASU 2015-07, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented elsewhere in the notes for total Plan investments.

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

	Fair Value at 12/31/16	Fair Value at 12/31/15	Unfunded Commitments at 12/31/16	Unfunded Commitments at 12/31/15
Common collective trusts	$ 18,343	$ 13,331	$ -	$ -
Limited partnerships:				
Private equity focused	25,453	36,441	6,820	4,227
Public equity focused	18,215	1,028	-	-
Fixed income focused	13,300	24,882	2,200	3,000
Multi-strategy focused	40,942	13,114	-	-
Real estate/commodity	1,522	-	-	-
Total	$ 117,775	$ 88,796	$ 9,020	$ 7,227

At December 31, 2016, the redemption frequencies of the assets of the Pension Plan are as follows: less than one week (54%), monthly (24%), less than six months (17%) and greater than six months (5%). At December 31, 2015, the redemption frequencies of the assets of the Pension Plan are as follows: less than one week (59%), monthly (23%), less than six months (15%) and greater than six months (3%).

The Redemption Notice Period for Limited Partnerships varies dependent on type investment structure. Notice requirements for limited partnerships generally range from 3 to 120 days for those funds having redemption provisions.

The affiliates expect to contribute approximately $24,000 to the pension plan in 2017. The following benefit payments are expected to be paid each year as follows:

	UHS Pension Plan	UHS Postretirement Plan
2017	$ 10,370	$ 81
2018	$ 10,929	$ 77
2019	$ 12,201	$ 72
2020	$ 13,595	$ 67
2021	$ 14,410	$ 62
2022-2026	$ 188,614	$ 191

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

United Memorial Medical Center (UMMC)

UMMC employees participate in a defined benefit pension plan (the Plan) covering substantially all full time employees. The Plan's policy is to annually fund at levels sufficient to meet the minimum funding requirements as set forth in the Employee Retirement Income Security Act of 1974 (ERISA), as determined by the Plan actuary, plus such additional amounts that the Plan may determine to be appropriate from time to time. Effective April 6, 2007, the Plan was frozen. No new participants were added to the Plan on or after April 6, 2007.

Obligations and Funded Status: The following tables set forth the Plan's funded status and amounts recognized in the consolidated financial statements.

	2016 UMMC Pension Plan	2015 UMMC Pension Plan
Change in the projected benefit obligation:		
Benefit obligation at beginning year	$ 29,777	$ 32,100
Service cost	512	280
Interest cost	1,218	1,148
Actuarial losses (gains)	1,885	(1,795)
Benefits paid	(2,188)	(1,552)
Administrative expenses	(460)	(404)
Benefit obligations at end of year	$ 30,744	$ 29,777
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 18,299	$ 19,418
Actual return (loss) on plan assets	968	(538)
Employer contributions	1,800	1,375
Benefits paid	(2,188)	(1,552)
Administrative expenses	(460)	(404)
Fair value of plan assets at end of year	$ 18,419	$ 18,299
Underfunded status of the plan	$ (12,325)	$ (11,478)
Amounts recognized in the consolidated balance sheets:		
Accrued pension and postretirement benefits	$ (12,325)	$ (11,478)

The components of net periodic benefit expense for 2016 and 2015 are as follows:

Components of net periodic benefit cost:		
Service cost	$ 511	$ 280
Interest cost	1,218	1,148
Expected return on plan assets	(1,102)	(1,241)
Amortization of prior service cost	11	11
Amortization of net loss	1,297	1,306
Net periodic benefit cost	$ 1,935	$ 1,504

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The assumptions used to determine benefit obligations at the measurement date of December 31, are as follows:

	2016 UMMC Pension Plan	2015 UMMC Pension Plan
Weighted average assumptions to determine benefit obligation as of December 31:		
Discount rate	4.21%	4.38%
Expected return on plan assets	6.50%	7.00%

UMMC utilized the RP-2016 mortality tables in determining the benefit obligation for the year ended December 31, 2016.

The Plan's actual asset allocation percentages and concentrations for the years ended December 31, 2016 and 2015 are as follows at the respective measurement dates:

	2016 UMMC Pension Plan	2015 UMMC Pension Plan
Equities	60%	65%
Fixed Income	24	22
Other	16	13
	100%	100%

The Plan's investment policies and strategies were used to develop the expected long-term rate of return and is based upon a building block method, whereby the expected rate of return on each asset class is broken down into three components: inflation, the real risk free rate of return and the risk for each asset class. The Plan's target investment ranges are as follows, equities 30% to 75%, fixed income 10% to 40% and other 10% to 45%.

The following table represents the financial instruments in Pension Plans, measured at fair value on a recurring basis based on the valuation hierarchy as of December 31, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 334	$ -	$ -	$ 334
Exchange traded funds	4,293	-	-	4,293
Mutual funds	5,859	-	-	5,859
US government and agency obligations	-	785	-	785
Corporate obligations and convertible bonds	-	782	-	782
Common and preferred stocks	6,366	-	-	6,366
Total plan assets at fair value	$ 16,852	$ 1,567	$ -	$ 18,419

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

	2015			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 425	$ -	$ -	$ 425
Exchange traded funds	8,228	-	-	8,228
Mutual funds	4,409	-	-	4,409
US government and agency obligations	-	606	-	606
Corporate obligations and convertible bonds	-	536	-	536
Common and preferred stocks	4,095	-	-	4,095
Total plan assets at fair value	$ 17,157	$ 1,142	$ -	$ 18,299

UMMC expects to contribute approximately $1,800 to the Plan in 2017 and UMMC is expected to make projected benefit payments in an approximate aggregate annual amount for the next ten years as follows:

	UMMC Pension Plan
2017	$ 2,187
2018	$ 2,398
2019	$ 2,185
2020	$ 2,174
2021	$ 1,899
2022-2026	$ 9,530

Other

Rochester General Health System

The affiliates of the former Rochester General Health System have a non-contributory, tax-exempt 403(b) tax sheltered annuity plan covering employees meeting certain eligibility requirements. In addition, the affiliates have a deferred compensation plan which permits certain key employees to defer a portion of their compensation. The deferred compensation, which is funded through investments with third-party financial services companies, is distributable in cash after retirement or termination of employment and is separately recorded in the accompanying consolidated balance sheet as an asset and a liability.

Unity Health System

The affiliates of the former Unity Health System maintain a 401(k) Savings Plan which covers all eligible employees of the for-profit affiliates of the former System. Under the terms of the plan, eligible employees may contribute a portion of their annual compensation, up to maximum amounts as limited by statutory requirements, on a pre-tax basis. The affiliates provide matching contributions of 25% of the participant's elective deferral up to 1% of the participant's compensation, subject to ERISA limitations. The affiliates made contributions to the plan of approximately $170 during 2016 ($164 – 2015).

(In Thousands of Dollars)

13. Pension and Postretirement Benefit Plans (Continued)

The affiliates maintain a 403(b) Savings Plan which covers all eligible employees of the not-for-profit affiliates of the former System. Under the terms of the plan, eligible employees may contribute a portion of their annual compensation, up to maximum amounts as limited by statutory requirements, on a pre-tax basis. The affiliates provide matching contributions of 25% of the participant's elective deferral up to 1% of the participant's compensation, subject to ERISA limitations. The affiliates made contributions to the plan of approximately $1,401 during 2016 ($1,330 – 2015).

United Memorial Medical Center (UMMC)

UMMC offers a 403(b) defined contribution retirement plan to its employees. Under the plan, UMMC contributes 1.5% of each employee's wage to their specific 403(b) account. Additionally, employees may also elect to contribute to the plan through salary and wage deferral up to maximum amounts established by the Internal Revenue Service (currently established at 100% of annual salary and wage up to $18 or $24 if over age 50). UMMC matches such employee contributions at a rate of 50% of employee contributions up to a maximum 6% of an employee's wage. UMMC contributed approximately $1,152 to this Plan during the year ended December 31, 2016 ($1,098 – 2015). In addition, UMMC has a deferred compensation plan that permits certain key employees to defer a portion of their compensation. The deferred compensation, which is funded through investments with third-party financial services companies, is distributable in cash after retirement or termination of employment and is separately recorded in the accompanying consolidated balance sheets as an asset and a liability.

Clifton Springs Hospital and Clinic (CSHC)

CSHC maintains a defined contribution plan covering substantially all employees. Under the terms of plan, which is intended to qualify under Section 401(k) of the Internal Revenue Code, CSHC matches employee contributions, up to a specified maximum amount. Retirement expense was approximately $147 in 2016 ($145 – 2015).

14. Temporarily Restricted Net Assets and Endowments

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Education and research	$ 13,239	$ 12,685
Equipment and facility improvements	38,721	12,821
Hospital support and clinical programs	11,230	14,630
	$ 63,190	$ 40,136

(In Thousands of Dollars)

14. Temporarily Restricted Net Assets and Endowments (Continued)

Permanently restricted net assets are principally endowment funds to be held in perpetuity and are available for the following purposes at December 31:

	2016	2015
Education and research	$ 1,619	$ 1,468
Equipment and facility improvements	2,105	386
Hospital support and clinical programs	16,599	17,328
	$ 20,323	$ 19,182

The System's foundations (the Foundations) maintain endowments consisting of numerous individual donor-restricted funds established for a variety of purposes, which are held in perpetuity. Net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

The Foundations have attempted to provide a predictable stream of funding to programs supported by their endowments while seeking to maintain the purchasing power of the endowment assets. The Foundations' funds are invested with a goal of producing the highest long-term rate of return without materially exceeding an acceptable level of long-term volatility. Endowment assets are invested in the Pooled Investment Fund – Master Investment Plan, equities, mutual funds, and fixed income securities.

Total return on donor-designated endowment funds is reported in temporarily restricted net assets. The total amounts accumulated are considered available for distribution. Unrestricted funds are distributed in the same year as the investment returns are received.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift. There were no deficiencies as of December 31, 2016 and 2015.

Interpretation of Relevant Law

Permanently restricted net assets represent endowments that have been restricted by donors to be maintained in perpetuity. The Foundations follow the requirements of the New York Prudent Management of Institutional Funds Act (NYPMIFA) passed into law effective September 2010 as they relate to its permanently restricted net assets. Prior to the enactment of the law, the Foundations followed the requirements of the Uniform Management of Institutional Funds Act (UMIFA). The Foundations interpreted NYPMIFA, which did not have a significant effect on the Foundations' endowment policies that were in effect prior to the enactment, as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment fund absent explicit donor stipulations to the contrary.

The Foundations classify as permanently restricted net assets the original value of the gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. Returns on the permanent endowment are used in accordance with the direction of the applicable donor gift. Returns on permanently restricted net assets are classified as temporarily restricted net assets until the amounts are appropriated for expenditure in accordance with a manner consistent with the standard of prudence prescribed by NYPMIFA.

(In Thousands of Dollars)

14. Temporarily Restricted Net Assets and Endowments (Continued)

In accordance with NYPMIFA, the Foundations consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund; (2) the purposes of the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution; (6) the expected total return from income and the appreciation of investments; (7) other resources of the Foundations; and (8) the investment and spending policies of the Foundations. Earnings on the Foundations' endowment are earmarked for specific purposes based on designation of the donor. The System's policy is to spend as much of the endowment earnings as considered necessary.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2015	$ 1,771	$ 15,196	$ 16,967
Investment return:			
Investment income	459	70	529
Net appreciation (realized and unrealized)	(492)	(42)	(534)
Total investment return	(33)	28	(5)
Contributions	-	2,635	2,635
Change in beneficial interest in foundations	-	2,212	2,212
Appropriation of endowment assets for expenditure	(393)	(889)	(1,282)
Endowment net assets, December 31, 2015	$ 1,345	$ 19,182	$ 20,527
Endowment net assets, January 1, 2016	$ 1,345	$ 19,182	$ 20,527
Investment income	389	-	389
Net appreciation (realized and unrealized)	589	425	1,014
Total investment return	978	425	1,403
Contributions	-	716	716
Appropriation of endowment assets for expenditure	(673)	-	(673)
Endowment net assets, December 31, 2016	$ 1,650	$ 20,323	$ 21,973

(In Thousands of Dollars)

15. Income Taxes

Income tax expense consists of the following for the year ended December 31, and is recorded in the accompanying statement of operations and changes in net assets:

	2016	2015
Current	$ 3,443	$ 5,408
Deferred	660	(40)
Total income tax expense	$ 4,103	$ 5,368
Income before taxes of taxable affiliates	**$** 12,732	**$** 1,966

The System's income tax expense varies from the tax computed using statutory rates principally due to the inclusion of state tax expense and other items.

The System's deferred income tax assets and liabilities are as follows at December 31:

	2016	2015
Current deferred asset	$ 2,693	$ 2,534
Current deferred tax liability	(89)	(89)
Noncurrent deferred income tax liabilities	(1,185)	(2,300)
Net deferred income tax assets	1,419	145
Valuation allowance	-	-
Net deferred income tax assets included in the consolidated balance sheet	$ 1,419	$ 145

The net deferred income tax items result primarily from future tax consequences attributable to differences between the tax bases and carrying amounts of compensation accruals, accounts receivable, and property, plant, and equipment.

The System paid income taxes of approximately $5,382 in 2016 ($5,069 – 2015).

16. Legal Matters

The System is involved in litigation and regulatory investigations arising in the course of business. The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigation and allegation concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed under Medicare and Medicaid programs in the current and preceding years.

Management believes it is in compliance with such laws and regulations and no unknown or unasserted claims were known at this time, which could have a material adverse effect on the System's future financial position, results from operations or cash flows.

(In Thousands of Dollars)

17. Functional Expenses

The System provides health care and other services. Expenses related to providing these functions are as follows for the year ended December 31:

	2016	2015
Health care services	$ 1,449,833	$ 1,407,715
General and administrative	449,443	417,806
Total expenses	$ 1,899,276	$ 1,825,521

18. Subsequent Events

Subsequent events have been evaluated through April 17, 2017, which is the date these consolidated financial statements were issued.

Supplementary Information

Rochester Regional Health and Affiliates

Consolidating Balance Sheet
(in thousands of dollars)

December 31, 2016

Assets	Hospitals	Healthcare and Community Services	Nursing Homes and Care for the Aging	Foundations	System Corporations and Insurance	Housing Affiliates	Eliminations	Consolidated Total
Current assets:								
Cash and cash equivalents	$ 86,150	$ 6,254	$ 11,151	$ 5,243	$ 32,007	$ 2,488	$ -	$ 143,293
Investments	100,123	-	-	-	-	753	-	100,876
Current portion of assets whose use is limited	33,322	-	-	-	-	-	-	33,322
Patient accounts receivable, net of allowance for doubtful accounts of approximately $33,902	122,271	4,644	7,739	-	18,629	223	-	153,506
Estimated third-party payor receivables	23,918	-	260	-	-	-	-	24,178
Due from affiliates	74,091	109	148	-	10,348	487	(85,183)	-
Pledges receivable, net	-	-	-	6,288	-	-	-	6,288
Inventories	11,196	675	485	-	1,498	48	-	13,902
Prepaid expenses and other	25,862	659	253	64	6,817	234	-	33,889
Total current assets	476,933	12,341	20,036	11,595	69,299	4,233	(85,183)	509,254
Assets whose use is limited:								
Funds held by bond trustees	26,234	3,409	1,521	-	-	5,079	-	36,243
Board designated funds	252,068	-	15,229	5,683	-	-	-	272,980
Assets held for self-insurance programs	-	-	-	-	84,289	-	-	84,289
Escrow fund	103	-	2,782	-	-	525	-	3,410
Donor restricted	4,203	-	-	52,124	-	-	-	56,327
Deferred compensation	9,371	-	-	-	1,679	-	-	11,050
Total assets whose use is limited, net of current portion	291,979	3,409	19,532	57,807	85,968	5,604	-	464,299
Property and equipment – net	651,096	97,101	45,295	690	24,839	48,600	-	867,621
Other assets:								
Interest in net assets of the Foundations	81,160	289	89	-	4,926	662	(84,354)	2,772
Estimated third-party payor receivables, less current portion	4,496	-	2,380	-	-	-	-	6,876
Goodwill	-	-	-	-	26,552	-	-	26,552
Insurance recoveries receivable	62,479	-	4,054	-	35,013	-	(84,300)	17,246
Other	27,514	1,885	1,763	21,952	56,104	444	(72,017)	37,645
	175,649	2,174	8,286	21,952	122,595	1,106	(240,671)	91,091
Total assets	$ 1,595,657	$ 115,025	$ 93,149	$ 92,044	$ 302,701	$ 59,543	$ (325,854)	$ 1,932,265

Rochester Regional Health and Affiliates

Consolidating Balance Sheet (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and Net Assets	Hospitals	Healthcare and Community Services	Nursing Homes and Care for the Aging	Foundations	System Corporations and Insurance	Housing Affiliates	Eliminations	Consolidated Total
Current liabilities:								
Accounts payable	$ 56,488	$ 1,276	$ 1,387	$ 53	$ 15,584	$ 441	$ -	$ 75,229
Accrued salaries, vacation, and payroll taxes	59,397	501	3,241	239	14,448	288	-	78,114
Accrued expenses and other	48,600	1,530	5,207	1,474	6,047	600	(2,510)	60,948
Accrued interest payable	4,568	132	45	-	-	786	-	5,531
Estimated third-party payor payables	34,242	-	1,522	-	-	-	-	35,764
Due to affiliates	7,549	30,851	5,853	4,360	27,785	266	(76,664)	-
Current portion of long-term debt, net of deferred financing costs	18,104	2,384	934	-	-	1,263	-	22,685
Total current liabilities	228,948	36,674	18,189	6,126	63,864	3,644	(79,174)	278,271
Long-term liabilities:								
Long-term debt net of deferred financing costs, less current portion	369,784	64,933	19,868	-	-	51,011	-	505,596
Interest rate swap contract	-	-	510	-	-	1,533	-	2,043
Accrued pension and postretirement benefits	104,045	721	7,785	387	244,934	1,510	-	359,382
Accrued insured and self-insured liabilities	120,833	148	7,739	-	105,504	80	(102,309)	131,995
Estimated third-party payor payables, less current portion	154,504	1,338	13,286	-	-	-	-	169,128
Deferred compensation	9,073	-	-	-	1,818	-	-	10,891
Due to affiliates	6,006	-	-	-	-	-	(6,006)	-
Other	1,669	221	317	-	1,185	6,527	-	9,919
Total long-term liabilities	765,914	67,361	49,505	387	353,441	60,661	(108,315)	1,188,954
Total liabilities	994,862	104,035	67,694	6,513	417,305	64,305	(187,489)	1,467,225
Net assets:								
Unrestricted	522,071	10,701	25,366	8,311	(127,876)	(5,842)	(55,343)	377,388
Noncontrolling interest in net assets of affiliates	-	-	-	-	3,721	418	-	4,139
Total unrestricted net assets	522,071	10,701	25,366	8,311	(124,155)	(5,424)	(55,343)	381,527
Temporarily restricted	62,020	105	74	59,604	3,549	611	(62,773)	63,190
Permanently restricted	16,704	184	15	17,616	6,002	51	(20,249)	20,323
Total net assets	600,795	10,990	25,455	85,531	(114,604)	(4,762)	(138,365)	465,040
Total liabilities and net assets	$ 1,595,657	$ 115,025	$ 93,149	$ 92,044	$ 302,701	$ 59,543	$ (325,854)	$ 1,932,265

Rochester Regional Health and Affiliates

Consolidating Statement of Operations
(in thousands of dollars)

For the Year Ended December 31, 2016

	Hospitals	Healthcare and Community Services	Nursing Homes and Care for the Aging	Foundations	System Corporations and Insurance	Housing Affiliates	Eliminations	Consolidated Total
Unrestricted revenues, gains, and other support								
Patient service revenue, net of contractual allowances and discounts	$ 1,636,403	$ 27,923	$ 63,323	$ -	$ 116,748	$ -	$ (14,958)	$ 1,829,439
Provision for bad debts	(33,085)	(188)	(1,361)	-	(1,923)	-	-	(36,557)
Net patient service revenue, less provision for bad debts	1,603,318	27,735	61,962	-	114,825	-	(14,958)	1,792,882
Capitation fees	-	-	62,058	-	-	-	-	62,058
Other revenue, gains and other support	58,514	16,011	4,177	2,612	49,678	15,928	(59,677)	87,243
Net assets released from restrictions for operations	-	-	-	2,101	-	-	-	2,101
Total unrestricted revenues, gains, and other support	1,661,832	43,746	128,197	4,713	164,503	15,928	(74,635)	1,944,284
Expenses								
Salaries and wages	798,742	11,873	61,072	2,325	60,983	5,163	(23,200)	916,958
Employee benefits	162,112	2,464	12,443	512	7,098	1,050	-	185,679
Professional fees	171,333	6,181	34,586	549	1,936	1,564	(15,576)	200,573
Purchased services and supplies	379,413	13,989	17,624	655	55,210	2,627	(19,951)	449,567
Depreciation and amortization	74,696	4,072	3,513	55	2,878	2,421	-	87,635
Malpractice and workers' compensation expense	24,680	161	(139)	-	18,646	96	(15,908)	27,536
Interest	16,974	3,323	876	-	-	2,601	-	23,774
Other expenses	1,407	-	-	3,092	3,045	10	-	7,554
Total expenses	1,629,357	42,063	129,975	7,188	149,796	15,532	(74,635)	1,899,276
Income (loss) from operations	32,475	1,683	(1,778)	(2,475)	14,707	396	-	45,008
Income tax expense	-	-	-	-	(4,103)	-	-	(4,103)
Non-operating:								
Other nonoperating gains	253	-	-	297	206	23	-	779
Noncontrolling interest in net losses of combined subsidiaries	-	-	-	-	-	286	-	286
Investment income, net	6,065	-	327	1,093	7	2	-	7,494
Total non-operating income	6,318	-	327	1,390	213	311	-	8,559
Excess (deficiency) of revenues over expenses	$ 38,793	$ 1,683	$ (1,451)	$ (1,085)	$ 10,817	$ 707	$ -	$ 49,464

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Hospital Affiliates
(in thousands of dollars)

December 31, 2016

Assets	Rochester General Hospital	Unity Hospital	Newark Wayne Community Hospital	United Memorial Medical Center	Clifton Springs Hospital	Eliminations	Consolidating
Current assets:							
Cash and cash equivalents	$ 37,826	$ 22,175	$ 6,845	$ 12,027	$ 7,277	$ -	$ 86,150
Investments	65,755	10,035	13,448	10,885	-	-	100,123
Current portion of assets whose use is limited	872	30,925	-	1,227	298	-	33,322
Patient accounts receivable, net of allowance for doubtful accounts of $27,857	58,954	36,243	6,772	14,256	6,046	-	122,271
Estimated third-party payor receivables	11,539	8,892	2,304	598	585	-	23,918
Due from affiliates	72,522	16,209	4,208	-	294	(19,142)	74,091
Inventories	1,520	5,964	117	1,984	1,611	-	11,196
Prepaid expenses and other	17,608	3,171	1,676	2,521	886	-	25,862
Total current assets	266,596	133,614	35,370	43,498	16,997	(19,142)	476,933
Assets whose use is limited:							
Funds held by bond trustees	7,231	16,413	2,103	-	487	-	26,234
Board designated funds	219,260	-	32,785	-	23	-	252,068
Escrow fund	-	-	-	103	-	-	103
Donor restricted	-	-	-	261	3,942	-	4,203
Deferred compensation	2,024	7,008	-	339	-	-	9,371
Total assets whose use is limited, net of current portion	228,515	23,421	34,888	703	4,452	-	291,979
Property and equipment – net	314,474	237,580	33,563	45,619	19,860	-	651,096
Other assets:							
Interest in net assets of the Foundations	58,531	8,506	7,641	1,594	4,888	-	81,160
Estimated third-party payor receivables, less current portion	3,383	712	52	-	349	-	4,496
Insurance recoveries receivables	53,366	1,318	6,442	472	881	-	62,479
Other	19,256	2,403	2,045	2,655	1,155	-	27,514
	134,536	12,939	16,180	4,721	7,273	-	175,649
Total assets	$ 944,121	$ 407,554	$ 120,001	$ 94,541	$ 48,582	$ (19,142)	$ 1,595,657

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Hospital Affiliates (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	Rochester General Hospital	Unity Hospital	Newark Wayne Community Hospital	United Memorial Medical Center	Clifton Springs Hospital	Eliminations	Consolidating
Current liabilities:							
Accounts payable	$ 38,825	$ 10,456	$ 3,334	$ 2,658	$ 1,215	$ -	$ 56,488
Accrued salaries, vacation, and payroll taxes	35,180	15,351	2,562	4,204	2,100	-	59,397
Accrued expenses and other	35,225	7,074	2,173	2,637	1,491	-	48,600
Accrued interest payable	406	4,084	-	35	43	-	4,568
Estimated third-party payor payables	15,754	14,731	2,714	380	663	-	34,242
Due to affiliates	10,193	4,422	6,576	2,692	2,808	(19,142)	7,549
Current portion of long-term debt, net of deferred financing costs	10,111	5,600	736	1,439	218	-	18,104
Total current liabilities	145,694	61,718	18,095	14,045	8,538	(19,142)	228,948
Long-term liabilities:							
Long-term debt net of deferred financing costs, less current portion	130,121	204,397	11,603	22,876	787	-	369,784
Accrued pension and postretirement benefit	-	91,721	-	12,324	-	-	104,045
Accrued insured and self-insured liabilities	90,215	15,815	11,666	1,804	1,333	-	120,833
Estimated third-party payor payables, less current portion	113,269	22,202	16,142	1,803	1,088	-	154,504
Deferred compensation	2,185	6,549	-	339	-	-	9,073
Due to affiliates	-	-	-	-	6,006	-	6,006
Other	-	101	92	1,180	296	-	1,669
Total long-term liabilities	335,790	340,785	39,503	40,326	9,510	-	765,914
Total liabilities	481,484	402,503	57,598	54,371	18,048	(19,142)	994,862
Net assets:							
Unrestricted	405,694	(3,455)	59,095	37,877	22,860	-	522,071
Temporarily restricted	48,123	5,943	2,906	2,006	3,042	-	62,020
Permanently restricted	8,820	2,563	402	287	4,632	-	16,704
Total net assets	462,637	5,051	62,403	40,170	30,534	-	600,795
Total liabilities and net assets	$ 944,121	$ 407,554	$ 120,001	$ 94,541	$ 48,582	$ (19,142)	$ 1,595,657

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – Hospital Affiliates
(in thousands of dollars)

For the Year Ended December 31, 2016

	Rochester General Hospital	Unity Hospital	Newark Wayne Community Hospital	United Memorial Medical Center	Clifton Springs Hospital	Eliminations	Consolidating
Unrestricted revenues, gains, and other support							
Patient service revenue, net of contractual allowances and discounts	$ 918,608	$ 451,065	$ 103,933	$ 104,346	$ 61,581	$ (3,130)	$ 1,636,403
Provision for bad debts	(15,933)	(9,219)	(2,056)	(3,716)	(2,161)	-	(33,085)
Net patient service revenue, less provision for bad debts	902,675	441,846	101,877	100,630	59,420	(3,130)	1,603,318
Other revenue, gains and other support	42,172	8,925	2,133	3,825	1,514	(55)	58,514
Total unrestricted revenues, gains, and other support	944,847	450,771	104,010	104,455	60,934	(3,185)	1,661,832
Expenses							
Salaries and wages	455,899	227,400	46,966	40,181	28,296	-	798,742
Employee benefits	87,148	50,742	8,066	11,145	5,011	-	162,112
Professional fees	91,629	42,603	15,643	12,548	10,309	(1,399)	171,333
Purchased services and supplies	231,669	90,045	18,973	28,209	12,303	(1,786)	379,413
Depreciation and amortization	40,978	21,146	4,103	5,218	3,251	-	74,696
Malpractice and workers' compensation expense	13,014	7,259	914	2,239	1,254	-	24,680
Interest	4,649	10,270	593	1,121	341	-	16,974
Other expenses	-	-	1,407	-	-	-	1,407
Total expenses	924,986	449,465	96,665	100,661	60,765	(3,185)	1,629,357
Income from operations	19,861	1,306	7,345	3,794	169	-	32,475
Non-operating:							
Other nonoperating gains (losses), net	17	-	323	(93)	6	-	253
Investment income (loss), net	5,011	(151)	768	396	41	-	6,065
Total non-operating income (loss)	5,028	(151)	1,091	303	47	-	6,318
Excess of revenues over expenses	$ 24,889	$ 1,155	$ 8,436	$ 4,097	$ 216	$ -	$ 38,793

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Healthcare and Community Services
(in thousands of dollars)

December 31, 2016

Assets	Unity Linden Oaks Surgery Center	GRHS Foundation, Inc.	PRCD, Inc.	Rochester Mental Health Center	Park Ridge Child Care Center, Inc.	Corporate Care of the Finger Lakes	Eliminations	Consolidating
Current assets:								
Cash and cash equivalents	$ 102	$ 4,930	$ 5	$ 1,018	$ 134	$ 65	-	$ 6,254
Patient accounts receivable, net of allowance for doubtful accounts of $556	1,156	2,602	104	782	-	-	-	4,644
Due from affiliates	-	-	-	109	-	-	-	109
Inventories	201	389	-	85	-	-	-	675
Prepaid expenses and other	41	366	15	72	159	6	-	659
Total current assets	1,500	8,287	124	2,066	293	71	-	12,341
Assets whose use is limited:								
Funds held by bond trustees	-	3,409	-	-	-	-	-	3,409
Total assets whose use is limited, net of current portion	-	3,409	-	-	-	-	-	3,409
Property and equipment – net	542	94,810	503	334	912	-	-	97,101
Other assets:								
Interest in net assets of the Foundations	-	-	201	-	88	-	-	289
Other	-	1,841	-	44	-	-	-	1,885
	-	1,841	201	44	88	-	-	2,174
Total assets	$ 2,042	$ 108,347	$ 828	$ 2,444	$ 1,293	$ 71	$ -	$ 115,025

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Healthcare and Community Services (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	Unity Linden Oaks Surgery Center	GRHS Foundation, Inc.	PRCD, Inc.	Rochester Mental Health Center	Park Ridge Child Care Center, Inc.	Corporate Care of the Finger Lakes	Eliminations	Consolidating
Current liabilities:								
Accounts payable	$ 463	$ 707	$ 6	$ 85	$ -	$ 15	$ -	$ 1,276
Accrued salaries, vacation, and payroll taxes	-	66	45	349	37	4	-	501
Accrued expenses and other	26	564	86	750	88	16	-	1,530
Accrued interest payable	-	132	-	-	-	-	-	132
Due to affiliates	5,844	23,666	146	1,170	25	-	-	30,851
Current portion of long-term debt, net of deferred financing costs	-	2,384	-	-	-	-	-	2,384
Total current liabilities	6,333	27,519	283	2,354	150	35	-	36,674
Long-term liabilities:								
Long-term debt net of deferred financing costs less current portion	-	64,933	-	-	-	-	-	64,933
Accrued pension and postretirement benefits	82	-	313	-	326	-	-	721
Accrued insured and self-insured liabilities	-	-	-	128	20	-	-	148
Estimated third-party payor payables, less current portion	-	-	-	1,338	-	-	-	1,338
Deferred compensation	-	-	-	-	-	-	-	-
Other	-	199	-	-	22	-		221
Total long-term liabilities	82	65,132	313	1,466	368	-	-	67,361
Total liabilities	6,415	92,651	596	3,820	518	35	-	104,035
Net assets:								
Unrestricted	(4,373)	15,696	31	(1,376)	687	36	-	10,701
Temporarily restricted	-	-	96	-	9	-		105
Permanently restricted	-	-	105	-	79	-		184
Total net assets	(4,373)	15,696	232	(1,376)	775	$ 36	-	10,990
Total liabilities and net assets	$ 2,042	$ 108,347	$ 828	$ 2,444	$ 1,293	$ 71	$ -	$ 115,025

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – Healthcare and Community Services
(in thousands of dollars)

For the Year Ended December 31, 2016

	Unity Linden Oaks Surgery Center	GRHS Foundation, Inc.	PRCD, Inc.	Rochester Mental Health Center	Park Ridge Child Care Center, Inc.	Corporate Care of the Finger Lakes	Eliminations	Consolidating
Unrestricted revenues, gains, and other support								
Patient service revenue, net of contractual allowances and discounts	$ 7,527	$ 10,707	$ 1,706	$ 7,983	$ -	$ -	$ -	$ 27,923
Provision for bad debts	(67)	(40)	-	(81)	-	-	-	(188)
Net patient service revenue, less provision for bad debts	7,460	10,667	1,706	7,902	-	-	-	27,735
Other revenue, gains and other support	-	13,411	552	359	1,578	111	-	16,011
Total unrestricted revenues, gains, and other support	7,460	24,078	2,258	8,261	1,578	111	-	43,746
Expenses								
Salaries and wages	1,872	2,037	1,239	5,676	996	53	-	11,873
Employee benefits	355	450	322	1,090	242	5	-	2,464
Professional fees	741	4,483	347	471	130	9	-	6,181
Purchased services and supplies	4,391	8,521	295	665	94	23	-	13,989
Depreciation and amortization	150	3,500	95	264	63	-	-	4,072
Malpractice and workers' compensation expense	37	37	-	86	1	-	-	161
Interest	-	3,323	-	-	-	-	-	3,323
Other expenses	-	-	-	-	-	-	-	-
Total expenses	7,546	22,351	2,298	8,252	1,526	90	-	42,063
Excess (deficiency) of revenues over expenses	$ (86)	$ 1,727	$ (40)	$ 9	$ 52	$ 21	$ -	$ 1,683

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Nursing Homes and Care for the Aging
(in thousands of dollars)

December 31, 2016

Assets	Rochester General Long-Term Care	Independent Living for Seniors	North Park Nursing Home, Inc.	Park Ridge Nursing Home, Inc.	Via Health Home Care	Eliminations	Consolidating
Current assets:							
Cash and cash equivalents	$ 3	$ 7,782	$ 502	$ 2,864	$ -	$ -	$ 11,151
Patient accounts receivable, net of allowance for doubtful accounts of approximately $5,475	2,751	348	1,657	2,983	-	-	7,739
Estimated third-party payor receivables	196	-	22	42	-	-	260
Due from affiliates	1	133	15	-	-	(1)	148
Inventories	290	41	64	90	-	-	485
Prepaid expenses and other	21	174	46	12	-	-	253
Total current assets	3,262	8,478	2,306	5,991	-	(1)	20,036
Assets whose use is limited:							
Funds held by bond trustees	-	-	-	1,521	-	-	1,521
Board designated funds	-	15,229	-	-	-	-	15,229
Escrow fund	-	2,782	-	-	-	-	2,782
Total assets whose use is limited, net of current portion	-	18,011	-	1,521	-	-	19,532
Property and equipment – net	14,336	2,492	10,045	18,422	-	-	45,295
Other assets:							
Interest in net assets of the Foundations	-	-	48	41			89
Estimated third-party payor receivables	135	-	70	2,175	-	-	2,380
Insurance recoveries receivable	3,327	727	-	-	-	-	4,054
Other	854	851	36	22	-	-	1,763
	4,316	1,578	154	2,238	-	-	8,286
Total assets	$ 21,914	$ 30,559	$ 12,505	$ 28,172	$ -	$ (1)	$ 93,149

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Nursing Homes and Care for the Aging (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	Rochester General Long-Term Care	Independent Living for Seniors	North Park Nursing Home, Inc.	Park Ridge Nursing Home, Inc.	Via Health Home Care	Eliminations	Consolidating
Current liabilities:							
Accounts payable	$ 531	$ 611	$ 112	$ 133	$ -	$ -	$ 1,387
Accrued salaries, vacation, and payroll taxes	941	1,072	446	782	-	-	3,241
Accrued expenses and other	1,508	2,877	314	508	-	-	5,207
Accrued interest payable	-	-	9	36	-	-	45
Estimated third-party payor payables	84	1,353	46	39	-	-	1,522
Due to affiliates	2,519	2,623	357	355	-	(1)	5,853
Current portion of long-term debt net of deferred financing costs	-	-	594	340	-	-	934
Total current liabilities	5,583	8,536	1,878	2,193	-	(1)	18,189
Long-term liabilities:							
Long-term debt net of deferred financing costs, less current portion	-	-	4,002	15,866	-	-	19,868
Interest rate swap contract	-	-	29	481	-	-	510
Accrued pension and postretirement benefits	-	-	1,895	5,890	-	-	7,785
Accrued insured and self-insured liabilities	5,277	1,987	200	275	-	-	7,739
Estimated third-party payor payables, less current portion	5,814	4,770	224	990	1,488	-	13,286
Other	240	-	55	22	-	-	317
Total long-term liabilities	11,331	6,757	6,405	23,524	1,488	-	49,505
Total liabilities	16,914	15,293	8,283	25,717	1,488	(1)	67,694
Net assets:							
Unrestricted	5,000	15,266	4,174	2,414	(1,488)	-	25,366
Temporarily restricted	-	-	48	26	-		74
Permanently restricted	-	-	-	15	-		15
Total net assets	5,000	15,266	4,222	2,455	(1,488)	-	25,455
Total liabilities and net assets	$ 21,914	$ 30,559	$ 12,505	$ 28,172	$ -	$ (1)	$ 93,149

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – Nursing Homes and Care for the Aging
(in thousands of dollars)

For the Year Ended December 31, 2016

	Rochester General Long-Term Care	Independent Living for Seniors	North Park Nursing Home, Inc.	Park Ridge Nursing Home, Inc.	Via Health Home Care	Eliminations	Consolidating
Unrestricted revenues, gains, and other support							
Patient service revenue, net of contractual allowances and discounts	$ 26,482	$ -	$ 14,589	$ 25,114	$ -	$ (2,862)	$ 63,323
Provision for bad debts	(389)	-	(295)	(677)	-	-	(1,361)
Net patient service revenue, less provision for bad debts	26,093	-	14,294	24,437	-	(2,862)	61,962
Capitation fees	-	62,058	-	-	-	-	62,058
Other revenue, gains and other support	1,712	-	664	1,801	-	-	4,177
Total unrestricted revenues, gains, and other support	27,805	62,058	14,958	26,238	-	(2,862)	128,197
Expenses							
Salaries and wages	16,645	20,197	9,308	14,922	-	-	61,072
Employee benefits	3,333	4,156	1,918	3,036	-	-	12,443
Professional fees	4,023	27,980	731	1,852	-	-	34,586
Purchased services and supplies	6,183	8,678	1,851	3,774	-	(2,862)	17,624
Depreciation and amortization	1,285	364	856	1,008	-	-	3,513
Malpractice and workers' compensation expense	(480)	(114)	176	279	-	-	(139)
Interest	-	-	156	720	-	-	876
Other expenses	-	-	-	-	-	-	-
Total expenses	30,989	61,261	14,996	25,591	-	(2,862)	129,975
(Loss) income from operations	(3,184)	797	(38)	647	-	-	(1,778)
Non-operating:							
Investment income, net	-	327	-	-	-	-	327
Total non-operating income	-	327	-	-	-	-	327
(Deficiency) excess of revenues over expenses	$ (3,184)	$ 1,124	$ (38)	$ 647	$ -	$ -	$ (1,451)

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Foundations
(in thousands of dollars)

December 31, 2016

Assets	Rochester General Hospital Foundation	Unity Health Foundation	Newark Wayne Community Hospital Foundation	Clifton Springs Hospital and Clinic Foundation	Eliminations	Consolidating
Current assets:						
Cash and cash equivalents	$ 3,822	$ 9	$ 70	$ 1,342	$ -	$ 5,243
Due from affiliates	1	389	75	25	(490)	-
Pledges receivable, net	5,322	733	158	75	-	6,288
Prepaid expenses and other	46	13	5	-	-	64
Total current assets	9,191	1,144	308	1,442	(490)	11,595
Assets whose use is limited:						
Board designated funds	431	1,010	4,240	2	-	5,683
Donor restricted	35,231	10,151	3,009	3,733	-	52,124
Total assets whose use is limited, net of current portion	35,662	11,161	7,249	3,735	-	57,807
Property and equipment – net	241	449	-	-	-	690
Other assets:						
Other	19,260	2,539	153	-	-	21,952
	19,260	2,539	153	-	-	21,952
Total assets	$ 64,354	$ 15,293	$ 7,710	$ 5,177	$ (490)	$ 92,044

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Foundations (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	Rochester General Hospital Foundation	Unity Health Foundation	Newark Wayne Community Hospital Foundation	Clifton Springs Hospital and Clinic Foundation	Eliminations	Consolidating
Current liabilities:						
Accounts payable	$ 49	$ -	$ 4	$ -	$ -	$ 53
Accrued salaries, vacation, and payroll taxes	239	-	-	-	-	239
Accrued expenses and other	1,223	238	3	10	-	1,474
Due to affiliates	4,312	196	62	280	(490)	4,360
Total current liabilities	5,823	434	69	290	(490)	6,126
Long-term liabilities:						
Accrued pension and postretirement benefits	-	387	-	-	-	387
Total long-term liabilities	-	387	-	-	-	387
Total liabilities	5,823	821	69	290	(490)	6,513
Net assets:						
Unrestricted	1,653	1,177	4,333	1,148	-	8,311
Temporarily restricted	48,058	7,113	2,906	1,527	-	59,604
Permanently restricted	8,820	6,182	402	2,212	-	17,616
Total net assets	58,531	14,472	7,641	4,887	-	85,531
Total liabilities and net assets	$ 64,354	$ 15,293	$ 7,710	$ 5,177	$ (490)	$ 92,044

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – Foundations
(in thousands of dollars)

For the Year Ended December 31, 2016

	Rochester General Hospital Foundation	Unity Health Foundation	Newark Wayne Community Hospital Foundation	Clifton Springs Hospital and Clinic Foundation	Eliminations	Consolidating
Unrestricted revenues, gains, and other support						
Patient service revenue, net of contractual allowances and discounts	$ -	$ -	$ -	$ -	$ -	$ -
Provision for bad debts	-	-	-	-	-	-
Net patient service revenue, less provision for bad debts	-	-	-	-	-	-
Other revenue, gains and other support	1,826	195	154	437	-	2,612
Net assets released from restrictions for operations	1,517	454	51	79	-	2,101
Total unrestricted revenues, gains, and other support	3,343	649	205	516	-	4,713
Expenses						
Salaries and wages	1,249	771	198	107	-	2,325
Employee benefits	245	200	52	15	-	512
Professional fees	474	58	14	3	-	549
Purchased services and supplies	541	65	40	9	-	655
Depreciation and amortization	32	23	-	-	-	55
Other expenses	2,310	515	147	120	-	3,092
Total expenses	4,851	1,632	451	254	-	7,188
(Loss) income from operations	(1,508)	(983)	(246)	262	-	(2,475)
Non-operating:						
Other nonoperating gains, net	-	303	(6)	-	-	297
Investment income, net	748	177	167	1	-	1,093
Total non-operating income	748	480	161	1	-	1,390
(Deficiency) excess of revenues over expenses	$ (760)	$ (503)	$ (85)	$ 263	$ -	$ (1,085)

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – System Corporations and Insurance
(in thousands of dollars)

December 31, 2016

Assets	RRH	RGHS	UHS	RGHS Workers' Compensation Trust	Greater Rochester Assurance Company,	PRH, Inc.	Eliminations	Consolidating
Current assets:								
Cash and cash equivalents	$ -	$ -	$ 2	$ 7,455	$ 4,132	$ 20,418	$ -	$ 32,007
Patient accounts receivable, net of allowance for doubtful accounts of $14	-	-	-	-	-	18,629	-	18,629
Due from affiliates	8,945	23	-	8,329	-	133	(7,082)	10,348
Inventories	-	-	-	-	-	1,498	-	1,498
Prepaid expenses and other	463	-	-	-	401	5,956	(3)	6,817
Total current assets	9,408	23	2	15,784	4,533	46,634	(7,085)	69,299
Assets whose use is limited:								
Assets held for self-insurance programs	-	-	-	23,029	61,260	-	-	84,289
Deferred compensation	(139)	-	-	-	-	1,818	-	1,679
Total assets whose use is limited, net of current portion	(139)	-	-	23,029	61,260	1,818	-	85,968
Property and equipment – net	-	-	-	-	-	24,839	-	24,839
Other assets:								
Interest in net assets of the Foundation	-	-	4,926	-	-	-	-	4,926
Goodwill	-	-	-	-	-	26,552	-	26,552
Insurance recoveries receivable	-	-	-	35,013	-	-	-	35,013
Other	106,367	1,261	133	-	-	252	(51,909)	56,104
	106,367	1,261	5,059	35,013	-	26,804	(51,909)	122,595
Total assets	$ 115,636	$ 1,284	$ 5,061	$ 73,826	$ 65,793	$ 100,095	$ (58,994)	$ 302,701

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – System Corporations and Insurance (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	RRH	RGHS	UHS	RGHS Workers' Compensation Trust	Greater Rochester Assurance Company,	PRH, Inc.	Eliminations	Consolidating
Current liabilities:								
Accounts payable	$ -	$ -	$ -	$ -	$ 736	$ 14,848	$ -	$ 15,584
Accrued salaries, vacation, and payroll taxes	8,961	-	-	-	-	5,487	-	14,448
Accrued expenses and other	571	950	-	630	3,108	788	-	6,047
Due to affiliates	756	7,023	3,573	16,049	-	7,469	(7,085)	27,785
Total current liabilities	10,288	7,973	3,573	16,679	3,844	28,592	(7,085)	63,864
Long-term liabilities:								
Accrued pension and postretirement benefits	-	230,820	4,367	-	-	9,747	-	244,934
Accrued insured and self-insured liabilities	-	-	-	53,668	51,234	602	-	105,504
Deferred compensation	-	-	-	-	-	1,818	-	1,818
Other	-	-	-	-	-	1,185	-	1,185
Total long-term liabilities	-	230,820	4,367	53,668	51,234	13,352	-	353,441
Total liabilities	10,288	238,793	7,940	70,347	55,078	41,944	(7,085)	417,305
Share capital	-	-	-	-	450	-	(450)	-
Net assets:								
Unrestricted	99,546	(237,509)	(6,628)	3,479	10,265	54,430	(51,459)	(127,876)
Noncontrolling interest in net assets of affiliates	-	-	-	-	-	3,721	-	3,721
Total unrestricted net assets	99,546	(237,509)	(6,628)	3,479	10,265	58,151	(51,459)	(124,155)
Temporarily restricted	3,169	-	380	-	-	-	-	3,549
Permanently restricted	2,633	-	3,369	-	-	-	-	6,002
Total net assets	105,348	(237,509)	(2,879)	3,479	10,265	58,151	(51,459)	(114,604)
Total liabilities and net assets	$ 115,636	$ 1,284	$ 5,061	$ 73,826	$ 65,793	$ 100,095	$ (58,994)	$ 302,701

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – System Corporations and Insurance
(in thousands of dollars)

For the Year Ended December 31, 2016

	RRH	RGHS	UHS	RGHS Workers' Compensation Trust	Greater Rochester Assurance Company,	PRH, Inc.	Eliminations	Consolidating
Unrestricted revenues, gains, and other support								
Patient service revenue, net of contractual allowances and discounts	$ -	$ -	$ -	$ -	$ -	$ 116,748	$ -	$ 116,748
Provision for bad debts	-	-	-	-	-	(1,923)	-	(1,923)
Net patient service revenue, less provision for bad debts	-	-	-	-	-	114,825	-	114,825
Other revenue, gains and other support	23,200	(31)	-	8,467	14,625	3,417	-	49,678
Total unrestricted revenues, gains, and other support	23,200	(31)	-	8,467	14,625	118,242	-	164,503
Expenses								
Salaries and wages	22,528	-	-	-	-	38,455	-	60,983
Employee benefits	554	(1,819)	-	-	-	8,363	-	7,098
Professional fees	107	-	-	1,038	-	791	-	1,936
Purchased services and supplies	-	(78)	-	12	-	55,276	-	55,210
Depreciation and amortization	-	-	-	-	-	2,878	-	2,878
Malpractice and workers' compensation expense	-	-	-	4,948	13,698	-	-	18,646
Other expenses	-	-	-	2,420	625	-	-	3,045
Total expenses	23,189	(1,897)	-	8,418	14,323	105,763	-	149,796
Income from operations before other items	11	1,866	-	49	302	12,479	-	14,707
Income tax expense	-	-	-	-	-	(4,103)	-	(4,103)
Nonoperating:								
Other nonoperating losses, net	-	-	-	-	-	206	-	206
Investment income (loss), net	-	-	-	(49)	-	56	-	7
Total non-operating income (loss)	-	-	-	(49)	-	262	-	213
Excess of revenues over expenses	$ 11	$ 1,866	$ -	$ -	$ 302	$ 8,638	$ -	$ 10,817

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Housing Affiliates
(in thousands of dollars)

December 31, 2016

Assets	Park Ridge Housing Inc. and Subsidiary	Woodland Village	Park Ridge Housing Development Fund Company, Inc.	Parkway Commons Housing Development Fund Company, Inc.	Unity Housing Development Fund Corporation and	Parma Housing Development Fund Corp. and Subsidiaries	Unity Aging Services, Inc.	Rochester General Hudson Housing, Inc.	Eliminations	Consolidating
Current assets:										
Cash and cash equivalents	$ 1,222	$ 861	$ 9	$ 64	$ 53	$ 211	$ -	$ 68	$ -	$ 2,488
Investments	753	-	-	-	-	-	-	-	-	753
Accounts receivable, net of allowance for doubtful accounts of $5	38	10	19	4	-	2	149	1	-	223
Due from affiliates	339	148	-	-	-	-	-	-	-	487
Inventories	34	14	-	-	-	-	-	-	-	48
Prepaid expenses and other	136	74	2	-	-	4	-	18	-	234
Total current assets	2,522	1,107	30	68	53	217	149	87	-	4,233
Assets whose use is limited:										
Funds held by bond trustees	-	4,513	-	-	-	433	-	133	-	5,079
Escrow fund	-	-	164	220	141	-	-	-	-	525
Total assets whose use is limited, net of current portion	-	4,513	164	220	141	433	-	133	-	5,604
Property and equipment – net	25,270	13,137	665	1,248	2,052	4,814	-	1,414	-	48,600
Other assets:										
Interest in net assets of the Foundations	662	-	-	-	-	-	-	-	-	662
Other	95	4	14	18	272	41	-	-	-	444
	757	4	14	18	272	41	-	-	-	1,106
Total assets	$ 28,549	$ 18,761	$ 873	$ 1,554	$ 2,518	$ 5,505	$ 149	$ 1,634	$ -	$ 59,543

Rochester Regional Health and Affiliates

Consolidating Balance Sheet – Housing Affiliates (Continued)
(in thousands of dollars)

December 31, 2016

Liabilities and net assets	Park Ridge Housing Inc. and Subsidiary	Woodland Village	Park Ridge Housing Development Fund Company, Inc.	Parkway Commons Housing Development Fund Company, Inc.	Unity Housing Development Fund Corporation and	Parma Housing Development Fund Corp. and Subsidiaries	Unity Aging Services, Inc.	Rochester General Hudson Housing, Inc.	Eliminations	Consolidating
Current liabilities:										
Accounts payable	$ 315	$ 59	$ 5	$ 25	$ 3	$ 13	$ -	$ 21	$ -	$ 441
Accrued salaries, vacation, and payroll taxes	162	112	4	3	1	3	-	3	-	288
Accrued expenses and other	241	188	18	16	39	46	39	13	-	600
Accrued interest payable	108	413	-	-	57	208	-	-	-	786
Due to affiliates	35	30	43	22	8	5	103	20	-	266
Current portion of long-term debt	621	606	25	-	-	11	-	-	-	1,263
Total current liabilities	1,482	1,408	95	66	108	286	142	57	-	3,644
Long-term liabilities:										
Long-term debt, less current portion	26,295	17,089	1,569	-	1,546	4,512	-	-	-	51,011
Interest rate swap contract	1,533	-	-	-	-	-	-	-	-	1,533
Accrued pension and postretirement benefits	1,237	184	29	60	-	-	-	-	-	1,510
Accrued insured and self-insured liabilities	47	27	-	-	-	-	6	-	-	80
Other	40	3	18	2,317	446	329	-	3,374	-	6,527
Total long-term liabilities	29,152	17,303	1,616	2,377	1,992	4,841	6	3,374	-	60,661
Total liabilities	30,634	18,711	1,711	2,443	2,100	5,127	148	3,431	-	64,305
Net assets:										
Unrestricted	(2,747)	50	(838)	(889)	-	378	1	(1,797)	-	(5,842)
Noncontrolling interest in net assets of affiliates	-	-	-	-	418	-	-	-	-	418
Total unrestricted net assets	(2,747)	50	(838)	(889)	418	378	1	(1,797)	-	(5,424)
Temporarily restricted	611	-	-	-	-	-	-	-	-	611
Permanently restricted	51	-	-	-	-	-	-	-	-	51
Total net assets	(2,085)	50	(838)	(889)	418	378	1	(1,797)	-	(4,762)
Total liabilities and net assets	$ 28,549	$ 18,761	$ 873	$ 1,554	$ 2,518	$ 5,505	$ 149	$ 1,634	$ -	$ 59,543

Rochester Regional Health and Affiliates

Consolidating Statement of Operations – Housing Affiliates
(in thousands of dollars)

For the Year Ended December 31, 2016

	Park Ridge Housing Inc. and Subsidiary	Woodland Village	Park Ridge Housing Development Fund Company, Inc.	Parkway Commons Housing Development Fund Company, Inc.	Unity Housing Development Fund Corporation and	Parma Housing Development Fund Corp. and Subsidiaries	Unity Aging Services, Inc.	Rochester General Hudson Housing, Inc.	Eliminations	Consolidating
Unrestricted revenues, gains, and other support										
Patient service revenue, net of contractual allowances and discounts	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Provision for bad debts	-	-	-	-	-	-	-	-	-	-
Net patient service revenue, less provision for bad debts	-	-	-	-	-	-	-	-	-	-
Other revenue, gains and other support	9,045	4,649	461	363	198	586	288	338	-	15,928
Total unrestricted revenues, gains, and other support	9,045	4,649	461	363	198	586	288	338	-	15,928
Expenses										
Salaries and wages	3,295	1,240	116	93	20	65	228	106	-	5,163
Employee benefits	696	249	28	22	5	16	7	27	-	1,050
Professional fees	500	640	64	86	76	100	26	72	-	1,564
Purchased services and supplies	1,662	624	47	38	74	102	29	51	-	2,627
Depreciation and amortization	1,172	576	88	110	94	282	-	99	-	2,421
Malpractice and workers' compensation expense	64	23	3	2	-	1	1	2	-	96
Interest	1,238	1,016	116	-	22	209	-	-	-	2,601
Other expenses	(2)	4	5	-	3	-	-	-	-	10
Total expenses	8,625	4,372	467	351	294	775	291	357	-	15,532
Income (loss) from operations	420	277	(6)	12	(96)	(189)	(3)	(19)	-	396
Non-operating:										
Other nonoperating gains, net	23	-	-	-	-	-	-	-	-	23
Noncontrolling interest in net losses of combined subsidiaries	-	-	-	-	97	189	-	-	-	286
Investment income, net	2	-	-	-	-	-	-	-	-	2
Total non-operating income	25	-	-	-	97	189	-	-	-	311
Excess (deficiency) of revenues over expenses	$ 445	$ 277	$ (6)	$ 12	$ 1	$ -	$ (3)	$ (19)	$ -	$ 707

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

Certain Definitions

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

CERTAIN DEFINITIONS

"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 2017 Bonds, issued pursuant to the Indenture.

"Amendment No. 1 to Master Trust Indenture" shall have the meaning assigned to such term in the WHEREAS paragraphs of 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 2017 Bonds and any Additional Bonds, authorized to be issued pursuant to the Indenture to finance all or a portion of the Project Costs.

"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 2017 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 May 10, 2017, 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 March 8, 2017 authorizing the issuance, execution, sale and delivery of the Series 2017 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 dated date of 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 2017 Bonds in the aggregate principal amount of $151,945,000.

"Closing" or "Closing Date" means the date of the sale and delivery of the Series 2017 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 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 May 1, 2017, 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.

"Default Rate" means nine percent (9.00%) or the maximum rate permitted by law, that being the rate at which interest accrues on the Bonds from and after the date of occurrence of an Event of Default and for so long as such Event of Default remains in effect.

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

"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 Obligation No. 2, the Original Master Indenture, the Amendment No. 1 to Master Trust Indenture, the Supplemental Master Indenture, the Continuing Disclosure Agreement, any other document or instrument executed in connection therewith to secure the Institution's obligation to repay the Series 2017 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.

"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 May 1, 2017, by and between the Issuer and the Trustee pursuant to which the Series 2017 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 The Rochester General Hospital, a not-for-profit corporation and 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 1425 Portland Avenue, Rochester, New York 14621 and its successors and assigns.

"Institution Documents" means the Loan Agreement, the Tax Compliance Agreement, the Obligation No. 2, the Original Master Indenture, the Amendment No. 1 to Master Trust Indenture, the Supplemental Master Indenture, the Continuing Disclosure Agreement, the Preliminary Official Statement and the Official Statement.

"Interest Payment Date" means each June 1 and December 1 (or the next succeeding Business Day if such first day is not a Business Day), commencing with December 1, 2017.

"Investment Agreement" means an agreement (including, but not limited to, repurchases agreements subject to a master repurchase 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 May 1, 2017, by and between the Issuer and the Institution pursuant to which the Issuer loans the proceeds of the Series 2017 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 2017 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 ascribed to such term in the recitals to the Indenture, as the same may be amended or supplemented from time to time.

"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.

"Obligated Group" shall mean The Rochester General Hospital Obligated Group under the Master Trust Indenture consisting of the Institution and such other members as may join from time to time in accordance with the Master Trust Indenture.

"Obligation No. 2" means (i) The Rochester General Hospital Obligated Group Obligation No. 2 for the Series 2017 Bonds, dated May 18, 2017 issued by the Institution 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 2017 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 2017 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;

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

(xiii) those "Permitted Liens" as defined in the Master Trust 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; (vi) Investment Agreements that are fully collateralized by Permitted Collateral and (vii) 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 two of the three nationally recognized statistical rating services, and (C) is issued by a domestic corporation whose unsecured senior debt is rated by two of the three nationally recognized statistical rating services no lower than in the highest rating category.

"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 May 1, 2017, 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 2017 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 third 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.

"Renewal Fund" means the fund so designated and created pursuant to the Indenture.

"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 2017 Bonds" means the Issuer's $151,945,000 original principal amount Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2017.

"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.

"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 banking corporation organized and existing under the 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, 4.7, 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 Reserved Rights.

"Underwriter" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself and as representative of J.P. Morgan Securities LLC, M&T Securities, Inc. and KeyBanc Capital Markets Inc., and their respective successors or assigns.

[END OF APPENDIX C]

APPENDIX D

Summary of Certain Provisions of the Indenture

[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 2017 Bonds

Upon the execution and delivery of the Indenture, the Issuer shall execute and deliver the Series 2017 Bonds to the Trustee and the Trustee shall authenticate the Series 2017 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 Master Trust Indenture), the Issuer may issue Additional Bonds under the Indenture from time to time on a pari passu basis with the Series 2017 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 through redemption of any Outstanding Bonds issued under the Indenture and subject to such redemption; 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 Obligation No. 2 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. 2 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, (C) for Additional Bonds described in subsection (a)(1) or (2) above, approving plans and specifications for the Facility or an addition thereto, and (D) 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 Master Trust Indenture) 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 2017 Bond Proceeds and Allocation Thereof

In connection with the Series 2017 Bonds, the Indenture requires the establishment of the following trust funds and accounts with the Trustee: (a) Monroe County Industrial Development Corporation Project Fund (The Rochester General Hospital Project), Series 2017 (the "Project Fund"), within which there shall be a Capitalized Interest Account; (b) Monroe County Industrial Development Corporation Bond Fund (The Rochester General Hospital Project), Series 2017 (the "Bond Fund"); (c) Monroe County Industrial Development Corporation Renewal Fund (The Rochester General Hospital Project), Series 2017 (the "Renewal Fund"); (d) Monroe County Industrial Development Corporation Rebate Fund (The Rochester General Hospital Project), Series 2017 (the "Rebate Fund"), within which there shall be two (2) accounts: (1) the Principal Account and (2) the Earnings Account and (e) Monroe County

Industrial Development Corporation Earnings Fund (The Rochester General Hospital Project), Series 2017 (the "Earnings Fund"). Upon the receipt of the proceeds of the Bonds, the Trustee shall deposit 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 at the written direction of an Authorized Representative of the Institution is authorized under the Indenture to disburse from the Capitalized Interest Account of the Project Fund on the Business Day prior to an Interest Payment Date for the Series 2017 Bonds, for deposit into the Bond Fund, such amount, together with amounts already available as is sufficient to pay the interest on the Series 2017 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 is authorized and directed under the Indenture 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 redeem the Bonds in accordance with the Indenture. 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 any required transfer to the Rebate Fund, 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 Renewal 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 Renewal Fund; Application of Renewal Fund

The Net Proceeds resulting from any casualty insurance proceeds or Condemnation award with respect to the Facility deposited or delivered to the Trustee pursuant to the Loan Agreement shall be deposited in the Renewal Fund. The amounts in the Renewal Fund shall be subject to a security interest, lien and charge in favor of the Trustee until disbursed as provided in the Indenture. The Trustee is authorized under the Indenture to apply the amounts in the Renewal Fund to the payment (or reimbursement to the extent the same have been paid by or on behalf of the Institution or the Issuer) of the costs required for the rebuilding, replacement, repair and restoration of the Facility upon written instructions from the Institution. The Trustee is further authorized and directed to issue its checks for each disbursement from the Renewal Fund upon a requisition submitted to the Trustee, signed by an Authorized Representative of the Institution. (Section 4.07)

Payments into Earnings Fund; Application of Earnings Fund

All investment income or earnings on amounts held in the Project Fund, the Renewal 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 any required transfer to the Rebate Fund, shall be transferred to the Bond Fund and applied in accordance with the Indenture. (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 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. 2 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. 2 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)

Replacement of the Obligation No. 2 with Obligation Issued Under a Separate Master Indenture

In accordance with the Indenture, the Obligation No. 2 shall be surrendered by the Trustee and delivered to the Master Trustee for cancellation upon receipt by the Trustee and the Issuer of the following: (a) a written request of the Obligated Group Representative requesting such surrender and delivery and stating that the members of the Obligated Group have become members of an obligated group under a replacement master indenture (other than the Master Indenture) (or the members of the Obligated Group are obligated, by their respective articles of incorporation, bylaws or by contract or otherwise, to make payments to an entity that is a member of such an obligated group in amounts sufficient to enable the entity to make payments with respect to obligations issued under such replacement master indenture) and that an obligation is being issued to the Trustee under such replacement master indenture (the "Replacement Master Indenture"); (b) a properly executed obligation (the "Replacement Obligation") issued under the Replacement Master Indenture and registered in the name of the Trustee with the same tenor and effect as the Obligation No. 2 (in a principal amount equal to the then Outstanding principal amount of Series 2017 Bonds), duly authenticated by the master trustee under the Replacement Master Indenture; (c) an Opinion of Counsel selected by the Obligated Group and not objected to by the Issuer, addressed to the Trustee and the Issuer, to the effect that the Replacement Obligation has been validly issued under the Replacement Master Indenture and constitutes a valid and binding obligation of the Obligated Group (or the entity to which the Obligated Group is obligated to make the payments referred in paragraph (1) above) and each other member of the obligated group (if any) which is jointly and severally liable under the Replacement Master Indenture, subject to such qualifications as are acceptable to the Trustee; (d) a copy of the Replacement Master Indenture, certified as a true and accurate copy by the master trustee under the Replacement Master Indenture; (e) written confirmation from each Rating Agency then rating the Series 2017 Bonds that the replacement of the Obligation No. 2 will not, by itself, result in a reduction in the then-current ratings on the Series 2017 Bonds; and (f) a Favorable Opinion of Bond Counsel.

Upon satisfaction of such conditions, all references in the Indenture and the Loan Agreement to the Obligation No. 2 shall be deemed to be references to the Replacement Obligation, all references to the Master Indenture shall be deemed to be references to the Replacement Master Indenture, all references to the Master Trustee shall be deemed to be references to the master trustee under the Replacement Master Indenture, all references to the Obligated Group and the members of the Obligated Group shall be deemed to be references to the obligated group and the members of the obligated group under the Replacement Master Indenture and all references to the Supplemental Master Indenture shall be deemed to be references to the supplemental master indenture pursuant to which the Replacement Obligation is issued.

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) to replace the Obligation No. 2 with a Replacement Obligation as provided in the Indenture or (vii) 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

[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 2017 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 2017 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 2017 Bonds in the Project Fund (i) upon receipt of the Series 2017 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 2017 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 2017 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 2017 Bonds and all other amounts due under the Loan Agreement in accordance with the terms of the Loan Agreement, the Indenture and the Series 2017 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 2017 Bonds pursuant to the Loan Agreement, which the Issuer agrees shall be paid by the Institution directly to the Trustee on each Bond Payment Date for deposit in the Bond Fund in an amount equal to the sum of (i) with respect to interest due and payable on the Series 2017 Bonds, an amount equal to the interest next becoming due and payable on the Series 2017 Bonds on the immediately succeeding Interest Payment Date (less any amount available in the Project Fund for transfer to the Bond Fund), (ii) the principal amount of the Series 2017 Bonds then Outstanding which will become due on the immediately succeeding Interest 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 2017 Bonds to be redeemed which will become due on the immediately succeeding redemption date together with accrued interest to the 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.

Pursuant to the Indenture and the Pledge and Assignment, the Issuer has pledged and assigned to the Trustee, as security for the Series 2017 Bonds, all of the Issuer's right, title and interest in the Loan Agreement (except for the Issuer's Reserved Rights), including all debt service payments under the Loan Agreement, and in furtherance of said pledge the Issuer has unconditionally assigned such debt service payments to the Trustee for deposit in the Bond Fund in accordance with the Indenture. The Institution, pursuant to the Loan Agreement, consents to the above-described lien and security interest, and pledge and assignment of the Loan Agreement.

If the Obligation No. 2 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 2017 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. 2 pursuant to the Indenture, and any amounts paid under the Obligation No. 2 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 2017 Bonds to the extent that funds are paid under the Obligation No. 2 and applied by the Trustee to such payments on the Series 2017 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 Obligated Group under and pursuant to the Obligation No. 2. (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 2017 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 and/or authorized 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 the Institution, in accordance with the Master Trust Indenture, shall either: (i) at its own cost and expense (except to the extent paid from the Net Proceeds deposited in the Renewal Fund as provided in the Loan Agreement and in the Indenture), promptly and diligently rebuild, replace, repair or restore the Facility to substantially its condition immediately prior to the Loss Event, or to a condition of at least equivalent value, operating efficiency and function, regardless of whether or not the Net Proceeds derived from the Loss Event shall be sufficient to pay the cost thereof, and the Institution shall not, by reason of payment of any such excess costs, be entitled to any reimbursement from the Issuer, the Trustee or any Bondholder, nor shall the debt service payments or other amounts payable by the Institution under the Loan Agreement be abated, postponed or reduced, or (ii) if, to the extent and upon the conditions permitted to do so under the Loan Agreement and under the Indenture, exercise its option to make advance debt service payments to redeem the Series 2017 Bonds in whole; provided, however, that, any Net Proceeds derived from a Loss Event affecting the Facility shall be paid to the Trustee and deposited in the Renewal Fund and the Institution shall elect to comply with either clause (i) or clause (ii) above.

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 amount of the Net Proceeds so recovered shall be transferred from the Renewal Fund and deposited in the Bond Fund, 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 2017 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.

The Institution shall be entitled to any insurance proceeds or condemnation award, compensation or damages attributable to improvements, machinery, equipment or other property installed on or about the Facility but which, at the time of such damage or taking, is not part of the Facility and is owned by the Institution. (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 (excluding for this purpose the Institution, which is not obligated by the Loan Agreement to indemnify its own employees or affiliate individuals) 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 2017 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 or the Obligated Group, as the case may be, 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 installment 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 or purchase in lieu of redemption 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 (which consent 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, if 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]

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

Summary of Certain Provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER TRUST INDENTURE AND THE SERIES 2017 SUPPLEMENTAL INDENTURE

The Master Trust Indenture contains terms and conditions relating to the issuance of Obligations under the Master Trust Indenture, including various financial covenants and security provisions, certain of which are summarized below. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture, and reference is made to such Master Trust Indenture and the Series 2017 Supplemental Indenture, copies of which are available from the Issuer or the Master Trustee. This summary uses various terms defined in the Master Trust Indenture and the Series 2017 Supplemental Indenture and such terms as used in the Master Trust Indenture and the Series 2017 Supplemental Indenture will have the same meanings as so defined.

MASTER TRUST INDENTURE

Certain Definitions *(Section 1.01)*

When used in this summary of the provisions of the Master Trust Indenture and the Series 2017 Supplemental Indenture, the following terms have the meanings ascribed to them below.

"Additional Indebtedness" means any Indebtedness incurred by any Member of the Obligated Group subsequent to the issuance of the Series 2013 Obligation under the Master Trust Indenture or incurred by any other Member of the Obligated Group subsequent to or contemporaneously with its becoming a Member of the Obligated Group.

"Affiliate" means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which is directly or indirectly controlled by a Member or the Obligated Group Representative or their respective successors or assigns or by any Person which directly or indirectly controls a Member or the Obligated Group Representative and any joint ventures in which any of the Members or the Obligated Group Representative participate. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of not less than a majority of its voting securities 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.

*"**Audited Financial Statements**"* means, as to any Member of the Obligated Group, financial statements 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. Audited Financial Statements of the Obligated Group shall also include, in an additional information section, unaudited combining financial statements for the same twelve-month

period from which the accounts of any Affiliate which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not already included have been added.

"Authorized Representative" means, with respect to the Obligated Group Representative, the Chairperson of its Governing Body, its President and Chief Executive Officer or its Senior Vice President and Chief Financial Officer and, with respect to each Member of the Obligated Group, the Chairperson of its Governing Body, its President and Chief Executive Officer or its Senior Vice President and Chief Financial Officer, or any other person or persons designated an Authorized Representative of such Member by an Officer's Certificate of the Obligated Group Representative or such Member of the Obligated Group, respectively, signed by the Chairperson of its Governing Body, President and Chief Executive Officer, or its Senior Vice President and Chief Financial Officer, and filed with the Master Trustee.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness other than a Demand Obligation 25% or more of the principal amount of which is due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such date.

"Bond Trustee" means Manufacturers and Traders Trust Company, a New York banking corporation, and any successor to its duties under the Related Bond Indenture.

"Book Value" when used in connection with Property, Plant 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, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property, Plant and Equipment or other Property of the Obligated Group determined in such a manner that no portion of such value of Property, Plant and Equipment or other Property is included more than once.

"Capital Addition" means any addition, improvement or extraordinary repair to or replacement of any Property of a Member of the Obligated Group, whether real, personal or mixed, the cost of which is properly capitalized under generally accepted accounting principles.

*"**Capitalized Interest**"* shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Debt Reserves) that are held in trust and are restricted to be used to pay interest due or to become due on Indebtedness.

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

"Consultant" means a firm or firms, selected by the Obligated Group Representative which is not, and no member, stockholder, director, officer, trustee or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group or any Affiliate, and which is a professional management consultant or investment banking firm or other financial institution 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 not unacceptable to (i) the Master Trustee and (ii) so long as any Related Bonds are Outstanding, the Related Bond Issuer and the Related Credit Facility Issuer.

"Control Agreement" means any agreement whereby the Obligated Group, a secured party and a banking institution have agreed in an authenticated record (such as a signed writing) that the banking institution will comply with instructions originated by the secured party directing disposition of the funds in a deposit account held by such banking institution as security for the benefit of the secured party, without further consent by the Obligated Group.

"Credit Facility" means a financial guaranty insurance policy, line of credit, letter of credit, standby bond purchase agreement or similar credit enhancement or liquidity facility established in connection with the issuance of Indebtedness to provide credit or liquidity support for such Indebtedness.

"Credit Facility Issuer" means the firm, association, corporation or other Person, if any, which has issued a Credit Facility that provides credit or liquidity support with respect to Indebtedness or Related Bonds.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the last date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or dates or maturity date of the refunded Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest on such refunding Indebtedness or refunded Indebtedness until the Cross-over Date.

*"**Current Assets**"* shall mean cash and cash equivalent deposits, marketable securities, interests in mutual funds of marketable securities, accounts receivable, accrued interest receivable, any funds designated by a Governing Body for any specific purpose and any other assets of the Obligated Group ordinarily considered current assets under generally accepted accounting principles.

*"**Debt Reserves**"* shall mean that portion of the proceeds of any Indebtedness or any other funds (other than Capitalized Interest) that are held in trust and are restricted to be used to pay principal or principal and interest due or to become due on Indebtedness (including moneys held in a reserve fund as security for Related Bonds).

"Defeasance Obligations" means, unless modified by the terms of a particular Supplement, (i) noncallable, nonprepayable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government

Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, (iii) Defeased Municipal Obligations, (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, and (v) stripped securities where the principal-only and interest-only strips of noncallable obligations are issued by the U.S. Treasury or Resolution Funding Corp. or securities stripped by the Federal Reserve Bank of New York.

"Defeased Municipal Obligations" means obligations of state or local government municipal bond issuers rated the highest rating by S&P, Fitch or Moody's, respectively, provision for the payment of the principal of and interest on which shall have been made by irrevocable deposit with a trustee or escrow agent of (i) noncallable, nonprepayable Government Obligations or (ii) evidences of ownership of a proportionate interest in specified noncallable, nonprepayable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, shall provide sufficient money to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

"Defeased Obligations" means Obligations issued under a Supplement that has been discharged, or provision for the discharge of which has been made, pursuant to the terms of such Supplement.

"Demand Obligation" means any Indebtedness the payment of all or a portion of which is subject to the demand of the holder thereof.

"Derivative Agreement" means, without limitation,

(a) 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;

(b) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices;

(c) any contract to exchange cash flows or payments or series of payments;

(d) 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

(e) any other type of contract or arrangement that the Member of the Obligated Group 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, or minimize investment risk or to protect against any type of financial risk or uncertainty.

"Derivative Period" means the period during which a Derivative Agreement is in effect.

"Escrowed Interest" means amounts of interest on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the "Escrowed Interest Deposit") which Escrowed Interest Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Interest.

"Escrowed Principal" means amounts of principal on Long-Term Indebtedness for which moneys or Defeasance Obligations have been deposited in escrow (the "Escrowed Principal Deposit") which Escrowed Principal Deposit has been determined by an independent accounting firm to be sufficient to pay such Escrowed Principal.

"Event of Default" means any one or more of those events set forth under the heading "Events of Default" herein.

"Excluded Property" means any Property that is not Health Care Facilities of the Obligated Group.

"Fiscal Year" means the fiscal year of each Member of the Obligated Group, which will be the period commencing on January 1 of any year and ending on December 31 of such year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year will be the period set forth in such notice.

"Fitch" means Fitch, Inc., its successors and their assigns, and, if such entity will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "Fitch" will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Governing Body" means, when used with respect to any Member of the Obligated Group and the Obligated Group Representative, its board of directors, board of trustees, or other board or group of individuals by, or under the authority of which, corporate powers of such Member of the Obligated Group or the Obligated Group Representative are exercised.

"Government Obligation" means a direct obligation of the United States of America, an obligation the timely payment of principal of, and interest on, which are fully and unconditionally guaranteed by the United States of America, an obligation (other than an obligation subject to variation in principal repayment) to which the full faith and credit of the United States of America is pledged, an obligation of any of the following instrumentalities or agencies of the United States of America: (a) Federal Home Loan Bank System; (b) Export-Import Bank of the United States; (c) Federal Financing Bank; (d) Government National Mortgage Association; (e) Farmers Home Administration; (f) Federal Home Loan Mortgage Company; (g) Federal Housing Administration; (h) Private Export Funding Corp.; (i) Federal National Mortgage Association, and (j) upon the approval of the applicable Related Bond Issuer

and all applicable Credit Facility Issuers, (A) an obligation of any federal agency and a certificate or other instrument which evidences the ownership of, or the right to receive all or a portion of the payment of the principal of or interest on, direct obligations of the United States of America or (B) an obligation of any other agency or instrumentality of the United States of America created by Act of Congress, provided such obligation is rated at least "A" by S&P and Moody's at all times.

"Governmental Restrictions" means federal, state or other applicable governmental laws, regulations, rulings, judgments, court orders or consent decrees affecting any Member of the Obligated Group and its health care facilities including (a) Articles 28 and 28-B of the Public Health Law, and (b) those placing restrictions and limitations on (i) the fees and charges to be fixed, charged and collected by any Member of the Obligated Group or (ii) the amount or timing of the receipt of such fees or charges.

"Gross Receipts" means all receipts, revenues, income and other moneys (other than proceeds of borrowing) received or receivable by or on behalf of a Member of the Obligated Group and all other amounts available to a Member of the Obligated Group from any other source, including without limitation contributions, donations, and pledges whether in the form of cash, securities or other personal property and the rights to receive the same whether in the form of accounts, payment on tangibles, contract rights, general intangibles, healthcare insurance receivables, chattel paper, deposit accounts, instruments, promissory notes and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now existing or hereafter coming into existence and whether now owned or hereafter acquired; provided, however, that Gross Receipts will not include (x) gifts, grants, bequests, donations, and contributions heretofore or hereafter made, and any income derived therefrom to the extent specifically restricted by the donor or grantor to a special object or purpose inconsistent with (i) paying debt service on an Obligation or (ii) meeting any commitment of a Member under a Related Loan Agreement; (y) funds which are established and maintained with fees collected in private practice by physicians who are employed by a Member of the Obligated Group or (z) all receipts, revenues, income and other moneys received or receivable by or on behalf of a Member of the Obligated Group, and all rights to receive the same whether in the form of accounts, contract rights, payment on tangibles, general intangibles, chattel paper, deposit accounts, instruments, promissory notes, and the proceeds thereof as such terms are presently or hereinafter defined in the Uniform Commercial Code in effect from time to time in the State of New York, and any insurance or condemnation proceeds thereon, whether now owned or hereafter acquired, derived from the Excluded Property which constitutes real property.

"Gross Receipts Revenue Fund" means the fund established pursuant to Master Trust Indenture as described under the heading "Additional Remedies and Enforcement of Remedies" herein.

"Guaranty" means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master

Trust Indenture. For the purposes of the Master Trust Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group will have executed and delivered its Guaranty will, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to 20% of the amount which would be payable as principal of and interest on the indebtedness for which a Guaranty will have been issued during the Fiscal Year for which any computation is being made (calculated in the same manner as the Long-Term Debt Service Coverage Ratio), provided that if there will have occurred a payment by a Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made will be taken into account.

"Health Care Facilities" means any Property now or hereafter used by any Member of the Obligated Group to provide for the care, maintenance, diagnosis and treatment of patients or to otherwise provide health care services. Any Property whose primary function or functions is other than the care, maintenance, diagnosis and treatment of patients and which has incidental health care services provided on its premises, shall not be deemed to be Health Care Facilities.

"Holder" means an owner of any Obligation issued in other than bearer form.

"Income Available for Debt Service" means, with respect to the Obligated Group, as to any period of twelve (12) consecutive calendar months, its Excess (Deficiency) of Revenue and Gains and Losses over Expenses (such capitalized terms are used herein in accordance with generally accepted accounting principles) 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 will 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) unrealized gains and losses on investments (including "other than temporary impairment of marketable securities"), (c) the termination value of, as well as unrealized gains and losses on, Derivative Agreements of a Member of the Obligated Group, or (d) any extraordinary or non-recurring item, including payments on a called Guaranty, and (2) revenues will not include earnings from the investment of Escrowed Interest or earnings constituting Escrowed Interest to the extent that such earnings are applied to the payment of principal 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 Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties, whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness

will not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

"Institution" means The Rochester General Hospital, a not-for-profit corporation organized under the laws of the State of New York, its successors and assigns.

"Insurance Consultant" means a firm or Person which is not, and no member, stockholder, director, trustee, officer or employee of which is, an officer, director, trustee or employee of any Member of the Obligated Group 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 which is selected by the Obligated Group Representative and is not unacceptable to the Master Trustee; provided that, except with respect to the review of self-insurance programs, the term "Insurance Consultant" will include qualified in-house risk management officers employed by any Member of the Obligated Group or an Affiliate.

"Issuer" means Monroe County Industrial Development Corporation, a not-for-profit local development corporation organized under the laws of the State of New York, its successors and assigns.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

"Loan Agreement" means a Loan Agreement by and between a Member of the Obligated Group and the applicable Related Bond Issuer relating to the loan of proceeds of Related Bonds of such Related Bond Issuer.

"Long-Term Debt Service Coverage Ratio" means for any period of time the ratio determined by dividing the Income Available for Debt Service by Maximum 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 and interest (whether or not separately stated) on Outstanding Long-Term Indebtedness of the Obligated Group during such period, also taking into account:

(i) with respect to Balloon Long-Term Indebtedness which is not amortized by the terms thereof (a) the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of thirty (30) years on a level debt service basis at an interest rate equal to the rate borne by such Indebtedness on the date calculated, except that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity will be

included in such calculation or (b) principal payments or deposits with respect to Indebtedness secured by an irrevocable letter of credit issued by, or an irrevocable line of credit with, a bank rated at least "A" by Moody's, Fitch or S&P, or insured by an insurance policy issued by any insurance company rated at least "A" by Alfred M. Best Company or its successors in Best's Insurance Reports or its successor publication, nominally due in the last Fiscal Year in which such Indebtedness matures may, at the option of the Member of the Obligated Group which issued such Indebtedness, be treated as if such principal payments or deposits were due as specified in any loan or reimbursement agreement issued in connection with such letter of credit, line of credit or insurance policy or pursuant to the repayment provisions of such letter of credit, line of credit or insurance policy, and interest on such Indebtedness after such Fiscal Year will be assumed to be payable pursuant to the terms of such loan or reimbursement agreement or repayment provisions;

(ii) with respect to Long-Term Indebtedness which is Variable Rate Indebtedness, the interest on such Indebtedness will 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 (and the incurrence thereof) the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued and thereafter will be calculated as set forth above;

(iii) with respect to any Credit Facility, to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Long-Term Debt Service Requirement;

(iv) with respect to any guaranties, in accordance with the Definition of "Guaranty" in the Master Trust Indenture;

(v) with respect to Indebtedness for which a Member of the Obligated Group will have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness, the principal or notional amount of such Derivative Agreement will be disregarded, and interest on such Indebtedness during any Derivative Period and for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder will be calculated by adding (a) the amount of interest payable by a Member of the Obligated Group on such underlying Indebtedness pursuant to its terms (provided that, with respect

to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Indebtedness for the initial interest rate period will be the initial rate at which such Indebtedness is issued), and (b) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement), and subtracting (c) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement (provided that, with respect to new Variable Rate Indebtedness, and the incurrence thereof, the interest rate for such Derivative Agreement for the initial interest rate period will be the initial rate at which interest is payable under such Derivative Agreement); provided, however, that to the extent that the counterparty of any Derivative Agreement is in default thereunder, the amount of interest payable by the Member of the Obligated Group will be the interest calculated as if such Derivative Agreement had not been executed; and

(vi) with respect to a Derivative Agreement that does not relate to underlying Indebtedness which has been entered into by any Member of the Obligated Group, the principal or notional amount of such Derivative Agreement will be disregarded (for so long as the Member of the Obligated Group is not required to make any payment other than interest payments thereon) and interest on such Derivative Agreement during any Derivative Period, for so long as the counterparty of the Derivative Agreement has not defaulted on its payment obligations thereunder, will be calculated by taking (a) the amount of interest payable by such Member of the Obligated Group at the rate specified in the Derivative Agreement and subtracting (b) the amount of interest payable by the counterparty of the Derivative Agreement at the rate specified in the Derivative Agreement;

provided, however, that Escrowed Interest and Escrowed Principal will be excluded from the determination of Long-Term Debt Service Requirement; provided, further, however, that in connection with the calculation of "Long-Term Debt Service Requirement", in no event shall any payments to be made in respect of principal and/or interest on any Outstanding Long-Term Indebtedness of the Obligated Group during such period be counted more than once.

"Long-Term Indebtedness" means all Indebtedness having a maturity longer than one year incurred or assumed by any Member of the Obligated Group, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles in existence prior to the adoption of FASB Accounting Standards Update No. 2016-02;

(iii) installment sale or conditional sale contracts having an original term in excess of one year;

(iv) Short-Term Indebtedness if a commitment by a financial lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness; and

(v) the current portion of Long-Term Indebtedness.

"Master Trust Indenture" means the Master Trust Indenture dated as of February 1, 2013, including any other amendments or supplements thereto, by and among the Members of the Obligated Group and the Master Trustee.

"Master Trustee" means Manufacturers and Traders Trust Company, Buffalo, New York, and its successors in the trusts created under the Master Trust Indenture.

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

"Member of the Obligated Group" or ***"Member"*** means the Institution and any other Person becoming a Member of the Obligated Group pursuant to the Master Trust Indenture.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Mortgaged Property" means any and all Property, whether real, personal or mixed, and all rights and interests in and to the Property, which is subject to the liens and security interests created pursuant to the Mortgages.

"Mortgages" means Mortgages to be granted by a Member of the Obligated Group to the Master Trustee, or assigned by a Person to the Master Trustee as security for the performance of the Members' obligations under the Master Trust Indenture, as such Mortgages may be amended or modified from time to time, executed and delivered in each case in order to secure, *pari passu,* all Obligations issued and to be issued under the Master Trust Indenture.

"Non-Recourse Indebtedness" means any Indebtedness incurred to finance the purchase of Property secured exclusively by a Lien on such Property or the revenues or net revenues produced by such Property or both, the liability for which is effectively limited to

the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"Obligated Group Representative" means the Institution and thereafter any Person as may be designated as such pursuant to written notice to the Master Trustee executed by all of the Members of the Obligated Group.

"Obligation" means the evidence of particular Indebtedness issued under the Master Trust Indenture as a joint and several obligation of each Member of the Obligated Group. "Obligation" may also include the evidence of a particular obligation of each Member of the Obligated Group under a Derivative Agreement.

"Officer's Certificate" means a certificate signed by the Authorized Representative of such Member of the Obligated Group or the Obligated Group Representative as the context requires. Each Officer's Certificate presented pursuant to the Master Trust Indenture will state that it is being delivered pursuant to (and will identify the section or subsection of), and will incorporate by reference and use in all appropriate instances all terms defined in, the Master Trust Indenture. Each Officer's Certificate will 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 will 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.

"Operating Assets" means any or all land, leasehold interests, buildings, machinery, equipment, hardware, inventory and other tangible and intangible Property owned or operated by a Member of the Obligated Group and used in its respective trade or business, whether separately or together with other such assets, but not including cash, investment securities and other Property held for investment purposes.

"Opinion of Bond Counsel" means an opinion in writing signed by an attorney or firm of attorneys experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds and who is acceptable to the Master Trustee and each Related Bond Issuer.

"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 Obligated Group Representative or any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

"Outstanding" means, as of any date of determination, (i) when used with reference to Obligations, all Obligations theretofore issued or incurred and not paid and discharged other than (A) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (B) Defeased Obligations and (C) 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, and (ii) when used with reference to Indebtedness other than Indebtedness evidenced by an Obligation, all Indebtedness theretofore issued or incurred and not paid and discharged, other than Indebtedness deemed paid and no longer outstanding under the documents pursuant to which such Indebtedness was incurred; 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 Obligated Group Representative or any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member or the Obligated Group Representative will be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee will 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 are so owned will be deemed to be not Outstanding.

"Permitted Liens" shall have the meaning given to such term under the heading "Limitations on Creation of Liens" herein.

"Person" means an individual, association, unincorporated organization, limited liability company, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Projected Period" means (i) in the case of Indebtedness incurred to finance a capital addition or any repair to Operating Assets, each of the two full Fiscal Years following the date such capital addition or repair is estimated to be installed or completed and (ii) in the case of Indebtedness incurred for any other purpose, each of the two full Fiscal Years following the date such Indebtedness is proposed to be incurred; provided that the Projected Period shall, in connection with the Related Bonds issued by a Related Bond Issuer, at the option of such Related Bond Issuer, be for such other period as such Related Bond Issuer may determine.

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

"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, and any successor thereto.

"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 (i.e., a "Related Bond Issuer") ("governmental issuer"), pursuant to a Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Obligated Group Representative or a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Credit Facility Issuer" means the Credit Facility Issuer with respect to any issue of Related Bonds.

"Related Loan Agreement" means any loan agreement, lease agreement or any similar instrument relating to the loan of proceeds of Related Bonds to a Member of the Obligated Group.

"Required Ratio" means a Long-Term Debt Service Coverage Ratio as required under the heading "Required Ratio" herein.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies Inc., its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative by notice to the Master Trustee.

"Series 2013 Obligation" means the Obligation issued pursuant to the Master Trust Indenture and the Series 2013 Supplemental Indenture and designated as "The Rochester General Hospital Obligation No. 1 for Series 2013".

"Series 2013 Supplemental Indenture" means the Supplemental Indenture for Obligation No. 1, dated as of February 1, 2013, by and among the Members of the Obligated Group and the Master Trustee, pursuant to which the Series 2013 Obligation will be issued to secure the Series 2013 Bonds.

"Series 2017 Bonds" means the Series 2017 Bonds of the Monroe County Industrial Development Corporation issued on behalf of the Obligated Group.

"Series 2017 Obligation" means the Obligation issued pursuant to the Master Trust Indenture and the Series 2017 Supplemental Indenture and designated as "The Rochester General Hospital Obligation No. 2 for Series 2017".

"Series 2017 Supplemental Indenture" means the Supplemental Indenture for Obligation No. 2, dated as of May 1, 2017, by and among the Members of the Obligated Group and the Master Trustee, pursuant to which the Series 2017 Obligation will be issued to secure the Series 2017 Bonds.

"Short-Term Indebtedness" means all Indebtedness having a maturity of one year or less, other than the current portion of Long-Term Indebtedness, incurred or assumed by any Member of the Obligated Group, including:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one year or less.

"Subordinated Debt" means Indebtedness the payment of which is evidenced by instruments, or issued under an indenture or other document, containing specific provisions subordinating such Indebtedness to the Obligations, including following any event of insolvency by the debtor or following acceleration of such Indebtedness.

"Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust Indenture.

"Tax-Exempt Bond" means a bond or other obligation 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, the interest on which is not included in gross income for federal income tax purposes pursuant to Section 103(a) of the Code.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and (ii) 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 Obligated Group, as to any period of time, total operating revenues less all deductions from 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.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest on which has not been established at a fixed or constant rate to maturity.

Interpretation *(Section 1.02)*

Where the character or amount of any asset, liability or item of income or expense is required to be determined or any consolidation, combination or other accounting computation is required to be made for the purposes hereof or of any agreement, document or certificate executed and delivered in connection with or pursuant to the Master Indenture, the same shall be done in accordance with generally accepted accounting principles in effect on January 1, 2013, to the extent applicable, except where such principles are inconsistent with the requirements hereof.

Amount of Indebtedness *(Section 2.01)*

Subject to the terms, limitations and conditions established in the Master Trust Indenture, each Member of the Obligated Group may incur Indebtedness by issuing Obligations under the Master Trust Indenture or by creating Indebtedness under any other document. The principal amount of Indebtedness created under other documents and the number and principal amount of Obligations evidencing Indebtedness that may be created under the Master Trust Indenture are not limited, except as limited by the provisions of the Master Trust Indenture, including the provisions under the heading "Limitations on Indebtedness," or of any Supplement. Any Member of the Obligated Group proposing to incur Long-Term Indebtedness, whether evidenced by Obligations issued or by evidences of Indebtedness issued or Guaranties entered into pursuant to documents other than the Master Trust Indenture, shall, at least seven (7) days prior to the date of the incurrence of such Indebtedness, give written notice of its intention to incur such Indebtedness, including in such notice the amount of Indebtedness to be incurred and the subsection under the heading "Limitations on Indebtedness" herein under which such Indebtedness will be incurred, to the Obligated Group Representative, with copies to the other Members of the Obligated Group and to the extent required under the heading "Limitation on Indebtedness" herein, to the Master Trustee. Each Member of the Obligated Group shall be jointly and severally liable for each and every Obligation issued under the Master Trust Indenture.

Supplement Creating Obligations *(Section 2.05)*

(a) The Obligated Group Representative, on behalf of each Member of the Obligated Group and the Master Trustee, may, from time to time, enter into a Supplement in order to create an Obligation 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 and premium, if any, and interest on such Obligation shall be payable, the provisions regarding discharge thereof, and the form of such Obligation and such other terms and provisions as shall conform with the provisions of the Master Trust Indenture. Any Obligation shall be secured *pari passu* by the security interest in and pledge of Gross Receipts granted under the Master Trust Indenture, and may be secured by such other Properties and revenues of the Members of the Obligated Group as may be permitted under the Master Trust Indenture as a Permitted Lien or under the provisions of a Supplement.

(b) A Supplement may grant such additional rights to the Holders of a particular series of Obligations as do not in any manner impair the rights of the Holders of any other series of Outstanding Obligations, including, without limitations:

(i) the right to institute a suit, action or other proceeding in equity or at law, upon or under or with respect to the Master Trust Indenture seeking any remedy provided under the Master Trust Indenture if the Master Trustee shall have neglected or refused to institute any such action, suit or proceeding;

(ii) the right to approve the appointment of a successor Master Trustee under the Master Trust Indenture;

(iii) the right to be deemed the Holder of any Obligation notwithstanding the fact such Obligation is owned or held by a Related Bond Trustee or Related Issuer as security for the payment of Related Bonds;

(iv) the right to receive written notice of the occurrence of any Event of Default;

(v) the right to approve Supplements;

(vi) the right to approve any appointment of any Consultant or Insurance Consultant under the Master Trust Indenture; and

(vii) the right to act or direct action by the Master Trustee in case of an Event of Default or otherwise include provision for such Holders to act without intervention of the Master Trustee.

(c) The Master Trustee may rely upon an Opinion of Counsel as conclusive evidence that any Supplement complies with the foregoing conditions and provisions.

Security; Restrictions on Encumbering Property; Payment of Principal and Interest *(Section 3.01)*

(a) Any Obligation issued pursuant to the Master Trust Indenture shall be a general obligation of each Member of the Obligated Group.

To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations under the Master Trust Indenture, each Member of the Obligated Group pledges, assigns and grants to the Master Trustee a security interest in its Gross Receipts.

If any Event of Default shall have occurred, any Gross Receipts then on deposit in any fund or account of a Member of the Obligated Group (unless such account has been pledged as security as permitted in the Master Trust Indenture), and any Gross Receipts thereafter received, shall immediately, upon receipt, be transferred into the Gross Receipts Revenue Fund established pursuant to the provisions under the heading "Additional Remedies and Enforcement of Remedies" herein. Upon receipt, all such Gross Receipts shall be held by the Master Trustee in

trust for the Holders from time to time of all Obligations issued and Outstanding under the Master Trust Indenture, without preference or priority of any one Obligation over any other Obligation. Any Member of the Obligated Group may transfer, or pledge as security, all or any part of its Gross Receipts free of such security interest, as permitted pursuant to the provisions of the Master Trust Indenture. In the event of such transfer or pledge, upon the request of a Member of the Obligated Group, the Master Trustee shall execute a release of its security interest with respect to the assets so transferred.

In addition to the preceding paragraph, upon an Event of Default, the Members of the Obligated Group under the Master Trust Indenture agree to take no action inconsistent with the pledge, assignment and deposit of Gross Receipts contemplated under the Master Trust Indenture, and to cooperate in all respects to assure the deposit of such Gross Receipts in the Gross Receipts Revenue Fund.

With respect to all Obligations issued, executed and delivered under the Master Trust Indenture, there shall be delivered to the Master Trustee duly executed financing statements evidencing the security interests of the Master Trustee in the Gross Receipts of the Members of the Obligated Group 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 of the State of New York.

(b) Each Member of the Obligated Group 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 Gross Receipts. In addition, each Member of the Obligated Group covenants that it will prepare and file such financing statements or amendments to or terminations of existing financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including, without limitation, (i) any Person becoming a Member of the Obligated Group pursuant to the provisions under the heading "Parties Becoming Members of the Obligated Group" herein, or (ii) any Member of the Obligated Group ceasing to be a Member of the Obligated Group pursuant to the provisions under the heading "Withdrawal from the Obligated Group herein. In particular, each Member of the Obligated Group 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 continue the security interest created under the Master Trust Indenture pursuant to 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 each Member of the Obligated Group to prepare and file such continuation statements in a timely manner to assure that the security interest in Gross Receipts shall remain perfected.

(c) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except for Permitted Liens as set forth under the heading "Limitations on Creation of Liens" herein or as may be otherwise provided in the Master Trust Indenture) any of its Property.

(d) Each Member of the Obligated Group covenants that, if an Event of Default shall have occurred and be continuing, or any Member of the Obligated Group shall have failed to make a periodic deposit in respect of the interest on, or principal of any Related Bonds within three days after the same shall have become payable, 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 or such required deposit has been made, as the case may be, such Gross Receipt to be applied in accordance with the requirements under the headings "Additional Remedies and Enforcement of Remedies" and "Application of Moneys after Default" herein.

(e) Each Obligation shall be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued pursuant to the Master Trust Indenture at the place, on the dates and in the manner provided in the Master Trust Indenture and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Covenants as to Corporate Existence, Maintenance of Properties, Etc. *(Section 3.02)*

Each Member of the Obligated Group 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 contained in the Master Trust Indenture will be construed to obligate it to retain or preserve any of its rights or licenses, no longer used or, in the judgment of its Governing Body, useful in the conduct of its business.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection (b) will 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) to 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 Governing Body, 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 will 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 will be contested in good faith.

(d) To pay promptly when due all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it will 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 Obligations 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 subsection (g) if and to the extent that its Governing Body will have determined in good faith, evidenced by a resolution of the Governing Body, 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 will remain in force and effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group 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 suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, or fail to take any action which failure, in the Opinion of Bond Counsel, would result in the interest on any Related Bonds becoming included in the gross income of the holder thereof for federal income tax purposes.

Insurance *(Section 3.03)*

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, insurance (including one or more self-insurance programs considered to be adequate) covering such risks in such amounts and with such deductibles and co-insurance provisions as, in the judgment of its Governing Body, are adequate to protect it and its Property and operations.

The Obligated Group Representative is required to engage an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially), and the Obligated Group is required to file a copy of such report as required pursuant to subsection (d) under the heading "Filing of Audited Financial

Statements, Certificate of No Default; Other Information" herein. If the Insurance Consultant makes recommendations for the increase of any coverage, the applicable Member of the Obligated Group is required to increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Member that such recommendations, in whole or in part, are in the best interests of the Obligated Group. If the Insurance Consultant makes recommendations for the decrease or elimination of any coverage, the Member of the Obligated Group may decrease or eliminate such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in this Section to the contrary, each Member of the Obligated Group shall have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group Representative furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group shall be self-insured for any coverage, the report of the Insurance Consultant mentioned above shall state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage shall be reviewed by the Insurance Consultant not less frequently than annually.

Insurance and Condemnation Proceeds *(Section 3.04)*

(a) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that do not exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards relating to the Health Care Facilities 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) Unless otherwise provided in the Mortgages or Related Loan Agreements, amounts that exceed 20% of the Book Value of the Property, Plant and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss relating to the Health Care Facilities or as condemnation awards

relating to the Health Care Facilities will be applied to repair or replace the Property (either Property serving the same function or other Property that, in the judgment of the Governing Body, is of equal usefulness) to which such proceeds relate or to the payment or prepayment of Indebtedness in accordance with the terms thereof and of any pertinent Supplement; provided, however, that subject to the terms of the Related Loan Agreement, such amounts may be used in such manner as the recipient may determine, if the recipient notifies the Master Trustee and within 12 months after the casualty loss or taking, delivers to the Master Trustee:

(i) (A) An Officer's Certificate of the Obligated Group Representative certifying the forecasted Long-Term Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are forecasted 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 30% of the Book Value of the Property, Plant and Equipment of the Obligated Group, 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 subsection (i) of this section to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level; and an Officer's Certificate of the Obligated Group Representative certifying that the recipient will use such proceeds in accordance with the recommendations contained in the Consultant's report.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law and any Related Loan Agreement and any Mortgage, only in accordance with the assumptions described in subsection (i), or the recommendations described in subsection (ii), of this Section.

Limitations on Creation of Liens *(Section 3.05)*

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens shall consist of the following:

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

(ii) Any Lien arising by reason of deposits with, or the giving of any form of security to, any captive insurance company, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member of the Obligated Group to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other social security, or to share in the privileges or benefits required for companies participating in such arrangements;

(iii) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed;

(iv) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 180 days; and (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof;

(v) Any Lien which is existing on the date of authentication and delivery of the initial Obligation issued under the Master Trust Indenture, provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Trust Indenture, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien thereunder;

(vi) Any Liens of a new Member or a successor to an existing Member that is permitted to remain outstanding after such new Member or successor becomes a Member of the Obligated Group pursuant to paragraph (e) under the heading "Consolidation, Merger, Sale or Conveyance" herein or paragraph (e) under the heading "Parties Becoming Members of the Obligated Group" herein;

(vii) Any Lien securing Non-Recourse Indebtedness permitted by paragraph (d) under the heading "Limitations on Indebtedness" herein;

(viii) Any Lien on Property acquired by a Member of the Obligated Group if the indebtedness secured by the Lien is Additional Indebtedness permitted under the provisions under the heading "Limitations or Indebtedness" herein, and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the indebtedness secured thereby were created and incurred by a Person other than the Member of the

Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations of the Master Trust Indenture on creation of Liens on Property of the Obligated Group;

(ix) So long as no Event of Default exists under the Master Trust Indenture, any Lien on accounts receivable and the proceeds from the sale thereof securing Indebtedness or Derivative Agreements, which conforms to the limitations contained in under the heading "Limitations or Indebtedness" herein;

(x) Any Lien on Property which secures Indebtedness or Derivative Agreements that do not exceed in aggregate 20% of Total Operating Revenue as reflected in the most recent Audited Financial Statements of the Obligated Group;

(xi) Any Lien in favor of a creditor or a trustee on the proceeds of Indebtedness and any earnings thereon prior to the application of such proceeds and such earnings;

(xii) Any Lien in favor of a trustee or other agent on the proceeds of Indebtedness and any earnings thereon created by the irrevocable deposit of such monies for the purpose of refunding or defeasing Indebtedness;

(xiii) Any Lien securing all Obligations on a parity basis;

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

(xv) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xvi) Liens on those items described in, or the right to receive the items described in, clauses (x), (y) and (z) of the definition of Gross Receipts set forth above;

(xvii) Liens on Property due to rights of third party payers for recoupment of amounts paid to any Member of the Obligated Group;

(xviii) Any Lien created in the Related Loan Agreements;

(xix) Liens created in the Mortgages;

(xx) Any Lien on Excluded Property; and

(xxi) Any Lien relating to the leasing of furniture, fixtures and/or equipment in the ordinary course of business.

Limitations on Indebtedness *(Section 3.06)*

Each Member of the Obligated Group covenants and agrees that it will not incur any Additional Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to any one of subsections (a) to (k) of this Section. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in such subsections. Each Member of the Obligated Group further covenants and agrees that it will not incur any Additional Indebtedness without the written consent of the Obligated Group Representative, as evidenced by an Officer's Certificate to be delivered to the Master Trustee prior to the incurrence of such Additional Indebtedness in accordance with the requirements contained in under the heading "Amount of Indebtedness" herein and a certified resolution of the Governing Board of such Member of the Obligated Group.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee:

(i) An Officer's Certificate of the Obligated Group Representative certifying that:

(A) The cumulative principal amount of all Long-Term Indebtedness incurred and Outstanding pursuant to this subsection (A) does not exceed 20% of Total Operating Revenues, or

(B) The Long-Term Debt Service Coverage Ratio for each of the most recent two periods of twelve (12) full consecutive calendar months preceding the date of delivery of the certificate of the Obligated Group Representative for which there are Audited Financial Statements available, taking all Long-Term Indebtedness incurred after such period and the proposed Long-Term Indebtedness into account as if such Long-Term Indebtedness had been incurred at the beginning of such period, is not less than 1.20; or

(ii) (1) an Officer's Certificate of the Obligated Group Representative demonstrating that the Long-Term Debt Service Coverage Ratio for each of the two periods mentioned in subsection (a)(i)(B) of this Section, excluding the proposed Long-Term Indebtedness, is at least 1.20 and (2) a written report of a Consultant demonstrating that the forecasted Long-Term Debt Service Coverage Ratio is not less than 1.20 for (x) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two full Fiscal Years succeeding the date on which such capital improvements are forecasted to be in operation or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two full Fiscal Years succeeding the date on which the Indebtedness is incurred, as shown by pro forma financial statements for the Obligated Group for each such period,

accompanied by a statement of the relevant assumptions upon which such pro forma financial statements for the Obligated Group are based; provided, however, that compliance with the tests set forth in this subsection (a)(ii) may be evidenced by a certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio set forth in this subsection (a)(ii)(2) is equal to or greater than 1.50; provided, however, that if the report of a Consultant states that Governmental Restrictions have been imposed which make it impossible for the coverage requirements of this subsection to be met, then such coverage requirements shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term Indebtedness may be incurred if, prior to the incurrence of such Long-Term Indebtedness, (i) the Long-Term Indebtedness to be incurred does not constitute Cross-over Refunding Indebtedness there is delivered to the Master Trustee (A) an Officer's Certificate of the Obligated Group Representative demonstrating that Maximum Annual Debt Service will not increase by more than 15% after the incurrence of such proposed refunding Long-Term Indebtedness and after giving effect to the disposition of the proceeds thereof and (B) an Opinion of Counsel stating that upon the incurrence of such Proposed Long-Term Indebtedness and application of the proceeds thereof, the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding; or (ii) the Indebtedness proposed to be issued is Cross-over Refunding Indebtedness, there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that the total Maximum Annual Debt Service on the proposed Cross-over Refunding Indebtedness and the Related Cross-over Refunded Indebtedness, immediately after the issuance of the proposed Cross-over Refunding Indebtedness, will not exceed the Maximum Annual Debt Service on the Cross-over Refunded Indebtedness alone, immediately prior to the issuance of the Cross-over Refunding Indebtedness, by more than 15%.

(c) Short-Term Indebtedness may be incurred in the ordinary course of business subject to the limitation that the aggregate of all Short-Term Indebtedness shall not at any time exceed 15% of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available; *provided, however,* that there shall be a period of at least 30 consecutive calendar days during each such period of twelve consecutive calendar months for which Audited Financial Statements are available during which Short-Term Indebtedness shall not exceed 3% of Total Operating Revenues. For purposes of this subsection (c), a Guaranty of Short-Term Indebtedness shall be valued at 20% of the aggregate principal amount of the Short-Term Indebtedness guaranteed so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles; provided that in the event such Guaranty shall be drawn upon, such Guaranty shall be valued at 100% of the aggregate principal amount of the Short-Term Indebtedness guaranteed. For the purpose of calculating compliance with the tests set for in this subsection (c), Short-Term Indebtedness secured by accounts receivable shall not be taken into account except to the extent provided in subsection (f) hereof.

(d) Non-Recourse Indebtedness may be incurred without limit.

(e) Subordinated Debt may be incurred without limit.

(f) Short-Term Indebtedness secured by accounts receivable may be incurred within the limitations imposed on the pledge or sale of accounts receivable, as provided in the last paragraph of this Section; provided that at the time of incurrence, the outstanding principal amount of such Short-Term Indebtedness is less than or equal to the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness. At any time that the outstanding principal amount of such Short-Term Indebtedness is greater than the fair market value of the accounts receivable pledged to secure such Short-Term Indebtedness, the excess amount shall be treated as Short-Term Indebtedness for the purposes of the tests set forth in subsection (c) hereof.

(g) Indebtedness may be incurred in an amount limited to the cost of completion for the purpose of financing the completion of the acquisition or construction of a Capital Addition with respect to which Indebtedness has theretofore been incurred, provided there shall be delivered to the Master Trustee (i) a certificate of the Obligated Group Representative to the effect that the Obligated Group Representative did reasonably expect at the time the initial Indebtedness was incurred that the proceeds of such Indebtedness, together with other available funds, would be sufficient to complete the Capital Addition, (ii) a licensed architect's or licensed engineer's certificate to the effect that the proceeds of such additional Indebtedness will be sufficient to complete the Capital Addition and (iii) the amount of such Indebtedness is limited to the costs identified in (i) above plus necessary reserves and costs related to issuance of such Indebtedness.

(h) Indebtedness represented by a letter of credit reimbursement agreement or other similar reimbursement agreement entered into by any member of the Obligated Group and a financial institution providing either a liquidity or credit support with respect to any other Indebtedness may be incurred in accordance with any other provision of Section 3.06.

(i) Indebtedness in the form of a borrowing from an Affiliate, from any foundation affiliated with a member of the Obligated Group, or from any restricted funds of an Affiliate may be incurred without limit.

(j) Indebtedness incurred directly or indirectly with respect to a self-insurance or captive insurance program benefitting any Member of the Obligated Group.

(k) Indebtedness in the form of installment purchase contract, leases, purchase money mortgages, loans, sale agreements or other borrowing instruments may be incurred provided that the aggregate cumulative principal amount of all Outstanding Indebtedness permitted under this clause shall not in any Fiscal Year exceed five percent (5%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent period of twelve consecutive months for which Audited Financial Statements are available.

Indebtedness incurred pursuant to any one of subsections (a)(i) or (a)(ii) of this Section may be reclassified as Indebtedness incurred pursuant to any other of such subsections if the tests

set forth in the subsection to which such Indebtedness is to be reclassified are met at the time of such reclassification.

Indebtedness containing a "put" or "tender" provision pursuant to which the holder of such Indebtedness may require that such Indebtedness be purchased prior to its maturity shall not be considered Balloon Long-Term Indebtedness, solely by reason of such "put" or "tender" provision, and the put or tender provision shall not be taken into account in testing compliance with any debt incurrence test pursuant to this Section.

Accounts receivable of any Member or Members may be sold, pledged, assigned or otherwise disposed or encumbered in accordance herewith in an aggregate amount not exceeding 50% of the three month average outstanding accounts receivable of the Obligated Group that are ninety days old or less as calculated in accordance with generally accepted accounting principles. The three month average shall be calculated based on the month end available balances for the three full calendar months immediately preceding the date on which such accounts receivable are sold, pledged, assigned or otherwise disposed or encumbered. Accounts receivable that are more than ninety days old may not be sold, pledged, assigned or otherwise disposed or encumbered.

Long-Term Debt Service Coverage Ratio *(Section 3.07)*

(a) The Members of the Obligated Group covenant to set rates and charges for their facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10 for such prior Fiscal Year; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by subsection (a) hereof, as derived from the most recent Audited Financial Statements for the most recent Fiscal Year, is not met, the Obligated Group covenants to retain a Consultant within forty-five (45) days of the delivery of the aforementioned Audited Financial Statements to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the level required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest level attainable. Any Consultant so retained will be required to submit such recommendations within ninety (90) days after being so retained. Each Member of the Obligated Group agrees that it will, to the extent permitted by Governmental Restrictions, follow the recommendations of the Consultant. So long as a Consultant will be retained and each Member of the Obligated Group will follow such Consultant's recommendations to the extent permitted by such Governmental Restrictions, this Section will be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, that the Obligated Group will not be required to retain a Consultant to make recommendations pursuant to this subsection (b) more frequently than biennially.

Sale, Lease or Other Disposition of Operating Assets; Disposition of Cash and Investments; Unsecured Loans to Non-Members; Sale of Accounts *(Section 3.08)*

(a) Each Member of the Obligated Group agrees that it will not transfer Property in any Fiscal Year (or other 12-month period for which Audited Financial Statements are available) except for Transfers of Property:

(i) To any Person provided such Property has become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property.

(ii) To another Member of the Obligated Group without limit.

(iii) To any Person provided there will be delivered to the Master Trustee prior to such Transfer an Officer's Certificate certifying that the Obligated Group is in compliance with the requirements set forth under the heading "Long-Term Debt Service Coverage Ratio" and the Long-Term Debt Service Coverage Ratio, adjusted to exclude the revenues and expenses derived from the Operating Assets proposed to be disposed of, for the most recent period of twelve (12) full consecutive calendar months preceding the date of delivery of the Officer's Certificate for which the Audited Financial Statements have been reported upon by independent certified public accountants (which period of twelve (12) full consecutive months will have ended not more than eighteen (18) calendar months prior to the date of the Officer's Certificate) and such Long-Term Debt Service Coverage Ratio is not less than 1.20 and not less than 65% of what it would have been were such Transfer not to take place.

(iv) To any Person if the aggregate Book Value of the Property Transferred pursuant to this subsection (iv) in the current Fiscal Year does not exceed 10% of the Book Value of all Property of the Obligated Group as shown in the Audited Financial Statements for the most recent Fiscal Year.

(v) To any Person if the Property Transferred pursuant to this subsection (v) was transferred in the ordinary course of business, and at fair and reasonable terms, no less favorable to the Member of the Obligated Group, which could have been attained in a comparable arms-length transaction; provided further, however, that the proceeds from such Property Transferred are used only to acquire Property or to repay Long-Term Indebtedness or deposited into a depreciation reserve fund.

(vi) To a Person which at the time of the Transfer is not a Member of the Obligated Group or successor corporation pursuant to a merger or consolidation permitted by the Master Trust Indenture, without limit, if such Person or successor corporation will, at the time of such Transfer, become a Member of the Obligated Group pursuant to the Master Trust Indenture.

(vii) To any Person, excluding Current Assets, provided such Property that does not constitute part of the Health Care Facilities of the Obligated Group, without limit.

(b) Any Member of the Obligated Group will have the right to sell, pledge, assign or otherwise dispose of its accounts receivable, with or without recourse, if such Member of the Obligated Group will receive as consideration for such sale, pledge, assignment or other disposition cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and if such sale, pledge, assignment or other disposition meets the limitations contained in the last paragraph under the heading "Limitations on Indebtedness" regarding the aggregate limit on the pledge, sale or other disposition or encumbrance of accounts receivable.

(c) Nothing contained under this heading is intended to prohibit the Transfer of Property, including cash, for payment of goods and services in the ordinary course of business of, or for the acquisition of Property by, the Members of the Obligated Group.

Consolidation; Merger; Sale or Conveyance *(Section 3.09)*

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

(i) Either a Member of the Obligated Group will be the successor corporation, or if the successor corporation is not a Member of the Obligated Group, such successor corporation will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation to assume the due and punctual payment of the principal of, 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 thereto; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Trust Indenture; and

(iii) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been fully paid to the holder thereof, there will 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 of interest payable on

such Related Bond from the gross income of the holder thereof for purposes of federal income taxation; and

(iv) There is delivered to the Master Trustee an Officer's Certificate of the Obligated Group Representative demonstrating that (A) if such merger, consolidation or sale of assets had occurred at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Financial Statements are available, the Long-Term Debt Service Coverage Ratio for such period would have been not less than 1.10, (B) if such merger, consolidation or sale of assets had occurred at the end of the most recent period of 12 full consecutive calendar months for which Audited Financial Statements are available (which period of 12 full consecutive months will have ended not more than eighteen calendar months prior to the date of the Officer's Certificate), the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" would have been satisfied for the incurrence of an additional $1.00 of Additional Indebtedness, and (C) the unrestricted net assets plus temporarily restricted net assets of the successor, resulting or acquiring corporation, as the case may be, after giving effect to said merger or consolidation, or sale or conveyance of assets is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Member of the Obligated Group which was merged into, consolidated with or whose assets were acquired by, such successor corporation as reflected in the most recent Audited Financial Statements.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation will 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 or had become a Member of the Obligated Group pursuant to the provisions described under the heading "Parties Becoming Members of the Obligated Group" herein, as the case may be. Such successor corporation 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 and subject to all the terms, conditions and limitations in the Master Trust Indenture prescribed, the Master Trustee will authenticate and will deliver Obligations that such successor corporation will have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation under the Master Trust Indenture will 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 under the Master Trust Indenture as may be appropriate.

(d) In the event that the Officer's Certificate described in subparagraph (a)(iv) under this heading has been delivered, the Master Trustee may accept an Opinion of Counsel (not an

employee of a Member of the Obligated Group or an Affiliate in this case) as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section and that it is proper for the Master Trustee under the provisions of the Master Trust Indenture to join in the execution of any instrument required to be executed and delivered by this Section.

(e) Any Indebtedness previously incurred by the Person or successor corporation becoming a Member of the Obligated Group pursuant to this Section will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions of the Master Trust Indenture under the heading "Limitations on Indebtedness" herein immediately after such Person or successor corporation became a Member of the Obligated Group.

(f) All references in the Master Trust Indenture to successor corporations will be deemed to include the surviving corporation in a merger.

Filing of Audited Financial Statements, Certificate of No Default; Other Information *(Section 3.10)*

The Obligated Group covenants that it will:

(a) Within thirty (30) days after receipt of the audit report mentioned below, but in no event later than one hundred eighty (180) 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 the Audited Financial Statements as of the end of such fiscal reporting period accompanied by the opinion of independent certified public accountants. Such Audited Financial Statements will be prepared in accordance with generally accepted accounting principles and will include such statements necessary for a fair presentation of financial position, statement of activity and changes in net assets and cash flows of such fiscal reporting period.

(b) Within 30 days after receipt of the audit report mentioned above, but in no event later than one hundred eighty (180) days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested or on whose behalf the Master Trustee may have so requested, an Officer's Certificate and a report of independent certified public accountants stating the Long-Term Debt Service Coverage Ratio for such fiscal reporting period and stating whether, to the best knowledge of the signers, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Trust Indenture and, if so, specifying each such default of which the signers may have knowledge.

(c) If an Event of Default will 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 Obligated Group of companies, including its consolidated or combined Affiliates, including any Member of the Obligated Group) 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.

(d) Within 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.

Parties Becoming Members of the Obligated Group *(Section 3.11)*

Persons which are not Members of the Obligated Group and corporations which are successor corporations to any Member of the Obligated Group through a merger or consolidation permitted by the provisions described under the heading "Consolidation, Merger, Sale or Conveyance" may, with the prior written consent of the Obligated Group Representative, become Members of the Obligated Group, if:

(a) The Person or successor corporation which is becoming a Member of the Obligated Group will execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person or successor corporation (i) to become a Member of the Obligated Group under the Master Trust Indenture and any Supplements and thereby become subject to compliance with all provisions of the Master Trust Indenture and any Supplements pertaining to a Member of the Obligated Group, and the performance and observance of all covenants and obligations of a Member of the Obligated Group under the Master Trust Indenture, (ii) unless waived by the Obligated Group Representative to adopt the same Fiscal Year as that of the Members of the Obligated Group, and (iii) unconditionally and irrevocably guarantee to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Trust Indenture will be paid in accordance with the terms thereof and of the Master Trust Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with subsection (a) of this Section, shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, each Related Bond Issuer and each Related Credit Facility Issuer, to the effect that such instrument has been duly authorized, executed and delivered by such Person or successor corporation and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances and that the obligations of such Person or successor corporation created thereunder include the requirements described in subsection (a).

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the Holders thereof, there shall be filed with the Master Trustee, (i) an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion of the interest on any such Related Bond from the gross income of the holder thereof for purposes of federal

income taxation and (ii) an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not require the registration of any Obligations under the Securities Act of 1933, as amended or the Supplements under the Trust Indenture Act of 1939, as amended, or if such registration is required, that all applicable registration and qualification provisions of said acts have been complied with.

(d) An Officer's Certificate of the Obligated Group Representative shall be provided to the Master Trustee demonstrating that (i) after giving effect to the admission of such Person as a Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of such Person and the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Person will become a member of the Obligated Group and (ii) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar of Additional Indebtedness, assuming that the Person or corporation which is becoming a Member of the Obligated Group had become a Member at the beginning of the most recent period of 12 full consecutive calendar months for which Audited Financial Statements are available (which period of 12 full consecutive months will have ended not more than 18 calendar months prior to the date of the Officer's Certificate).

(e) Any Indebtedness previously incurred by a new Member of the Obligated Group will be permitted to remain outstanding, and any lien or security interest securing such Indebtedness will be permitted to remain in effect if such Indebtedness could have been incurred pursuant to the provisions described under the heading "Limitations on Indebtedness" immediately after such Person became a Member of the Obligated Group.

Withdrawal from the Obligated Group *(Section 3.12)*

(a) No Member of the Obligated Group may withdraw from the Obligated Group without the prior written consent of the Obligated Group Representative, provided that prior to the taking of such action, there is delivered to the Master Trustee:

(i) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders thereof, there will be 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 such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(ii) (A) An Officer's Certificate of the Obligated Group Representative demonstrating that (1) the conditions described in subsection (a)(i)(B) under the heading "Limitation on Indebtedness" have been satisfied for the incurrence of an additional one dollar ($1.00) of Additional Indebtedness, assuming such withdrawal to have occurred at the end of the most recent period of twelve (12)

full consecutive calendar months for which Audited Financial Statements are available, (2) the Long-Term Debt Service Coverage Ratio for the most recent period of 12 full consecutive calendar months for which Audited Financial Statements are available (x) would not, if such withdrawal had occurred at the end of such period, be reduced by more than 35%; provided, however, that in no event will such ratio be reduced to less than 1.20, or (y) would be greater than in the absence of such withdrawal, and (3) after giving effect to the withdrawal of such Member of the Obligated Group, the unrestricted net assets plus temporarily restricted net assets of the Obligated Group is not less than 80% of the unrestricted net assets plus temporarily restricted net assets of the Obligated Group at the end of the Fiscal Year immediately preceding the year in which such Member of the Obligated Group withdraws from the Obligated Group; or (B) a written report of a Consultant demonstrating that the forecasted average Long-Term Debt Service Coverage Ratio for the two periods of twelve (12) full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 1.35; provided, however, that compliance with the test set forth in clause (B) above may be evidenced by an Officer's Certificate of the Obligated Group Representative in lieu of a Consultant's report where the Long-Term Debt Service Coverage Ratio for each of the two periods of twelve full consecutive calendar months succeeding the proposed date of such withdrawal is greater than 2.00 and not less than 65% of what it would have been were such withdrawal not to take place, assuming such withdrawal had occurred on the first day of the most recent twelve month period for which Audited Financial Statements of the Obligated Group are available; and

(iii) an Opinion of Counsel, addressed and satisfactory to the Master Trustee and each Credit Facility Issuer to the effect that such withdrawal is authorized by and complies with all Governmental Restrictions and the provisions of the Master Trust Indenture and any agreements or other documents relating to the Master Trust Indenture, the Obligations or the Related Bonds.

(b) Upon the withdrawal of any Member from the Obligated Group pursuant to subsection (a) of this Section, any guaranty by such Member pursuant hereto will be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Trust Indenture shall cease.

(c) Upon a withdrawal of a Member of the Obligated Group pursuant to subsection (a) of this Section, the withdrawing Member may assume Obligations Outstanding issued by such withdrawing Member under the Master Trust Indenture and the remaining Members of the Obligated Group released and discharged in full for liability with respect to such Obligations Outstanding to be assumed by the withdrawing Member if there is delivered to the Master Trustee:

(i) Confirmation from Moody's, Standard & Poor's and/or Fitch, as applicable, that such assumption by the withdrawing Member and release of the remaining Members of the Obligated Group will not result in a withdrawal or

reduction of any existing rating (without regard to any change in the outlook therefor) of such assumed Obligations or the Related Bonds secured thereby;

(ii) If all amounts due on any Related Bonds which bear interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holders 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 any existing law such withdrawing Member's assumption of such Outstanding Obligations and release of the remaining Members of the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code;

(iii) The withdrawing Member shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such withdrawing Member to assume such Obligations Outstanding under the terms of the Master Trust Indenture and the Supplements relating to such Outstanding Obligations; and

(iv) an Opinion of Counsel, addressed and satisfactory to the Master Trustee and each Credit Facility Issuer to the effect that such assumption by the withdrawing Member and release of the remaining Members of the Obligated Group is authorized by and complies with all Governmental Restrictions and the provisions of the Master Indenture and any agreements or other documents relating to the Master Indenture, the Obligations or the Related Bonds.

Credit for Debt Reserves *(Section 3.13)*

For purposes of the computation of the Long-Term Debt Service Requirement, whether historic or projected, the Obligated Group Representative may subtract from principal due on Indebtedness any Debt Reserves which are available and are actually to be applied to make such principal payment in the year such Indebtedness matures or is redeemed or otherwise retired, at the time of such computation for the period in question.

Credit for Capitalized Interest *(Section 3.14)*

For purposes of the computation of the Long-Term Debt Service Requirement, whether historic or projected, the Obligated Group Representative may subtract from interest due on Indebtedness any Capitalized Interest which is available and is to be applied to make such interest payment in the year such interest comes due, at the time of such computation for the period in question.

Events of Default *(Section 4.01)*

Event of Default, as used herein, shall mean any of the following events:

(a) The Members of the Obligated Group will fail to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Trust Indenture when and as the same will 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) Any Member of the Obligated Group will 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, will have been given to the Members of the Obligated Group and the Obligated Group Representative by the Master Trustee, or to the Members of the Obligated Group and the Obligated Group Representative and the Master Trustee by the Holders of at least twenty-five percent (25)% in aggregate principal amount of Obligations then Outstanding or by the Credit Facility Issuer, if any, with respect to an Obligation or Related Bonds; provided, however, that if said failure be such that it cannot be corrected within thirty (30) days after the receipt of such notice, it will not constitute an Event of Default if corrective action is instituted within such 30-day period and diligently pursued until the Event of Default is corrected;

(c) An event of default will occur under a Related Bond Indenture, under a Related Loan Agreement, upon a Related Bond or under a Mortgage that secures any Obligation issued under the Master Trust Indenture;

(d) (i) Any Member of the Obligated Group will fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Trust Indenture), which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, and any period of grace with respect thereto will have expired, or (ii) there will occur 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, which Indebtedness is in an aggregate principal amount greater than 1% of Total Operating Revenues for the most recent Fiscal Year whether such Indebtedness now exists or will hereafter be created, which event of default will 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 will have been accelerated; provided, however, that such default will not constitute an Event of Default within the meaning of this Section if within 30 days (i) written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith will commence proceedings to contest the obligation to pay such Indebtedness and if a judgment relating to such Indebtedness has been entered against such Member of the Obligated Group (A) the execution of such judgment has been stayed or (B) sufficient moneys are escrowed with a bank or trust company for the 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 any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such

Member 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 such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days; and

(f) The institution by any Member of the Obligated Group 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 such Member of the Obligated Group 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.

Acceleration; Annulment of Acceleration. *(Section 4.02)*

(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 the Holders of not less than 25% in aggregate principal amount of Obligations Outstanding, shall, by notice to the Members of the Obligated Group declare all Obligations Outstanding immediately due and payable, whereupon such Obligations will 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. In the event Obligations are accelerated there will 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, which accrues to the date of payment.

(b) At any time after the principal of the Obligations will 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 Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee 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 Obligated Group under the Master Trust Indenture will have been paid or a sum sufficient to pay the same will 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) will have been remedied or waived pursuant to the provisions under the heading "Waiver of Event of Default", then the Master Trustee may, and upon the written request of Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding will, annul such declaration 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.

Additional Remedies and Enforcement of Remedies *(Section 4.03)*

(a) Upon the occurrence and continuance of an Event of Default under the Master Trust Indenture, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or upon the request of the Credit Facility Issuer, if any, with respect to any series of Obligations or Related Bonds, 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, will 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) Bring 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 as a secured party under the Uniform Commercial Code of the State of New York;

(vi) Enforcement of any Mortgage granted by any Member of the Obligated Group to secure any one or more Obligations; and

(vii) 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 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of Obligations or Related Bonds, will, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised will 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 thereof, 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, are not unduly prejudicial to the interest of the Holders not making such request.

(c) Upon the occurrence of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding or the Credit Facility Issuer, if any, with respect to a series of

Obligations or Related Bonds, realize upon any security interest which the Master Trustee may have in Gross Receipts and will establish and maintain a Gross Receipts Revenue Fund into which will be deposited all Gross Receipts as and when received. All amounts deposited into the Gross Receipts Revenue Fund will be applied by the Master Trustee or made available to any alternate paying agent appointed pursuant to any Supplement for application (i) to the payment of the reasonable and necessary operating expenses of the Obligated Group, all in accordance with budgeted amounts proposed by the Obligated Group Representative and, if Related Bonds of the Applicable Related Bond Issuer are Outstanding, approved by the Applicable Related Bond Issuer or the Applicable Related Bond Issuer's designee, (ii) to the payment of the principal or redemption price of, and interest on all Obligations in accordance with their respective terms, and (iii) such other amounts as may be required by the Master Trust Indenture and any Supplement thereto. Pending such application, all such moneys and investments in the Gross Receipts Revenue Fund will be held for the equal and ratable benefit of all Obligations Outstanding; provided, that amounts held in the Gross Receipts Revenue Fund for making of debt service payments on or after the due date for Obligations will be reserved and set aside solely for the purpose of making such payment. In addition, with regard to Gross Receipts, the Master Trustee may take any one or more of the following actions: (i) during normal business hours enter the offices or facilities of any Member of the Obligated Group and examine and make copies of the financial books and records of the Member relating to the Gross Receipts and take possession of all checks or other orders for payment of money and moneys in the possession of the Members of the Obligated Group representing Gross Receipts or proceeds thereof; (ii) notify any account debtors obligated on any Gross Receipts to make payment directly to the Master Trustee, (iii) following such notification to account debtors, collect, or, in good faith compromise, settle, compound or extend amounts payable as Gross Receipts which are in the form of accounts receivable or contract rights from each Member's account debtors by suit or other means and give a full acquittance therefor and receipt therefor in the name of the Member whether or not the full amount of any such account receivable or contract right owing will be paid to the Master Trustee, as the Applicable Related Bond Issuer may direct; (iv) forbid any Member to extend, compromise, compound or settle any accounts receivable or contract rights which represent any unpaid assigned Gross Receipts, or release, wholly or partly, any person liable for the payment thereof (except upon receipt of the full amount due) or allow any credit or discount thereon; or (v) endorse in the name of the applicable Member any checks or other orders for the payment of money representing any unpaid assigned Gross Receipts or the proceeds thereof.

Application of Moneys after Default *(Section 4.04)*

During the continuance of an Event of Default, subject to the expenditure of moneys to make any payments required to permit any Member of the Obligated Group to comply with any requirement or covenant in any Related Indenture to cause Related Bonds the interest on which, immediately prior to such Event of Default, is excludable from the gross income of the recipients thereof for federal income tax purposes under the Code to retain such status under the Code, all Gross Receipts and other moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Article of the Master Trust Indenture relating to Events of Default will be applied, after the payment of any compensation, expenses, disbursements and advances then owing to the Master Trustee pursuant to the Master Trust Indenture and with respect to the payment of Obligations thereunder, as follows:

(a) Unless the principal of all Outstanding Obligations will 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 will 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 of interest due thereon to the Persons entitled thereto, without any discrimination or preference;
>
> Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which will have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available will 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; and
>
> Third: To the extent there exists a Credit Facility Issuer with respect to any series of Obligations or Related Bonds, amounts owed to such Credit Facility Issuer by the Obligated Group and not otherwise paid under clauses First and Second above.

(b) If the principal of all Outstanding Obligations will 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 will have been declared due and payable, and if such declaration will thereafter have been rescinded and annulled under the provisions of the Article of the Master Trust Indenture relating to Events of Default, then,

subject to the provisions of paragraph (b) of this Section in the event that the principal of all Outstanding Obligations will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of paragraph (a) of this Section.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys will be applied by it at such times, and from time to time, as the Master Trustee will 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 will apply such moneys, it will 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 will cease to accrue. The Master Trustee will 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 will not be required to make payment to the Holder of any unpaid Obligation until such Obligation will be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Moneys held in the Gross Receipts Revenue Fund will be invested in Government Obligations, which mature or are redeemable at the option of the holder not later than such times as will be required to provide moneys needed to make the payments or transfers therefrom. Subject to the foregoing, such investments will be made in accordance with a certificate of the Obligated Group Representative directing the Master Trustee to make specific investments. Unless otherwise provided in the Master Trust Indenture, the Master Trustee will sell or present for redemption, any Government Obligation so acquired whenever instructed to do so pursuant to an Officer's Certificate or whenever it will be necessary to do so to provide moneys to make payments or transfers from the Gross Receipts Revenue Fund. The Master Trustee will not be liable or responsible for making any such investment in the manner provided above and will not be liable for any loss resulting from any such investment. Any investment income derived from any investment of moneys on deposit in the Gross Receipts Revenue Fund will be credited to the Gross Receipts Revenue Fund and retained therein until applied to approved purposes.

Whenever all Obligations and interest thereon have been paid under the provisions of this Section and all expenses and charges of the Master Trustee have been paid, any balance remaining will be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance will be paid to the Members of the Obligated Group, their respective successors, or as a court of competent jurisdiction may direct.

Holders' Control of Proceedings *(Section 4.07)*

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding will have the right, at any time, by an instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Trust Indenture or for the appointment of a receiver or any other proceedings under the Master Trust Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Trust Indenture, and is not

unduly prejudicial to the interest of any Holders not joining in such direction, and provided further, that the Master Trustee will have the right to decline to follow any such direction if the Master Trustee in good faith will determine that the proceeding so directed would involve it in personal liability, in the sole judgment of the Master Trustee, and provided further that nothing in this Section will impair the right of the Master Trustee in its discretion to take any other action under the Master Trust Indenture which it may deem proper and which is not inconsistent with such direction by the Holders provided, further, however, that the Credit Facility Issuer, if any, with regard to any series of Obligations or any series of Related Bonds secured by Obligations, and not the Holders, will have the right to control proceedings with respect thereto in the manner described in this Section.

Waiver of Event of Default *(Section 4.09)*

(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 Article IV of the Master Trust Indenture relating to Events of Default 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, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds may waive any Event of Default which in its opinion will have been remedied before the entry of formal 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 thereunder.

(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, with the consent of the Credit Facility Issuer, if any, of any affected Obligations or Related Bonds, will 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 captioned "Acceleration; Annulment of Acceleration" herein, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same will 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 Members of the Obligated Group, the Master Trustee and the Holders will be restored to their former positions and rights thereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Appointment of Receiver *(Section 4.10)*

Upon the occurrence of any Event of Default, unless the same shall have been waived as provided in the Master Trust Indenture, the Master Trustee shall be entitled as a matter of right if it shall so elect, (i) forthwith and without declaring the Obligations to be due and payable, (ii) after declaring the same to be due and payable, or (iii) upon the commencement of an action to enforce the specific performance of the Master Trust Indenture or in aid thereof or upon the commencement of any other judicial proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group with such powers as the court making such appointment will confer. Each Member of the Obligated Group, respectively, pursuant to the Master Trust Indenture consents and agrees, and will if requested by the Master Trustee consent and agree at the time of application by the Trustee for appointment of a receiver of its Property, to the appointment of such receiver of its Property and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with like effect as the Member of the Obligated Group could do so, and to borrow money and issue evidences of indebtedness as such receiver.

Notice of Default *(Section 4.12)*

The Master Trustee will, within 10 days after it has actual knowledge of the occurrence of an Event of Default, mail, by first class 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 will have been cured before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (e) and (f) under the heading "Events of Default", the Master Trustee will 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.

Removal and Resignation of the Master Trustee *(Section 5.04)*

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 will have occurred and be continuing, by an instrument in writing signed by the Obligated Group Representative. No such resignation or removal will 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 will be given to the Members of the Obligated Group and to each Holder by first class mail at the address then reflected on the books of the Master Trustee and such resignation or removal will take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed by the Obligated Group Representative or, if no such appointment is made by the Obligated Group

Representative within 30 days of the date notice of resignation or removal is given, 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 60 days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group 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.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee will 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 $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Trust Indenture will execute, acknowledge and deliver to its predecessor and also to each Member of the Obligated Group an instrument in writing, accepting such appointment under the Master Trust Indenture, and thereupon such successor Master Trustee, without further action, will become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor will execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. The predecessor Master Trustee will execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee will 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.

Each successor Master Trustee, not later than 10 days after its assumption of the duties under the Master Trust Indenture, will mail a notice of such assumption to each registered Holder.

Supplements Not Requiring Consent of Holders *(Section 6.01)*

Each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, 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 therein, or to make any other provisions with respect to matters or questions arising under the Master Trust Indenture and which will 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 subsection (a) under the heading "Supplements Requiring Consent of Holders" herein.

(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 or the entry into a Derivative Agreement (including, in either case, the issuance of an Obligation in respect thereof) as permitted under the Master Trust Indenture, so long as no Event of Default has occurred and is continuing thereunder.

(f) To obligate a successor to any Member of the Obligated Group as provided in the provisions described under the heading "Parties Becoming Members of the Obligated Group".

(g) To comply with the provisions of any federal or state securities law.

Supplements Requiring Consent of Holders *(Section 6.02)*

(a) Other than Supplements referred to under this Section and subject to the terms and provisions and limitations contained in Article VI of the Master Trust Indenture relating to amendments and supplements to the Master Trust Indenture and not otherwise, the Holders of not less than 51% in aggregate principal amount of Obligations then Outstanding shall have the right, with consent of each Credit Facility Issuer insuring Obligations or Related Bonds, from time to time, anything contained in the Master Trust Indenture to the contrary notwithstanding, to consent to and approve the execution by each Member of the Obligated Group, when authorized by resolution or other action of equal formality by its Governing Body, and the 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 Section will 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, 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) Except as otherwise permitted in the Master Trust Indenture or an existing Supplement, 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 each Member of the Obligated Group shall request the Master Trustee to enter into a Supplement pursuant to this Section, which request is accompanied by a copy of the resolution or other action of its Governing Body certified by its secretary or assistant secretary or if it has no secretary or assistant secretary, its comparable officer, and the proposed Supplement and if within such period, not exceeding three years, as shall be prescribed by each Member of the Obligated Group following the request, the Master Trustee receives 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) of this Section for the Supplement in question which instrument or instruments will 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 will have consented thereto.

(c) Any such consent will 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 provisions under the heading "Evidence of Acts of Holders" herein. At any time after the Holders of the required principal amount or number of Obligations will have filed their consents to the Supplement, the Master Trustee will make and file with each Member of the Obligated Group a written statement to that effect. Such written statement will be conclusive that such consents have been so filed.

(d) If the Holders of the required principal amount of the Obligations Outstanding will have consented to and approved the execution of such Supplement as provided in the Master Trust Indenture, no Holder will 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 any Member of the Obligated Group from executing the same or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge of Indenture *(Section 7.01)*

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which will have been mutilated, destroyed, lost or stolen and which will have been replaced or paid as provided in the Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation will have become due and payable and money sufficient to pay the same will have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation will be Defeased Obligations, and if in all cases the Members of the Obligated Group will also pay or cause to be paid all other

sums payable under the Master Trust Indenture by the Members of the Obligated Group or any thereof, then the Master Trust Indenture will cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group and at the cost and expense of the Members of the Obligated Group, will execute proper instruments acknowledging satisfaction of and discharging the Master Trust Indenture. The Master Trustee may obtain a certificate from a nationally or regionally recognized firm of independent accountants selected by the Obligated Group Representative as to whether Obligations are Defeased Obligations. Each Member of the Obligated Group, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Trust Indenture or such Obligations.

Evidence of Acts of Holders *(Section 8.01)*

Except as otherwise provided in a Related Bond Indenture, in the event that any request, direction or consent is requested or permitted under the Master Trust Indenture of the Holders of any Obligation securing an issue of Related Bonds, (i) each Related Bond Issuer shall be deemed to be such Holder for the purpose of any such request, direction or consent, or (ii) in the event such series of Related Bonds or Obligation is secured by a Credit Facility, so long as the issuer of such Credit Facility is not then in default on its obligations under such Credit Facility, the Credit Facility Issuer shall be deemed to be the Holder of such Obligation or Obligations pledged as security for such Related Bonds.

SERIES 2017 SUPPLEMENTAL INDENTURE

Discharge of Supplement *(Section 11)*

Upon payment by the Obligated Group of a sum, in cash or Defeasance Obligations (as defined in the Related Bond Indenture), or both, sufficient, together with any other cash and Defeasance Obligations held by the Related Bond Trustee and available for such purpose, to cause all Outstanding Series 2017 Bonds to be deemed to have been paid within the meaning of the Related Bond Indenture and to pay all other amounts referred to in the Related Bond Indenture, accrued and to be accrued to the date of discharge of the Related Bond Indenture, the Series 2017 Obligation will be deemed to have been paid and to be no longer Outstanding under the Master Trust Indenture and the Series 2017 Supplemental Indenture, but only as it relates to the Series 2017 Obligation, will be discharged.

Reporting Requirements *(Section 13)*

The Members of the Obligated Group covenant that they will:

(a) No later than one hundred sixty-five (165) days subsequent to the last day of each Fiscal Year, provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, to the Bond Trustee and to the applicable rating services, (1) copies of the Audited Financial Statements of the Obligated Group; (2) utilization statistics of the Obligated Group, including aggregate discharges, patient days, average length of stay,

average daily census, emergency room visits, and ambulatory surgery visits, or such other or different statistics as are appropriate at the time of calculation; and (3) the major payor mix of the Obligated Group by percentage of gross revenue; and

(b) No later than one hundred eighty (180) days subsequent to the last day of each Fiscal Year, provide to the Bond Trustee, a certificate stating whether the applicable Members of the Obligated Group are in compliance with the provisions of the Master Trust Indenture and the Related Loan Agreement.

(c) No later than sixty (60) days after the end of each of the first three quarters in each Fiscal Year and not later than seventy-five (75) days after the end of the fourth quarter in each Fiscal Year, commencing with the fiscal quarter ending June 30, 2017, provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, and to the Bond Trustee a quarterly report containing quarterly unaudited consolidated financial statements of the Obligated Group (including balance sheet, statement of operations, changes in net assets and cash flow), quarterly utilization and operating data of the Obligated Group of the type described in Appendix A – Certain Information Concerning The Rochester General Hospital of this Official Statement under the headings "Utilization", "Liquidity and Investments – Days Cash on Hand", and "Payor Mix", and construction updates on the Facility (as defined in the Loan Agreement) during the construction period of the Facility.

(d) No later than one hundred eighty (180) days subsequent to the last day of each Fiscal Year, provide to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board and the Bond Trustee copies of the Audited Financial Statements of the Rochester Regional Health.

Required Ratios *(Section 14)*

For so long as the Series 2017 Obligation remains Outstanding and/or any Series 2017 Bonds remain Outstanding, the following provisions shall apply:

(a) The Required Ratio shall be tested as of December 31 of each year, as reflected in the Audited Financial Statements of the Obligated Group (each an "Annual Testing Date"), and an Officer's Certificate of the Obligated Group Representative shall be delivered on the date the Audited Financial Statements are delivered in accordance with the provisions under the heading "Reporting Requirements" herein to the Master Trustee certifying as to the Long-Term Debt Service Coverage Ratio as of such Annual Testing Date and certifying compliance with the Required Ratio.

(b) If, on any Annual Testing Date, the Long-Term Debt Service Coverage Ratio is less than 1.10 then the Obligated Group shall (1) within forty-five (45) days after delivery of the Officer's Certificate described in (a) above (i) retain a Consultant, (ii) require such Consultant to deliver within ninety (90) days of its appointment, a report to be delivered to the Obligated Group Representative recommending changes with respect to the operation and management of the Obligated Group's facilities, and (iii) to the extent permitted by Governmental Restrictions, implement such Consultant's recommendation in a timely manner. Any report of a Consultant prepared within the previous 12-month period pursuant to the provisions under the heading

"Long-Term Debt Service Coverage Ratio" herein shall, if meeting the requirements of clause (ii) above, be deemed to satisfy the foregoing requirement to procure a Consultant's report and, in any event, the Obligated Group shall not be required to retain a Consultant to make recommendations pursuant to this clause more frequently then biennially.

(c) For so long as the Obligated Group is not in compliance with the Required Ratio the Obligated Group Representative shall deliver to the Master Trustee (i) within ninety (90) days after the delivery of a Consultant's report pursuant to paragraph (b) above, a certified copy of a resolution adopted by the Governing Body of the Obligated Group Representative acknowledging receipt of such report on behalf of itself and the other Members of the Obligated Group, and a report setting forth in reasonable details the steps the Obligated Group proposes to take to implement some or all of the recommendations of such Consultant, to the extent permitted by Governmental Restrictions, and (ii) quarterly reports showing the progress made by the Obligated Group in achieving compliance with the Required Ratio and, if applicable, implementing the recommendations of the Consultant.

(d) If the Obligated Group shall fail to maintain the Required Ratio as required by paragraph (c) above, the Obligated Group shall nonetheless be considered and deemed to be in compliance with this Section so long as the Obligated Group has satisfied the requirements of paragraphs (b) and (c) above. If the Obligated Group shall (i) fail to provide the Officer's Certificate required by paragraph (a) above by the required date, or (ii) fail to satisfy the requirements of paragraphs (b) and (c) above to the reasonable satisfaction of the Master Trustee, the Master Trustee shall be entitled to notify the members of the Governing Body of each Member of such noncompliance, and to enforce the provisions of this Section by specific performance.

(e) In no event, however, shall failure to satisfy the provisions set forth in subsections (a), (b), (c) or (d) above constitute an Event of Default under the Master Indenture, it being understood that the sole remedies for noncompliance shall be the right of the Master Trustee to seek specific performance and/or to notify Governing Body members as aforesaid.

(f) Notwithstanding anything herein or in the Master Indenture to the contrary, the Obligated Group covenants that in no event shall the Long-Term Debt Service Coverage Ratio be less than 1.00 as of the end of any Fiscal Year. A failure to have a Long-Term Debt Service Coverage Ratio as of the end of any Fiscal Year of 1.00 or greater shall constitute an Event of Default.

(g) Notwithstanding anything herein or in the Master Indenture to the contrary, the provisions set forth in this Section are made solely for the benefit of the Holder of the Series 2017 Obligation securing the Series 2017 Bonds (including the successors or assigns thereof) and no other Person shall acquire or have any right thereunder or by virtue thereof.

APPENDIX G

Form of Approving Opinion of Bond Counsel

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX G

FORM OF APPROVING OPINION OF BOND COUNSEL

Upon the delivery of the Series 2017 Bonds, Harris Beach PLLC, Bond Counsel to the Issuer, proposes to deliver its legal opinion in substantially the following form:

_____, 2017

Monroe County Industrial Development Corporation
8100 CityPlace
50 West Main Street
Rochester, New York 14614

Re: $151,945,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2017

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 $151,945,000 Monroe County Industrial Development Corporation Tax-Exempt Revenue Bonds (The Rochester General Hospital Project), Series 2017 (the "Series 2017 Bonds" or the "Bonds") for the benefit of the Institution for the purpose of financing 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 March 8, 2017, for the purpose of providing funds to assist in the financing of the Project for the benefit of 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 May 1, 2017 (the "Indenture"), by and between the Issuer and Manufacturers and Traders Trust Company, as trustee (the "Trustee").

The project (collectively, the "Project") consists of: (A)(i) the construction and equipping of an approximately 312,457 square foot new seven (7)-story Critical Care addition to the main hospital located at 1425 Portland Avenue in the City of Rochester, Monroe County, New York (the "Hospital Campus"), to contain one hundred and eight (108) private patient rooms, twenty (20) private post-partum rooms, fourteen (14) private neonatal rooms, twenty (20) replacement operating rooms, a twenty-six (26) bed post anesthesia care unit, fifty-four (54) pre-op and post-op patient areas, a sterile processing space and a café/gift shop, together with ancillary and related site improvements (collectively, the "Critical Care Facility Improvements") and (ii) the construction, renovation, equipping and modernization of approximately 64,002 square feet of space on various existing floors and facilities throughout the main hospital on the Hospital Campus, including, but not limited to, existing patient rooms, Central Stores, the lobby, three (3) heart operating rooms and Women's Care space (collectively, the "Renovation Improvements",

and collectively with the Critical Care Facility Improvements, the "Improvements"); (B) the acquisition and installation in and around the Improvements of certain items of machinery, equipment, fixtures, furniture and other incidental tangible personal property (collectively, the "Equipment", together with the Improvements, the "Facility"); (C) the funding of capitalized interest and (D) paying certain costs and expenses incidental to the issuance of the Series 2017 Bonds (the costs associated with items (A) through (D) above being hereinafter collectively referred to as the "Project Costs").

All capitalized terms, not otherwise defined herein, shall have the meaning given such terms in the Indenture.

The Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself and as representative of J.P. Morgan Securities LLC, M&T Securities, Inc. and KeyBanc Capital Markets Inc. (collectively, the "Underwriter"), pursuant to a certain Bond Purchase Contract, dated May 10, 2017, 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 May 1, 2017 (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 May 1, 2017, from the Issuer to the Trustee (the "Pledge and Assignment").

As security for the Institution's obligations under the Loan Agreement, the Institution, as member of the Obligated Group, has issued its Obligation No. 2 for Series 2017 (the "Obligation No. 2"), pursuant to and in accordance with the Master Trust Indenture, dated as of February 1, 2013 (the "Original Master Indenture"), as supplemented from time to time prior to the date hereof and as amended by an Amendment No. 1 to Master Trust Indenture, dated as of May 1, 2017 (the "Amendment No. 1 to Master Trust Indenture") and as further supplemented by a Supplemental Indenture for Obligation No. 2, dated as of May 1, 2017 (the "Supplemental Master Indenture"; and, together with the Original Master Indenture and the Amendment No. 1 to Master Trust Indenture, as supplemented from time to time prior to the date hereof, 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 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 Bond, Schoeneck & King, PLLC, 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 and to execute and deliver the Financing Documents to which the Issuer is a party.

(c) The Bond Resolution has been duly and lawfully adopted by the Issuer, is in full force and effect, and is valid and legally binding upon the Issuer in accordance with its terms.

(d) 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.

(e) 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.

(f) 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 2017 Bonds maturing on December 1 in the years 2030 and 2033 (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 such Discount Bonds of the same maturity is first sold, constitutes original issue discount, which is not included in gross income for federal income tax purposes to the same extent as interest on the Discount Bonds.

(g) 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 (f) and (g) 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 by the Issuer, the Institution or any other Person under the Indenture, the Loan Agreement or the Tax Compliance Agreement, or 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 (f) and (g) above, we express no opinion regarding any 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 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.

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]

[THIS PAGE INTENTIONALLY LEFT BLANK]

ROCHESTER
REGIONAL HEALTH
Rochester General Hospital

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

Printed by: ImageMaster, LLC
www.imagemaster.com