

In the opinion of Orrick, Herrington & Sutcliffe LLP Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion of the Installment Payments paid by the County under the Installment Purchase Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, the interest portion of the Installment Payments paid by the County under the Installment Purchase Agreement and received by the Holders of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates. See "TAX MATTERS" herein.

\$40,000,000

COUNTY OF MADERA  
CERTIFICATES OF PARTICIPATION

(CHILDREN'S HOSPITAL CENTRAL CALIFORNIA), SERIES 2006

Evidencing Proportionate Interests of the Holders  
Thereof in Installment Payments to be Paid by the  
COUNTY OF MADERA, CALIFORNIA

From Purchase Payments to be Received From  
CHILDREN'S HOSPITAL CENTRAL CALIFORNIA



Dated: Date of Delivery

Price: 100%

Due: March 15, 2036

The Series 2006 Certificates (the "Certificates") evidence undivided ownership interests in Installment Payments to be paid by the County of Madera, California (the "County") under an Installment Purchase Agreement, dated as of June 1, 2006 (the "Purchase Agreement"), between the County and Children's Hospital Central California (the "Corporation"). The obligation of the County to make Installment Payments under the Purchase Agreement is a limited obligation of the County, payable solely from payments and other moneys received by the County pursuant to an Installment Sale Agreement, dated as of June 1, 2006 (the "Sale Agreement"), between the County and the Corporation. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement"), among the County, the Corporation and The Bank of New York Trust Company, N.A., as trustee (the "Trustee"). The obligations of the Corporation under the Sale Agreement will be further secured by Obligation No. 3 issued pursuant to the provisions of the Master Indenture of Trust, dated as of July 15, 1995, as supplemented, among the Corporation, The Children's Hospital Central California Foundation (together with the Corporation, the "Obligated Group"), and The Bank of New York Trust Company, N.A., as successor master trustee.

Interest with respect to the Certificates will accrue from the date of original delivery at the interest rate determined by the Underwriter for the initial interest period shown on the inside cover hereof. Thereafter, interest will accrue with respect to the Certificates for Auction Periods, as set forth on the inside cover hereof at the Auction Rates determined in accordance with the Auction Procedures described in Appendix D hereto. Prospective purchasers of the Certificates should carefully review the Auction Procedures and should note that such procedures provide that (i) a Bid or Sell Order constitutes a commitment to purchase or sell Certificates based upon the results of an Auction and (ii) settlement for purchases and sales will be made on the Business Day following an Auction. While interest with respect to the Certificates accrues at an Auction Rate, beneficial interests in such Certificates may be transferred only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer. Morgan Stanley & Co. Incorporated will serve as the Broker-Dealer for the Certificates.

The interest rate with respect to the Certificates may be converted from an Auction Rate from time to time in accordance with the Trust Agreement, as described herein, to a Daily Rate, a Weekly Rate, Commercial Paper Rates or a Long Term Rate (each, including the Auction Rate, an "Interest Rate Mode"). The Certificates will be subject to optional, extraordinary and mandatory prepayment prior to maturity and to mandatory tender for purchase and remarketing in certain circumstances, all as described herein. While interest with respect to the Certificates accrues at an Auction Rate, the Certificates will not be subject to optional tender for purchase, nor will they be purchased in the event of a "failed" Auction (although they will be subject to mandatory tender upon conversion to a different Interest Rate Mode, provided certain conditions to conversion are satisfied, all as described herein).

This Official Statement describes certain terms of the Certificates applicable while interest with respect to the Certificates accrues at Auction Rates. There are significant changes in the terms of the Certificates while interest with respect to the Certificates accrues in other Interest Rate Modes. This Official Statement is not intended to provide information with respect to the Certificates other than Certificates in an Auction Period.

The Certificates will be delivered in fully registered form only and initially 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 securities depository for the Certificates. While interest with respect to the Certificates accrues at an Auction Rate, the Certificates will be in book-entry-only form (without physical certificates) in denominations of \$25,000 and any integral multiple thereof and, under limited circumstances, will be exchangeable for physical certificates, as more fully described herein. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Certificates, (i) payments of the principal and purchase price of and premium, if any, and interest with respect to such Certificates will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of prepayment or notice of conversion to another Interest Rate Mode, shall be mailed only to Cede & Co. See APPENDIX H - "Book-Entry System" hereto.

The scheduled payment of principal of and interest with respect to the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates (the "Insurance Policy") by FINANCIAL SECURITY ASSURANCE INC. (the "Insurer").



THE INSTALLMENT PAYMENTS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 3, AND THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE COUNTY'S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE COUNTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OF THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE COUNTY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE COUNTY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

This cover page contains certain information for quick reference only. It is not intended to be a summary of the security or terms of this issue. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Certificates are offered when, as and if received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP Special Counsel to the County, the approval of certain matters for the County by County Counsel, and the approval of certain matters for the Obligated Group by counsel to the Corporation, Ropes & Gray LLP. Certain legal matters will be passed upon for the Underwriter by Stiles Austin LLP, San Francisco, California. It is expected that the Certificates in book-entry form will be available for delivery through the facilities of DTC on or about June 22, 2006.

MORGAN STANLEY

Date: June 8, 2006

† For an explanation of the ratings, see "RATINGS" herein.

**\$40,000,000**  
**COUNTY OF MADERA**  
**CERTIFICATES OF PARTICIPATION**  
**(CHILDREN'S HOSPITAL CENTRAL CALIFORNIA), SERIES 2006**  
**Evidencing Proportionate Interests of the Holders**  
**Thereof in Installment Payments to be Paid by the**  
**COUNTY OF MADERA, CALIFORNIA**  
**From Purchase Payments to be Received From**  
**CHILDREN'S HOSPITAL CENTRAL CALIFORNIA**

<u>Last Day of Initial Interest Period</u>	<u>Auction Periods Generally</u>	<u>First Auction Date</u>	<u>Auction Day Generally</u>	<u>First Interest Payment Date</u>	<u>Interest Payment Day Generally</u>	<u>CUSIP</u>
June 28, 2006	7-days	June 28, 2006	Wednesday	June 29, 2006	Thursday	556902DL5

This Official Statement does not constitute an offer to sell the Certificates or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Certificates, and, if given or made, such information or representation must not be relied upon. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information relating to the County set forth herein under the captions "THE COUNTY" and "ABSENCE OF MATERIAL LITIGATION—The County" has been furnished by the County, the information relating to the Insurer and the Insurance Policy set forth herein under the caption "CERTIFICATE INSURANCE" herein and APPENDIX F – "Specimen Municipal Bond Insurance Policy" hereto has been furnished by the Insurer, and the information relating to DTC and the book-entry system set forth herein under the caption "THE CERTIFICATES—General" and in APPENDIX H – "Book-Entry System" hereto has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or members of the Obligated Group. All other information set forth herein has been obtained from the Corporation, the other Member of the Obligated Group, the Insurer, DTC, and other sources (other than the County) that are believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the County or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Certificates made hereunder shall create under any circumstances any indication that there has been no change in the affairs of the County, the Corporation, the other Member of the Obligated Group, the Insurer or DTC since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

Other than with respect to information concerning the Insurer contained under the caption "CERTIFICATE INSURANCE" and APPENDIX F – "Specimen Municipal Bond Insurance Policy" herein, none of the information in this Official Statement has been supplied or verified by the Insurer and the Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Certificates; or (iii) the tax exempt status of the interest with respect to the Certificates.

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IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT LEVELS ABOVE THAT WHICH OTHERWISE MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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CAUTIONARY STATEMENTS REGARDING  
FORWARD-LOOKING STATEMENTS IN  
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "INTRODUCTION—Plan of Financing" and "PLAN OF FINANCING" in the forepart of this Official Statement and the statements contained under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING AND FINANCIAL RESULTS" in APPENDIX A – "Information Regarding Children's Hospital Central California and The Children's Hospital Central California Foundation."

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

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## TABLE OF CONTENTS

	Page
INTRODUCTION .....	1
Purpose of this Official Statement .....	1
The Corporation and the Obligated Group .....	1
Auction Rate .....	2
Master Indenture .....	2
The Sale Agreement .....	3
Insurance .....	3
Plan of Financing .....	3
THE COUNTY .....	4
THE CERTIFICATES .....	4
General .....	4
Initial Interest Rate Mode .....	5
Orders by Existing Holders and Potential Holders .....	5
Conversion from One Auction Period to Another Auction Period .....	5
Conversion from Auction Rate to Another Interest Rate Mode .....	6
No Purchase of Certificates on Demand of Owner .....	6
Special Considerations Relating to Certificates in an Auction Rate Period .....	6
Prepayment .....	9
Annual Payment Requirements .....	11
SECURITY FOR THE CERTIFICATES .....	11
General .....	11
Installment Payments .....	12
Revenue Pledge .....	12
Pledge of Gross Revenues .....	13
Certificate Reserve Fund .....	13
The Master Indenture .....	13
Limited Obligation of the County .....	14
Security and Enforceability .....	15
CERTIFICATE INSURANCE .....	16
Certificate Insurance Policy .....	16
Financial Security Assurance Inc. ....	17
PLAN OF FINANCING .....	17
General .....	17
The Swap Transaction .....	17
ESTIMATED SOURCES AND USES .....	18
CONTINUING DISCLOSURE .....	18
CERTIFICATEHOLDERS' RISKS .....	18
General .....	19
Significant Risk Areas Summarized .....	19
Nonprofit Health Care Environment .....	21
Patient Service Revenues .....	22
Increased Enforcement Affecting Clinical Trials and Other Research .....	25
Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures .....	25
Regulatory Environment .....	25
Business Relationships and Other Business Matters .....	28
Tax-Exempt Status and Other Tax Matters .....	30
Other Risk Factors .....	32

ABSENCE OF MATERIAL LITIGATION.....	33
The County .....	33
The Obligated Group.....	34
RELATIONSHIPS AMONG PARTIES .....	34
TAX MATTERS .....	34
APPROVAL OF LEGALITY .....	36
UNDERWRITING .....	36
INDEPENDENT ACCOUNTANTS.....	36
FINANCIAL ADVISOR.....	36
RATINGS.....	37
MISCELLANEOUS.....	37
APPENDIX A -- Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation	
APPENDIX B -- Audited Consolidated Financial Statements of Children’s Hospital Central California	
APPENDIX C -- Summary of Principal Documents	
APPENDIX D -- Auction Procedures	
APPENDIX E -- Form of Opinion of Special Counsel	
APPENDIX F -- Specimen Municipal Bond Insurance Policy	
APPENDIX G -- Form of Continuing Disclosure Agreement	
APPENDIX H -- Book-Entry System	

## OFFICIAL STATEMENT

**\$40,000,000**  
**COUNTY OF MADERA**  
**CERTIFICATES OF PARTICIPATION**  
**(CHILDREN'S HOSPITAL CENTRAL CALIFORNIA), SERIES 2006**  
**Evidencing Proportionate Interests of the Holders**  
**Thereof in Installment Payments to be Paid by the**  
**COUNTY OF MADERA, CALIFORNIA**  
**From Purchase Payments to be Received From**  
**CHILDREN'S HOSPITAL CENTRAL CALIFORNIA**

### INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein, in Appendix C or in Appendix D, have the same meaning as in the Master Indenture or the Trust Agreement (each as defined below). See APPENDIX C – “Summary of Principal Documents—Definitions of Certain Terms” and APPENDIX D – “Auction Procedures—Certain Definitions.”

#### **Purpose of this Official Statement**

This Official Statement is provided to furnish information in connection with the offering of \$40,000,000 aggregate principal amount of County of Madera Certificates of Participation (Children's Hospital Central California), Series 2006 (the “Certificates”), evidencing proportionate interests of the registered holders thereof (the “Holders”) in certain installment payments (the “Installment Payments”) to be made by the County of Madera, California (the “County”) in connection with the purchase of certain real property (the “Real Property”) owned by Children's Hospital Central California, a California nonprofit public benefit corporation (the “Corporation”). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2006 (the “Trust Agreement”), among the County, the Corporation and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”).

Pursuant to an Installment Purchase Agreement, dated as of June 1, 2006 (the “Purchase Agreement”), between the County and the Corporation, the Corporation will sell to the County an interest in the Real Property in consideration for which the County has agreed to make Installment Payments. Simultaneously therewith, the County will sell the Real Property back to the Corporation pursuant to an Installment Sale Agreement, dated as of June 1, 2006 (the “Sale Agreement”), between the Corporation and the County, in consideration for which the Corporation will make certain payments (the “Purchase Payments”) to the County. Pursuant to the Sale Agreement, the Purchase Payments must be in an amount sufficient to pay, when due, the Installment Payments evidenced by the Certificates.

#### **The Corporation and the Obligated Group**

The Corporation is a California nonprofit public benefit corporation based in Madera, California, and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”). The Corporation owns and operates a 255-bed pediatric hospital located in Madera, California (the “Hospital”). The Corporation was formerly known as Valley Children's Hospital. In 2002, it changed its name to better reflect its service area. The Children's Hospital Central California Foundation (the “Foundation”) is a California nonprofit public benefit corporation and is exempt from taxation under Section 501(a) of the Code.

The Foundation engages in various fund raising activities on behalf of the Corporation. The Corporation, together with the Foundation, comprise the members of the obligated group created under that certain Master Indenture of Trust, dated as of July 15, 1995, as heretofore supplemented (the “Master Indenture”), among the Corporation, the Foundation and The Bank of New York Trust Company, N.A., as successor master trustee (the

“Master Trustee”). The Corporation and the Foundation collectively are referred to herein as the “Obligated Group” or “Members” of the Obligated Group, and each individually is sometimes referred to herein as a “Member.” See APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation” for additional information about the Members.

The consolidated audited financial statements of the Obligated Group and the Specialty Medical Group Central California (the “Medical Group”) for the years ended September 30, 2004 and September 30, 2005 are included in APPENDIX B – “Audited Consolidated Financial Statements of Children’s Hospital Central California.”

#### **Auction Rate**

Interest with respect to the Certificates will accrue from the date of original delivery (the “Date of the Certificates”) to and including the last day of the initial interest period for the Certificates, as shown on the inside cover hereof, at a rate per annum determined on or prior to the Date of the Certificates. Thereafter interest will accrue at an Auction Rate. While interest with respect to the Certificates accrues at an Auction Rate, the rate of interest, subject to a maximum interest rate of the lesser of 15% or the maximum interest rate permitted by law (the “Maximum Interest Rate”), will be determined by the Auction Agent pursuant to the Auction Procedures on the Business Day preceding the first day of the related Auction Period and will remain in effect until the end of such Auction Period. The first Auction for the Certificates will occur on June 28, 2006, and generally on every Wednesday thereafter or, if such day is not a Business Day, the preceding Business Day (each, an “Auction Date”). The “Auction Period” to be effective for the Certificates following the initial interest period is shown on the inside cover hereof. The Auction Dates and Auction Periods for the Certificates are subject to adjustment, as provided in the Auction Procedures described in Appendix D hereto. See also “THE CERTIFICATES—Conversion from One Auction Period to Another Auction Period” herein.

*While interest with respect to the Certificates accrues at an Auction Rate, the Certificates will not be subject to optional tender for purchase by the holders thereof (although they will be subject to mandatory tender upon Conversion to a different Interest Rate Mode, provided certain conditions to Conversion are satisfied as described herein). See “THE CERTIFICATES—Conversion from Auction Rate to Another Interest Rate Mode” herein.*

Wilmington Trust Company will be appointed Auction Agent under the Trust Agreement (the “Auction Agent”). The Auction Agent may be removed or replaced by the Corporation in accordance with the terms of the Trust Agreement and the Auction Agent Agreement, dated as of June 1, 2006 (the “Auction Agent Agreement”), between the Auction Agent and the Corporation.

Morgan Stanley & Co. Incorporated will serve as broker-dealer for the Certificates (sometimes referred to herein as the “Broker-Dealer”) in accordance with the terms of the Trust Agreement, the Auction Agent Agreement and the Broker-Dealer Agreement, dated as of June 1, 2006 (the “Broker-Dealer Agreement”), between the Auction Agent and the Morgan Stanley & Co. Incorporated. In addition to serving as the Broker-Dealer for the Certificates, Morgan Stanley & Co. Incorporated is also the Underwriter for the Certificates. An affiliated entity of Morgan Stanley & Co. Incorporated is serving as the Swap Provider in connection with the Certificates. For additional information regarding the swap transaction, see “PLAN OF FINANCING—The Swap Transaction,” herein.

#### **Master Indenture**

In order to secure the obligation of the Corporation to make Purchase Payments under the Sale Agreement, the Corporation, as Obligated Group Representative, will execute and deliver to the Trustee Obligation No. 3 (“Obligation No. 3”) under and pursuant to the Supplemental Master Indenture of Trust for Obligation No. 3, dated as of June 1, 2006 (“Supplement No. 3”), between the Corporation, on behalf of itself and the other Member, and the Master Trustee. Each Member of the Obligated Group is jointly and severally obligated to make payments on all Obligations issued under the Master Indenture, including Obligation No. 3. Payments on Obligation No. 3 are required to be sufficient to pay, when due, the Purchase Payments due from the Corporation under the Sale Agreement. Obligation No. 3 will entitle the Trustee, as the holder of Obligation No. 3, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. Pursuant to the Master Indenture, additional members may join the Obligated Group and Members may withdraw



from the Obligated Group upon compliance with the terms of the Master Indenture. The Corporation and the Foundation are currently the only Members of the Obligated Group. For a description of the Master Indenture and Supplement No. 3, see APPENDIX C – “Summary of Principal Documents.” For additional information regarding the Master Indenture and Obligation No. 3, see “SECURITY FOR THE CERTIFICATES—The Master Indenture” herein.

### **The Sale Agreement**

Pursuant to the Sale Agreement, the Corporation is required to make Purchase Payments in an amount sufficient to enable the County to pay in full, when due, the Installment Payments evidenced by the Certificates.

THE COUNTY’S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS A LIMITED OBLIGATION PAYABLE SOLELY FROM PAYMENTS AND OTHER MONEYS AND ASSETS RECEIVED BY THE COUNTY PURSUANT TO THE SALE AGREEMENT OR OBLIGATION NO. 3. NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 3, AND THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE COUNTY’S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE COUNTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OF THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE COUNTY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE COUNTY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

### **Insurance**

The scheduled payment of principal of and interest with respect to the Certificates when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Certificates (the “Insurance Policy”) by Financial Security Assurance Inc. (the “Insurer”). See “CERTIFICATE INSURANCE” herein and a specimen of the Insurance Policy in Appendix F hereto.

### **Plan of Financing**

The proceeds to be received from the sale of the Certificates will be used to (i) finance or reimburse the Corporation for its prior payment of certain costs relating to the construction, renovation, expansion and equipping of its pediatric hospital facilities, (ii) fund a reserve fund for the Certificates, (iii) pay the premium on the Insurance Policy; and (iv) pay the costs of delivery associated with the Certificates, including the underwriting discount. See “PLAN OF FINANCING” and “ESTIMATED SOURCES AND USES” herein.

In connection with the execution and delivery of the Certificates, the Corporation has entered into an interest rate swap transaction. The Corporation expects to issue a separate Obligation under the Master Indenture (the “Swap Obligation”) to secure its obligations to make periodic payments, but not termination payments, under such swap transaction. Such Obligation will be issued on a parity basis with all other Obligations outstanding under the Master Indenture, including Obligation No. 3. See information in this Official Statement under the caption “PLAN OF FINANCING—The Swap Transaction.”

## THE COUNTY

The County of Madera, California is a political subdivision of the State of California (the "State"), duly organized and operating pursuant to the provisions of Chapter I of Division I of Title 3 of the Government Code of the State.

## THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for all of the provisions relating to the Certificates. The discussion herein is qualified by such reference.

**This Official Statement describes certain terms of the Certificates applicable while interest with respect to the Certificates accrues at an Auction Rate. There are significant changes in the terms of the Certificates in other Interest Rate Modes. This Official Statement is not intended to provide information with respect to the Certificates in any Interest Rate Mode other than an Auction Rate.**

### General

The Certificates are being delivered in the aggregate principal amount set forth on the cover hereof and will mature on March 15, 2036, subject to prepayment prior to maturity.

The Certificates will be delivered only in book-entry form and, when delivered, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company ("DTC"), as nominee of DTC. DTC will act as securities depository for the Certificates. See APPENDIX H – "Book-Entry System." Except as described in APPENDIX H – "Book-Entry System," Beneficial Owners (as defined in Appendix H) of the Certificates will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Certificates. For so long as any purchaser is the Beneficial Owner of a Certificate, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined below) to receive payment of the principal, purchase price, prepayment premium and interest with respect to such Certificates.

Interest with respect to the Certificates initially will accrue at an Auction Rate unless and until the Interest Rate Mode for any of the Certificates is converted to a different Interest Rate Mode, as permitted under the Trust Agreement. The permitted Interest Rate Modes are the "Auction Rate," the "Commercial Paper Rate," the "Daily Rate," the "Weekly Rate" and the "Long Term Rate." See "Conversion from Auction Rate to Another Interest Rate Mode" herein. The Trust Agreement requires that all Certificates are in the same Interest Rate Mode.

While interest with respect to the Certificates accrues at an Auction Rate, the interest rate with respect to such Certificates shall be determined in accordance with the Auction Procedures described in Appendix D, provided that the interest rate or rates borne by any Certificates may not exceed the Maximum Interest Rate. Interest accruing with respect to the Certificates at an Auction Rate will be computed on the basis of a 360-day year for the actual number of days elapsed if the Auction Period is less than 180 days; however, if the Auction Period is 180 days or more, interest will be calculated on the basis of a 360-day year composed of twelve 30-day months. Interest payable on any Interest Payment Date will be payable to the registered owner of the Certificates as of the Record Date for such payment.

So long as the Certificates are held in the book-entry system, the principal and purchase price of and interest with respect to and premium, if any, on the Certificates will be paid through the facilities of DTC (or a successor securities depository). Otherwise, the principal and purchase price of or premium, if any, on the Certificates is payable upon presentation and surrender thereof at the corporate trust office of the Trustee, and interest with respect to the Certificates is payable by check mailed on each Interest Payment Date to the Holders of the Certificates at the close of business on the Record Date in respect of such Interest Payment Date at the registered addresses of Holders as shall appear on the registration books of the Trustee. In the case of any Holder of Certificates in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the

Trustee who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with wire transfer instructions, interest payable with respect to such Certificates shall be paid in accordance with the wire transfer instructions provided by the Holder of such Certificates and at the Holder's risk and expense.

Certificates authenticated when the Interest Rate Mode for such Certificates is the Auction Rate shall be in denominations of \$25,000 and any integral multiple thereof. Except as provided in the Trust Agreement, the Trustee will not be required to register the transfer or exchange of any Certificate during the 15 days before any mailing of a notice of prepayment of such Certificates or after such Certificate has been called for prepayment. The Trustee shall require the Certificateholder requesting such transfer or exchange to pay any tax or other charge required to be paid with respect to such transfer or exchange, and the Trustee also may require the Certificateholder requesting such transfer or exchange to pay a reasonable sum to cover expenses incurred by the Trustee or the County in connection with such transfer or exchange.

*While interest with respect to the Certificates accrues at an Auction Rate, such Certificates will not be subject to optional tender for purchase, nor will they be purchased in the event of a "failed" Auction (although they will be subject to mandatory tender upon Conversion to a different Interest Rate Mode, provided certain conditions to Conversion are satisfied, as described below).*

#### **Initial Interest Rate Mode**

The Certificates initially will accrue interest from the Date of the Certificates to and including the last day of the initial interest period for the Certificates, as shown on the inside cover hereof, at a rate per annum determined on or prior to the Date of the Certificates. Thereafter, interest will accrue at an Auction Rate. While the Certificates accrue interest at an Auction Rate, the rate of interest, which shall not exceed the Maximum Interest Rate, will be determined pursuant to the Auction Procedures on each Auction Date by the Auction Agent and will remain in effect until the end of such Auction Period. The first Auction for the Certificates will occur on June 28, 2006, and generally on every Wednesday thereafter, provided that if such day is not a Business Day, the preceding Business Day. The initial Auction Period to be effective for the Certificates following the initial interest period is shown on the inside cover hereof. The Auction Dates and Auction Periods for the Certificates are subject to adjustment, as provided in the Auction Procedures. See APPENDIX D – "Auction Procedures" hereto.

#### **Orders by Existing Holders and Potential Holders**

The procedures for submitting orders prior to the Submission Deadline on each Auction Date during an Auction Rate Period are described in Appendix D hereto, as are the particulars with regard to the determination of the Auction Rate and the allocation of Certificates bearing interest at an Auction Rate.

#### **Conversion from One Auction Period to Another Auction Period**

At any time during an Auction Rate Period for any of the Certificates, the Corporation may change (i) the length of a single Auction Period or the Standard Auction Period (as defined in Appendix D), (ii) the Interest Payment Date for the Certificates with a changed Auction Period, and (iii) the Auction Date for the Certificates by written notice delivered at least 20 days but not more than 60 days prior to the Auction Date for such Auction Period to the Trustee, the Insurer, the Auction Agent, the Broker-Dealer, the County, and DTC, provided that Sufficient Clearing Bids for the Certificates existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

The change in length of an Auction Period or the Standard Auction Period shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time), on the Business Day immediately preceding the Auction Date for such Auction Period, a certificate from the Corporation, authorizing the change in the Auction Period or the Standard Auction Period, specifying the new Auction Period, and confirming that Special Counsel expects to be able to give a Favorable Opinion of Special Counsel; (b) the Trustee shall not have delivered to the Auction Agent, by 12:00 noon (New York City time), on the Auction Date for such new Auction Period notice that an Event of Default under the Trust Agreement has occurred and is continuing; (c) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period; and (d) the Trustee, the Insurer and the

Auction Agent receive by 9:30 a.m. (New York City time), on the first day of such new Auction Period, a Favorable Opinion of Special Counsel.

If the condition referred to in (a) above is not met, the Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Standard Auction Period. If any of the conditions referred to in (b), (c) or (d) above is not met, the Auction Rate for the next succeeding Auction Period for the Certificates shall equal the Maximum Auction Rate and the Auction Period for the next succeeding Auction will be a 7-day Auction Period. Thereafter, the Auction Rate for succeeding Auction Periods for the Certificates shall be determined in accordance with the Auction Procedures. See APPENDIX D – “Auction Procedures” hereto.

#### **Conversion from Auction Rate to Another Interest Rate Mode**

*General.* The Trust Agreement provides that, at the option of the Corporation, the Certificates may be converted such that interest with respect to the Certificates accrues at a Daily Rate, a Weekly Rate, a Commercial Paper Rate or a Long Term Rate. On the Conversion Date, the Certificates shall be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of tendered Certificates is payable solely from the proceeds of the remarketing of such Certificates. In the event that the conditions to a Conversion from an Auction Rate Period are not satisfied or all Certificates are not remarketed on the Conversion Date, the Certificates will not be subject to mandatory purchase and will be returned to their Holders. Interest with respect to such Certificates will accrue at the Maximum Auction Rate, and the Auction Period will be a 7-day Auction Period. See APPENDIX D – “Auction Procedures” hereto. It is currently anticipated that, if the Corporation elects to convert the Certificates from an Auction Rate to another Interest Rate Mode, a remarketing memorandum will be distributed describing the Certificates and such Interest Rate Mode.

*Notice to Owners of Conversion.* The Trustee will notify each Holder of a Certificate by first class mail at least 15 days before each Conversion Date with respect to the Certificates. The notice will state, among other things, that such Certificates are subject to mandatory tender on the Conversion Date.

#### **No Purchase of Certificates on Demand of Owner**

*While interest accrues with respect to the Certificates at the Auction Rate, the Certificates will not be subject to optional tender for purchase.*

#### **Special Considerations Relating to Certificates in an Auction Rate Period**

*Securities and Exchange Commission Inquiries.* On May 31, 2006, the United States Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation against 15 firms, including Morgan Stanley & Co. Incorporated and its affiliated broker-dealer, Morgan Stanley DW Inc., that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. together agreed to pay a civil money penalty of \$1,500,000. In addition, both Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc., without admitting or denying the SEC’s allegations, agreed to be censured, to cease and desist from violating certain provisions of the securities laws, to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Morgan Stanley & Co. Incorporated and Morgan Stanley DW Inc. to conduct the auction process in accordance with disclosed procedures. No assurances are given as to how the settlement may affect the market for auction rate securities or the Certificates.

*Bidding by Initial Broker-Dealer.* Morgan Stanley & Co. Incorporated is permitted, but not obligated, to submit Orders in Auctions for its own account (including for its affiliated broker-dealers) either as a Bidder or a Seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would likely have an advantage over other Bidders because the Broker-Dealer would have knowledge of some or all of the other Orders placed through the Broker-Dealer (including through affiliated

broker-dealers) in that Auction and, thus, could determine the rate and size of its Order so as to ensure that its Order is likely to be accepted in the Auction and that the Auction is likely to clear at a particular rate. For this reason, and because the Broker-Dealer is appointed at the direction of and is paid by the Corporation to serve as the Broker-Dealer in the Auction, the Broker-Dealer's interests in conducting an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions. See "Auction Dealer Fees." The Broker-Dealer (including its affiliated broker-dealers) would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a broker-dealer agreement.

The Broker-Dealer may routinely place one or more Bids in an Auction for its own account, to acquire the securities for its inventory (or that of its affiliated broker-dealer), to prevent an auction failure event (which would result in the Auction Rate being set at the Maximum Auction Rate) or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (including through affiliated broker-dealers). When bidding for its own account, the Broker-Dealer may also bid outside or inside the range of rates that it posts in its Price Talk. See "Price Talk" below.

The Broker-Dealer also may routinely encourage bidding by others in Auctions for reasons that may include preventing an auction failure event or an Auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for the securities. The Broker-Dealer may routinely encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it (or through affiliated broker-dealers).

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate, including preventing the Auction Rate from being set at the Maximum Auction Rate or otherwise causing Bidders to receive a higher or lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of securities being auctioned, including displacing some Bidders who may have their Bids rejected or receive fewer securities than they would have received if the Broker-Dealer had not bid or encouraged others to bid. Because of these practices, the fact that an Auction clears successfully does not mean that an investment in the securities involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such bids or to encourage other Bidders to do so in any particular Auction to prevent an Auction from failing or clearing at a rate the Broker-Dealer believes does not reflect the market for the securities. Investors should not assume that the Broker-Dealer will do so or assume that auction failure events will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause unfavorable Auction Rates to occur.

In any particular Auction, if all outstanding securities are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Distribution Period will be the All-Hold Rate. When the All-Hold Rate is likely, the Broker-Dealer may, but is not obligated to, advise Existing Holders of that fact, which might facilitate the submission of Bids by Existing Holders that would avoid the occurrence of the All-Hold Rate. If the Broker-Dealer decides to inform Existing Holders of the likelihood of the All-Hold Rate, it will make that information available to all Existing Holders at the same time.

If the Broker-Dealer (or an affiliated broker-dealer) holds the securities for its own account on an Auction Date, the Broker-Dealer (or such affiliated broker-dealer) will submit a Sell Order into the Auction with respect to such position in such securities, which would prevent that Auction at the All-Hold Rate. The Broker-Dealer (or such affiliated broker-dealer) may, but is not obligated to submit Bids for its own account in that same Auction, as set forth above.

**Auction Dealer Fees.** For many auction rate securities, the Broker-Dealer has been appointed by the issuers of the securities to serve as a dealer for the related auctions and is paid by those issuers for its services. With respect to the securities in this offering, the Broker-Dealer has been appointed to serve as a dealer in the Auctions pursuant to the Broker-Dealer Agreement between the Auction Agent and the Broker-Dealer. The Broker-Dealer Agreement provides that the Broker-Dealer will receive from the Auction Agent solely from moneys received from the Corporation auction dealer fees at the annual rate generally of .25 of 1% of the principal amount of the Certificates sold or successfully placed through the Broker-Dealer, so long as the Certificates are in an Auction Period other than a daily Auction Period. As a result, the Broker-Dealer's interests in conducting Auctions may differ from those of investors who participate in Auctions. The Broker-Dealer may share a portion of the auction

dealer fees it receives from the Auction Agent with other broker-dealers (including affiliated broker-dealers) that submit Orders through the Broker-Dealer that the Broker-Dealer successfully places in Auctions.

Similarly, with respect to auctions for other auction rate securities for which the Broker-Dealer does not serve as a dealer, the other broker-dealers who serve as dealers in those auctions may share auction dealer fees with the Broker-Dealer for orders that the Broker-Dealer submits through those broker-dealers that those broker-dealers successfully place in those auctions.

***“Price Talk.”*** Before the start of an Auction, the Broker-Dealer may, in its discretion, make available to Existing Holders and Potential Holders, the Broker-Dealer’s good faith judgment of the range of likely clearing rates for the Auction based on market and other information. This is known as “Price Talk.” Price Talk is not a guarantee, and Existing and Potential Holders are free to use it or ignore it. If the Broker-Dealer (or an affiliated broker-dealer) provides Price Talk, the Broker-Dealer (or such affiliated broker-dealer) will make the Price Talk available to all Existing Holders and Potential Holders. The Broker-Dealer may occasionally update and change the Price Talk based on, for example, changes in issuer credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. The Broker-Dealer (or such affiliated broker-dealer) will make such changes available to all Existing Holders and Potential Holders that were given the original Price Talk.

***“All-or-Nothing” Bids.*** The Broker-Dealer (including any affiliated broker-dealer) does not accept “all-or-nothing” bids (*i.e.*, bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid auction procedures that require the pro rata allocation of securities where there are not sufficient sell orders to fill all bids at the clearing rate.

***No Assurances Regarding Auction Outcomes.*** The Broker-Dealer (including any affiliated broker-dealer) provides no assurance as to the outcome of any Auction, nor provides any assurance that any Bid will be accepted or that the Auction will clear at a rate that a Bidder considers acceptable. Bids may be rejected or may be only partially filled, and the rate on any securities purchased or retained may be lower than the Bidder expected.

***Deadlines/Auction Periods.*** Each particular Auction has a formal time deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the “Submission Deadline.” To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer (and any affiliated broker-dealer) imposes an earlier deadline—called the “Internal Submission Deadline”—by which Bidders must submit Bids to the Broker-Dealer (or such affiliated broker-dealer). The Internal Submission Deadline is subject to change by the Broker-Dealer (or such affiliated broker-dealer). The Broker-Dealer may allow for correction of clerical errors after the Internal Submission Deadline and prior to the Submission Deadline. The Broker-Dealer (or such affiliated broker-dealer) may submit Bids for its own account at any time until the Submission Deadline. Some auction agents allow for the correction of clerical errors for a specified period of time after the Submission Deadline.

***Existing Holder’s Ability to Resell Auction Rate Securities May Be Limited.*** Existing Holders will be able to sell all of the securities that are the subject of submitted Sell Orders only if there are Bidders willing to purchase all those securities in the Auction. If Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the securities subject to such submitted Sell Orders. As discussed above (see “Bidding by Initial Broker-Dealer”), the Broker-Dealer may submit a bid in an Auction to keep it from failing, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction from failing in the absence of the Broker-Dealer bidding in the Auction for its own account or encouraging others to bid. Therefore, auction failure events are possible, especially if, for example, the Insurer’s credit were to deteriorate, a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to bid.

Between Auctions, there can be no assurance that a secondary market for the securities will develop or, if it does develop, that it will provide Existing Holders the ability to resell the securities on the terms or at the times desired by an Existing Holder. The Broker-Dealer (or an affiliated broker-dealer) may, in its own discretion, decide to buy or sell the securities in the secondary market for its own account to or from investors at any time and at any

price, including at prices equivalent to, below, or above the par value of the securities. However, neither the Broker-Dealer (nor its affiliated broker-dealers) is obligated to make a market in the securities, and may discontinue trading in the securities without notice for any reason at any time. Existing Holders who resell between Auctions may receive less than par value, depending on market conditions.

The ability to resell the securities will depend on various factors affecting the market for the securities, including news relating to the Obligated Group or the Insurer, the attractiveness of alternative investments, the perceived risk of owning the securities (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the securities (including recent clarification of United States generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in “Securities and Exchange Commission Inquiries,” above) or press reports, financial reporting cycles and market conditions generally. Demand for the securities may change without warning, and declines in demand may be short-lived or continue for longer periods.

The Trust Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice to the County, the Corporation, the Broker-Dealer, the Insurer and the Trustee and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon 5 days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold auctions, with the result that the interest rate on the securities will be determined as described in APPENDIX D – “Auction Procedures.”

## Prepayment

**Optional Prepayment.** The Certificates are subject to prepayment prior to their stated Certificate Payment Dates at the direction of the County (which shall be exercised as directed in writing by the Corporation), which direction must be received by the Trustee at least 45 days, or such shorter period as agreed to in writing by the Trustee, prior to the prepayment date, in whole or in part on the Business Day immediately succeeding any Auction Date, by lot, at the principal amount thereof and interest accrued with respect thereto to the date fixed for prepayment, without premium.

**Mandatory Prepayment.** The Certificates are subject to prepayment prior to their stated Certificate Payment Date, in part, by lot, from Mandatory Sinking Account Payments in the amounts set forth below on any March 15 on or after March 15, 2029 (provided that while interest with respect to such Certificates accrues at an Auction Rate, if such March 15 is not an Interest Payment Date, the prepayment will occur on the Interest Payment Date immediately preceding such March 15) at a prepayment price equal to the principal amount thereof and interest accrued with respect thereto to the date fixed for prepayment, without premium.

March 15,	Prepayment Amount
2029	\$4,275,000
2030	4,475,000
2031	4,675,000
2032	4,875,000
2033	5,075,000
2034	5,300,000
2035	5,550,000
2036 <sup>†</sup>	5,775,000

<sup>†</sup> Final Maturity.

**Extraordinary Prepayment.** The Certificates are also subject to prepayment prior to their stated Certificate Payment Date as a whole or in part, in such amounts as may be specified by the Corporation on any date, at the direction of the County (which shall be exercised as directed in writing by the Corporation), which direction must be

received by the Trustee at least 45 days, or such shorter period as agreed to in writing by the Trustee, prior to the prepayment date, from moneys provided to the Trustee for deposit in the Special Prepayment Account pursuant to the Sale Agreement, at the principal amount and interest accrued with respect thereto to the date fixed for prepayment without premium.

*Notice of Prepayment; Effect of Prepayment.* The Trustee is required to mail notice of prepayment by first-class mail not less than 15 days and not more than 60 days prior to the prepayment date, to the respective Holders of any Certificates designated for prepayment at their addresses appearing on the registration books of the Trustee. The Certificates (or portions thereof) so called for prepayment shall become due and payable at the Prepayment Price specified in such notice, together with the interest accrued with respect to such Certificates to the prepayment date. Interest with respect to Certificates so called for prepayment shall cease to accrue from and after the prepayment date, such Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement, and the Holders of such Certificates shall have no rights in respect thereof except to receive payment of the Prepayment Price and accrued interest to the prepayment date specified in such notice. The failure by the Trustee to mail notice of prepayment to any one or more of the Holders of any Certificates designated for prepayment shall not affect the sufficiency of the proceedings for the prepayment of the Certificates with respect to the Holder or Holders to whom such notice was mailed.



## Annual Payment Requirements

The following table sets forth, for each year ending September 30, the amounts required to be made available for total payment with respect to the Certificates. The following table also includes estimated debt service on all certificates previously delivered for the benefit of the Corporation that will be outstanding after delivery of the Certificates, consisting of \$155,000,000 aggregate principal amount of certificates delivered in 1995, \$82,175,000 of which remain outstanding, and \$60,715,000 aggregate principal amount of certificates delivered in 1998, \$58,205,000 of which remain outstanding.

Year Ending September 30,	The Certificates		Total Payment Requirements on the Certificates	Total Payment Requirements on Outstanding Certificates	Total Payment Requirements
	Principal Component	Interest Component <sup>(1)</sup>			
2006	-	\$ 431,744	\$ 431,744	\$11,057,196	\$11,488,941
2007	-	1,603,622	1,603,622	11,051,838	12,655,460
2008	-	1,603,622	1,603,622	11,040,438	12,644,060
2009	-	1,603,622	1,603,622	11,031,780	12,635,402
2010	-	1,634,461	1,634,461	11,023,255	12,657,716
2011	-	1,603,622	1,603,622	11,018,738	12,622,360
2012	-	1,603,622	1,603,622	11,007,013	12,610,635
2013	-	1,603,622	1,603,622	11,002,150	12,605,772
2014	-	1,603,622	1,603,622	10,988,450	12,592,072
2015	-	1,603,622	1,603,622	10,979,775	12,583,397
2016	-	1,634,461	1,634,461	11,011,306	12,645,767
2017	-	1,603,622	1,603,622	11,006,888	12,610,510
2018	-	1,603,622	1,603,622	10,999,169	12,602,791
2019	-	1,603,622	1,603,622	10,989,175	12,592,797
2020	-	1,603,622	1,603,622	10,975,550	12,579,172
2021	-	1,634,461	1,634,461	10,970,050	12,604,511
2022	-	1,603,622	1,603,622	10,956,800	12,560,422
2023	-	1,603,622	1,603,622	10,949,925	12,553,547
2024	-	1,603,622	1,603,622	10,906,813	12,510,435
2025	-	1,603,622	1,603,622	10,893,144	12,496,766
2026	-	1,603,622	1,603,622	10,880,725	12,484,347
2027	-	1,634,461	1,634,461	10,862,975	12,497,436
2028	-	1,603,622	1,603,622	10,848,169	12,451,791
2029	\$ 4,275,000	1,511,337	5,786,337	-	5,786,337
2030	4,475,000	1,336,125	5,811,125	-	5,811,125
2031	4,675,000	1,152,939	5,827,939	-	5,827,939
2032	4,875,000	979,047	5,854,047	-	5,854,047
2033	5,075,000	759,292	5,834,292	-	5,834,292
2034	5,300,000	551,509	5,851,509	-	5,851,509
2035	5,550,000	334,216	5,884,216	-	5,884,216
2036 <sup>†</sup>	5,775,000	108,129	5,883,129	-	5,883,129

<sup>†</sup> Final Maturity.

(1) Assumes that interest with respect to the Certificates is payable at a rate of 3.965% per annum, which is the fixed rate to be paid by the Corporation under the Swap Agreement, as described in "PLAN OF FINANCING—The Swap Transaction."

## SECURITY FOR THE CERTIFICATES

### General

The Certificates represent proportionate ownership interests in the Installment Payments to be made by the County under the Purchase Agreement. The County's obligations under the Purchase Agreement, including its

obligation to make Installment Payments, are limited obligations of the County and are payable solely from payments and other moneys received by the County or the Trustee as the assignee of the County from the Corporation pursuant to the Sale Agreement or Obligation No. 3. To the extent the County or the Trustee as the assignee of the County receives payments and other moneys under the Sale Agreement or Obligation No. 3, the obligation of the County to make Installment Payments is absolute and unconditional.

NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND ON OBLIGATION NO. 3, AND THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE COUNTY'S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE COUNTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OF THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE COUNTY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY, INDIRECTLY, CONTINGENTLY OR MORALLY OBLIGATE THE COUNTY TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

#### **Installment Payments**

Under the Sale Agreement, the Corporation is obligated to make Purchase Payments in an amount equal to the Installment Payments (and, thus, the principal, premium, if any, and interest components of the Certificates). Substantially all of the County's rights under the Sale Agreement and the Corporation's rights under the Purchase Agreement have been assigned to the Trustee for the benefit of the Holders of the Certificates.

Under the Trust Agreement, the County and the Corporation appoint the Trustee to hold and disburse moneys paid to the Trustee under the Purchase Agreement and the Sale Agreement, to execute, deliver and administer the Certificates, to apply and disburse Installment Payments to the Holders of the Certificates and to perform certain other duties. The Trustee in turn accepts such appointment under the terms of the Trust Agreement.

Concurrently with the delivery of the Certificates, the Corporation, as Obligated Group Representative, will issue and deliver Obligation No. 3 to the Trustee, pursuant to which the Obligated Group agrees to make payments to the Trustee in amounts sufficient to pay, when due, the principal, premium, if any, and interest components of the Certificates. See the information herein under the caption, "SECURITY FOR THE CERTIFICATES—The Master Indenture."

#### **Revenue Pledge**

In order to secure the payment of the principal and interest components of the Certificates under the Trust Agreement, the Revenues and any other amounts (including proceeds of the sale of the Certificates) held in any fund or account established pursuant to the Trust Agreement, excepting only moneys in the Rebate Fund and the Purchase Fund, Administrative Fees and Expenses and certain rights of indemnification will be pledged to the Trustee pursuant to the Trust Agreement. The term "Revenues" is defined to mean all amounts received by the County or the Trustee for the account of the County under the Trust Agreement pursuant or with respect to the Sale Agreement or Obligation No. 3, including, without limiting the generality of the foregoing, Installment Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including amounts received or on deposit in the Purchase Fund and the Rebate Fund, any Administrative Fees and Expenses or any amounts paid with respect to rights of indemnification.

## **Pledge of Gross Revenues**

In connection with certain certificates delivered in 1995 for the benefit of the Corporation (the “1995 Certificates”), the Corporation agreed to establish and maintain a fund designated as the “Gross Revenue Fund” in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate, in writing to the Trustee for such purpose (herein called the “Depository Bank(s)”). The Corporation pledged and, to the extent permitted by law, granted a security interest to the Series 1995 Trustee, as assignee of the County, in the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the payment of the Series 1995 Purchase Payments, Series 1995 Supplemental Payments and any payment required with respect to indebtedness incurred by the Corporation and secured by the Gross Revenues on a parity basis (the “Parity Debt”) and to secure the performance by the Corporation of its other obligations under the Series 1995 Installment Sale Agreement and the performance by the Corporation of all of its other obligations under any agreement securing Parity Debt. Parity Debt includes certain certificates delivered in 1998 for the benefit of the Corporation (the “1998 Certificates”) and the Certificates, and the pledge of Gross Revenues, therefore, secures payment of purchase payments and supplemental payments with respect to the 1998 Certificates, payment of the Purchase Payments with respect to the Certificates, payments with respect to all Obligations issued under the Master Indenture, including Obligation No. 3 and the Swap Obligation and the performance by the Corporation of all of its other obligations under the related agreements. The Corporation further agreed that, as long as any of such Parity Debt remains unpaid, all of the Gross Revenues will be deposited as soon as practicable upon receipt in the Gross Revenue Fund.

The term “Gross Revenues” is defined to mean all revenues, income, receipts and money received by the Corporation, including (a) gross revenues collected from its operations and possession of and pertaining to its properties, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of the purchase payments and supplemental payments with respect to the 1995 Certificates, the purchase payments and supplemental payments with respect to the 1998 Certificates, the Purchase Payments with respect to the Certificates, payments on Obligations issued under the Master Indenture, payments with respect to any future Parity Debt or the payment of operating expenses of the Corporation, (c) or proceeds derived from (i) condemnation proceeds, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical reimbursement programs and agreements, (vi) insurance proceeds, and (vii) contract rights and other rights and assets now or hereafter owned by the Corporation, and (d) rentals received from the lease of office space within the facilities of the Corporation.

No assets or revenues of the Foundation are pledged to secure the Corporation’s obligations with respect to payment of principal, prepayment premium or interest with respect to the Certificates. No assets of the Corporation, other than its Gross Revenues, are pledged to secure the Corporation’s obligations with respect to payment of principal, prepayment premium or interest with respect to the Certificates. For information regarding the enforceability of the pledge of Gross Revenues, see “SECURITY FOR THE CERTIFICATES—Security and Enforceability—Enforceability of Security Interests” herein.

## **Certificate Reserve Fund**

The Trustee shall create a separate fund designated the “Certificate Reserve Fund.” Upon delivery of the Certificates, the Corporation shall deposit with the Trustee an amount equal to \$3,471,487, which is the Certificate Reserve Requirement with respect to the Certificates, which amount shall be deposited in the Certificate Reserve Fund.

## **The Master Indenture**

***Joint and Several Obligations.*** Under the Master Indenture, the Corporation, acting as Obligated Group Representative, may incur, for itself and on behalf of the other Member of the Obligated Group, Obligations to evidence or secure indebtedness. All Members of the Obligated Group are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture. Obligation No. 3 is being issued by the Obligated Group Representative, acting on behalf of the Obligated Group, under and pursuant to the Master Indenture. All Members of the Obligated Group are required to make payments on Obligation No. 3 in an amount sufficient to pay the principal of and premium, if any, and interest with respect to the Certificates when due. For a discussion of

admission to or withdrawal from the Obligated Group, see APPENDIX C – “Summary of Principal Documents—Master Indenture—Membership in the Obligated Group” and “—Withdrawal from the Obligated Group.”

**Obligation No. 3.** The obligation of the Corporation to make Purchase Payments is absolute and unconditional and is evidenced by Obligation No. 3 issued by the Corporation, as the Obligated Group Representative, to the Trustee under the Master Indenture.

**Additional Indebtedness.** The Master Indenture permits the issuance of additional Obligations under the Master Indenture to be secured by the provisions of the Master Indenture, all of which, regardless of the dates of issuance or maturity, will be of equal rank without preference, priority or distinction of any Obligations issued under the Master Indenture over any other such Obligations, except as expressly provided or permitted in the Master Indenture. See APPENDIX C – “Summary of Principal Documents—Master Indenture—Particular Covenants of the Members” herein.

Certain indebtedness of the Obligated Group is secured by liens on certain of the Obligated Group’s personal property. All such liens are Permitted Encumbrances. See APPENDIX C – “Summary of Principal Documents—Definitions of Certain Terms—Permitted Encumbrances.” As of March 31, 2006, the aggregate principal amount of Obligations previously issued and outstanding under the Master Indenture (exclusive of certain contingent obligations) was \$140,380,000.

**Enforceability of the Master Indenture.** Counsel to the Obligated Group will give an opinion, concurrently with the delivery of the Certificates, that the Master Indenture and Obligation No. 3 are the valid and binding obligations of the Obligated Group enforceable in accordance with their respective terms. Such opinion will be qualified, however, as to enforceability by limitations imposed by conditions such as bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws affecting the enforceability of creditors’ rights generally and by the application of equitable principles.

For a description of the provisions of the Trust Agreement, the Sale Agreement, the Purchase Agreement and the Master Indenture, including covenants that secure payments with respect to the Certificates, see APPENDIX C – “Summary of Principal Documents.”

**Additional Covenants.** The Insurer has imposed additional covenants that may be enforced and waived only by the Insurer, so long as the Insurer is not in default under the Insurance Policy.

#### **Limited Obligation of the County**

The obligation of the County to make Installment Payments does not constitute a debt of the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory limitation. The County’s obligations under the Purchase Agreement, including its obligations to make Installment Payments, are limited obligations payable solely from the payments and other moneys and assets received by the County pursuant to the Sale Agreement or Obligation No. 3.

NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE COUNTY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 3, AND THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE COUNTY’S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE COUNTY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR OF THE PRINCIPAL, PURCHASE PRICE, PREPAYMENT PREMIUM, OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE COUNTY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE COUNTY TO LEVY OR TO PLEDGE ANY FORM OF

TAXATION WHATEVER THEREFOR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

### **Security and Enforceability**

**Bankruptcy.** In the event of bankruptcy of the Corporation, the rights and remedies of the Holders are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of such entity's liquidation. Security interests and other liens granted to the Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of the Trustee therein. The rights of the Trustee to enforce its security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

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

In addition, the obligations of the Corporation under the Sale Agreement are not secured by a lien on or security interest in any assets or revenues of the Corporation, other than the lien on Gross Revenues and in the funds on deposit in the Gross Revenue Fund as described herein under "SECURITY FOR THE CERTIFICATES." Except with respect to such lien on Gross Revenues, in the event of a bankruptcy of the Corporation, Holders would be unsecured creditors and would be in an inferior position to any secured creditors and on a parity basis with all other unsecured creditors.

In the event of bankruptcy of the Corporation, there is no assurance that certain covenants, including tax covenants, contained in the Sale Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Certificates from gross income for federal income tax purposes.

**Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes.** The state of insolvency, fraudulent transfer or conveyance and bankruptcy laws relating to the enforceability of obligations of one corporation in favor of the creditors of another, or the obligation of one member of an obligated group to make debt service payments on behalf of another member or the ability of a corporate parent to compel its affiliates or subsidiaries to make such payments is unsettled. The ability to compel one Member of the Obligated Group to make payment on behalf of another Member could be subject to challenge if such Member would, by making such payment, be rendered insolvent. In particular, such efforts by the Corporation may not be enforced under the federal Bankruptcy Code or applicable state fraudulent transfer or conveyance statutes if the obligation to pay is incurred without "fair consideration" or "reasonably equivalent value" to the obligor-Member and if the incurrence of the obligation renders the Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are matters of judicial discretion based upon subjective standards and may vary under the Bankruptcy Code and other statutes that may be applicable.

In addition a court could determine, in the event of a bankruptcy of a Member, that payments made on an Obligation by a bankrupt Member could constitute payments to or for the benefit of an insider, within the meaning of Section 547(b) of the Bankruptcy Code, which payments, if made within one year of the filing of the bankruptcy petition, might be recoverable by the bankruptcy court from the owners of the Certificates.

If a court were to find that a Member did not receive fair consideration or reasonably equivalent value for the incurrence of the indebtedness evidenced by an Obligation and such Member: (i) was insolvent; (ii) was rendered insolvent by such incurrence; (iii) was engaged in a business activity for which its remaining assets were unreasonably small; or (iv) intended to incur, assume or issue, debt beyond its ability to pay, a court could determine to invalidate, the indebtedness represented by the Obligation.

***Enforceability of the Sale Agreement.*** The legal right and practical ability of the Trustee to enforce rights and remedies under the Sale Agreement may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, enforcement of such rights and remedies will depend upon the exercise of various remedies specified by such documents, which, in many instances, may require judicial actions that are subject to discretion and delay, that otherwise may not be readily available or that may be limited by certain legal principles.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit 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. Such court action may arise on the court's own motion or pursuant to a petition of the state or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The various legal opinions delivered concurrently with the issuance of the Certificates are qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, policy and decisions affecting remedies and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights or the enforceability of certain remedies or document provisions.

***Enforceability of Security Interests.*** The pledge of Gross Revenues shall be perfected to the extent that such security interest can be perfected under the Uniform Commercial Code of the State and may, in several instances, be subordinated to the interest and claims of others. Some examples of cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or State bankruptcy or insolvency laws that may affect the enforceability of the Trust Agreement or pledge of Gross Revenues and (vi) rights of third parties, and in some instances the Corporation, in Gross Revenues constituting cash or instruments and not in the possession of the Trustee or the Depository Bank(s). In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and Medicare or Medi-Cal payments) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund. See APPENDIX C – "Summary of Principal Documents—Sale Agreement—Gross Revenue Fund."

## CERTIFICATE INSURANCE

### Certificate Insurance Policy

Concurrently with the issuance of the Certificates, the Insurer will issue its Insurance Policy for the Certificates. The Insurance Policy guarantees the scheduled payment of principal of and interest with respect to the Certificates when due as set forth in the form of the Insurance Policy included as an appendix to this Official Statement.

The Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

## **Financial Security Assurance Inc.**

The Insurer is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or the Insurer is liable for the obligations of the Insurer.

At March 31, 2006, the Insurer’s combined policyholders’ surplus and contingency reserves were approximately \$2,459,829,000 and its total net unearned premium reserve was approximately \$1,858,167,000 in accordance with statutory accounting principles. At March 31, 2006, the Insurer’s consolidated shareholder’s equity was approximately \$2,856,995,000 and its total net unearned premium reserve was approximately \$1,504,103,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of the Insurer included in, or as exhibits to, the annual and quarterly reports filed after March 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of the Insurer included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Certificates shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Insurance Policy does not protect investors against changes in market value of the Certificates, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. The Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates. The Insurer makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that the Insurer has provided to the County and the Corporation the information presented under this caption for inclusion in the Official Statement.

## **PLAN OF FINANCING**

### **General**

The proceeds to be received from the sale of the Certificates will be used to (i) finance or reimburse the Corporation for its prior payment of certain costs relating to the construction, renovation, expansion and equipping of its pediatric hospital facilities; (ii) fund a reserve fund for the Certificates; (iii) pay the premium on the Insurance Policy; and (iv) pay the costs of delivery associated with the Certificates, including the underwriting discount.

### **The Swap Transaction**

In connection with the execution and delivery of the Certificates, the Corporation, as Obligated Group Representative, has entered into an interest rate swap transaction (the “Swap”) with Morgan Stanley Capital Services Inc. (the “Swap Provider”), which will become effective upon the execution and delivery of the Certificates. The notional amount of the Swap equals the aggregate principal amount of the Certificates and will be reduced by an amount equal to the principal amount of the Certificates that are redeemed or retired. Under the Swap, the Corporation will pay a fixed rate of 3.965% per annum and will receive a variable rate equal to 68% of the 1-month London Interbank Offered Rate. Net payments will be made on a same-day basis. The Obligated Group’s obligations to make periodic payments, but not termination payments, under the Swap will be secured by the Swap Obligation, which will be issued under the Master Indenture. For additional discussion, see “CERTIFICATEHOLDERS’ RISKS—Other Risk Factors—Risks Related to Outstanding Variable Rate Obligations and Interest Rate Swap Transactions.”

## ESTIMATED SOURCES AND USES

The following table sets forth the estimated sources and uses of proceeds of the Certificates:

<b>Sources</b>	
Par Amount of the Certificates	\$40,000,000
Total Sources	<u>\$40,000,000</u>
<b>Uses</b>	
Deposit to Project Fund	\$33,958,272
Deposit to Certificate Reserve Fund	3,471,487
Issuance Costs <sup>(1)</sup>	791,500
Insurance Policy premium	1,778,741
Total Uses	<u>\$40,000,000</u>

<sup>(1)</sup> Includes Underwriter's Discount, certain legal fees, printing costs, rating agency fees and miscellaneous expenses of issuance.

## CONTINUING DISCLOSURE

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

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Certificates to provide certain financial information and operating data relating to the Obligated Group by not later than four months following the end of the Obligated Group's Fiscal Year (which currently is September 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed on behalf of the Obligated Group with each Nationally Recognized Municipal Securities Information Repository ("NRMSIRs") or the Central Post Office and with a repository designated by the State of California, if any, as the state depository (the "State Repository"). The specific nature of the information to be contained in the Annual Report or the notices of material events is described in the Continuing Disclosure Agreement, the form of which is included as Appendix G hereto. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12. The Corporation has never failed to comply in all material respects with any previous undertaking with respect to said Rule to provide annual reports or notices of material events.

The Corporation additionally has covenanted that it will provide to the NRMSIRs or the Central Post Office and to the State Repository, if any, not later than 60 days after the end of each fiscal quarter (except the fourth fiscal quarter), commencing with the fiscal quarter ending June 30, 2006, unaudited financial information for the Obligated Group for such fiscal quarter, including a balance sheet and a statement of operations. See APPENDIX G – "Form of Continuing Disclosure Agreement."

## CERTIFICATEHOLDERS' RISKS

The purchase of the Certificates involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Certificates should evaluate all of the information presented in this Official Statement. This section on Health Care Industry Risk Factors, entitled "CERTIFICATEHOLDERS' RISKS," focuses primarily on the general risks associated with hospital operations, whereas Appendix A describes the Obligated Group specifically. These should be read together.



## General

The Corporation is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and is subject to actions by, among others, the National Labor Relations Board, the Joint Commission on Accreditation of Healthcare Organizations (“JCAHO”), the Centers for Medicare and Medicaid Services (“CMS”) of the U.S. Department of Health and Human Services (“DHHS”), and other federal, state and local government agencies. The future financial condition of the Corporation could be adversely affected by, among other things, changes in the method and amount of payments to the Corporation by nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes, availability of physicians and nurses, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation under the Sale Agreement and Obligation No. 3 and, consequently, payment of the Certificates.

The obligations of the County under the Purchase Agreement are limited obligations of the County, are secured under the provisions of the Trust Agreement and are payable solely from Installment Payments and other moneys and assets received by the County from the Corporation, from payments made by the Corporation under Obligation No. 3, and from certain other moneys held under the Trust Agreement. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the Installment Payments and, thus, to pay principal, premium, if any, and interest due with respect to the Certificates. Any of the risk factors described herein may affect the Corporation’s revenues and impair its ability to make Installment Payments. There can be no assurance that the financial condition or operations of the Obligated Group will not be adversely affected by any of these factors.

## Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Obligated Group are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial conditions and results of operations of the Corporation, and in turn, the ability of the Corporation to make the Installment Payments.

***General Economic Conditions; Bad Debt and Indigent Care.*** The financial results of health care facilities are influenced by the economy of the regions in which they are located. To the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local hospitals to increase free care. Economic downturns and lower funding of state Medicaid and other state health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may cause increased bad debt and higher indigent care utilization. At the same time, non-operating revenue from investments may be reduced or eliminated. These factors may have a material adverse impact on hospitals.

***Rate Pressure from Insurers and Major Purchasers.*** Certain hospital markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over hospital rates, utilization and competition. Rate pressure imposed by health insurers or other major purchasers may have a material adverse impact on hospitals, particularly if major purchasers put increasing pressure on payors to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals in the form of payment shortfalls or delays and continuing obligations to care for managed care patients without receiving payment.

***Nonprofit Health Care Environment.*** 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 that apply to nonprofit tax-exempt organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation and exemption of property from real property taxation. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the “IRS”), labor unions, Congress, state legislatures

and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations and any resulting legislation, regulations, judgments or penalties could have a material adverse effect on nonprofit corporations generally and particularly on nonprofit health care providers.

***Capital Needs vs. Capital Capacity.*** Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may outstrip capital capacity.

***Government “Fraud” Enforcement.*** “Fraud” in government funded health care programs is a significant concern of DHHS and CMS and many states and is one of the federal government’s prime law enforcement priorities. The federal government and, to a lesser degree, state governments impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of “fraud” in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician office leases, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

Violations and alleged violations may be deliberate but also frequently occur in circumstances where management is unaware of the conduct in question, as a result of mistake, or where the individual participants do not know that their conduct is in violation of law. Violations may occur and be prosecuted in circumstances that do not have the traditional elements of fraud, and enforcement actions may extend to conduct that occurred in the past. The government periodically conducts widespread investigations covering categories of services or certain accounting or billing practices.

Violations carry significant sanctions. The government often pursues aggressive investigative and enforcement actions. The government has a wide array of civil, criminal and monetary penalties, including withholding essential hospital payments from the Medicare or Medicaid programs or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be and often are used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital sector. Many hospitals and health systems are likely to be adversely impacted.

***Nursing and Other Shortages.*** Currently, a nursing shortage exists which may have its primary impact on hospitals. Various studies have predicted that this nursing shortage will become more acute over time and grow to significant proportions. In California, new state regulation of nurse staff ratios will likely intensify the nursing shortage. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition, results of operations and future growth could be negatively affected by these shortages, resulting in a material adverse impact to hospitals.

***Technical and Clinical Developments.*** New clinical techniques and technology, as well as new pharmaceutical and genetic developments and products, may alter the course of medical diagnosis and treatment in ways that are currently unanticipated and that may dramatically change medical and hospital care. These developments could result in higher hospital costs, reductions in patient populations and/or new sources of competition for hospitals.

***Costs and Restrictions from Governmental Regulation.*** Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation appears to be increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

***Proliferation of Competition.*** Health care facilities increasingly face competition from specialty providers of care. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals.

***Labor Costs and Disruption.*** Inpatient health care facilities are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial condition. Employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

***State Medicaid Programs.*** State Medicaid and other state health care programs constitute an important payor source to many hospitals and, in particular, to children's hospitals. These programs often pay hospitals at levels that may be below the actual cost of the care provided. As Medicaid is partially funded by states, the potentially weak financial condition of states may result in lower funding levels and/or payment delays. These reductions and/or delays could have a material adverse impact on hospitals.

***Pension and Benefit Funds.*** As large employers, hospitals may incur significant expenses to fund pension and benefit plans for employees and former employees and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes, either or both of which could have a material adverse impact on hospitals.

***Medical Liability Litigation and Insurance.*** Medical liability litigation is subject to public policy determinations and legal and procedural rules that may be altered from time to time, with the result that the frequency and cost of such litigation and resultant liabilities may increase in the future. Health care facilities may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

***Facility Damage.*** Health care facilities are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, other natural causes, fire, deliberate acts of destruction, or various facilities system failures may have a material adverse impact on hospital operations, financial condition and results of operations.

## **Nonprofit Health Care Environment**

The Members of the Obligated Group, as nonprofit tax-exempt organizations, are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for charitable purposes. At the same time, the Corporation conducts complex business transactions and is one of the major employers in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a 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 which 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. 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. These challenges or examinations include the following, among others:

**Congressional Hearings.** Senate and House committees have launched several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including a proposed reform in the area of tax-exempt organizations.

**Internal Revenue Service Examination of Compensation Practices.** In August 2004, the IRS announced a new enforcement effort to address abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The IRS announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. This examination project is ongoing.

**Litigation Relating to Billing and Collection Practices.** Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. The cases are proceeding in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals have entered into substantial settlements.

**Challenges to Real Property Tax Exemptions.** Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

**Action by Purchasers of Hospital Services and Consumers.** Major purchasers of hospital services could take action to restrain hospital charges or charge increases. The California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. The challenges and examinations and any resulting legislation, regulations, judgments, or penalties could have a material adverse effect on the Corporation's ability to make Installment Payments.

## **Patient Service Revenues**

**Medi-Cal Program.** Medi-Cal is the Medicaid program in California. Under a five-year federal Medicaid waiver approved in 2005, the State selectively contracts with hospitals to provide acute inpatient services to Medi-Cal patients. The financial impact of selective contracting on a particular hospital depends upon a variety of factors, such as the base contract rates, whether a hospital qualifies as a disproportionate share hospital, the availability of supplemental payments for disproportionate share hospitals and an individual hospital's ability to control costs.

Generally, such selective inpatient contracting is made on a negotiated per diem payment basis, and such payment rates historically have not increased in direct relation to inflation or provider costs. Medi-Cal payments for inpatient hospital services are also subject to an aggregate statewide upper payment limit, under which aggregate payments to non-public hospitals may not exceed the aggregate amount which would have been paid if Medicare payment principles were utilized. Additionally, the total Medi-Cal payments to an individual hospital for inpatient hospital services for any fiscal period may not exceed that hospital's customary charges for the services. These limitations apply to the per diem rates and supplemental payments received under S.B. 1100 (described below), but do not apply to disproportionate share hospital replacement payments under S.B. 1100 (described below). Medi-Cal payments for outpatient hospital services are based on fee schedules set by the State.

Generally, the State or the contracting hospitals may terminate Medi-Cal contracts upon 120 days' prior written notice. The State also may terminate these contracts without notice under certain circumstances and is obligated to make contractual payments only to the extent the State legislature appropriates adequate funding therefor.

For the fiscal years ended September 30, 2004 and September 30, 2005, the Corporation received approximately 68% and 68%, respectively, of gross patient service revenue from state Medicaid programs, including Medi-Cal managed care arrangements. See APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue.”

*Disproportionate Share Hospital Replacement Payments under S.B. 1100.* In 2005, the State legislature enacted the “Medi-Cal Hospital/Uninsured Care Demonstration Project Act,” also known as S.B. 1100, to revise hospital inpatient reimbursement methodologies under the 2005 federal Medicaid waiver. Private hospitals such as the Hospital operated by the Corporation are eligible to receive payments funded from the State’s General Fund and matching federal funds. Funding hence is subject to State and federal appropriation. These payments, called disproportionate share replacement payments under S.B. 1100, are made to hospitals that have disproportionately higher costs, volume or services related to the provision of services to Medi-Cal or other low-income patients than the statewide average. The non-federal portion of disproportionate share hospital replacement payments (approximately 50%) is funded through annual appropriations from the State General Fund. Disproportionate share payments are often the target of Medi-Cal payment reductions. Qualification for disproportionate share hospital replacement funds under S.B. 1100 is determined annually.

*Supplemental Payments for Private Hospitals Under S.B. 1100.* S.B. 1100 provides additional funding to disproportionate share hospitals providing emergency and outpatient services to Medi-Cal beneficiaries. Such payments are supplemental contract payments under the Medi-Cal selective contracting program payable from the Private Hospital Supplemental Fund, which is funded through discretionary annual appropriations from the State’s General Funds, federal financial participation, and other governmental sources including voluntary inter-governmental transfers. Supplemental payments are often the target of Medi-Cal payment reductions. Qualification for supplemental payments is determined annually.

The majority of the Corporation’s patients are low income and Medi-Cal eligible individuals. Historically, the Corporation has qualified as a disproportionate share hospital and, as such, has been eligible from year to year to receive funding under the State’s predecessor disproportionate share hospital programs. See APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation—SUMMARY OF FINANCIAL INFORMATION—Sources of Revenue—Revenues from the State of California.”

*Healthy Families Program.* The State’s Healthy Families Program, which is administered by the Managed Risk Medical Insurance Board, provides health care services to children of working parents who earn too much to qualify for Medi-Cal but who cannot afford private health insurance. The federal government funds approximately 65% of Healthy Families Program expenditures.

*The Medicare Program.* Medicare is the federal health insurance system under which hospitals are paid for services provided to eligible elderly and disabled persons. Medicare is administered by CMS, which delegates to the states the process for certifying hospitals to which CMS will make payment. In order to achieve and maintain Medicare certification, hospitals must meet CMS’s “Conditions of Participation” on an ongoing basis, as determined by the state and/or JCAHO. The requirements for Medicare certification are subject to change, and, therefore, it may be necessary for hospitals to effect changes from time to time in their facilities, equipment, personnel, billing, policies and services.

For the fiscal years ended September 30, 2004 and September 30, 2005, Medicare payments represented less than 1% of the Corporation’s gross patient service revenue.

*Medical Education Payments.* In recent years, the direct and indirect medical education reimbursement programs have repeatedly emerged as targets in the legislative efforts to reduce the federal budget deficit.

Legislation has capped the number of residents recognized by Medicare for reimbursement purposes and has limited reimbursement for both direct and indirect medical education costs.

**State Budgets.** Many states, including California, face severe financial challenges, including erosion of general fund tax revenues. These factors have resulted in a shortfall between revenue and spending demands. California continues to face a significant gap between the expected level of tax revenues and projected expenditures for fiscal years 2005-06 and 2006-07. No cuts in hospital reimbursement rates under Medi-Cal have been proposed under the Governor's May revised budget for fiscal year 2006-07. It is not possible to determine whether the Governor's May revised budget will be adopted as proposed or whether any cuts in hospital reimbursement rates under Medi-Cal will take effect in the future.

The financial challenges facing the State may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent patients who are unable to pay for their care and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates.

**Health Plans and Managed Care.** Most private health insurance coverage is provided by various types of "managed care" plans, including health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs"), that generally use discounts and other economic incentives to reduce or limit the cost and utilization of health care services. Medicare and Medicaid also purchase hospital care using managed care options. Payments to hospitals from managed care plans typically are lower than those received from traditional indemnity or commercial insurers.

In California, managed care plans have replaced indemnity insurance as the prime source of non-governmental payment for hospital services, and hospitals must be capable of attracting and maintaining managed care business, often on a regional basis. Regional coverage and aggressive pricing may be required. However, it is also essential that contracting hospitals be able to provide the contracted services without significant operating losses, which may require multiple forms of cost containment.

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the typical charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/or changes in the utilization may be dramatic and unexpected, thus jeopardizing the provider's ability to manage this component of revenue and cost.

Some HMOs employ a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" or otherwise directed to receive care at a particular hospital. The hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet the hospital's actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of the hospital could erode rapidly and significantly.

Often, HMO contracts are enforceable for a stated term, regardless of hospital losses and may require hospitals to care for enrollees for a certain time period, regardless of whether the HMO is able to pay the hospital. Hospitals from time to time have disputes with managed care payors concerning payment and contract interpretation issues.

Failure to maintain contracts could have the effect of reducing the Corporation's market share and gross patient services revenue. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs. Thus, managed care poses one of the most significant business risks (and opportunities) the hospitals face.

Defined broadly, for the fiscal years ended September 30, 2004 and September 30, 2005, gross revenues derived from managed care arrangements constituted approximately 28% and 27%, respectively, of gross patient service revenue of the Corporation. See APPENDIX A – "Information Regarding Children's Hospital Central

### **Increased Enforcement Affecting Clinical Trials and Other Research**

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government, through DHHS, the National Institutes of Health, the Food and Drug Administration, and the Office of the Inspector General, among others, also has stepped up enforcement of laws and regulations governing the conduct of clinical trials at hospitals. The rules governing billing for items or services to patients participating in clinical trials funded by governmental agencies and private sponsors are complex and ambiguous. 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 billing of federal health programs for care provided to patients enrolled in clinical trials that is not eligible for federal health program reimbursement can subject providers to sanctions as well as repayment obligations. The Corporation, as a subcontractor, receives payments for health care items and services pursuant to grants administered by certain of these governmental agencies.

### **Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures.**

Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as “score cards,” tiered hospital networks with higher co-payments and deductibles for non-emergent use of lower-ranked providers, “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as the Corporation. Prevalent currently are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

### **Regulatory Environment**

*“Fraud” and “False Claims.”* Health care “fraud and abuse” laws have been enacted at the federal and state levels to broadly regulate the provision of services to government program beneficiaries and the methods and requirements for submitting claims for services rendered to the beneficiaries. Under these laws, hospitals and others can be penalized for a wide variety of conduct, including submitting claims for services that are not provided, billing in a manner that does not comply with government requirements or including inaccurate billing information, billing for services deemed to be medically unnecessary, or billings accompanied by an illegal inducement to utilize or refrain from utilizing a service or product.

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

Laws governing health care fraud and abuse may apply to a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals. See “Enforcement Activity,” below. Major elements of these often highly technical laws and regulations are generally summarized below.

*False Claims Act.* The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of

the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. 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 government or recover independently if the government does not participate. The FCA has become one of the government’s primary sources of focus regarding 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.

***Anti-Kickback Law.*** The federal “Anti-Kickback Law” is a criminal statute that prohibits anyone from soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is paid by any federal or state health care program. The Anti-Kickback Law applies to many common health care transactions between persons and entities with which a hospital does business, including hospital-physician joint ventures, medical director agreements, physician recruitment agreements, physician office leases and other transactions.

Violation or alleged violation of the Anti-Kickback Law most often results in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Violation is a felony, subject to a fine of up to \$250,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed.

***Stark Referral Law.*** The federal “Stark” statute prohibits the referral of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which a referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute “financial relationships” within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to nonpayment under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease. The government may also seek substantial civil monetary penalties, and in some cases, a hospital may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Although Stark does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital.

***HIPAA.*** The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) adds criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any assets of a health care benefit program. A hospital convicted of health care fraud could be subject to mandatory exclusion from Medicare.

***Exclusions from Medicare or Medicaid Participation.*** The government may exclude a hospital from Medicare/Medicaid program participation that is 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, 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. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, 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. Exclusion from the Medicare and



Medicaid programs means that a hospital would be decertified and no program payments can be made. Any hospital exclusion could be a materially adverse event.

***Administrative Enforcement.*** Administrative regulations may require less proof of a violation than do criminal laws, and, thus, health care providers may have a higher risk of imposition of monetary penalties as a result of administrative enforcement actions.

***Compliance with Conditions of Participation.*** CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. If not corrected, a termination of participation in the Medicare program could be imposed.

***Enforcement Activity.*** Enforcement activity against health care providers has increased, and enforcement authorities have adopted aggressive approaches. In the current regulatory climate, it is anticipated that many hospitals and physician groups will be subject to an audit, investigation, or other enforcement action regarding the health care fraud laws mentioned above.

Enforcement authorities are often 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 and/or similar payments and/or by instituting criminal action. In addition, the cost of defending such an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital, regardless of outcome.

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance.

***Liability Under State "Fraud" and "False Claims" Laws.*** Health care providers in California also are subject to state laws related to false claims (similar to the FCA or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions, while similar in public policy and scope to the federal laws, have not in all instances been enforced to date. However, sanctions under any of them could cause a material adverse impact for the same reasons as the federal statutes.

***HIPAA Privacy Requirements.*** HIPAA addresses the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality provisions extend not only to patient medical records, but also to a wide variety of health care clinical and financial settings where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$100 to \$250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

***EMTALA.*** The Emergency Medical Treatment and Active Labor Act ("EMTALA") is a federal civil statute that requires hospitals to treat or conduct a medical screening for emergency conditions and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient. A hospital that violates EMTALA is subject to civil penalties of up to \$50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital may be liable for any claim by an individual who has suffered harm as a result of a violation.

***Licensing, Surveys, Investigations and Audits.*** Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements of state licensing agencies and JCAHO. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

***Environmental Laws and Regulations.*** Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations. These include, but are not limited to: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Health facilities may be subject to requirements related to investigating and remedying hazardous substances located on their property, including such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the 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; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

#### **Business Relationships and Other Business Matters**

***Integrated Physician Groups.*** Hospitals and health systems often own, control or have affiliations with relatively large physician groups. See APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation—GENERAL DESCRIPTION—Corporate Structure.” Generally, the sponsoring hospital or health system will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/or to enhance the managed care capability of the affiliated hospitals and physicians. However, these goals may not be achieved, and an unsuccessful alliance may be costly and counterproductive to all of the above-stated goals.

Integrated delivery systems carry with them the potential for legal or regulatory risks in varying degrees. The ability of hospitals or health systems to conduct integrated physician operations may be altered or eliminated in the future by legal or regulatory interpretation or changes, or by health care fraud enforcement. In addition, participating physicians may seek their independence for a variety of reasons, thus putting the hospital's or health system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization.

***Hospital Pricing.*** Inflation in hospital costs may evoke action by legislatures, payors or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services.

***Indigent Care.*** Tax-exempt hospitals often treat large numbers of indigent patients who are unable to pay in full for their medical care. Typically, pediatric hospitals may treat significant numbers of indigents. These hospitals may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for this population. General economic conditions that affect the number of employed individuals who have health coverage affect the ability of persons financial responsible for pediatric patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that

tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

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

**Physician Supply.** Sufficient community-based physician supply is important to hospitals and health systems. The State annually reviews overall physician reimbursement formulas under Medi-Cal. Changes to physician compensation formulas could lead to physicians locating their practices in communities with lower Medi-Cal populations. Hospitals and health systems may be required to invest additional resources for recruiting and retaining physicians, or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share.

**Competition.** Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/or revenues of hospitals. Existing and potential competitors may not be subject to various restrictions applicable to hospitals, and competition, in the future, may arise from new sources not currently anticipated or prevalent.

Additionally, scientific and technological advances, new procedures, drugs and appliances, preventive medicine and outpatient health care delivery may reduce utilization and revenues of the hospitals in the future or otherwise lead the way to new avenues of competition. In some cases, hospital investment in facilities and equipment for capital-intensive services may be lost as a result of rapid changes in diagnosis, treatment or clinical practice brought about by new technology or new pharmacology.

**Antitrust.** While enforcement of the antitrust laws against hospitals has been less intense in recent years, antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes.

Violation of the antitrust laws could result in criminal and/or civil enforcement proceedings by federal and state agencies, as well as actions by private litigants. In certain actions, private litigants may be entitled to treble damages, and in others, governmental entities may be able to assess substantial monetary fines.

**Labor Relations and Collective Bargaining.** Health care providers are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals 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 hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation.

No Obligated Group Member employees are covered by collective bargaining agreements.

**Wage and Hour Class Actions and Litigation.** Federal law and many states impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged

violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the Obligated Group could have a material adverse impact on their financial conditions and results of operations.

***Health Care Worker Classification.*** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. If the IRS were to reclassify a significant number of hospital independent contractors as employees, back taxes and penalties could be material.

***Staffing.*** In recent years, the health care industry has suffered from a scarcity of nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals.

Effective January 1, 2004, California implemented mandatory nurse staffing ratios for all hospital patient care areas. In January 2005, these standards were made more stringent. The impact on California hospitals will vary by facility. The required staffing, in aggregate, is more costly than prior staffing patterns. See APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation—OTHER INFORMATION—Nurse Staffing.”

***Professional Liability Claims, Property and General Liability Insurance.*** In recent years, the number of professional and general liability suits and the dollar amounts of damage recoveries have increased in health care nationwide, resulting in substantial increases in malpractice insurance premiums, higher deductibles and generally less coverage. Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital’s status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of an Obligated Group Member if determined or settled adversely.

Hospital property can be damaged by events and forces beyond a hospital’s control. Hospitals generally maintain property and casualty insurance in some combination of purchased, self-insurance and re-insurance policies to cover property damage.

There is no assurance that hospitals will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover judgments or claims rendered against a hospital or that such coverage will be available at a reasonable cost in the future.

#### **Tax-Exempt Status and Other Tax Matters**

***Maintenance of the Tax-Exempt Status of the Obligated Group Members.*** The tax-exempt status of the outstanding tax-exempt debt issued for the benefit of the Obligated Group depends upon maintenance by each Obligated Group Member that receives or benefits from the proceeds of the Certificates (the “Benefiting Member”) of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the

organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions that may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities that do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by a modern health care organization. Although traditional activities of health care providers, such as medical office building leases, have been the subject of interpretations by the IRS in the form of private letter rulings, many activities or categories of activities have not been fully addressed in any official opinion, interpretation or policy of the IRS.

The IRS has periodically conducted audit and other enforcement activity regarding tax-exempt health care organizations. The IRS conducts special audits of large tax-exempt health care organizations with at least \$500 million in assets or \$1 billion in gross receipts. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that an Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by the Corporation potentially could result in loss of tax exemption of amounts treated for federal income tax purposes as interest payments with respect to the Certificates and of other tax-exempt debt of the Obligated Group Members and defaults in covenants regarding the Certificates and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation.

In some cases, the IRS has imposed substantial monetary penalties on tax-exempt hospitals in lieu of revoking their tax-exempt status. In those cases, the IRS and exempt hospitals entered into settlement agreements requiring the hospital to make substantial payments to the IRS.

In lieu of revocation of exempt status, the IRS may impose penalty excise taxes on certain “excess benefit transactions” involving 501(c)(3) organizations and “disqualified persons.” An excess benefit transaction is one in which a disqualified person or entity receives more than fair market value from the exempt organization or pays the exempt organization less than fair market value for property or services, or shares the net revenues of the tax-exempt entity. A disqualified person is a person (or an entity) who is in a position to exercise substantial influence over the affairs of the exempt organization during the five years preceding an excess benefit transaction. The statute imposes excise taxes on the disqualified person and any “organization manager” who knowingly participates in an excess benefit transaction. These rules do not penalize the exempt organization itself, so there would be no direct impact on an Obligated Group Member or amounts treated for federal income tax purposes as interest payments with respect to the Certificates if an excess benefit transaction were subject to IRS enforcement, pursuant to these “intermediate sanctions” rules.

***State and Local Tax Exemption.*** Until recently, the State has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. In California, it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by any of the Obligated Group Members of federal tax exemption would also trigger a challenge to its state tax-exemption. Depending on the circumstances, such event could be material and adverse to that entity and the Obligated Group as a whole.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Obligated Group is currently treated as exempt from real property taxation. Although the real property tax exemption of the Obligated Group has not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemption of the Obligated Group.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be no assurance that future changes in the laws and regulations of state or local governments will not materially adversely affect the financial condition of the Obligated Group by requiring payment of income, local property or other taxes.

*Maintenance of Tax-Exempt Status of Interest with Respect to the Certificates.* The Code imposes a number of requirements that must be satisfied for interest with respect to state and local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds, limitations on the investment earnings of proceeds prior to expenditure, a requirement that certain investment earnings on proceeds be paid periodically to the United States Treasury, and a requirement that the County file an information report with the IRS. The Corporation has covenanted in the Sale Agreement that it will comply with such requirements. Failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest with respect to the Certificates as taxable, retroactively to the date of issuance. The County has covenanted in the Trust Agreement that it will not take any action or refrain from taking any action that would cause interest with respect to the Certificates to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector, with specific reviews of private use. The Certificates may be, from time to time, subject to audits by the IRS. Management of the Obligated Group believes that the Certificates properly comply with the tax laws. In addition, Special Counsel will render an opinion with respect to the tax-exempt status of amounts treated for federal income tax purposes as interest payments with respect to the Certificates, as described under the caption "TAX MATTERS." Management of the Obligated Group has not sought to obtain a private letter ruling from the IRS with respect to the Certificates, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Certificates will not adversely affect the market value of the Certificates. See "TAX MATTERS" herein.

*Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code.* As tax-exempt organizations, the Obligated Group Members are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the 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. Any suspension, limitation, or revocation of one or more Member's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of amounts treated for federal income tax purposes as interest payments with respect to the Certificates.

#### **Other Risk Factors**

*Earthquakes.* Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable facilities of the Obligated Group Members.

California requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. The January 1, 2008 deadline may be extended to January 1, 2013 if a hospital meets certain criteria. Additional seismic standards must be met by 2030. See APPENDIX A – "Information Regarding Children's Hospital Central California and The Children's Hospital Central California Foundation—OTHER INFORMATION—Conformance With Seismic Standards."

*Risks Related to Outstanding Variable Rate Obligations and Interest Rate Swap Transactions.* The Certificates are variable rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents.

The Obligated Group has entered into an interest rate swap with respect to the Certificates. The Swap is subject to periodic “mark-to-market” valuations and at any time may have a negative value to the Obligated Group. The Swap counterparty may terminate the Swap upon the occurrence of certain “termination events” or “events of default.” The Obligated Group may terminate the Swap at any time upon the satisfaction of certain conditions. If either the counterparty to the Swap or the Obligated Group terminates the Swap during a negative value situation, the Obligated Group may be required to make a termination payment to such Swap counterparty, and such payment could be material.

Pursuant to the Swap, the counterparty is obligated to make payments to the Obligated Group based on a floating rate index and the applicable notional amount, which payments may be more or less than the variable rates the Obligated Group is required to pay with respect to a comparable principal amount of the Certificates, as the case may be. No determination can be made at this time as to the potential exposure to the Obligated Group relating to the difference in variable rate payments.

**Investments.** The Members of the Obligated Group have holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. For a discussion of the Obligated Group’s investments, see APPENDIX A – “Information Regarding Children’s Hospital Central California and The Children’s Hospital Central California Foundation—MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATING AND FINANCIAL RESULTS.”

**Construction Risks.** Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds.

**Other Future Risks.** In the future, the following factors, among others, may adversely affect the operations of health care providers, including the Corporation or the market value of the Certificates, 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 applicable to hospitals and other health care providers.

Reduced demand for the services of the Corporation that might result from decreases in population.

Efforts by insurers and governmental agencies to limit the cost of hospital 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.

The occurrence of an epidemic or pandemic, a natural or man-made disaster that could damage the facilities of the Corporation, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Corporation’s operations and the generation of revenues from the facilities.

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

## ABSENCE OF MATERIAL LITIGATION

### The County

There is no controversy or litigation of any nature now pending or, to the knowledge of its officers, threatened against the County restraining or enjoining the execution, sale or delivery of the Certificates, or in any way contesting or affecting the validity of the Certificates, any proceedings of the County taken concerning the

execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, or existence or powers of the County relating to the execution or delivery of the Certificates.

### **The Obligated Group**

There is no controversy or litigation of any nature now pending or, to the knowledge of its officers, threatened against the Members of the Obligated Group restraining or enjoining the execution, sale or delivery of the Certificates or in any way contesting or affecting the validity of the Certificates, any proceedings of the Corporation taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, or existence or powers of the Members of the Obligated Group relating to the execution or delivery of the Certificates.

The Corporation has advised that there is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body pending or, to its knowledge, threatened against or affecting either Member of the Obligated Group or such Member's Board of Trustees or Board of Directors wherein an unfavorable decision, ruling or finding would have a materially adverse effect on the business, properties or financial condition of either Member of the Obligated Group, the transactions contemplated by the Purchase Contract, this Official Statement, the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Master Indenture or Obligation No. 3.

### **RELATIONSHIPS AMONG PARTIES**

The Members of the Obligated Group from time to time and in the ordinary course of their business may contract for services with persons who are also members of the Board of Trustees or the Board of Directors described in Appendix A to this Official Statement. The Corporation believes that all such contracts are on terms which are no less favorable than could be obtained from unaffiliated persons.

### **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Special Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of certificates, like the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The County and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest portion of the Installment Payments paid by the County under the



Purchase Agreement and received by the Holders of the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of issuance of the Certificates may adversely affect the value of, or the tax status of interest with respect to, the Certificates.

In addition, Special Counsel has relied, among other things, on the opinion of Ropes & Gray LLP, Counsel to the Corporation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Special Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Special Counsel nor Counsel to the Obligated Group has given any opinion or assurance concerning Section 513(a) of the Code and neither Special Counsel nor Counsel to the Obligated Group can give or has given any opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Certificates in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates being included in federal gross income, possibly from the date of the original issuance of the Certificates.

The interest rate mode and certain requirements and procedures contained or referred to Trust Agreement, the Sale Agreement, and the Tax Certificate and Agreement, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Installment Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Special Counsel expresses no opinion as to the interest portion of any Installment Payment paid by the County under the Purchase Agreement and received by the Holders of the Certificates if any such change occurs or action is taken or omitted upon the advice or approval of Special Counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Special Counsel is of the opinion that the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Future legislation, if enacted into law, or clarification of the Code may cause interest on the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation or clarification of the Code may also affect the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Special

Counsel cannot give and has not given any opinion or assurance about the future activities of the County or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County and the Corporation have covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Certificates ends with the issuance of the Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the County, the Corporation or the Beneficial Owners regarding the tax-exempt status of the interest portion of the Installment Payments paid by the County under the Purchase Agreement and received by the Holders of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the County, the Corporation and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County or the Corporation legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of certificates or bonds presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the County, the Corporation or the Beneficial Owners to incur significant expense.

#### **APPROVAL OF LEGALITY**

Legal matters incident to the execution and delivery of the Certificates are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, San Francisco, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is set forth as Appendix E. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Obligated Group by counsel to the Corporation, Ropes & Gray LLP, for the County by County Counsel, and for the Underwriter by Sidley Austin LLP, San Francisco, California, which also undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

#### **UNDERWRITING**

The Certificates are being purchased by Morgan Stanley & Co. Incorporated at an aggregate purchase price of \$39,776,000 (which represents the \$40,000,000 par amount of the Certificates less the Underwriter's discount of \$224,000). The Purchase Contract provides that the Underwriter will purchase all of the Certificates, if any are purchased, and contains the agreement of the Corporation to indemnify the Underwriter and the County against certain liabilities to the extent permitted by law. The initial public offering prices set forth on the cover page may be changed without notice from time to time by the Underwriter.

#### **INDEPENDENT ACCOUNTANTS**

The consolidated financial statements of the Corporation, the Foundation and the Medical Group as of and for the years ended September 30, 2005 and 2004 and the other financial information as of and for the year ended September 30, 2005 included in Appendix B to this Official Statement have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing therein.

#### **FINANCIAL ADVISOR**

Kaufman, Hall & Associates, Inc. ("Kaufman Hall"), Skokie, Illinois, was engaged by the Corporation to provide financial advisory services for the development and implementation of a capital financing plan for the Corporation. Kaufman Hall is a national consulting firm which acts as capital advisor to healthcare organizations particularly in areas of short and long term debt financings, joint ventures and overall capital planning.

## RATINGS

Moody's and S&P have assigned the Certificates the ratings of "Aaa" and "AAA" respectively, with the understanding that, upon the issuance of the Certificates, the Insurance Policy insuring payment when due of principal of and interest with respect to the Certificates will be issued by the Insurer. Prior to the Corporation's receipt of the Insurer's commitment to issue the Insurance Policy, Moody's had issued a rating of "A3" with respect to the Certificates and Standard & Poor's had issued a rating of "A-" with respect to the Certificates. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Certificates. Such ratings reflect only the views of such organizations, and any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. The "Aaa" and "AAA" ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if, in their judgment, circumstances so warrant. The Underwriter has undertaken no responsibility either to bring to the attention of the Holders any proposed change in or withdrawal of any rating or to oppose any such proposed revision or withdrawal. The Corporation has not undertaken any responsibility, other than as described in the Continuing Disclosure Agreement, either to bring to the attention of the Holders any proposed change in or withdrawal of any rating or to oppose any such proposed change or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Certificates.

## MISCELLANEOUS

The references to and the descriptions of the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Master Indenture and Obligation No. 3 contained herein and in Appendix C and Appendix D hereto are brief outlines of certain provisions thereof. Such outlines do not purport to be complete. For full and complete statements of such provisions, reference is made to such documents. Copies of the documents mentioned under this heading are on file with the Underwriter and following delivery of the Certificates will be on file at the principal corporate trust office of the Trustee in San Francisco, California.

The attached Appendices are integral parts of this Official Statement and should be read together with the balance of this Official Statement. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution and delivery of this Official Statement has been duly authorized by the County and duly approved by the Corporation. This Official Statement is not to be construed as a contract or agreement between the County or the Corporation and the purchasers or Holders of any Certificates.

## COUNTY OF MADERA, CALIFORNIA

By: /s/ Frank Bigelow  
Chairman of the Board of Supervisors

**APPROVED:**

**CHILDREN'S HOSPITAL CENTRAL CALIFORNIA**

By: /s/ Michele R. Waldron  
Vice President and Chief Financial Officer

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**APPENDIX A**

**INFORMATION REGARDING  
CHILDREN'S HOSPITAL CENTRAL CALIFORNIA AND  
THE CHILDREN'S HOSPITAL CENTRAL  
CALIFORNIA FOUNDATION**

**The information contained herein and included as Appendix A to this Official Statement has been provided by Children's Hospital Central California.**

## TABLE OF CONTENTS

	Page
GENERAL DESCRIPTION.....	1
Obligated Group.....	1
Corporate Structure.....	1
FACILITIES AND SERVICES .....	1
Facilities and Capital Plan.....	2
Inventory of Services .....	3
Specialty Services .....	3
Additional Services .....	4
MEDICAL EDUCATION AND RESEARCH .....	4
Medical Education Residency .....	4
Research Programs.....	4
SERVICE AREA.....	4
General .....	4
Inpatient Geographic Distribution.....	5
Hospital Pediatric Utilization for the Service Area .....	5
Competitive Environment .....	6
HISTORICAL UTILIZATION DATA .....	6
SUMMARY OF FINANCIAL INFORMATION .....	7
General .....	7
Summary of Operations.....	7
Sources of Revenue.....	8
Capitalization .....	10
Debt Service Coverage.....	10
MANAGEMENT’S DISCUSSION AND ANALYSIS OF OPERATING AND FINANCIAL RESULTS .....	11
Significant Accounting Policies .....	11
Historical Performance.....	11
Liquidity.....	14
Pension and Deferred Compensation Plans.....	16
GOVERNANCE.....	17
Corporation’s Board of Trustees .....	17
Foundation’s Board of Directors .....	18
MANAGEMENT .....	19
OTHER INFORMATION .....	21
Medical Staff.....	21
Employees .....	21
Nurse Staffing .....	21
Insurance .....	21
Licenses, Accreditations, Certifications and Memberships.....	22
Conformance With Seismic Standards.....	22

## GENERAL DESCRIPTION

All terms used and not otherwise defined in this Appendix A shall have the meaning set forth in the forepart of this Official Statement.

### Obligated Group

Children's Hospital Central California (the "Corporation") and The Children's Hospital Central California Foundation (the "Foundation") comprise the Obligated Group (defined below) with respect to the Certificates described in the forepart of this Official Statement. The Corporation and the Foundation are nonprofit public benefit corporations organized under the California Nonprofit Corporation Law. Each has been determined by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") or predecessor provision of law and, accordingly, is exempt from federal income taxation under Section 501(a) of the Code. The Corporation and the Foundation collectively are referred to herein as the "Obligated Group" or "Members" of the Obligated Group, and each is sometimes referred to as a "Member." *Only the Members are obligated to make payments with respect to the Certificates.*

*Children's Hospital Central California.* The Corporation is the largest single provider of inpatient pediatric care in Central California. Since 1952, the Corporation has provided hospital care to sick and injured children in Central California and today owns and operates a 255-bed pediatric hospital located in Madera, California (the "Hospital"), the sole pediatric specialty inpatient facility in its primary service area of approximately 45,000 square miles.

*The Children's Hospital Central California Foundation.* Formed as a California nonprofit public benefit corporation in 1981, the Foundation was established to raise funds to support the operation of the Corporation. The Foundation's bylaws provide that all funds and assets of the Foundation will be distributed, used or held for the exclusive benefit of the Corporation. Any specific purpose funds and income from endowment funds are distributed to the Corporation pursuant to any express restrictions specified by donors. As of March 31, 2006, the value of the Foundation's net assets, both restricted and unrestricted, was approximately \$15,670,000.

### Corporate Structure

The Corporation is the sole corporate member of the Foundation and is contractually affiliated with Specialty Medical Group Central California (the "Medical Group"), a California medical professional corporation that provides the services of 62 Hospital-based employed physicians and surgeons to the Corporation and its patients in a range of specialties. See "FACILITIES AND SERVICES" in this Appendix A. The sole shareholder of the Medical Group is designated by the Corporation; accordingly, the results of operations of the Medical Group are reported on a consolidated basis with those of the Corporation and the Foundation in the consolidated financial statements included in this Official Statement.

The Corporation is also supported by 14 guilds that raise funds to support the Corporation. Collectively, the guilds have approximately 1,400 members. Each guild is organized as a California nonprofit corporation and is legally independent of the Corporation and the Foundation. Historically, the guilds have provided, on a combined basis, approximately \$500,000 per year in support to the Corporation.

*Neither the Medical Group nor the guilds are Members of the Obligated Group. None of the assets or revenues of the Medical Group or the guilds are pledged to secure payments with respect to the Certificates.*

## FACILITIES AND SERVICES

The Hospital was founded in 1952 as a 42-bed hospital and has grown into a 255-bed pediatric medical center on a 50-acre campus. The Hospital has a medical staff of more than 500 doctors, 208 of which comprise the Hospital's active staff, practicing in more than 40 pediatric subspecialties with clinics and services in several locations throughout the Central San Joaquin Valley. From nearly 2,000 patients in 1952, the Hospital now sees

more than 12,000 inpatient cases, 48,000 emergency room visits and more than 110,000 clinic visits each year and performs more than 10,000 surgeries each year.

The Hospital is the 14th largest free-standing children’s hospital in the nation and the only one located in a rural area. Its primary service area encompasses over 45,000 square miles, stretching from Stockton to Bakersfield and the Sierra Nevada Mountains to the Pacific Ocean. It is one of the largest service areas of any children’s hospital in the nation. See “SERVICE AREA” herein.

**Facilities and Capital Plan**

The Corporation relocated the Hospital from Fresno to Madera in 1998. The Hospital sits on the bluffs of the San Joaquin River, just north of the city of Fresno, California. In addition to the main hospital, the campus contains medical and professional buildings, a child development center, and a heliport and is in close proximity to a Ronald McDonald House. The Corporation currently is licensed to operate and has available for use 255 beds; however, expansion and renovation of the existing facilities will provide an additional 36 Medical/Surgical beds and is expected to be complete by August 2006 and further expansion of the existing facilities will provide six additional Pediatric Intensive Care Unit (“PICU”) beds and is targeted for completion in December 2006. Plans also are under way to remodel existing space that will provide 18 additional Medical/Surgical beds and to build out shell space that will provide 23 additional Neonatal Intensive Care (“NICU”) beds. These projects are targeted for completion in July 2008 and March 2009, respectively. In addition, there will be further expansion and renovation resulting in eight additional PICU beds by February 2011. Upon completion, the Corporation expects to be licensed to operate 346 beds, representing an increase of 36%.

A portion of the Corporation’s expansion projects will be financed with proceeds of the Certificates, including: (1) the renovation and expansion of current facilities to accommodate the additional 91 licensed beds listed above; (2) the remodeling of existing space for a new 64-slice computed tomography scanner; (3) the expansion of the Corporation’s Professional Center to add approximately 12,000 square feet of space for administrative use; and (4) the expansion of the Corporation’s main facility to add approximately 48,000 square feet of space and the renovation of approximately 16,000 square feet of space in the existing facility for additional PICU beds, operating rooms, Emergency Department exam rooms and imaging capacity in the future. See “PLAN OF FINANCING” in the forepart of this Official Statement. An additional portion of the Corporation’s expansion projects will be funded with grant moneys received by the Corporation from proceeds of general obligation bonds sold by the State pursuant to Proposition 61. The Corporation has been allocated grants totaling \$74 million from Proposition 61 general obligation bonds and, as of March 31, 2006, had received \$5 million of its total grant allocation.

**Licensed Bed Complement**

	<u>Currently Licensed and Available Beds</u>	<u>Licensed and Available upon Completion of Expansion</u>
General Pediatrics	128	182
Pediatric Intensive Care	28	42
Neonatal Intensive Care	65	88
Rehabilitation	18	18
<b>Subtotal</b>	<u>239</u>	<u>330</u>
Off-Site Neonatal <sup>(1)</sup>	16	16
<b>Total</b>	<u>255</u>	<u>346</u>

<sup>(1)</sup> “Off-Site” refers to NICU beds licensed in the Corporation’s name operated in other hospitals within the Corporation’s service area. See “Specialty Services – NICU” below for further information regarding off-site NICU beds.



## Inventory of Services

The inventory of services currently available at the Hospital includes:

### *Pediatric Specialties*

- Anesthesiology
- Cardiac Surgery
- Cardiology
- Complex Primary Care
- Critical Care
- Dental, Oral & Maxillofacial
- Diabetes & Endocrinology
- Emergency Medicine
- Gastroenterology
- Genetic Medicine & Metabolism
- Hematology
- Hospitalists
- Immunology
- Infectious Disease
- Neonatology
- Nephrology
- Neurology
- Neuropsychology
- Neurosurgery
- Oncology
- Ophthalmology
- Orthopaedic Surgery
- Otolaryngology
- Pediatric Surgery
- Physiatry
- Plastic Surgery
- Psychology
- Pulmonology
- Radiology
- Rheumatology
- Urology

### *Other Pediatric Services*

- Audiology
- Bloodless Medicine & Surgery
- Cardiology Testing
- Cardiopulmonary Laboratory
- Catheterization Laboratory
- Home Care
- Laboratory Medicine
- Medical Imaging
- Neurology Testing Center
- Newborn Screening Program
- Nursing Education - Magnet Hospital
- Occupational Therapy
- Pain Management
- Pediatric Research
- Pediatric Residency
- Physical Therapy
- Prenatal Detection
- Sleep Lab
- Speech Services
- Transport Services
- Trauma

### *Inpatient Units*

- Medical/Surgical
- Rehabilitation
- NICU (Neonatal Intensive Care)
- PICU (Pediatric Intensive Care)

## Specialty Services

*The Heart Center and Cardiology Services.* The Heart Center at the Hospital offers technology and therapeutics for congenital or acquired cardiovascular disease. The Heart Center is composed of five departments of the Hospital: Cardiology, Cardiac Surgery, the Cardiac Catheterization Laboratory, the Cardiology Testing Center and the Cardiopulmonary Laboratory. Cardiology provides diagnostic, therapeutic, interventional and follow-up care for pediatric and young adolescent patients on both an inpatient and outpatient basis.

*Trauma/PICU.* The Hospital has been designated a Level II Pediatric Trauma Center since 2002, making it one of only four such hospitals in California, and the only one located in Central California. The Hospital currently has a 28-bed PICU and plans to add six beds in December 2006 and eight beds in February 2011.

*NICU.* The NICU combines advanced technology and trained health care professionals to provide specialized care for newborn babies. The Corporation operates a tertiary Level III Regional NICU and three satellite Level II NICUs. Since relocating to its existing facility in 1998 with 41 licensed NICU beds, the Corporation has added 24 NICU beds and expects to add 23 NICU beds as part of the Project described in "PLAN OF FINANCING" in the forepart of this Official Statement. The Hospital also operates 16 satellite NICU beds at facilities located in Fresno, Merced and Hanford, California. The Corporation is currently evaluating whether to suspend or cease operations at the Hanford satellite unit, which consists of four NICU beds.

## **Additional Services**

From time to time, the Corporation may consider adding to the services it offers either by expanding its current facilities or through collaboration with other hospitals or health systems. Such initiatives may involve significant capital expenditures, all or a portion of which may be financed through contributions by the Corporation or debt incurred by the Obligated Group.

## **MEDICAL EDUCATION AND RESEARCH**

### **Medical Education Residency**

The Hospital is a clinical training site for the pediatric residency program affiliated with the University of California, Fresno-Central San Joaquin Valley Medical Education Program, a clinical branch of the University of California San Francisco School of Medicine. The majority of inpatient and subspecialty training occurs at the Hospital with the residents managing specific inpatient care under the direction of private practicing pediatricians. The Corporation expects that approximately 30 residents will be enrolled in the Pediatric Residency Program as of July 2006. The majority of the residents' time is spent on the acute pediatric inpatient service with additional exposure to the PICU.

Residents receive their general ambulatory pediatric training at University Medical Center in Fresno, California. Subspecialty ambulatory rotations at the Hospital or otherwise supported by the Corporation are in the specialty areas of Endocrinology/Metabolic Disorders, Cardiology, Developmental and Behavioral Pediatrics, and Special Clinics. Elective rotations are offered in Genetics, Neurology, Rheumatology, Immunology, Infectious Disease, Orthopedics, Anesthesia, Pulmonology, Gastroenterology and Hematology/Oncology.

In addition, the Hospital provides the primary pediatric rotation site for Family Practice, Surgery, Psychiatry and Emergency Medicine residents for affiliated programs in the Central San Joaquin Valley area, as well as subspecialty experience for Emergency Medicine Residents in the PICU and Pediatric Emergency Department.

### **Research Programs**

Researchers at the Hospital are committed to identifying new approaches to prevent, diagnose, and treat childhood diseases and to promote the health and well-being of children. Research is supported by funding from federal, nonprofit, and corporate sponsors. Currently, the Corporation is involved in approximately 150 externally funded open research protocols. In addition, the Corporation supports research by physicians, nurses, medical and pharmacy residents and other staff.

## **SERVICE AREA**

### **General**

The service area of the Corporation is based upon an analysis of historical trends in the geographic distribution of the Corporation's patients, the accessibility of the Hospital to surrounding counties, and the location of other pediatric hospitals in the State. The analysis is based upon patient origin data for fiscal year 2005 collected by the Corporation. The statistical data identify the total number of patient encounters for the Hospital by the patients' zip codes of residence.

The service area of the Corporation includes the nine counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, San Luis Obispo, Stanislaus and Tulare Counties (the "Service Area"). Residents of the Service Area accounted for approximately 98% of the Corporation's total encounters in fiscal year 2005. The remaining 2% of patient encounters originated from 43 other counties in California and from outside of California and the United States.

Because of the size of the Service Area, management of the Corporation segments the Service Area into four local markets: Central, consisting of Fresno and Madera Counties; North, consisting of Merced, San Joaquin

and Stanislaus Counties; South, consisting of Kern, Kings and Tulare Counties; and Coastal, consisting of San Luis Obispo County.

### Inpatient Geographic Distribution

The following table presents the patient origin by county within the Service Area for inpatients discharged from the Hospital during fiscal year 2005.

<b>Hospital Patient Origin Fiscal Year 2005</b>		
<u>Counties Within Service Area</u>	<u>Discharges</u>	<u>Percent of Total Discharges</u>
Fresno County	6,624	54.4%
Kern County	895	7.4
Kings County	681	5.6
Madera County	1,067	8.8
Merced County	848	7.0
San Joaquin County	44	0.4
San Luis Obispo	24	0.2
Stanislaus County	369	3.0
Tulare County	1,402	11.5
<b>Total Service Area</b>	<u>11,954</u>	<u>98.3%</u>
Other Counties in California	166	1.3%
Out-of-State or Country	55	0.4
<b>Total</b>	<u>12,175</u>	<u>100.0%</u>

Source: The Corporation

### Hospital Pediatric Utilization for the Service Area

The Hospital is a regional pediatric health care center that provides a full range of services mainly to patients under 18 years of age. Within the category of a “general or tertiary pediatric hospital,” there are no direct competitors to the Corporation in its Service Area. The closest such competitor is located approximately 160 miles away in Palo Alto, California. Several of the services provided at the Hospital, such as the Level III Regional NICU and Pediatric Rehabilitation, are unique to the Corporation and have no direct competition within the Service Area. Though there are a number of general acute care hospitals in the Service Area that provide general pediatric services similar to some of those provided at the Hospital, the respective capacities of such general acute care hospitals are significantly less than the Hospital’s capacity.

Based on comparative statistics available from the California Office of Statewide Health Planning and Development (“OSHPD”) for the calendar year 2004, only four of those general acute care hospitals that provide pediatric services to 200 or more inpatients are within a 50-mile radius of the Hospital. Fresno Community Medical Center, which is 12 miles from the Hospital, has 19 licensed NICU beds and no other licensed pediatric beds. University Medical Center—Fresno, which is 14 miles from the Hospital, has 15 licensed NICU beds and 14 other licensed pediatric beds. Neither St. Agnes Medical Center, which is six miles from the Hospital, nor Clovis Community Hospital, which is 13 miles from the Hospital, have any licensed NICU beds or any other licensed pediatric beds. Based on the same data for calendar year 2004, the Hospital had 81 licensed NICU beds and 174 other licensed pediatric beds.

## Competitive Environment

In terms of outlying market growth, the Corporation respects in-market providers and, therefore, strives to augment pediatric services that are either not available or provided at inadequate service levels. The following is a summary of the Corporation's inpatient case market share for calendar year 2004, which is the most current information available from OSHPD. This table depicts market share in the four markets in the Corporation's Service Area. Market share for the Corporation's Central Market is calculated based on total cases from the region as this is where the Hospital is physically located. Market share for the Corporation's North, South and Coastal Markets is based on outmigration cases, patients who traveled outside of the market for care, as these are the regions where the Corporation attempts to augment in-market services.

### Competitive Environment Inpatient Case Market Share Age Less Than 18 Calendar Years 2002, 2003 and 2004

	Central Market		North Market			South Market			Coastal Market
	Fresno County	Madera County	Merced County	Stanislaus County	San Joaquin County	Kings County	Tulare County	Kern County	San Luis Obispo County
2002	72.0%	76.2%	91.4%	23.2%	3.8%	81.4%	87.5%	48.0%	13.7%
2003	75.1	82.0	90.5	31.8	5.4	84.1	86.6	49.2	17.8
2004	77.1	83.9	85.6	32.8	4.3	88.5	89.7	48.9	10.7

Source: OSHPD, 2004, 2003 and 2002 Public Discharge Data Database.

## HISTORICAL UTILIZATION DATA

The table below presents selected statistical indicators of patient activity (excluding newborns) of the Corporation for the fiscal years ended September 30, 2003, 2004 and 2005 and for the six months ended March 31, 2005 and 2006.

### Hospital Utilization Statistics

	Fiscal Year Ended September 30,			Six Months Ended March 31,	
	2003	2004	2005	2005	2006
Discharges	12,075	12,427	12,175	6,364	6,239
Average Length of Stay (Days) <sup>(1)</sup>	5.60	5.60	5.96	5.67	6.19
Patient Days	67,448	69,552	72,604	36,112	38,601
Admissions	12,079	12,440	12,172	6,384	6,288
Average Available Beds	243	255	255	255	255
Occupancy (as % of Available Beds)	76.4%	74.5%	78.0%	77.8%	83.2%
Emergency Room Visits	45,730	49,070	45,237	22,940	24,476
Clinic Visits	103,327	98,561	102,737	51,272	53,248
Outpatient Surgeries	5,938	6,051	6,193	2,992	2,969
Inpatient Surgeries	3,581	3,482	3,743	1,767	1,714

Source: The Corporation

<sup>(1)</sup> Average length of stay is defined as patient days divided by discharges.

For a discussion of certain utilization data, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING AND FINANCIAL RESULTS—Historical Performance" herein.

## SUMMARY OF FINANCIAL INFORMATION

### General

The financial data contained in this Appendix A reflect the consolidated results of the Corporation, the Foundation and the Medical Group. *The Medical Group is not a Member of the Obligated Group and is not obligated to make payments with respect to the Certificates.* The sole shareholder of the Medical Group is designated by the Corporation and accordingly the results of operations of the Medical Group are reported on a consolidated basis with those of the Corporation and the Foundation. In addition, pursuant to an agreement between the Corporation and the Medical Group, the Corporation purchases certain coverage and medical direction services from the Medical Group for annual payments that, taking into account the Medical Group's professional fees and other revenue, fund the Medical Group's expenses. For the fiscal years ended September 30, 2003, 2004 and 2005, the Medical Group generated approximately 5.4%, 5.3% and 4.7%, respectively, of the net patient service revenue of the Obligated Group and the Medical Group, on a consolidated basis. For the fiscal years ended September 30, 2003, 2004 and 2005, the Corporation purchased services from the Medical Group for payments in the amounts of \$5,334,788, \$5,060,717 and \$5,179,255, respectively.

### Summary of Operations

The following statement of operations of the Obligated Group and the Medical Group for the three fiscal years ended September 30, 2003, 2004 and 2005 has been derived by management from the audited consolidated financial statements of the Obligated Group and the Medical Group. The audited consolidated financial statements for the Obligated Group and the Medical Group for the fiscal years ended September 30, 2004 and 2005 are included in Appendix B hereto. The consolidated financial statements of the Obligated Group and the Medical Group for the fiscal years ended September 30, 2004 and 2005 have been audited by their independent accountants, as stated in the independent auditors' report included therein.

The following statement of operations of the Obligated Group and the Medical Group for the six months ended March 31, 2005 and 2006 has been prepared by management, is unaudited and is presented for purposes of additional information and analysis. The results of operations for the six months ended March 31, 2005 and 2006, in the opinion of management, reflect all adjustments necessary to state fairly the financial data for such periods and are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

**Statement of Operations<sup>(1)</sup>**  
(000's)

	Fiscal Year Ended September 30,			Six Months Ended March 31,	
	2003	2004	2005	2005	2006
	(audited)	(audited)	(audited)	(unaudited)	(unaudited)
<b>Unrestricted revenues and other support</b>					
Net patient service revenue	\$242,939	\$254,481	\$273,318	\$133,562	\$145,768
Other revenue	14,966	15,789	15,510	7,213	8,764
Net assets released from restrictions used for operations	589	799	1,134	75	155
Total revenues and other support	258,494	271,069	289,962	140,850	154,687
<b>Expenses</b>					
Salaries and wages	104,626	108,812	118,418	56,218	63,502
Employee benefits	45,870	47,797	48,675	24,308	26,213
Supplies	36,500	38,800	41,139	22,154	23,872
Professional fees	14,097	16,680	17,014	9,070	9,881
Purchased services	13,724	14,466	15,155	7,498	7,668
Insurance, taxes and licenses	4,067	4,740	4,259	2,187	2,211
Utilities	3,571	3,359	3,084	1,490	1,540
Rents	4,042	3,749	3,526	1,772	1,901
Depreciation and amortization	12,948	11,305	11,336	5,709	5,353
Interest	8,329	8,294	8,096	4,070	3,857
Provision for bad debts	4,022	4,399	3,474	1,668	1,872
Other	4,663	5,264	5,392	2,616	2,609
Loss on impairment of property	659	—	—	—	—
Total expenses	257,118	267,665	279,568	138,760	150,479
Operating income	1,374	3,404	10,394	2,091	4,208
Investment income	1,389	7,394	16,435	14,001	4,368
Excess of revenues, other support and investment income over expenses	\$2,763	\$10,798	\$26,829	\$16,092	\$8,576

Source: The Corporation

<sup>(1)</sup> These statements of operations reflect the consolidated results of the Corporation, the Foundation and the Medical Group. The Medical Group is not a Member of the Obligated Group.

**Sources of Revenue**

Payments to the Corporation are made on behalf of certain patients by the federal government and the State of California under the Medicaid program, known as Medi-Cal in California, commercial insurance carriers, individuals, HMO/PPO and managed care entities. See "CERTIFICATEHOLDERS' RISKS—Patient Service Revenues—Medi-Cal Program" and "—Health Plans and Managed Care" in the forepart of this Official Statement.

A percentage breakdown of gross patient service revenue by primary source of payment to the Corporation for the fiscal years ended September 30, 2003, 2004 and 2005 and the six months ended March 31, 2006 is presented below.

**Sources of Gross Patient Service Revenue**

	Fiscal Year Ended September 30,			Six Months Ended March 31,
	2003	2004	2005	2006
Managed Care-HMO/PPO/Commercial	29%	28%	27%	27%
Medi-Cal and Medi-Cal Managed Care	67	68	68	68
Self-Pay and Other	4	4	5	5
<b>Total</b>	100%	100%	100%	100%

Source: The Corporation

**Revenues from the State of California.** The Corporation currently has a Medi-Cal contract with the State under which the Corporation is paid on a negotiated per diem basis for inpatient care of Medi-Cal beneficiaries. Medi-Cal outpatient services are paid at rates set by fee schedule. Because the Corporation has served a disproportionately large volume of Medi-Cal and uninsured patients from year to year, it has also received additional payments as a “disproportionate share” hospital under Medi-Cal funding statutes known as S.B. 855 and S.B. 1255, superseded July 1, 2005 by S.B. 1100. For a discussion of the S.B. 1100 program, see “CERTIFICATEHOLDERS’ RISKS—Patient Service Revenues—Medi-Cal Program” in the forepart of this Official Statement. Total income from these programs for the fiscal years ended September 30, 2005, 2004 and 2003 were \$32,170,000, \$26,864,000 and \$28,913,000, respectively. In the fiscal year ended September 30, 2003, the Corporation’s contract period under S.B. 1255 changed. Because of this change, the amount received for the fiscal year ended September 30, 2003 reflects 15 months of income, or one additional quarter.

The Corporation is also eligible for reimbursement of certain capital project financing costs under S.B. 1732. Total income from this program for the fiscal years ended September 30, 2005, 2004 and 2003 were \$8,189,000, \$8,188,000 and \$8,227,000, respectively. For a description of these programs, see “CERTIFICATEHOLDERS’ RISKS—Patient Service Revenues—Medi-Cal Program” in the forepart of this Official Statement.

**Third Party Payors.** The Corporation has approximately 20 managed care contracts. The top 10 contracts, as determined by total patient volume, are reviewed and negotiated for annual increases, although most of these contracts are preferred provider arrangements with “evergreen” terms that provide for automatic renewal unless one party requests renegotiation. The contracts primarily provide for inpatient and/or outpatient services on a per diem or percentage discount from established billing rates. The Corporation does not have any contracts based on capitation. The volume represented by any one managed care payor is relatively small, but in total, managed care volume approximates 27% of gross patient service revenue as of March 31, 2006. Should the Corporation or any managed care payor, including Blue Cross of California and Blue Shield of California, request renegotiation upon the expiration of the respective current contracts, the outcome of the renegotiation cannot be predicted.

Approximately 10% of the consolidated net patient service revenue of the Obligated Group and the Medical Group is derived from the Corporation’s contract with Blue Cross of California. The current contract between the Corporation and Blue Cross of California contains evergreen terms that provide for automatic renewal upon the expiration of the current term, which will occur on December 31, 2006. Approximately 7% of the consolidated net patient service revenue of the Obligated Group and the Medical Group is derived from the Corporation’s contract with Blue Shield of California. The current contract between the Corporation and Blue Shield of California contains evergreen terms that provide for automatic renewal upon the expiration of the current term, which will occur on April 19, 2007.

## Capitalization

The following table sets forth the ratio of long-term debt to total capitalization at September 30, 2003, 2004 and 2005 for the Obligated Group and the Medical Group on a consolidated basis. The "As Adjusted" ratio of long-term debt to total capitalization at September 30, 2005 assumes that the Certificates were executed and delivered on that date, without reflecting any expenses to be incurred by the Obligated Group in connection with such transaction.

	<b>Capitalization (Unaudited) (000's)</b>			
	<b>September 30,</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>	
			<b>Actual</b>	<b>As Adjusted</b>
Long-Term Debt <sup>(1)</sup>	\$146,694	\$144,061	\$141,281	\$181,281
Unrestricted Net Assets	165,069	183,799	205,709	205,709
<b>Total Capitalization</b>	<b>\$311,763</b>	<b>\$327,860</b>	<b>\$346,990</b>	<b>\$386,990</b>
<b>Long-Term Debt to Capitalization Ratio</b>	<b>47.1%</b>	<b>43.9%</b>	<b>40.7%</b>	<b>46.8%</b>

Source: The Corporation

<sup>(1)</sup> Including current portion.

## Debt Service Coverage

The following table sets forth the ratio of income available for debt service to actual debt service for the fiscal years ended September 30, 2003, 2004 and 2005 for the Obligated Group and the Medical Group on a consolidated basis. The "As Adjusted" ratio for the year ended September 30, 2005 was adjusted to reflect the ratio of actual amount of income available for debt service during fiscal year 2005 to the maximum annual debt service, assuming the Certificates were executed and delivered on October 1, 2004, without reflecting any expenses to be incurred in connection with such transaction.

	<b>Annual Debt Service Coverage (Unaudited) (000's)</b>		
	<b>Fiscal Year Ended September 30,</b>		
	<b>2003</b>	<b>2004</b>	<b>2005</b>
Excess of revenues, other support and investment income over expenses	\$ 2,763	\$10,797	\$26,829
Depreciation and Amortization	12,948	11,305	11,336
Interest Expense	8,329	8,294	8,096
<b>Income Available for Debt Service</b>	<b>\$24,040</b>	<b>\$30,396</b>	<b>\$46,261</b>
Annual Debt Service on Long-Term Debt	\$11,082	\$11,077	\$11,061
Annual Debt Service Coverage Ratio (times)	2.2	2.7	4.2
<b>Maximum Annual Debt Service As Adjusted</b>	<b>n/a</b>	<b>n/a</b>	<b>\$12,658<sup>(1)</sup></b>
<b>Maximum Annual Debt Service Coverage Ratio (times) As Adjusted</b>	<b>n/a</b>	<b>n/a</b>	<b>3.7</b>

Source: The Corporation

<sup>(1)</sup> Assumes that interest with respect to the Certificates is payable at a rate of 3.965% per annum, which is the fixed rate to be paid by the Corporation under the Swap Agreement, as described in "PLAN OF FINANCING - The Swap Transaction" in the forepart of this Official Statement.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATING AND FINANCIAL RESULTS

Certain statements in this discussion, as well as other forward-looking statements within this Appendix A, contain estimates and projections. While these forward-looking statements are made in good faith, future operating, market, competitive, economic, regulatory and other conditions and events could cause actual results to differ materially from those in the forward-looking statements.

### Significant Accounting Policies

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States and the management's discussion and analysis of its financial condition and results of operations require management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Note 1 of the Notes to Consolidated Financial Statements, which appear in Appendix B, describes the significant accounting policies and methods used in the preparation of the Corporation's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences may be material.

*Net Patient Service Revenue.* Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Contractual allowances are recorded as deductions from patient service revenue to arrive at net patient service revenue. Contractual allowances include differences between established billing rates and amounts reimbursable under various contractual agreements. Normal differences between final reimbursements and estimated amounts accrued in previous years are recorded as adjustments of the current year's contractual allowances.

*Other Revenue.* Other revenue primarily includes unrestricted gifts and bequests, grants, retail pharmacy revenue and cafeteria revenue.

*Charity Care.* The Corporation provides care to patients who meet certain criteria under its charity policy without charge or at amounts less than its established rates. The Corporation accepts all patients regardless of their ability to pay. Partial payments to which the Corporation is entitled from public assistance programs on behalf of patients that meet the Corporation's charity criteria are reported as patient service revenue. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue.

### Historical Performance

*Six Months Ended March 31, 2006 Compared to Six Months Ended March 31, 2005.* Total patient days were up 6.9% for the six months ended March 31, 2006, compared to the six months ended March 31, 2005. Although total admissions were down 1.5%, average length of stay increased from 5.67 days to 6.19 days for the same period. The Corporation is reimbursed on a per patient day basis for over 90% of its inpatient cases, thus patients days are the more appropriate growth indicator for the Corporation. For the six months ended March 31, 2006, compared to the six months ended March 31, 2005, emergency room and clinic visits were up 6.7% and 3.9%, respectively. During the same period, total surgical cases were down 1.6%, primarily due to limited bed capacity during peak winter census.

The Obligated Group and the Medical Group reported consolidated income from operations for the six month period ended March 31, 2006 of \$4.2 million, an increase of \$2.1 million or double the prior six months ended March 31, 2005 operating gain of \$2.1 million. The consolidated operating margin for the Obligated Group and the Medical Group increased to 2.7% for the six months ended March 31, 2006 from 1.5% for the same period. The Obligated Group's and the Medical Group's operations are managed to produce sufficient resources to allow the Obligated Group and the Medical Group to meet their strategic and operating goals and their commitment to the community and to generate funds for the development of new and expanding programs.

Total operating revenues were up \$13.8 million, or 9.8%, for the six months ended March 31, 2006, compared to March 31, 2005. Net patient services revenues reflected increased patient volumes, along with continued improvements in its revenue cycle, including charge capture, pricing strategies, contract negotiations, billing and collections. For the six months ended March 31, 2006, other revenue included a \$1 million multi-year vendor refund settlement.

Total operating expenses were up \$11.7 million, or 8.4% for the six months ended March 31, 2006, compared to March 31, 2005. The single largest expense of the Obligated Group and the Medical Group, on a consolidated basis, is salaries and wages. As part of the Corporation's commitment to remain market competitive and further its goal to be an employer of choice in the Central San Joaquin Valley, it closely monitors market pay data and makes periodic pay adjustments, in addition to its annual merit program. The Corporation implemented a significant nursing market pay increase in the second half of the fiscal year ended September 30, 2005, which was a primary driver in the salaries and wages increase of \$7.3 million, or 13%, for the six months ended March 31, 2006, compared to the six months ended March 31, 2005. Employee benefits increased only \$1.9 million, or 7.8%, during the same period due to continued cost saving efforts by management with its health plan, workers compensation program and pension plans. Supplies increased \$1.7 million, or 7.8%, for the six months ended March 31, 2006, compared to the six months ended March 31, 2005 due to volume and continued price escalations in pharmaceuticals, implantable devices and higher utilization of specialized services, as reflected in the Corporation's increased average length of stay. Total professional fees were up \$.8 million, or 8.9%, due to a combination of growth and similar market driven pay increases related to physician contracts for the six months ended March 31, 2006, compared to the six months ended March 31, 2005. All other expenses were down .2% for the six months ended March 31, 2006, compared to March 31, 2005.

Investment income for the six months ended March 31, 2006 was \$4.4 million, as compared to the six months ended March 31, 2005 at \$14.0 million. In 2003, the Board of Trustees established a separate Investment Committee, which resulted in the selection of an independent investment advisor in March 2004. During the fiscal year ended September 30, 2005, the Investment Committee's continued work with its investment advisor resulted in a revision of the Corporation's investment policy to align with the long term strategic and financial plan. The change in investment strategy resulted in selection of new investment managers, the liquidation of approximately 90% of the Obligated Group's investment portfolio and a shift from unrealized investment gains to realized investment gains.

Total excess gain for the six months ended March 31, 2006 was \$8.6 million, compared to the six months ended March 31, 2005 of \$16.1 million, or excess margin of 5.4% and 10.4%, respectively.

Total assets of the Obligated Group and the Medical Group, on a consolidated basis, increased \$32.5 million from \$372.5 million at March 31, 2005 to \$405.0 million at March 31, 2006. Liabilities for the Obligated Group and the Medical Group, on a consolidated basis, increased by \$.6 million to \$179.7 million at March 31, 2006. As a result, total net assets for the Obligated Group and the Medical Group, on a consolidated basis, increased by \$31.8 million from \$193.4 million at March 31, 2005 to \$225.2 million at March 31, 2006.

*Fiscal Year Ended September 30, 2005 Compared to Fiscal Year Ended September 30, 2004.* Total patient days were up 4.4% for fiscal year ended September 30, 2005, compared to fiscal year ended September 30, 2004. Although total admissions were down 2.2%, average length of stay increased from 5.60 days in 2004 to 5.96 days in 2005. Emergency room visits were down 7.8% partially due to an atypical year in fiscal year 2004 with influenza and the effects of the closure of two urgent care centers in the fiscal year ended September 30, 2003. Clinic visits and total surgical cases were both up 4.2% in the fiscal year ended September 30, 2005.

The Obligated Group and the Medical Group reported consolidated income from operations for the fiscal year ended September 30, 2005 of \$10.4 million, an increase of \$7.0 million or near triple the prior fiscal year ended September 30, 2004 operating gain of \$3.4 million. The consolidated operating margin for the Obligated Group and the Medical Group increased to 3.6% in the fiscal year ended September 30, 2005 from 1.3% in the fiscal year ended September 30, 2004.

Total operating revenues were up \$18.9 million, or 7.0%, for the fiscal year ended September 30, 2005, compared to the fiscal year ended September 30, 2004. In addition to increased volumes and revenue cycle

enhancements, disproportionate share funds for the Obligated Group and the Medical Group, on a consolidated basis, were up \$5.3 million, or 15.1%, in the fiscal year ended September 30, 2005, compared to the fiscal year ended September 30, 2004.

Total operating expenses were up \$11.9 million, or 4.4%, for the fiscal year ended September 30, 2005, compared to the fiscal year ended September 30, 2004. Salaries and wages represent the single largest expense of the Obligated Group and the Medical Group, on a consolidated basis, and increased \$9.6 million, or 8.8%, for the fiscal year ended September 30, 2005, compared to the fiscal year ended September 30, 2004. Salaries and wages increased due to a combination of growth, market competitive pay increases and the Corporation's annual merit program. Employee benefits increased only \$0.9 million, or 1.8%, during the same period due to continued cost saving efforts by management with its health plan, workers compensation program and pension plans. Supplies increased \$2.3 million, or 6.0%, for the same period due to a combination of volume, continued price escalations in pharmaceuticals, implantable devices and higher utilization of specialized services, as reflected in the Corporation's increased average length of stay. Total professional fees were up \$0.3 million, or 2.0%, primarily due to increased patient volume for the fiscal year ended September 30, 2005, compared to fiscal year ended September 30, 2004. All other expenses were down 2.3% for fiscal year ended September 30, 2005, compared to the fiscal year ended September 30, 2004.

Investment income in the fiscal year ended September 30, 2005 was \$16.4 million, as compared to the fiscal year ended September 30, 2004 at \$7.4 million. As previously noted, during the fiscal year ended September 30, 2005, the Obligated Group changed its investment strategy, which resulted in selection of new investment managers, the liquidation of approximately 90% of its investment portfolio and a shift from unrealized investment gains to realized investment gains.

Total excess gain in the fiscal year ended September 30, 2005 was \$26.8 million, compared to the fiscal year ended September 30, 2004 at \$10.8 million, or excess margin of 8.8% in the fiscal year ended September 30, 2005, compared to 3.9% in the fiscal year ended September 30, 2004.

Total assets of the Obligated Group and the Medical Group, on a consolidated basis, increased \$25 million from \$366.6 million at September 30, 2004 to \$391.6 million at September 30, 2005. Liabilities for the Obligated Group and the Medical Group, on a consolidated basis, increased by \$2.3 million to \$183.8 million at September 30, 2005. As a result, total net assets for the Obligated Group and the Medical Group, on a consolidated basis, increased by \$22.7 million from \$185.1 million at September 30, 2004 to \$207.8 million at September 30, 2005.

*Fiscal Year Ended September 30, 2004 Compared to Fiscal Year Ended September 30, 2003.* During the fiscal year ended September 30, 2003, the Corporation made several significant operating enhancements, including the reduction or closure of some outpatient programs, primarily including behavioral health services, urgent care centers, respite services and a satellite cardiology clinic. Further, 47 management and administrative positions were eliminated. Thus, the fiscal year ended September 30, 2004 results compared to the fiscal year ended September 30, 2003 reflect the implementation of these key initiatives.

Total admissions and patient days were up 3% in the fiscal year ended September 30, 2004, compared to the fiscal year ended September 30, 2003, while average length of stay remained flat at 5.6 days. During the same period, emergency room visits were up 7.3%, partially due to the closure of two of the Obligated Group's urgent care centers in mid-fiscal year ended September 30, 2003. For fiscal year ended September 30, 2004, compared to fiscal year ended September 30, 2003, clinic visits were down 4.6%, while surgical cases remained relatively flat due to the closure or reduction in services as mentioned above in mid-to-late fiscal year ended September 30, 2003.

The Obligated Group and the Medical Group reported consolidated income from operations for the fiscal year ended September 30, 2004 of \$3.4 million, an increase of \$2.0 million or more than double the prior fiscal year operating gain of \$1.4 million. The consolidated operating margin for the Obligated Group and the Medical Group increased to 1.3% in the fiscal year ended September 30, 2004 from .5% in the fiscal year ended September 30, 2003.

For fiscal year ended September 30, 2004, compared to fiscal year ended September 30, 2003, total operating revenues and total operating expenses were up 4.9% and 4.1%, respectively, due to a combination of program changes, growth and operating enhancements.

Investment income in the fiscal year ended September 30, 2004 was \$7.4 million, as compared to the fiscal year ended September 30, 2003 at \$1.4 million. Investment income for the fiscal year ended September 30, 2003 includes recognizing \$1.6 million in "other than temporary impairment on investments." See "Liquidity" below. Total excess gain in the fiscal year ended September 30, 2004 was \$10.8 million, compared to the fiscal year ended September 30, 2003 at \$2.8 million, or excess margin of 3.9% in the fiscal year ended September 30, 2004, compared to 1.1% in the fiscal year ended September 30, 2003.

Total assets of the Obligated Group and the Medical Group, on a consolidated basis, increased \$11.6 million from \$355.0 million at September 30, 2003 to \$366.6 million at September 30, 2004. Liabilities for the Obligated Group and the Medical Group, on a consolidated basis, decreased by \$6.5 million to \$181.5 million at September 30, 2004. As a result, total net assets for the Obligated Group and the Medical Group, on a consolidated basis, increased by \$18.1 million from \$167.0 million at September 30, 2003 to \$185.1 million at September 30, 2004.

### Liquidity

The Obligated Group and the Medical Group's consolidated cash and investments, excluding trustee held funds, increased to \$142.1 million at March 31, 2006, compared to \$102.0 million at September 30, 2003.

Trustee-held funds of the Obligated Group and the Medical Group remained at \$11.6 million between September 30, 2003 and March 31, 2006. These funds primarily represent the moneys on deposit in the debt service reserve fund relating to the 1995 Certificates of Participation.

The following table sets forth the Obligated Group and the Medical Group's consolidated cash and investments as of September 30, 2003, 2004 and 2005 and March 31, 2006.

	<b>Cash and Investments</b>			<b>Six Months Ended March 31, 2006</b>
	<b>(000's)</b>			
	<b>Fiscal Year Ended September 30,</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>	
	<b>(audited)</b>	<b>(audited)</b>	<b>(audited)</b>	<b>(unaudited)</b>
Cash and Cash Equivalents	\$ 4,777	\$ 3,589	\$ 2,071	\$ 689
Assets Whose Use Is Limited <sup>(1)</sup>	97,265	107,343	140,064	141,421
<b>Subtotal</b>	<b>102,042</b>	<b>110,932</b>	<b>142,135</b>	<b>142,110</b>
Trustee Held Funds <sup>(2)</sup>	11,614	11,557	11,562	11,568
<b>Total Cash and Investments</b>	<b>\$113,656</b>	<b>\$122,489</b>	<b>\$153,697</b>	<b>\$153,678</b>

Source: The Corporation

<sup>(1)</sup> Includes temporary and permanently restricted net assets in the aggregate amounts of \$1.959 million, \$1.307 million, \$2.119 million and \$3.065 million as of September 30, 2003, 2004 and 2005 and March 31, 2006, respectively.

<sup>(2)</sup> Funds for debt service payments.

The following table sets forth the ratio of total cash and investments at September 30, 2003, 2004 and 2005 and March 31, 2006 to daily operating expense during each of the respective periods for the Obligated Group and the Medical Group on a consolidated basis.

**Days Cash on Hand**  
(Unaudited)  
(000's)

	Fiscal Year Ended September 30,			Six Months Ended March 31, 2006
	2003	2004	2005	2006
Cash and Investments <sup>(1)</sup>	\$102,042	\$110,932	\$142,135	\$142,110
Less: Temporary Restricted Net Assets	(1,879)	(1,160)	(1,686)	(1,531)
Permanently Restricted Net Assets	(80)	(147)	(433)	(1,534)
<b>Adjusted Unrestricted Cash and Investments</b>	<b>100,083</b>	<b>109,625</b>	<b>140,016</b>	<b>139,045</b>
Total Expenses	257,119	267,665	279,568	150,479
Less: Depreciation and Amortization	(12,948)	(11,305)	(11,336)	(5,353)
<b>Subtotal</b>	<b>\$244,171</b>	<b>\$256,360</b>	<b>\$268,232</b>	<b>\$145,126</b>
Days in Period	365	366	365	182
Daily Expense	669	700	735	797
<b>Days Cash on Hand<sup>(2)</sup></b>	<b>150</b>	<b>157</b>	<b>191</b>	<b>174<sup>(3)</sup></b>

Source: The Corporation

<sup>(1)</sup> Excludes trustee held funds.

<sup>(2)</sup> Days Cash on Hand equals Adjusted Unrestricted Cash and Investments, divided by Daily Expense.

<sup>(3)</sup> The Corporation receives annual disproportionate share funding from the State in several lump sum payments and expects to receive more than \$20 million in such payments between April 1, 2006 and June 30, 2006. According to management of the Corporation, the difference between Days Cash on Hand at September 30, 2005 and March 31, 2006 reflects the timing of receipt of these payments.

The Investment Committee of the Corporation's Board of Trustees establishes the investment policies for the Obligated Group and creates procedures to evaluate investment advisors, performance review and selection of investment managers. The Investment Committee has adopted an investment policy with the general objectives of preserving principal, generating income, and enhancing value over the long-term with prudent and reasonable risk taking.

**Investment Earnings**  
(000's)

	Fiscal Year Ended September 30,			Six Months Ended March 31, 2006
	2003	2004	2005	2006
	(audited)	(audited)	(audited)	(unaudited)
Investment Income	\$ 1,389	\$7,394	\$16,435	\$ 4,368
Unrealized Investment Gains/(Losses)	\$12,132	\$2,239	\$ (4,389)	\$ 2,529
<b>Total Combined Investment Return</b>	<b>\$13,521</b>	<b>\$9,633</b>	<b>\$12,046</b>	<b>\$ 6,897</b>

In late 2003, the Corporation established the Investment Committee. In March 2004, an independent investment advisor was hired, and, subsequently, the investment policy was reviewed and updated to better align with the Corporation's strategic and financial plan. The review resulted in significant realized investment gains due to the liquidation of approximately 90% of the investment portfolio during the fiscal year ended September 30, 2005. Further, the fiscal year ended September 30, 2003 results included recognizing \$1.6 million in "other than temporary impairment on investments." This is shown as a decrease in the unrealized loss on investment and an increase in the realized loss in investment income. In addition to the above noted investment strategy and policy updates, the changes in investment income reflected fluctuations in market conditions between fiscal years.

The Investment Committee has adopted specific target investment allocations between types of asset classes. The target allocation and target ranges for those investments include the following:

#### **Asset Allocation for Investments**

<b>Category</b>	<b>Target Allocation</b>	<b>Target Ranges</b>
Domestic Equities	35%	30 – 40%
International Equities	15%	10 – 20%
Domestic Fixed Income	40%	30 – 50%
Inflation Hedge	10%	7.5 – 12.5%

*The Obligated Group's ability to continue to generate investment income is dependent on market conditions and the composition of its investment portfolio. The value of the investment portfolio has fluctuated significantly from time to time and will fluctuate in the future depending on the value of the underlying securities. Changes in the level of investment earnings may have a significant effect on the overall financial condition of the Obligated Group.*

#### **Pension and Deferred Compensation Plans**

The Corporation and the Medical Group maintain several pension and deferred compensation plans for their employees. The Corporation has a non-contributory defined benefit pension plan covering all of its employees with length of service of more than one year and 1,000 hours per year. As of September 30, 2003, the fair value of plan assets, the projected benefit obligation and the accumulated benefit obligation were \$45,852,047, \$70,297,144 and \$59,273,467, respectively. As of September 30, 2004, the fair value of plan assets, the projected benefit obligation and accumulated benefit obligation were \$58,562,525, \$77,028,121, and \$66,208,673, respectively. As of September 30, 2005, the fair value of plan assets, the projected benefit obligation and accumulated benefit obligation were \$70,599,158, \$92,271,682 and \$78,962,577, respectively.

On March 31, the Financial Accounting Standards Board (“FASB”) released an Exposure Draft (the “Draft”) entitled “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R).” The Draft is the next step in FASB’s Phase I project to improve pension disclosure and accounting. The Draft, while addressing a number of issues, effectively makes only two significant changes to current disclosure and no changes to the calculation of retiree plan expense. The changes to disclosure are: (i) recognition of the unfunded/over-funded pension benefit obligations/accrued pension benefit obligations on the balance sheet and (ii) movement of all measurement dates to the last day of the fiscal year. The Draft then deals with the implementation of these new requirements and the transition needed to move to a new measurement date. The new rules would be generally effective for fiscal years ending after December 15, 2006, although the Draft asks for comments as to whether a delayed effective date might be appropriate in certain situations. The Draft was open for written comments until May 31, 2006, and a public roundtable will be held on June 27, 2006. FASB then hopes to produce a final statement by September 30, 2006. If the proposed changes contained in the Draft are adopted by FASB, the calculation of retiree plan expense relating to the Corporation’s defined benefit pension plan would not be impacted; however, the proposed rules would materially and adversely impact the total liabilities and net assets of the Obligated Group, as disclosed in the consolidated balance sheets of the Obligated Group and the Medical Group.

Additionally, the Corporation and the Medical Group have adopted a salary deferral plan available to all employees. Employees may elect to defer a portion of their annual compensation up to the limits set forth by the IRS. The Corporation also has a non-contributory, nonqualified defined benefit supplemental executive retirement plan benefiting selected executives.

## GOVERNANCE

### Corporation's Board of Trustees

The Corporation is governed by its Board of Trustees; the Corporation does not have members. Pursuant to the Corporation's bylaws, the Board of Trustees consists of 15 elected and four ex-officio members, each with a vote. Elected officials hold office for a three-year term and may be re-elected to additional terms without limit. Committees of the Board of Trustees include the Executive Committee, the Finance Committee, the Audit Committee and eight additional committees. The Board of Trustees is composed of the following members:

Member <sup>(1)</sup>	Occupation	Original Appointment	Current Term Expires
Dr. Robert Kubo, Chair	Orthodontist, Kubo Orthodontic Group	1999	2007
Mendy Laval, Vice Chair	Engineering Business Owner, Claude Laval Corporation	2000	2009
Greg Coleman, Treasurer	Business Owner, Vice President, E&J Gallo Winery	1992	2008
Octavia Diener, Secretary	Business Owner, Densmore Engines	2000	2008
Bruce Allbright, III, Past Chair and Foundation Chair <sup>(2)(3)</sup>	Cotton Broker, Bruce Allbright Agency, Inc.	1994	2008
Dr. John Caton, Chief of Staff <sup>(2)</sup>	Pediatric Cardiologist	2006	2008
Susan Collins, Guild Coordinating Council Chair <sup>(2)</sup>	Philanthropist	2006	2007
Vernon Crowder	Commercial Banker, Bank of America	2000	2008
Dan Dooley	Attorney at Law, Dooley, Herr & Peltzer	1995	2009
Dr. Gracie Esquivel Aguilar	Pediatrician	2003	2008
William Haug <sup>(2)</sup>	President and Chief Executive Officer, the Corporation	2000	n/a
Dennis Keller <sup>(4)</sup>	Civil Engineer	1987	2007
David Krause	President, Paramount Citrus, Inc.	2006	2009
Jeff Mayer	Senior Vice President, Seidler Companies	2003	2007
Richard Peters	Owner, RP Farms	2000	2009
Pat Ricchiuti	Owner, PR Farms, Inc.	1996	2007
Dr. J. Charles Smith	Radiologist, Wishon Radiology Group, Inc.	2003	2007

<sup>(1)</sup> There currently is one vacancy on the Board of Trustees.

<sup>(2)</sup> Four trustees serve as ex-officio for as long as they hold the office that entitles them to Trusteeship: President and Chief Executive Officer (indefinite); Chief of the Medical Staff (2 years); Chair of the Foundation Board (1 year); and Chair of the Guild Coordinating Council (1 year). Each is a full voting member with all rights and privileges of elected Trustees.

<sup>(3)</sup> Mr. Allbright is serving a one-year term as Chair of the Foundation Board of Directors concurrent with his elected term.

<sup>(4)</sup> Mr. Keller served from 1987-1997 and was returned to the Board of Trustees in 2001.

### Foundation's Board of Directors

The Foundation is governed by its Board of Directors. The Corporation is the sole corporate member of the Foundation and elects the Foundation's Board of Directors. The Board of Directors is composed of the following members:

Name	Occupation	Original Appointment	Current Term Expires
William Haug <sup>(1)</sup>	President & Chief Executive Officer, the Corporation	2002	n/a
Bruce Allbright III, Chair	Cotton Broker, Bruce Allbright Agency, Inc.	2002	2008
John Ferdinandi, Vice-Chair	President & Chief Executive Officer, Milano Restaurants International	2005	2008
George Murphy, Secretary	Senior Vice President & Co-owner, Coldwell Banker Dan Blough & Associates	2003	2007
Michele Waldron, Treasurer <sup>(1)</sup>	Vice President & Chief Financial Officer, the Corporation	2003	n/a
Leo Conner, Immediate Past-Chair	Philanthropist	2005	2008
Susan Boyd	Philanthropist	2005	2008
Jessica Coleman	Philanthropist	2002	2008
Michael Goldring	Partner, Fishman, Larsen & Goldring	2002	2008
Debbie Smades-Henes	Real Estate Agent, The Smades Tradition	2002	2008
Dr. Kenneth Jue	Pediatric Cardiologist, Children's Hospital Central California	2002	2008
Dr. Robert Kubo	Orthodontist, Kubo Orthodontic Group	2005	2008
Jeff Marchant	Market Unit General Manager, Pepsi Bottling Company	2004	2007
Jeff Mayer	Senior Vice President, The Seidler Companies	2004	2007
Paul McDougal	President, Theilen Partners	2005	2008
David Nalchajian	Owner, David Nalchajian, Inc.	2002	2008
Donna Parnagian	Philanthropist	2002	2008
Dennis Perkins	President, The Brownie Baker	2004	2007
Dr. Krishna Rajani	Neonatologist, Perinatal Medical Group	2005	2008
Richard Shehadey	President, Producers Dairy Foods	2002	2007
William Smittcamp	President & Owner, Wawona Frozen Foods	2002	2008
Kevin Sweeney	Senior Vice President, Wells Fargo Bank	2002	2008
Dr. Nad Visveshwara	Neonatologist, Pediatrix Medical Group	2002	2008
Keith Western	Senior Vice President, Citibank's Commercial Markets Group	2004	2007

<sup>(1)</sup> Two directors serve as ex-officio for as long as they hold their respective positions with the Corporation: President and Chief Executive Officer, and Vice President and Chief Financial Officer. Each is a full voting member with all rights and privileges of elected Directors.



## MANAGEMENT

The Corporation is managed by a team of executives headed by the President and Chief Executive Officer. The following is information concerning the President and each of the Corporation's Vice Presidents. The Vice President position responsible for executive medical leadership is currently vacant.

**WILLIAM F. HAUG (57), *President & Chief Executive Officer.*** Mr. Haug is a member of the Board of Trustees and is responsible for the leadership, management and administration of all aspects of the Corporation's business.

Mr. Haug began his professional career serving in various administrative capacities with the AT & SF Memorial Hospital in Topeka, Kansas and Albuquerque, New Mexico, respectively, where he provided administrative support for a pre-paid health care association, which supplied benefits for employees, retirees and dependents of the Santa Fe Railroad. In 1979, he became the Chief Operating Officer and Administrator for the Desert Hospital District in Palm Springs, California. In 1983, he advanced to Executive Vice President and Chief Operating Officer for California Medical Center ("CMCLA") in Los Angeles. In 1986, he became President and Chief Executive Officer of CMCLA, which later merged with Health West to become UniHealth America.

From 1988 to 2000, Mr. Haug served Motion Picture and Television Fund ("MPTF") in Los Angeles as President and Chief Executive Officer. MPTF is a nonprofit organization that provides comprehensive health care services, including childcare, elder care, and wellness programs, to a defined membership exceeding 500,000 people located in the greater Los Angeles area. Under his leadership, the organization grew dramatically in both the depth and breadth of health care services offered to a rapidly expanding entertainment industry population. In March 2000, Mr. Haug was selected as President and Chief Executive Officer of the Corporation.

Mr. Haug is originally from the Midwest where he completed his undergraduate and graduate work in Business/Health Services Administration. He has continued to be active in professional associations, including the American College of Healthcare Executives ("ACHE"), the California Hospital Association, California Children's Hospital Association, and a variety of Boards serving the community at large. Mr. Haug is a Fellow in ACHE.

**TODD SUNTRAPAK (39), *Executive Vice President & Chief Operating Officer.*** Mr. Suntrapak is responsible for the overall planning and administration of all day-to-day operations of the Hospital

Mr. Suntrapak has served the Corporation in many leadership and operational positions over the past ten years, most recently as the Executive Director for Strategic Planning and Business Development. Prior to joining the Corporation in 1995, Mr. Suntrapak worked for two national health care companies in the areas of contract negotiations, market analysis and direct customer support. Mr. Suntrapak is a member of ACHE and the current Sierra Pacific Chapter President of ACHE, serves on the Board of Directors of the local American Red Cross chapter, and is a past Director of Exceptional Parents Unlimited.

**MICHELE WALDRON (42), *Vice President & Chief Financial Officer.*** Ms. Waldron is responsible for leading the financial services team in forecasting, financial planning, budgeting, financial accounting and reporting, contracting, registration, billing, and collections.

Ms. Waldron began her professional career in public accounting at Ernst & Whinney, serving in the audit division for just over three years before joining the Corporation in 1989. Ms. Waldron was the Corporation's Director of General Accounting for nine years and Executive Director of Finance for five years before becoming the Chief Financial Officer in 2003.

Ms. Waldron serves on the Board for California Children's Hospital Association and the Foundation. She is a member of The California Society of Certified Public Accountants, American Institute of Certified Public Accountants ("AICPA") and Healthcare Financial Management Association ("HFMA"). She is also a member of La Feliz Guild.

Ms. Waldron is a certified public accountant and received her bachelor's degree from California State University, Fresno in 1985.

**JESSIE HUDGINS (48), *Vice President Facilities and Support Services.*** Mr. Hudgins is responsible for managing all aspects of the physical plant expansion, maintenance and support.

Mr. Hudgins began his professional career in health care as the administrator of an ophthalmology practice. Additional career advancement ultimately led to his appointment as chief executive officer of a rural California hospital, where he served for six years. He joined the Corporation in 1997.

Mr. Hudgins received a bachelor's degree in 1979 and then later completed a master's in business administration in 1999.

**BEVERLY HAYDEN-PUGH (50), *Vice President & Chief Nursing Officer.*** Ms. Hayden-Pugh is responsible for leading the nursing team and for general oversight of all patient care delivery at the Hospital.

Ms. Hayden-Pugh began her career with the Corporation in 1983 as a staff registered nurse in what was then called the pediatric/oncology unit. Since then, she has served in a variety of positions at the Hospital, including Gastroenterology and Multi-specialty Clinic Manager, Administrative Director of Subspecialty Clinics and Executive Director of the Ambulatory Care Division.

Ms. Hayden-Pugh's educational background includes bachelor of science degrees in both health science and nursing from California State University, Fresno and a master's degree in the field of organizational behavior from the California School of Professional Psychology, also in Fresno.

Ms. Hayden-Pugh is a member of several professional and community organizations, including the Association of Nurse Leaders, ACHE and Nursing Leadership Council.

**MARTA BOYER (52), *Vice President of Human Resources.*** Ms. Boyer is responsible for leading the strategies and initiatives for compensation, benefits, recruitment, organizational development, workforce planning, human resources information management, employee relations, learning and development, employee health services and volunteer services.

Ms. Boyer joined the Corporation in 2002 following a 17-year career in human resources management in the telecommunications industry where she worked for AT&T, Lucent Technologies and Avaya, Inc. Prior to that, she was the program director for Northwest Cardiac Rehabilitation Center near Chicago, Illinois.

Ms. Boyer holds a master's in business administration from Rutgers University, a master's degree in health from Michigan State University and a bachelor of arts in psychology from the University of the Pacific. She is a member of the Society of Human Resource Management and World at Work.

**JANE WILLSON (46), *Vice President Ambulatory Care & Physician Support.*** Ms. Willson is responsible for leading the ambulatory care operations and for providing administrative and contract support for the Corporation's physician partners. She also serves as the Practice Administrator for the Medical Group.

Ms. Willson has extensive experience in leadership positions in pediatric health care settings on both the East and West Coasts. Ms. Willson joined the Corporation in 2002 from Lucile Salter Packard Children's Hospital at Stanford University, where she served as Vice President for Ambulatory Care and Physician Services. Prior to that, she worked in Atlanta, Georgia, at companies such as ESR Children's Health Care System, Inc., Egleston Pediatric Group, Inc., and Arthur Andersen LLP. Before moving into health care, Ms. Willson held several executive positions in the retail industry.

Ms. Willson has a bachelor of arts from Wellesley College in Massachusetts and earned her master's in business administration from The Wharton School at the University of Pennsylvania.

**JIM MEINERT, Ph.D. (63), Vice President of Foundation.** Mr. Meinert leads the fund raising efforts including major gifts, planned giving, special events and the Foundation's Board of Directors.

Mr. Meinert served at several colleges and universities including the State Center Community College District, where he began his professional fund raising career as the first Executive Director of State Center's Foundation & Grants program. For the past seven years, Mr. Meinert has served as Vice President, Foundation & Development at Saint Agnes Medical Center.

He is active in many San Joaquin Valley organizations, including the East Fresno Rotary Club and the Fresno Estate Planning Council. His professional affiliations include the Association of Fundraising Professionals, National Planned Giving Council, and the National Association of Healthcare Philanthropy.

Mr. Meinert holds a Ph.D. in higher education administration from the University of Oregon.

## OTHER INFORMATION

### Medical Staff

As of March 31, 2006, approximately 208 physicians comprised the Corporation's active medical staff. In order to be considered "active medical staff," a physician must meet certain minimal professional standards, be licensed by the State and participate in a minimum number of certain patient care activities on a periodic basis. These physicians practice as primary care physicians or as clinical specialists. Many of these physicians are considered medical specialists and practice in areas such as pediatrics, neonatology, and pediatric surgery, among others.

### Employees

As of September 30, 2005, the Corporation employed approximately 2,550 persons (2,025 full-time equivalent positions) at the Hospital. Additionally, there are 229 per-diem hired persons who are not reflected in the numbers. Of these employees, approximately 750 were registered staff nurses (including 62 per-diem employees), approximately 37 were Ph.Ds and approximately 266 are other licensed or credentialed health professionals. None of the Hospital's employees is represented by union organizations. Management believes that its relations with its employees are satisfactory.

### Nurse Staffing

Effective January 1, 2004, California implemented mandatory nurse staffing ratios for all hospital patient care areas. In January 2005, these standards were made more stringent. The required staffing, in aggregate, is more costly than prior staffing patterns. See "CERTIFICATEHOLDERS' RISKS—Staffing" in the forepart of this Official Statement.

The Corporation has taken steps to mitigate the effects of the nursing shortage currently being experienced in California. For example, the Hospital has attained designation by the American Nurses Credentialing Center as a Magnet Nursing hospital, which has resulted in its ability to attract and retain more and better qualified nurses. The Hospital will continue to implement measures to address the nursing shortage, however, demand for nurses will likely continue to outstrip supply in the short term and the Corporation will use temporary staffing agencies to meet its staffing requirements.

### Insurance

**Malpractice Insurance.** The Corporation maintains hospital liability (including malpractice) and excess liability insurance by purchasing a claims-made policy. The policy has maximum limit of \$40 million per occurrence, or \$40 million in the annual aggregate. The current term of the claims-made policy is October 1, 2006 to October 1, 2007, however, should the claims-made policy not be renewed in the future or not be replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. The

Corporation is liable for the first \$100,000 per claim. The Corporation maintains a letter of credit of \$600,000 for this policy. The Medical Group is liable for the first \$50,000 per claim. Management intends to continue to renew the Corporation's claims-made policy in future years. The provision of estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Health Self-Insurance.** The Corporation maintains a policy of self-insuring health costs up to \$150,000 per employee. The related liability is reported in accrued payroll and related liabilities on the consolidated balance sheets. Losses from asserted and unasserted claims identified under the Corporation's reporting system are accrued based on estimates that incorporate the Corporation's past experience and relevant trend factors. The Corporation's accrued health insurance liability also includes an estimate of possible losses attributable to incidents that may have occurred, but have not been reported.

**Workers' Compensation.** The Corporation maintains an insurance policy against workers' compensation losses with supplemental coverage for losses in excess of \$750,000 per claim covering its employees. The Corporation also has a policy that covers the construction of their facility for losses in excess of \$250,000 per accident. The Corporation maintains letters of credit of \$5,550,000 for these policies. Losses from asserted and unasserted claims identified under the Corporation's reporting system are accrued based on estimates that incorporate the Corporation's past experience and relevant trend factors. The workers' compensation liability is reported in accrued payroll and related liabilities on the consolidated balance sheets.

#### **Licenses, Accreditations, Certifications and Memberships**

The Hospital is licensed by the State of California Department of Health Services and accredited by the Joint Commission on Accreditation for Healthcare Organizations and the California Medical Association's Institute for Medical Quality. Further, the Corporation is certified for participation in the federal Medicare program and the State Medi-Cal program and is approved as an eligible health care provider in various commercial insurance and managed care programs. The Corporation holds memberships in the Hospital Council of Northern and Central California, the California Hospital Association, the California Children's Hospital Association, and the National Association of Children's Hospitals and Related Institutions.

#### **Conformance With Seismic Standards**

The Corporation has completed its seismic evaluations and, pursuant to California Senate Bill 1953 ("SB 1953"), has submitted a comprehensive plan and compliance schedule to the OSHPD. The Corporation has maintained the original compliance scheme under SB 1953, notwithstanding the fact that the State Assembly has passed legislation extending the original deadline. For example, the Corporation's facilities are currently in compliance with the Structural Performance Category 5 (NPC-5) requirements of SB 1953, notwithstanding the fact that the original deadline for compliance is January 2008. In addition, the Corporation's facilities are currently in compliance with Nonstructural Performance Category 5 (NPC-5) requirements of SB 1953. This is also prior to the original January 2008 deadline and will allow continuous operation of the Hospital without additional seismic safety upgrades.

**APPENDIX B**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF  
CHILDREN'S HOSPITAL CENTRAL CALIFORNIA**

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# **Children's Hospital Central California**

**Consolidated Financial Statements**

**For the Years Ended September 30, 2005 and 2004**

**Children's Hospital Central California**  
**Table of Contents**

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	<b>Page</b>
Independent Auditors' Report.....	1
Consolidated Financial Statements for the Years Ended September 30, 2005 and 2004	
Consolidated Balance Sheets.....	2
Consolidated Statements of Operations.....	3
Consolidated Statements of Changes in Net Assets .....	4
Consolidated Statements of Cash Flows .....	5
Notes to Consolidated Financial Statements .....	6



**Report of Independent Auditors**

To the Board of Trustees of  
Children's Hospital Central California

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in net assets and of cash flows present fairly, in all material respects, the financial position of Children's Hospital Central California, Children's Hospital Central California Foundation and Specialty Medical Group Central California (collectively, the "Hospital") at September 30, 2005 and 2004 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

November 10, 2005

**Children's Hospital Central California**  
**Consolidated Balance Sheets**  
**September 30, 2005 and 2004**

	2005	2004
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,070,803	\$ 3,588,963
Patient accounts receivable, net of estimated uncollectible amounts of \$2,646,000 and \$1,911,000 at 2005 and 2004, respectively	42,332,743	42,564,260
Inventories	3,651,806	3,266,251
Medi-Cal disproportionate funds receivable	8,766,278	9,282,412
Current portion of assets whose use is limited	3,534,210	3,348,474
Prepaid expenses and deposits	2,856,036	4,131,933
Current portion of pledges receivable	1,068,873	1,029,917
Other current assets	1,456,049	2,055,232
Total current assets	<u>65,736,798</u>	<u>69,267,442</u>
Assets whose use is limited, net of current portion	148,091,975	115,551,037
Pledges receivable, net of current portion	945,594	1,472,379
Property, plant and equipment, net	170,624,206	174,742,249
Unamortized bond fees	4,819,192	5,180,123
Other assets	1,384,784	378,057
Total assets	<u>\$ 391,602,549</u>	<u>\$ 366,591,287</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,724,807	\$ 5,273,882
Accrued payroll and related liabilities	20,263,824	17,773,084
Interest payable	334,459	344,340
Current portion of long-term debt	3,125,000	2,945,000
Current portion of malpractice liability reserve	500,000	500,000
Total current liabilities	<u>31,948,090</u>	<u>26,836,306</u>
Long-term debt, net of current portion	138,155,814	141,116,198
Accrued pension liability	10,922,524	9,647,824
Other long-term liabilities	1,448,627	2,585,570
Malpractice liability reserve, net of current portion	1,300,000	1,300,000
Total liabilities	<u>183,775,055</u>	<u>181,485,898</u>
Net assets:		
Unrestricted	205,708,618	183,798,515
Temporarily restricted	1,686,324	1,159,903
Permanently restricted	432,552	146,971
Total net assets	<u>207,827,494</u>	<u>185,105,389</u>
Total liabilities and net assets	<u>\$ 391,602,549</u>	<u>\$ 366,591,287</u>

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

**Children's Hospital Central California**  
**Consolidated Statements of Operations**  
**Years Ended September 30, 2005 and 2004**

	2005	2004
<b>Unrestricted revenues and other support</b>		
Net patient service revenue	\$ 273,318,394	\$ 254,480,855
Other revenue	15,509,917	15,788,691
Net assets released from restrictions used for operations	1,133,752	799,549
Total revenues and other support	<u>289,962,063</u>	<u>271,069,095</u>
<b>Expenses</b>		
Salaries and wages	118,417,884	108,811,708
Employee benefits	48,675,213	47,797,413
Supplies	41,138,747	38,799,942
Professional fees	17,013,841	16,680,091
Purchased services	15,155,406	14,466,427
Insurance, taxes and licenses	4,258,879	4,740,320
Utilities	3,083,697	3,359,410
Rents	3,525,719	3,748,693
Depreciation and amortization	11,336,447	11,304,726
Interest	8,095,615	8,293,763
Provision for bad debts	3,474,047	4,398,984
Other	5,392,564	5,263,867
Total expenses	<u>279,568,059</u>	<u>267,665,344</u>
Operating income	10,394,004	3,403,751
Investment income	<u>16,434,794</u>	<u>7,393,716</u>
Excess of revenues, other support and investment income over expenses	26,828,798	10,797,467
Donated equipment	20,000	44,030
Change in minimum pension liability	(1,026,685)	2,294,762
Change in net unrealized gains/losses on investments	(4,388,915)	2,239,448
Change in value of gift annuity	979	(2,311)
Net assets released from restrictions for purchase of property, plant and equipment	<u>475,926</u>	<u>3,356,196</u>
Increase in unrestricted net assets	<u>\$ 21,910,103</u>	<u>\$ 18,729,592</u>

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

**Children's Hospital Central California**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended September 30, 2005 and 2004**

	2005	2004
<b>Unrestricted net assets</b>		
Excess of revenues, other support and investment income over expenses	\$ 26,828,798	\$ 10,797,467
Donated equipment	20,000	44,030
Change in minimum pension liability	(1,026,685)	2,294,762
Change in net unrealized gains/losses on investments	(4,388,915)	2,239,448
Change in value of gift annuity	979	(2,311)
Net assets released from restrictions for purchase of property, plant and equipment	<u>475,926</u>	<u>3,356,196</u>
Increase in unrestricted net assets	<u>21,910,103</u>	<u>18,729,592</u>
<b>Temporarily restricted net assets</b>		
Gifts and bequests	2,091,547	3,390,675
Interest income and net realized and unrealized gains/losses on investments	44,552	45,662
Net assets released from restrictions for operating purposes	(1,133,752)	(799,549)
Net assets released from restrictions for purchase of property, plant and equipment	<u>(475,926)</u>	<u>(3,356,196)</u>
Increase (decrease) in temporarily restricted net assets	<u>526,421</u>	<u>(719,408)</u>
<b>Permanently restricted net assets</b>		
Gifts and bequests	247,871	67,024
Investment income	<u>37,710</u>	<u>419</u>
Increase in permanently restricted net assets	<u>285,581</u>	<u>67,443</u>
Increase in net assets	22,722,105	18,077,627
Net assets, beginning of year	<u>185,105,389</u>	<u>167,027,762</u>
Net assets, end of year	<u>\$207,827,494</u>	<u>\$ 185,105,389</u>

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

**Children's Hospital Central California**  
**Consolidated Statements of Cash Flows**  
**Years Ended September 30, 2005 and 2004**

	2005	2004
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 22,722,105	\$ 18,077,627
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	11,336,447	11,304,726
Realized gains on sales of investments, net of other than temporary impairment	(11,940,303)	(4,037,646)
Change in net unrealized gains/losses on investments	4,388,915	(2,239,448)
Change in minimum pension liability	1,026,685	(2,294,762)
Provision for bad debts	3,474,047	4,398,984
Loss (gain) on sale of property, plant and equipment	79,777	(26,943)
Contributions received for long-term purposes	(1,271,146)	(2,364,725)
Changes in operating assets and liabilities:		
Patients accounts receivable	(3,220,443)	(7,001,407)
Medi-Cal disproportionate funds receivable	516,134	(534,305)
Inventories, prepaid expenses and deposits, pledges receivable and current and long-term other assets	1,847,696	(3,298,289)
Accounts payable and accrued expenses, accrued payroll and related liabilities, accrued pension liability and interest payable	3,567,074	(977,685)
Net cash provided by operating activities	<u>32,526,988</u>	<u>11,006,127</u>
<b>Cash flows from investing activities</b>		
Purchases of assets whose use is limited	(460,469,175)	(70,651,795)
Proceeds from sale of assets whose use is limited	434,870,515	66,907,925
Purchases of property, plant and equipment	(6,818,386)	(8,101,051)
Proceeds from sale of property, plant and equipment	45,752	85,880
Net cash used in investing activities	<u>(32,371,294)</u>	<u>(11,759,041)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings on line of credit	-	2,740,016
Payments on line of credit and long-term debt	(2,945,000)	(5,540,016)
Contributions received for long-term purposes	1,271,146	2,364,725
Net cash used in financing activities	<u>(1,673,854)</u>	<u>(435,275)</u>
Net decrease in cash and cash equivalents	(1,518,160)	(1,188,189)
<b>Cash and cash equivalents</b>		
Beginning of year	<u>3,588,963</u>	<u>4,777,152</u>
End of year	<u>\$ 2,070,803</u>	<u>\$ 3,588,963</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest	<u>\$ 8,184,010</u>	<u>\$ 8,341,263</u>

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

**Children's Hospital Central California  
Notes to Consolidated Financial Statements  
Years Ended September 30, 2005 and 2004**

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**1. Description of Organization and Summary of Significant Accounting Policies**

**Organization**

The accompanying consolidated financial statements include financial information of Children's Hospital Central California, Children's Hospital Central California Foundation (the "Foundation") and Specialty Medical Group Central California (the "Medical Group"), referred to collectively herein as the "Hospital." Children's Hospital Central California is a not-for-profit corporation located in Madera, California. Children's Hospital Central California is licensed for 255 beds and associated ancillary services for the care of sick and injured children and provides services to patients who reside primarily in Central California. The Foundation is a not-for-profit corporation located in Madera, California, which was formed to receive and maintain gifts of money and property and subsequently distribute those monies and properties to Children's Hospital Central California. The Medical Group is a for-profit professional services medical corporation located in Madera, California which employs 62 physicians. All significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

**Basis of Presentation**

The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with the Audit and Accounting Guide, *Health Care Organizations*, issued by the American Institute of Certified Public Accountants. Net assets of the Hospital and changes therein have been classified and are reported as follows:

- **Unrestricted net assets** - Unrestricted net assets represent those resources of the Hospital that are not subject to donor-imposed stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of the Hospital and the purposes specified in its articles of incorporation or bylaws and limits resulting from contractual agreements, if any.
- **Temporarily restricted net assets** - Temporarily restricted net assets represent contributions that are subject to donor-imposed restrictions that can be fulfilled by actions of the Hospital pursuant to those stipulations or by the passage of time.
- **Permanently restricted net assets** - Permanently restricted net assets represent contributions that are subject to donor-imposed restrictions that they be maintained permanently by the Hospital. Generally, the donors of these assets permit the Hospital to use all or part of the investment return on these assets.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed restrictions that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. A restriction expires when the stipulated time period has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Temporarily restricted contributions are recorded as restricted revenue when received and when the restriction expires, the net assets are shown as released from restriction on the statement of operations. Investment income on temporarily or permanently restricted assets is recorded within the respective net asset category, and when the restriction expires, the net assets are shown as released from restriction.

# Children's Hospital Central California

## Notes to Consolidated Financial Statements

### Years Ended September 30, 2005 and 2004

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#### Use of Estimates

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

#### Cash and Cash Equivalents

Cash and cash equivalents include cash in checking, savings and money market funds.

#### Inventories

Inventories, which consist primarily of hospital operating supplies and pharmaceuticals, are reported at cost determined by the first-in, first-out method.

#### Assets Whose Use is Limited

Assets whose use is limited include the following:

- **Board Designated Cash and Investments** – Cash and investments set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes.
- **Assets Held by Trustee Under Bond Indenture** – Funds related to the Certificates of Participation, Series 1995 and Series 1998 (Note 5).

Assets whose use is limited include cash and cash equivalents, common stocks, mutual funds and fixed-income securities (government and corporate bonds), and are stated at fair value. Investment earnings (including realized gains and losses on investments, interest, dividends and other than temporary impairments) are included in excess of revenues, other support and investment income over expenses. Unrestricted unrealized gains and losses on investments are separately reported below the excess of revenues, other support and investment income over expenses. The Hospital does not hold any investments for speculative purposes.

#### Pledges Receivable

Unconditional promises to give ("pledges") are recorded as receivables and revenue and require the Hospital to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved and applicable to the years in which the pledges are received, and recorded in their respective net asset category. Amortization of the discount is included in contribution revenue in the statements of operations and changes in net assets. Conditional promises to give are not recorded as revenue until the conditions have been substantially met.

Pledges are recorded at the discounted net present value of the future cash flows, using a discount rate of 5% in 2005 and 2004. At September 30, 2005, unconditional promises of \$1,206,505 and \$1,049,164, net of discounts and estimated uncollectible amounts of \$137,632 and \$103,570, respectively, are expected to be realized in less than one year and in one to five years, respectively. At September 30, 2004, unconditional promises of \$1,170,033 and \$1,643,330 net of discounts and estimated uncollectible amounts of \$140,116 and \$170,951, respectively, are expected to be realized in less than one year and in one to five years, respectively.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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**Property, Plant and Equipment**

Property, plant and equipment are reported on the basis of cost, or in the case of donated items on the basis of fair market value at the date of donation, less accumulated depreciation. Depreciation of property, plant and equipment is computed by the straight-line method over the estimated useful lives of the assets, which range from 8 to 20 years for land improvements, 5 to 40 years for buildings and 3 to 20 years for equipment. Interest cost incurred on the Hospital's general borrowings outstanding during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support, and are excluded from the excess of revenues, other support and investment income 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 about how those long-lived assets must be maintained, expirations or restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Impairment of Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell or dispose.

**Unamortized Bond Fees**

Bond fees include insurance premium, underwriters' costs and other issuance costs incurred in connection with the issuance of the Certificates of Participation (Note 5). Such fees are amortized using the effective interest method over the term of the debt.

**Malpractice**

The Hospital maintains malpractice insurance by purchasing a claims-made policy. The claims-made policy has been renewed at the beginning of each year, however, should the claims-made policy not be renewed in the future or not be replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. The Hospital is liable for the first \$100,000 per claim. The Hospital maintains a letter of credit of \$400,000 for this policy. The Medical Group is liable for the first \$50,000 per claim. Management intends to continue to renew the Hospital's claims-made policy in future years. The provision of estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

**Health Self-Insurance**

The Hospital maintains a policy of self-insuring health costs up to \$150,000 per employee. The related liability is reported in accrued payroll and related liabilities on the consolidated balance sheets. Losses from asserted and unasserted claims identified under the Hospital's reporting system are accrued based on estimates that incorporate the Hospital's past experience and relevant trend



**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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factors. The Hospital's accrued health insurance liability also includes an estimate of possible losses attributable to incidents that may have occurred, but have not been reported.

**Workers' Compensation**

The Hospital maintains an insurance policy against workers' compensation losses with supplemental coverage for losses in excess of \$750,000 (\$500,000 in fiscal 2004) per claim covering its employees. The Hospital also has a policy that covered the construction of their facility for losses in excess of \$250,000 per accident. The Hospital maintains letters of credit of \$5,050,000 for these policies. Losses from asserted and unasserted claims identified under the Hospital's reporting system are accrued based on estimates that incorporate the Hospital's past experience and relevant trend factors. The workers' compensation liability is reported in accrued payroll and related liabilities on the consolidated balance sheets.

**Net Patient Service Revenue**

Net patient service revenue is recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered. Contractual allowances are recorded as deductions from patient service revenue to arrive at net patient service revenue. Contractual allowances include differences between established billing rates and amounts reimbursable under various contractual agreements. Normal differences between final reimbursements and estimated amounts accrued in previous years are recorded as adjustments of the current year's contractual allowances.

**Other Revenue**

Other revenue primarily includes unrestricted gifts and bequests, grants, retail pharmacy revenue and cafeteria revenue.

**Charity Care**

The Hospital provides care to patients who meet certain criteria under its charity policy without charge or at amounts less than its established rates. The Hospital accepts all patients regardless of their ability to pay. Partial payments to which the Hospital is entitled from public assistance programs on behalf of patients that meet the Hospital's charity criteria are reported as patient service revenue. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Income Taxes**

Children's Hospital Central California and the Foundation are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are generally exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Medical Group is subject to income taxes; however such activities are not significant to the consolidated financial statements.

**Fair Value of Financial Instruments**

Due to the short-term nature of cash and cash equivalents, accounts payable and third-party reimbursement contracts, their carrying value approximates their fair value. The fair value of long-term debt is estimated based on quoted market prices for the bonds or similar financial instruments.

**Reclassifications**

Certain reclassifications have been made to conform the prior year financial statements to the current year presentation. Such reclassifications had no impact on excess of revenues, other support and investment income over expenses or net assets as previously reported.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

**2. Net Patient Service Revenue and Patient Accounts Receivable**

The Hospital has agreements with third-party payors for payments at amounts different than the Hospital's established rates. A summary of the payment arrangements with major third-party payors follows:

- **Medi-Cal** - The Hospital renders services to patients under contractual arrangements with the Medi-Cal and Medi-Cal Managed Care programs. The Hospital has contracted with these Medi-Cal programs to be paid on a per diem basis for providing inpatient services and is paid according to a fee schedule of maximum allowances for outpatient services. The Medical Group is paid according to a fee schedule for both inpatient and outpatient services.
- **Other Payors** - The Hospital has also entered into contractual agreements with certain commercial insurance carriers, HMOs, preferred provider organizations ("PPOs") and other governmental agencies. The basis for payment to the Hospital under these agreements includes prospectively determined per diem rates, per case rates and discounts from established charges. The Medical Group is paid according to a fee schedule for both inpatient and outpatient services.

The following summary presents gross patient service charges by major payor classifications and deductions to arrive at net patient service revenue for the years ended September 30 (in thousands):

	2005			2004		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Gross patient service charges:						
Governmental contracts	\$ 335,229	\$ 112,638	\$ 447,867	\$ 286,322	\$ 96,103	\$ 382,425
Third-party payors (Commercial insurance, HMOs and PPOs)	107,550	60,000	167,550	101,053	55,167	156,220
Self-pay	1,239	3,744	4,983	1,919	2,862	4,781
	<u>444,018</u>	<u>176,382</u>	<u>620,400</u>	<u>389,294</u>	<u>154,132</u>	<u>543,426</u>
Less:						
Contractual allowances	(275,765)	(111,676)	(387,441)	(231,158)	(92,839)	(323,997)
	<u>\$ 168,253</u>	<u>\$ 64,706</u>	<u>232,959</u>	<u>\$ 158,136</u>	<u>\$ 61,293</u>	<u>219,429</u>
Disproportionate share and Presley funds			40,359			35,052
Net patient service revenue			<u>\$ 273,318</u>			<u>\$ 254,481</u>

The Hospital decreased net patient service revenue by \$1,736,000 as a result of unfavorable developments related to home care reimbursement for the year ended September 30, 2005.

Charity care provided in fiscal years 2005 and 2004, measured on the basis of estimated uncompensated costs was approximately \$87,000 and \$209,000, respectively. In addition, Medi-Cal uncompensated costs in fiscal years 2005 and 2004, net of disproportionate share funds received, were \$24,622,000 and \$24,568,000, respectively.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The Hospital grants credit without collateral to its patients, most of who are Central California residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30 is as follows:

	2005	2004
Medi-Cal	63.0%	60.2%
Third-party payors	24.7%	27.3%
Other government	8.6%	8.5%
Self-pay	3.7%	4.0%
	<u>100.0%</u>	<u>100.0%</u>

During fiscal 1992, the State of California passed Senate Bill SB855 which provides state and federally matched funds for designated disproportionate Medi-Cal hospitals. Further, the Hospital's Medi-Cal contract was amended to include state and federally matched program funds pursuant to SB1255/SB1100. Receivables related to the above were \$5,780,397 and \$7,923,267 at September 30, 2005 and 2004, respectively.

At September 30, 2005 and 2004, the Hospital has recorded a receivable in the amount of \$2,985,881 and \$1,359,144, respectively, related to funds for reimbursement of certain capital project financing costs under the State's Construction/Renovation Reimbursement Program pursuant to legislation passed by the State of California (SB1732-Presley funds). Amounts receivable under SB1732 are subject to audit by the State Department of Health Services. Future SB1732 receipts are dependent upon the Hospital maintaining its disproportionate share status and having a Medi-Cal contract, among other requirements.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

As a result of the above, the Hospital recognized net patient service revenue for the years ended September 30 as follows:

	2005	2004
SB855 Funds	\$ 12,302,474	\$ 10,053,011
SB1255/SB1100 Funds	19,868,182	16,810,909
SB1732 Funds (including retroactive reimbursement)	<u>8,188,918</u>	<u>8,187,924</u>
Total disproportionate funds	<u>\$ 40,359,574</u>	<u>\$ 35,051,844</u>

**3. Assets Whose Use is Limited**

Assets whose use is limited at September 30 are summarized as follows:

	2005		2004	
	Cost	Market Value	Cost	Market Value
Board designated cash and investments:				
Cash and cash equivalents	\$ 8,911,856	\$ 8,911,856	\$ 10,117,717	\$ 10,117,717
Government securities	16,000	18,805	12,159,955	12,065,148
Corporate bonds	12,968,007	12,977,000	21,356,436	23,242,210
Common and preferred stocks	13,336,117	15,312,967	52,798,270	59,984,296
Mutual funds	<u>100,685,606</u>	<u>102,843,210</u>	<u>953,653</u>	<u>1,933,529</u>
Subtotal	135,917,586	140,063,838	97,386,031	107,342,900
Less current portion	<u>3,125,000</u>	<u>3,125,000</u>	<u>2,945,000</u>	<u>2,945,000</u>
	<u>132,792,586</u>	<u>136,938,838</u>	<u>94,441,031</u>	<u>104,397,900</u>
Assets held by trustee under bond indenture:				
Cash and cash equivalents	\$ 5,983	\$ 5,983	\$ 276	\$ 276
Investment contract with insurance company (interest at 6.64%)	<u>11,556,364</u>	<u>11,556,364</u>	<u>11,556,335</u>	<u>11,556,335</u>
Subtotal	11,562,347	11,562,347	11,556,611	11,556,611
Less current portion	<u>409,210</u>	<u>409,210</u>	<u>403,474</u>	<u>403,474</u>
	<u>11,153,137</u>	<u>11,153,137</u>	<u>11,153,137</u>	<u>11,153,137</u>
Total current portion of assets whose use is limited	<u>\$ 3,534,210</u>	<u>\$ 3,534,210</u>	<u>\$ 3,348,474</u>	<u>\$ 3,348,474</u>
Total assets whose use is limited, net of current portion	<u>\$ 143,945,723</u>	<u>\$ 148,091,975</u>	<u>\$ 105,594,168</u>	<u>\$ 115,551,037</u>

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

Investment income and net realized gains for assets whose use is limited are comprised of the following for the years ended September 30:

	2005	2004
Income (loss):		
Interest income	\$ 4,494,491	\$ 3,356,070
Net realized gains on sales of investments	11,940,303	4,483,793
Other than temporary impairment recorded	-	(446,147)
	<u>\$ 16,434,794</u>	<u>\$ 7,393,716</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains/losses on investments	<u>\$ (4,388,915)</u>	<u>\$ 2,239,448</u>

The following table shows the gross unrealized losses and fair value of the Hospital's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2005 (in thousands):

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mutual funds	\$ 65,143	\$ 557	\$ -	\$ -	\$ 65,143	\$ 557
Common and preferred stocks	3,264	173	-	-	3,264	173
	<u>\$ 68,407</u>	<u>\$ 730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,407</u>	<u>\$ 730</u>

The underlying investments in the Hospital's mutual funds include common stock, U.S. government, corporate, asset-backed and mortgage-backed securities. The Hospital's direct investments in common and preferred stocks include a diverse portfolio of small-, mid- and large-capitalization funds. The Hospital reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include length of time and extent to which fair value has been less than the cost basis, the financial condition and near-term prospects of the issuer, credit quality and the Hospital's ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The Hospital's unrealized losses on investments in mutual funds and corporate bonds are due primarily to a market hindered by rising energy costs and increases in interest rates during fiscal 2005. Additionally, unrealized losses on investments in common and preferred stocks were further impacted by a catastrophic hurricane season. Management believes that when energy costs and interest rates stabilize, the investment portfolio's performance will improve. Based on that assessment and the Hospital's ability and intent to hold these investments until a recovery of fair value, which may be at maturity, management does not consider these investments to be other-than-temporarily impaired at September 30, 2005.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

The following table shows the gross unrealized losses and fair value of the Hospital's investments with unrealized losses that are not deemed to be other-than-temporarily impaired at September 30, 2004 (in thousands):

	<u>Less Than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Gross</u>		<u>Gross</u>		<u>Gross</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Government securities	\$ 4,968	\$ 51	\$ 2,736	\$ 169	\$ 7,704	\$ 220
Mutual funds	7,030	136	2,065	99	9,095	235
Corporate bonds	515	3	340	48	855	51
Common and preferred stocks	10,019	1,373	4,367	1,537	14,386	2,910
	<u>\$ 22,532</u>	<u>\$ 1,563</u>	<u>\$ 9,508</u>	<u>\$ 1,853</u>	<u>\$ 32,040</u>	<u>\$ 3,416</u>

**4. Property, Plant and Equipment**

Property, plant and equipment at September 30 consists of the following:

	<u>2005</u>	<u>2004</u>
Land	\$ 2,188,788	\$ 2,188,788
Land improvements	18,443,147	18,443,147
Buildings and leasehold improvements	160,900,364	160,228,359
Equipment	68,153,404	66,788,264
	<u>249,685,703</u>	<u>247,648,558</u>
Less accumulated depreciation	<u>(83,711,606)</u>	<u>(73,895,573)</u>
	165,974,097	173,752,986
Construction in progress and assets not yet placed in service (Note 11)	<u>4,650,109</u>	<u>989,263</u>
	<u>\$ 170,624,206</u>	<u>\$ 174,742,249</u>

**5. Debt**

The Hospital has available an unsecured line of credit with a bank providing for borrowings up to \$12,000,000 (none outstanding at September 30, 2005 and 2004) of which a maximum of \$10,000,000 is available for standby letters of credit. The line of credit bears interest at the bank's prime rate less 0.50% (6.75% and 4.75% at September 30, 2005 and 2004, respectively) and expires January 31, 2006, at which time outstanding amounts are due and payable. Management intends to renew the line of credit in fiscal 2006 with the same bank at similar terms.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The Hospital's workers' compensation and medical malpractice policies require the Hospital to maintain letters of credit totaling \$5,050,000 and \$400,000, respectively, payable to the insurance company. No amounts have been drawn on the letters of credit as of September 30, 2005 and 2004.

The line and the letter of credit agreements contain various restrictive covenants which include, among other things, days cash on hand, leverage ratio, minimum debt service requirements, and other financial ratio requirements. The Hospital was in compliance with all such covenants as of September 30, 2005.

Long-term debt is summarized as follows at September 30:

	2005	2004
County of Madera, California, Certificates of Participation (Valley Children's Hospital Project), Series 1998, less unamortized discount of \$1,462,892, collateralized by revenues of the Hospital. Principal due in annual amounts ranging from \$320,000 in 2006 to \$8,030,000 in 2023. Interest payable semi-annually at rates ranging from 4.40% to 5.00% through 2023.	\$ 57,062,108	\$ 57,259,923
County of Madera, California, Certificates of Participation (Valley Children's Hospital Project), Series 1995, less unamortized discount of \$761,294, collateralized by revenues of the Hospital. Principal due in annual amounts ranging from \$2,805,000 in 2006 to \$10,545,000 in 2028. Interest payable semi-annually at rates ranging from 5.75% to 6.50% through 2028.	<u>84,218,706</u>	<u>86,801,275</u>
Total	141,280,814	144,061,198
Less current portion	<u>(3,125,000)</u>	<u>(2,945,000)</u>
Long-term debt, net of current portion	<u>\$ 138,155,814</u>	<u>\$ 141,116,198</u>

The Certificates of Participation ("COPs") contain various restrictive covenants which include minimum debt service coverage ratio and restrictions on additional indebtedness, among others. The Hospital was in compliance with all such covenants as of September 30, 2005.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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Scheduled principal repayments of the COPs for the next five fiscal years and thereafter are as follows:

2006	\$ 3,125,000
2007	3,315,000
2008	3,515,000
2009	3,735,000
2010	3,970,000
Thereafter	<u>125,845,000</u>
	143,505,000
Unamortized discount	<u>(2,224,186)</u>
	141,280,814
Less current portion	<u>(3,125,000)</u>
	<u>\$ 138,155,814</u>

The fair value of long-term debt at September 30, 2005 and 2004 was approximately \$151,515,000 and \$157,894,000, respectively.

**6. Operating Leases and Service Contracts**

The Hospital leases certain equipment and buildings under operating leases having a remaining noncancellable lease term of one year or more. Rental expense on such operating leases approximated \$2,383,000 and \$2,227,000 for the years ended September 30, 2005 and 2004, respectively.

Future minimum payments under the noncancellable operating leases and noncancellable service contracts with initial or remaining terms of one year or more consisted of the following at September 30, 2005:

Year Ending September 30	Operating Leases	Service Contracts
2006	\$ 2,318,418	\$ 3,437,835
2007	2,075,308	2,762,491
2008	1,558,011	2,596,801
2009	999,341	50,602
2010	747,556	-
Thereafter	<u>3,488,594</u>	<u>-</u>
Total minimum payments	<u>\$ 11,187,228</u>	<u>\$ 8,847,729</u>



**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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**7. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30:

	2005	2004
Healthcare services:		
Purchase of property, plant and equipment	\$ 454,048	\$ 275,681
Indigent care	54,538	29,337
Health education	286,049	151,467
Other	891,689	703,418
	<u>\$ 1,686,324</u>	<u>\$ 1,159,903</u>

**8. Employee Benefit Plans**

**Defined Benefit Pension Plan**

The Hospital has a non-contributory defined benefit pension plan covering all of its employees with length of service of more than one year and 1,000 hours per year. The benefits are based on years of service and the employee's compensation during all years of employment. The Hospital's funding policy is to contribute annually at least the minimum amount that is required in order to maintain the plan's qualified status. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. Employer contributions were \$5,984,956 and \$9,680,000 for the years ended September 30, 2005 and 2004, respectively. Benefits paid to participants were \$1,227,238 and \$1,027,319 for the years ended September 30, 2005 and 2004, respectively.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

The change in plan assets and the related change in benefit obligation as of and for the years ended September 30 are presented as follows:

	2005	2004
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 77,028,121	\$ 70,297,144
Service cost	5,782,075	5,248,045
Interest cost	4,544,712	4,096,129
Actuarial loss (gain)	9,675,059	(986,637)
Plan amendment	(2,916,289)	-
Benefits and administrative expenses paid	(1,841,996)	(1,626,560)
Projected benefit obligation, end of year	<u>92,271,682</u>	<u>77,028,121</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	58,562,525	45,852,047
Actual return on plan assets	7,893,673	4,657,038
Employer contributions	5,984,956	9,680,000
Benefits and administrative expenses paid	(1,841,996)	(1,626,560)
Fair value of plan assets, end of year	<u>70,599,158</u>	<u>58,562,525</u>
Funded status	(21,672,524)	(18,465,596)
Unrecognized prior service cost	(2,587,602)	67,504
Unrecognized net actuarial loss	<u>22,213,772</u>	<u>16,109,828</u>
Net amount recognized	<u>\$ (2,046,354)</u>	<u>\$ (2,288,264)</u>
Amounts recognized in the balance sheets consist of:		
Accrued benefit cost	\$ (8,363,419)	\$ (7,646,148)
Intangible asset	-	67,504
Recognition of minimum pension liability in net assets	<u>6,317,065</u>	<u>5,290,380</u>
	<u>\$ (2,046,354)</u>	<u>\$ (2,288,264)</u>

The accumulated benefit obligation for the plan was \$78,962,577 and \$66,208,673 at September 30, 2005 and 2004, respectively.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The actuarially computed net periodic benefit cost includes the following components for the years ended September 30:

	2005	2004
Service cost	\$ 5,782,075	\$ 5,248,045
Interest cost	4,544,712	4,096,129
Expected return on plan assets	(5,351,791)	(4,115,398)
Amortization of:		
Unrecognized prior service cost	(261,183)	15,216
Recognized net actuarial loss	<u>1,029,233</u>	<u>970,714</u>
Net periodic benefit cost	<u>\$ 5,743,046</u>	<u>\$ 6,214,706</u>

The amount included within changes in net assets from the increase (decrease) in minimum pension liability was \$1,026,685 and (\$2,294,762) for the years ended September 30, 2005 and 2004, respectively.

The weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	2005	2004
Weighted-average assumptions:		
Discount rate	5.50%	6.00%
Rate of compensation increase	4.50%	4.50%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2005	2004
Weighted-average assumptions:		
Discount rate	6.00%	6.00%
Expected return on plan assets	8.75%	8.75%
Rate of compensation increase	4.50%	4.50%

To develop the expected long-term rate of return on assets, the Hospital considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the plan's portfolio.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The plan's weighted-average asset allocations at September 30 by asset category are as follows:

	2005	2004
Allocation of plan assets at September 30:		
Equity securities	58%	67%
Debt securities	22%	28%
Other	20%	5%
	<u>100%</u>	<u>100%</u>

The allowable asset mix range and target asset allocations are:

	Acceptable Ranges	Target Allocation
Equity securities	40-70%	55%
Debt securities	20-30%	25%
Other	7.5-25%	20%

The investments of the plan are managed with the primary objective to provide capital appreciation of the investment portfolio over long periods of time. Changing market cycles require flexibility in asset allocation to allow movement of capital within the asset classes for the purposes of increasing investment return and/or reducing risk. Although the investment horizon is long-term, the investment plan ensures adequate near-term liquidity to meet benefit payments.

Appropriate investments include common and convertible equity securities of both domestic and foreign companies, mutual funds, money market and fixed income securities whose assets are rated investment grade or better. Up to 10% of plan assets may be invested in marketable alternative asset managers or hedge funds for purposes of reducing volatility. Options, futures and commodities, short sales or the use of margins require advance approval of the Investment Committee. The equity portfolio is diversified such that equity investments in any one company shall not exceed 10% of the portfolio's assets without Investment Committee approval.

Management expects to contribute \$7,000,000 to the plan during the year ending September 30, 2006.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The following future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year ending September 30,	
2006	\$ 1,385,467
2007	1,496,909
2008	1,718,606
2009	1,976,666
2010	2,310,635
2011 - 2015	18,555,438

**Salary Deferral Plans**

The Hospital has adopted a salary deferral plan available to all employees. The plan qualifies under Internal Revenue Code Section 403(b) and was established to provide supplemental retirement income for employees of the Hospital. Employees may contribute up to 6% of their annual compensation to the plan for which the Hospital makes a matching contribution equal to 60% of each eligible employee's contribution. Employees are eligible to receive matching contributions after completing one year of service and must work 1,000 hours of service during the year. For the years ended September 30, 2005 and 2004, the Hospital contributed \$2,432,990 and \$2,204,888, respectively, to the plan. The Medical Group has adopted a salary deferral plan available to all employees. The plan qualifies under Internal Revenue Code section 401(k). Employees may elect to defer a portion of their annual compensation up to the limits set forth by the IRS. The plan provides for employer contributions to be made at the discretion of the Medical Group's Board of Directors. No employer contributions were made in fiscal 2005 and 2004.

**Supplemental Executive Retirement Plan**

During fiscal 1996, the Hospital adopted a non-contributory, nonqualified defined benefit supplemental executive retirement plan benefiting selected executives. Effective October 1, 2004, an additional plan was adopted to benefit an individual executive. The plans will provide a benefit at age 62 and 60, respectively, based on years of service and compensation, offset by all other employer-paid retirement benefits. The plans allow the payment of benefits if termination is involuntary and without reasonable cause. If termination of employment occurs prior to age 62 or 60, respectively, for any reason other than involuntary termination, death or disability, no benefit is payable under the plan. No employer contributions were made in fiscal 2004. Employer contributions were \$750,000 in 2005. No benefits were paid in fiscal 2005 and 2004.

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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The change in plan assets and the related change in benefit obligation as of and for the years ended September 30 are presented as follows:

	2005	2004
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 958,713	\$ 1,998,975
Service cost	349,733	230,545
Interest cost	87,259	37,029
Plan amendments	76,510	(438,422)
Actuarial loss (gain)	709,954	(869,414)
Benefits paid	-	-
Projected benefit obligation, end of year	<u>2,182,169</u>	<u>958,713</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	-	-
Actual return on plan assets	-	-
Employer contributions	-	-
Benefits paid	-	-
Fair value of plan assets, end of year	<u>-</u>	<u>-</u>
Funded status	(2,182,169)	(958,713)
Unrecognized prior service cost	(282,310)	(238,383)
Unrecognized net actuarial gain	<u>(94,626)</u>	<u>(804,580)</u>
Net amount recognized	<u>\$ (2,559,105)</u>	<u>\$ (2,001,676)</u>
Amounts recognized in the balance sheets consist of:		
Accrued benefit cost	\$ (2,559,105)	\$ (2,001,676)
Intangible asset	-	-
Recognition of minimum pension liability in net assets	-	-

During fiscal 1997, the Hospital established a board designated fund for the Supplemental Executive Retirement Plan. This fund had a market value of \$1,919,237 and \$1,031,449 at September 30, 2005 and 2004, respectively.

The actuarially computed net periodic benefit cost includes the following components for the years ended September 30:

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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	2005	2004
Service cost	\$ 349,733	\$ 230,545
Interest cost	87,259	37,029
Amortization of:		
Unrecognized prior service cost	120,437	101,309
Recognized net actuarial gain	<u>-</u>	<u>(69,355)</u>
Net periodic benefit cost	<u>\$ 557,429</u>	<u>\$ 299,528</u>

The weighted-average assumptions used to determine benefit obligations at September 30 are as follows:

	2005	2004
Weighted-average assumptions:		
Discount rate	5.00%	5.00%
Rate of compensation increase	5.00%	5.00%

The weighted-average assumptions used to determine net periodic benefit cost for the years ended September 30 are as follows:

	2005	2004
Weighted-average assumptions:		
Discount rate	5.00%	6.00%
Rate of compensation increase	5.00%	5.00%

Management is not required to make any contributions to the plan during the year ending September 30, 2006.

The following future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Year ending September 30,	
2006	\$ -
2007	-
2008	-
2009	1,742,369
2010	-
2011 - 2015	1,611,874

**Children's Hospital Central California**  
**Notes to Consolidated Financial Statements**  
**Years Ended September 30, 2005 and 2004**

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**Deferred Compensation Plan**

During fiscal 2002, the Hospital adopted a deferred compensation plan benefiting selected executives. Participants may defer up to 100% of their annual salary, subject to annual IRS limitations. Matching contributions are discretionary and approved by the Board of Trustees. The plan provides for benefit distributions at age 70 ½, upon termination of employment or under certain hardships in accordance with regulations prescribed by the secretary of the Treasury. The Hospital contributed \$59,331 and \$66,388 to the deferred compensation plan during the years ended September 30, 2005 and 2004, respectively.

**Money Purchase Pension Plan**

The Medical Group has adopted a defined contribution money purchase pension plan which qualifies under Internal Revenue Code section 401(a). All employees who complete one year of service are eligible to participate in the plan. The Medical Group contributes 8.5% of eligible compensation to the plan. Employees are not permitted to make contributions to the plan. Employer contributions were \$693,914 and \$685,620 for the years ended September 30, 2005 and 2004, respectively.

**Gain Sharing Plan**

The Hospital has also adopted the Children's Hospital Central California Employee Gain Sharing Plan. Eligible Hospital employees employed on the last day of the plan year and date of pay out, including current year retirees, participate in the Gain Sharing Plan. The amount of compensation to be distributed is determined based on the Hospital's actual expenses in relation to budgeted expenses and other criteria established by the Board annually. The Hospital recorded a liability of \$2,201,335 and \$718,095 at September 30, 2005 and 2004, respectively, for amounts estimated to be paid out in accordance with the Gain Sharing Plan.

**9. Malpractice Liability Reserve**

The Hospital has recorded a liability of \$1,500,000 at September 30, 2005 and 2004 for any incurred but not reported claims and estimated losses on reported claims. The Medical Group has recorded a liability of \$300,000 at September 30, 2005 and 2004.

**10. Functional Expenses**

The Hospital provides health care services to the children of Central California. Expenses related to providing these services are as follows for the years ended September 30:

	2005	2004
Program services	\$ 202,516,413	\$ 191,873,195
Support services	<u>77,051,646</u>	<u>75,792,149</u>
	<u>\$ 279,568,059</u>	<u>\$ 267,665,344</u>



**Children's Hospital Central California  
Notes to Consolidated Financial Statements  
Years Ended September 30, 2005 and 2004**

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**11. Commitments and Contingencies**

**Construction and Other Capital Commitments**

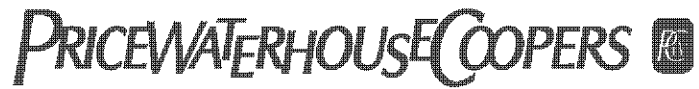
As of September 30, 2005 and 2004, the Hospital has spent approximately \$4,650,000 and \$989,000, respectively, related to various construction and other capital projects in progress. The Hospital estimates an additional \$99,413,000 will be required through fiscal 2011 to complete the projects. As of September 30, 2005, the Hospital has outstanding commitments with contractors for approximately \$4,206,000 related to these projects.

**Legal**

The Hospital is party to legal proceedings and claims which arise during the ordinary course of business. In the opinion of management, the ultimate outcome of the claims and litigation will not have a material adverse effect on the Hospital's financial position and results of operations.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of regulations by healthcare providers which could result in the imposition of significant fines and penalties as well as significant repayment of previously billed and collected revenues for patient services. Management believes that the Hospital is in substantial compliance with current laws and regulations and that any potential liability arising from compliance issues will not be material to the Hospital's financial position and results of operations as of and for the year ended September 30, 2005.

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# **Children's Hospital Central California**

**Consolidating Schedules and Other Information  
For the Years Ended September 30, 2005 and 2004**

# Children's Hospital Central California

## Table of Contents

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	<b>Page</b>
Independent Auditors' Report on Consolidating Information .....	1
Consolidating Balance Sheets .....	2
Consolidating Statements of Operations .....	6
Consolidating Statements of Changes in Net Assets .....	8
Consolidating Statements of Cash Flows .....	10
Children's Hospital Central California – Statistical Data .....	14

**Report of Independent Auditors  
on Consolidating Information**

To the Board of Trustees of  
Children's Hospital Central California

The report on our audits of the consolidated financial statements of Children's Hospital Central California, Children's Hospital Central California Foundation and Specialty Medical Group Central California (collectively, the "Hospital") as of September 30, 2005 and 2004 and for the years then ended appears in the consolidated financial statements. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information and statistical data is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements; and in our opinion, the consolidating information is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

*PricewaterhouseCoopers LLP*

November 10, 2005

**Children's Hospital Central California  
Consolidating Balance Sheet  
September 30, 2005**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 1,919,860	\$ 148,270	\$ 2,673	\$ -	\$ 2,070,803
Patient accounts receivable, net of estimated uncollectible amounts of \$2,646,000	39,254,517	-	3,078,226	-	42,332,743
Inventories	3,651,806	-	-	-	3,651,806
Medi-Cal disproportionate funds receivable	8,766,278	-	-	-	8,766,278
Current portion of assets whose use is limited	3,534,210	-	-	-	3,534,210
Prepaid expenses and deposits	2,597,504	29,092	229,440	-	2,856,036
Current portion of pledges receivable	450,000	618,873	-	-	1,068,873
Other current assets	1,112,460	347,006	82,545	(85,962)	1,456,049
<b>Total current assets</b>	<b>61,286,635</b>	<b>1,143,241</b>	<b>3,392,884</b>	<b>(85,962)</b>	<b>65,736,798</b>
Assets whose use is limited, net of current portion	135,676,862	12,415,113	-	-	148,091,975
Pledges receivable, net of current portion	714,526	231,068	-	-	945,594
Property, plant and equipment, net	170,624,206	-	-	-	170,624,206
Unamortized bond fees	4,819,192	-	-	-	4,819,192
Other assets	2,372,183	819,219	-	(1,806,618)	1,384,784
<b>Total assets</b>	<b>\$ 375,493,604</b>	<b>\$ 14,608,641</b>	<b>\$ 3,392,884</b>	<b>\$ (1,892,580)</b>	<b>\$ 391,602,549</b>

**Children's Hospital Central California  
Consolidating Balance Sheet (continued)  
September 30, 2005**

	<b>Children's Hospital Central California</b>	<b>Children's Hospital Central California Foundation</b>	<b>Specialty Medical Group Central California</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 6,296,576	\$ 1,284,185	\$ 2,036,626	\$ (1,892,580)	\$ 7,724,807
Accrued payroll and related liabilities	19,207,566	-	1,056,258	-	20,263,824
Interest payable	334,459	-	-	-	334,459
Current portion of long-term debt	3,125,000	-	-	-	3,125,000
Current portion malpractice liability reserve	500,000	-	-	-	500,000
Total current liabilities	29,463,601	1,284,185	3,092,884	(1,892,580)	31,948,090
Long term debt, net of current portion	138,155,814	-	-	-	138,155,814
Accrued pension liability	10,922,524	-	-	-	10,922,524
Other long-term liabilities	1,448,627	-	-	-	1,448,627
Malpractice liability reserve, net of current portion	1,000,000	-	300,000	-	1,300,000
Total liabilities	180,990,566	1,284,185	3,392,884	(1,892,580)	183,775,055
Net assets:					
Unrestricted	193,375,455	12,333,163	-	-	205,708,618
Temporarily restricted	1,127,583	558,741	-	-	1,686,324
Permanently restricted	-	432,552	-	-	432,552
Total net assets	194,503,038	13,324,456	-	-	207,827,494
Total liabilities and net assets	\$ 375,493,604	\$ 14,608,641	\$ 3,392,884	\$ (1,892,580)	\$ 391,602,549

**Children's Hospital Central California  
Consolidating Balance Sheet  
September 30, 2004**

	<b>Children's Hospital Central California</b>	<b>Children's Hospital Central California Foundation</b>	<b>Specialty Medical Group Central California</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 3,100,180	\$ 58,877	\$ 429,906	\$ -	\$ 3,588,963
Patient accounts receivable, net of estimated uncollectible amounts of \$1,911,000	39,146,659	-	3,417,601	-	42,564,260
Inventories	3,266,251	-	-	-	3,266,251
Medi-Cal disproportionate funds receivable	9,282,412	-	-	-	9,282,412
Current portion of assets whose use is limited	3,348,474	-	-	-	3,348,474
Prepaid expenses and deposits	3,813,836	27,631	290,466	-	4,131,933
Current portion of pledges receivable	450,000	579,917	-	-	1,029,917
Other current assets	1,735,198	360,043	18,478	(58,487)	2,055,232
Total current assets	64,143,010	1,026,468	4,156,451	(58,487)	69,267,442
Assets whose use is limited, net of current portion	106,614,569	8,936,468	-	-	115,551,037
Pledges receivable, net of current portion	1,302,450	169,929	-	-	1,472,379
Property, plant and equipment, net	174,742,249	-	-	-	174,742,249
Unamortized bond fees	5,180,123	-	-	-	5,180,123
Other assets	2,309,872	378,058	-	(2,309,873)	378,057
Total assets	\$ 354,292,273	\$ 10,510,923	\$ 4,156,451	\$ (2,368,360)	\$ 366,591,287



**Children's Hospital Central California  
Consolidating Balance Sheet (continued)  
September 30, 2004**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>					
Current liabilities:					
Accounts payable and accrued expenses	\$ 5,088,573	\$ 82,116	\$ 2,471,553	\$ (2,368,360)	\$ 5,273,882
Accrued payroll and related liabilities	16,388,186	-	1,384,898	-	17,773,084
Interest payable	344,340	-	-	-	344,340
Current portion of long-term debt	2,945,000	-	-	-	2,945,000
Current portion malpractice liability reserve	500,000	-	-	-	500,000
Total current liabilities	25,266,099	82,116	3,856,451	(2,368,360)	26,836,306
Long term debt, net of current portion	141,116,198	-	-	-	141,116,198
Accrued pension liability	9,647,824	-	-	-	9,647,824
Other long-term liabilities	2,585,570	-	-	-	2,585,570
Malpractice liability reserve, net of current portion	1,000,000	-	300,000	-	1,300,000
Total liabilities	179,615,691	82,116	4,156,451	(2,368,360)	181,485,898
Net assets:					
Unrestricted	174,084,536	9,713,979	-	-	183,798,515
Temporarily restricted	592,046	567,857	-	-	1,159,903
Permanently restricted	-	146,971	-	-	146,971
Total net assets	174,676,582	10,428,807	-	-	185,105,389
Total liabilities and net assets	\$ 354,292,273	\$ 10,510,923	\$ 4,156,451	\$ (2,368,360)	\$ 366,591,287

**Children's Hospital Central California  
Consolidating Statement of Operations  
Year Ended September 30, 2005**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Unrestricted revenues and other support</b>					
Net patient service revenue	\$ 260,370,700	\$ -	\$ 12,947,694	\$ -	\$ 273,318,394
Other revenue	12,681,919	3,265,217	5,632,057	(6,069,276)	15,509,917
Net assets released from restrictions used for operations	982,361	151,391	-	-	1,133,752
Total revenues and other support	274,034,980	3,416,608	18,579,751	(6,069,276)	289,962,063
<b>Expenses</b>					
Salaries and wages	108,295,569	564,851	9,557,464	-	118,417,884
Employee benefits	45,693,519	171,295	2,810,399	-	48,675,213
Management, accounting fees and Modesto clinic operating expenses	-	-	626,585	(626,585)	-
Supplies	40,989,634	149,113	-	-	41,138,747
Professional fees	19,336,702	146,132	2,710,262	(5,179,255)	17,013,841
Purchased services	13,411,728	330,925	1,412,753	-	15,155,406
Insurance, taxes and licenses	3,614,273	-	644,606	-	4,258,879
Utilities	3,072,264	11,433	-	-	3,083,697
Rents	3,473,056	5,953	46,710	-	3,525,719
Depreciation and amortization	11,336,447	-	-	-	11,336,447
Interest	8,095,615	-	-	-	8,095,615
Provision for bad debts	3,058,288	22,087	393,672	-	3,474,047
Other	5,229,578	49,122	377,300	(263,436)	5,392,564
Total expenses	265,606,673	1,450,911	18,579,751	(6,069,276)	279,568,059
Operating income	8,428,307	1,965,697	-	-	10,394,004
Investment income	16,401,626	33,168	-	-	16,434,794
Excess of revenues, other support and investment income over expenses	24,829,933	1,998,865	-	-	26,828,798
Donated equipment	20,000	-	-	-	20,000
Change in minimum pension liability	(1,026,685)	-	-	-	(1,026,685)
Change in net unrealized gains/losses on investments	(5,052,205)	663,290	-	-	(4,388,915)
Change in value of gift annuity	-	979	-	-	979
Donations transferred to Children's Hospital Central California	43,950	(43,950)	-	-	-
Net assets released from restrictions for purchase of property, plant and equipment	475,926	-	-	-	475,926
Increase in unrestricted net assets	\$ 19,290,919	\$ 2,619,184	\$ -	\$ -	\$ 21,910,103

**Children's Hospital Central California  
Consolidating Statement of Operations  
Year Ended September 30, 2004**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Unrestricted revenues and other support</b>					
Net patient service revenue	\$ 240,983,027	\$ -	\$ 13,497,828	\$ -	\$ 254,480,855
Other revenue	12,966,058	2,789,949	5,684,660	(5,651,976)	15,788,691
Net assets released from restrictions used for operations	676,806	122,743	-	-	799,549
Total revenues and other support	254,625,891	2,912,692	19,182,488	(5,651,976)	271,069,095
<b>Expenses</b>					
Salaries and wages	98,481,963	515,327	9,814,418	-	108,811,708
Employee benefits	44,678,009	225,559	2,893,845	-	47,797,413
Management, accounting fees and Modesto clinic operating expenses	-	-	590,875	(590,875)	-
Supplies	38,673,971	125,971	-	-	38,799,942
Professional fees	19,474,633	50,312	2,215,863	(5,060,717)	16,680,091
Purchased services	12,985,841	181,520	1,299,066	-	14,466,427
Insurance, taxes and licenses	3,560,130	1,850	1,178,340	-	4,740,320
Utilities	3,349,766	9,644	-	-	3,359,410
Rents	3,694,035	4,068	50,590	-	3,748,693
Depreciation and amortization	11,304,726	-	-	-	11,304,726
Interest	8,293,763	-	-	-	8,293,763
Provision for bad debts	3,504,484	16,863	877,637	-	4,398,984
Other	4,933,872	68,525	261,854	(384)	5,263,867
Total expenses	252,935,193	1,199,639	19,182,488	(5,651,976)	267,665,344
Operating income	1,690,698	1,713,053	-	-	3,403,751
Investment income	7,136,519	257,197	-	-	7,393,716
Excess of revenues, other support and investment income over expenses	8,827,217	1,970,250	-	-	10,797,467
Donated equipment	44,030	-	-	-	44,030
Change in minimum pension liability	2,294,762	-	-	-	2,294,762
Change in net unrealized gains/losses on investments	2,369,200	(129,752)	-	-	2,239,448
Change in value of gift annuity	-	(2,311)	-	-	(2,311)
Donations transferred to Children's Hospital Central California	105,386	(105,386)	-	-	-
Net assets released from restrictions for purchase of property, plant and equipment	3,356,196	-	-	-	3,356,196
Increase in unrestricted net assets	\$ 16,996,791	\$ 1,732,801	\$ -	\$ -	\$ 18,729,592

**Children's Hospital Central California  
Consolidating Statement of Changes in Net Assets  
Year Ended September 30, 2005**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Unrestricted net assets</b>					
Excess of revenues, other support and investment income over expenses	\$ 24,829,933	\$ 1,998,865	\$ -	\$ -	\$ 26,828,798
Donated equipment	20,000	-	-	-	20,000
Change in minimum pension liability	(1,026,685)	-	-	-	(1,026,685)
Change in net unrealized gains/losses on investments	(5,052,205)	663,290	-	-	(4,388,915)
Change in value of gift annuity	-	979	-	-	979
Donations transferred to Children's Hospital Central California	43,950	(43,950)	-	-	-
Net assets released from restrictions for purchase of property, plant and equipment	475,926	-	-	-	475,926
Increase in unrestricted net assets	19,290,919	2,619,184	-	-	21,910,103
<b>Temporarily restricted net assets</b>					
Gifts and bequests	906,441	1,185,106	-	-	2,091,547
Donations transferred to Children's Hospital Central California	1,042,831	(1,042,831)	-	-	-
Interest income and net realized and unrealized gains/losses on investments	44,552	-	-	-	44,552
Net assets released from restrictions for operating purposes	(982,361)	(151,391)	-	-	(1,133,752)
Net assets released from restrictions for purchase of property, plant and equipment	(475,926)	-	-	-	(475,926)
Increase (decrease) in temporarily restricted net assets	535,537	(9,116)	-	-	526,421
<b>Permanently restricted net assets</b>					
Gifts and bequests	-	247,871	-	-	247,871
Investment income	-	37,710	-	-	37,710
Increase in permanently restricted net assets	-	285,581	-	-	285,581
Increase in net assets	19,826,456	2,895,649	-	-	22,722,105
Net assets, beginning of year	174,676,582	10,428,807	-	-	185,105,389
Net assets, end of year	\$ 194,503,038	\$ 13,324,456	\$ -	\$ -	\$ 207,827,494

**Children's Hospital Central California  
Consolidating Statement of Changes in Net Assets  
Year Ended September 30, 2004**

	<b>Children's Hospital Central California</b>	<b>Children's Hospital Central California Foundation</b>	<b>Specialty Medical Group Central California</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Unrestricted net assets</b>					
Excess of revenues, other support and investment income over expenses	\$ 8,827,217	\$ 1,970,250	\$ -	\$ -	\$ 10,797,467
Donated equipment	44,030	-	-	-	44,030
Change in minimum pension liability	2,294,762	-	-	-	2,294,762
Change in net unrealized gains/losses on investments	2,369,200	(129,752)	-	-	2,239,448
Change in value of gift annuity	-	(2,311)	-	-	(2,311)
Donations transferred to Children's Hospital Central California	105,386	(105,386)	-	-	-
Net assets released from restrictions for purchase of property, plant and equipment	3,356,196	-	-	-	3,356,196
Increase in unrestricted net assets	<u>16,996,791</u>	<u>1,732,801</u>	<u>-</u>	<u>-</u>	<u>18,729,592</u>
<b>Temporarily restricted net assets</b>					
Gifts and bequests	2,354,032	1,036,643	-	-	3,390,675
Donations transferred to Children's Hospital Central California	671,406	(671,406)	-	-	-
Interest income and net realized and unrealized gains/losses on investments	41,940	3,722	-	-	45,662
Net assets released from restrictions for operating purposes	(676,806)	(122,743)	-	-	(799,549)
Net assets released from restrictions for purchase of property, plant and equipment	(3,356,196)	-	-	-	(3,356,196)
(Decrease) increase in temporarily restricted net assets	<u>(965,624)</u>	<u>246,216</u>	<u>-</u>	<u>-</u>	<u>(719,408)</u>
<b>Permanently restricted net assets</b>					
Gifts and bequests	-	67,024	-	-	67,024
Investment income	-	419	-	-	419
Increase in permanently restricted net assets	<u>-</u>	<u>67,443</u>	<u>-</u>	<u>-</u>	<u>67,443</u>
Increase in net assets	16,031,167	2,046,460	-	-	18,077,627
Net assets, beginning of year	158,645,415	8,382,347	-	-	167,027,762
Net assets, end of year	<u>\$ 174,676,582</u>	<u>\$ 10,428,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 185,105,389</u>

**Children's Hospital Central California  
Consolidating Statement of Cash Flows  
Year Ended September 30, 2005**

	Children's Hospital Central California	Hospital Central California Foundation	Medical Group Central California	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Increase in net assets	\$ 19,826,456	\$ 2,895,649	\$ -	\$ -	\$ 22,722,105
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities					
Depreciation and amortization	11,336,447	-	-	-	11,336,447
Realized (gains) losses on sales of investments, net of other than temporary impairment	(12,172,072)	231,769	-	-	(11,940,303)
Change in net unrealized gains/losses on investments	5,052,205	(663,290)	-	-	4,388,915
Change in minimum pension liability	1,026,685	-	-	-	1,026,685
Provision for bad debts	3,058,288	22,087	393,672	-	3,474,047
Loss on sale of property, plant and equipment	79,777	-	-	-	79,777
Contributions received for long-term purposes	(736,514)	(534,632)	-	-	(1,271,146)
Changes in operating assets and liabilities:					
Patient accounts receivable	(3,166,146)	-	(54,297)	-	(3,220,443)
Medi-Cal disproportionate funds receivable	516,134	-	-	-	516,134
Inventories, prepaid expenses and deposits, pledges receivable and current and long-term other assets	2,402,504	(551,767)	(3,041)	-	1,847,696
Accounts payable and accrued expenses and accrued payroll and related liabilities, accrued pension liability and interest payable	3,128,572	1,202,069	(763,567)	-	3,567,074
Net cash provided by (used in) operating activities	<u>30,352,336</u>	<u>2,601,885</u>	<u>(427,233)</u>	<u>-</u>	<u>32,526,988</u>
<b>Cash flows from investing activities</b>					
Purchase of assets whose use is limited	(436,462,698)	(24,006,477)	-	-	(460,469,175)
Proceeds from sale of assets whose use is limited	413,911,162	20,959,353	-	-	434,870,515
Purchases of property, plant and equipment	(6,818,386)	-	-	-	(6,818,386)
Proceeds from sale of property, plant and equipment	45,752	-	-	-	45,752
Net cash used in investing activities	<u>\$ (29,324,170)</u>	<u>\$ (3,047,124)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,371,294)</u>

**Children's Hospital Central California  
Consolidating Statement of Cash Flows (continued)  
Year Ended September 30, 2005**

	<b>Children's Hospital Central California</b>	<b>Hospital Central California Foundation</b>	<b>Medical Group Central California</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings on line of credit	\$ -	\$ -	\$ -	\$ -	\$ -
Payments on line of credit and long-term debt	(2,945,000)	-	-	-	(2,945,000)
Contributions received for long-term purposes	736,514	534,632	-	-	1,271,146
Net cash (used in) provided by financing activities	(2,208,486)	534,632	-	-	(1,673,854)
Net (decrease) increase in cash and cash equivalents	(1,180,320)	89,393	(427,233)	-	(1,518,160)
Cash and cash equivalents, beginning of year	3,100,180	58,877	429,906	-	3,588,963
Cash and cash equivalents, end of year	\$ 1,919,860	\$ 148,270	\$ 2,673	\$ -	\$ 2,070,803

**Children's Hospital Central California  
Consolidating Statement of Cash Flows  
Year Ended September 30, 2004**

	Children's Hospital Central California	Children's Hospital Central California Foundation	Specialty Medical Group Central California	Eliminations	Consolidated
<b>Cash flows from operating activities</b>					
Increase in net assets	\$ 16,031,167	\$ 2,046,460	\$ -	\$ -	\$ 18,077,627
Adjustments to reconcile increase in net assets to net cash provided by operating activities					
Depreciation and amortization	11,304,726	-	-	-	11,304,726
Realized (gains) losses on sales of investments, net of other than temporary impairment	(4,146,605)	108,959	-	-	(4,037,646)
Change in net unrealized gains/losses on investments	(2,369,200)	129,752	-	-	(2,239,448)
Change in minimum pension liability	(2,294,762)	-	-	-	(2,294,762)
Provision for bad debts	3,504,484	16,863	877,637	-	4,398,984
Gain on sale of property, plant and equipment	(26,943)	-	-	-	(26,943)
Contributions received for long-term purposes	(2,200,673)	(164,052)	-	-	(2,364,725)
Changes in operating assets and liabilities:					
Patient accounts receivable	(5,889,215)	-	(1,112,192)	-	(7,001,407)
Medi-Cal disproportionate funds receivable	(534,305)	-	-	-	(534,305)
Inventories, prepaid expenses and deposits, pledges receivable and current and long-term other assets	(3,577,158)	405,044	(126,175)	-	(3,298,289)
Accounts payable and accrued expenses and accrued payroll and related liabilities, accrued pension liability and interest payable	(1,355,639)	(338,777)	716,731	-	(977,685)
Net cash provided by operating activities	<u>8,445,877</u>	<u>2,204,249</u>	<u>356,001</u>	<u>-</u>	<u>11,006,127</u>
<b>Cash flows from investing activities</b>					
Purchase of assets whose use is limited	(66,757,228)	(3,894,567)	-	-	(70,651,795)
Proceeds from sale of assets whose use is limited	65,450,523	1,457,402	-	-	66,907,925
Purchases of property, plant and equipment	(8,101,051)	-	-	-	(8,101,051)
Proceeds from sale of property, plant and equipment	85,880	-	-	-	85,880
Net cash used in investing activities	<u>\$ (9,321,876)</u>	<u>\$ (2,437,165)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,759,041)</u>



**Children's Hospital Central California  
Consolidating Statement of Cash Flows (continued)  
Year Ended September 30, 2004**

	<b>Children's Hospital Central California</b>	<b>Children's Hospital Central California Foundation</b>	<b>Specialty Medical Group Central California</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from financing activities</b>					
Proceeds from borrowings on line of credit	\$ 2,740,016	\$ -	\$ -	\$ -	\$ 2,740,016
Payments on line of credit and long-term debt	(5,540,016)	-	-	-	(5,540,016)
Contributions received for long-term purposes	2,200,673	164,052	-	-	2,364,725
Net cash (used in) provided by financing activities	(599,327)	164,052	-	-	(435,275)
Net (decrease) increase in cash and cash equivalents	(1,475,326)	(68,864)	356,001	-	(1,188,189)
Cash and cash equivalents, beginning of year	4,575,506	127,741	73,905	-	4,777,152
Cash and cash equivalents, end of year	\$ 3,100,180	\$ 58,877	\$ 429,906	\$ -	\$ 3,588,963

**Children's Hospital Central California  
Statistical Data  
Years Ended September 30, 2001 through September 30, 2005  
(Unaudited)**

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	2005	2004	2003	2002	2001
Admissions	12,172	12,440	12,079	11,016	10,527
Patient days	72,604	69,552	67,448	63,917	61,065
Occupancy percent (1)	78.01%	74.52%	76.38%	72.06%	69.13%
Average available beds	255	255	243	243	242
Emergency room	45,237	49,070	45,730	39,478	38,410
Urgent care centers (2)	-	-	17,814	39,509	39,422
Clinics (3)	102,737	98,561	103,327	98,634	91,903
Guild donations	\$ 678,424	\$ 300,945	\$ 553,779	\$ 488,286	\$ 440,285

(1) Based on average available beds.

(2) Closed April 2003.

(3) Three clinics closed in fiscal 2003; one clinic closed in fiscal 2004.

**APPENDIX C**

**SUMMARY OF PRINCIPAL DOCUMENTS**

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## TABLE OF CONTENTS

	Page
SUMMARY OF PRINCIPAL DOCUMENTS .....	C-1
DEFINITIONS OF CERTAIN TERMS.....	C-1
INSTALLMENT PURCHASE AGREEMENT .....	C-22
Installment Purchase and Sale of the Real Property.....	C-22
Payment Provisions .....	C-22
Purchase Agreement Defaults and Remedies .....	C-23
INSTALLMENT SALE AGREEMENT .....	C-24
Installment Purchase and Sale of the Facilities .....	C-24
Payment Provisions .....	C-24
Particular Covenants .....	C-28
Non-Liability of County; Expenses; Indemnification .....	C-29
Sale Agreement Defaults and Remedies .....	C-30
TRUST AGREEMENT.....	C-32
Validity of Certificates.....	C-32
Pledge and Assignment of Revenues .....	C-32
Establishment of Funds and Accounts .....	C-32
Auction Rate Period .....	C-37
Prepayment; Mandatory Purchase in Lieu of Prepayment .....	C-37
Particular Covenants .....	C-38
Events of Default and Remedies .....	C-39
Modification or Amendment of Trust Agreement, Purchase Agreement and Sale Agreement.....	C-42
Defeasance .....	C-43
MASTER INDENTURE OF TRUST.....	C-45
General .....	C-45
Authorization and Issuance of Obligations .....	C-45
Particular Covenants of the Members .....	C-45
Obligated Group Membership and Withdrawal .....	C-50
Events of Default and Remedies .....	C-51
Supplements and Amendments .....	C-54
Discharge of Master Indenture .....	C-54
SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 1 AND SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 2 .....	C-55
General .....	C-55
Additional Covenants Required by Insurer for Series 1995 Certificates and Series 1998 Certificates .....	C-55

**TABLE OF CONTENTS**  
(continued)

	<b>Page</b>
SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 3.....	C-55
General .....	C-55
Payments on Obligation; Credits.....	C-55
Prepayment of Obligation .....	C-56
Registration, Number, Negotiability and Transfer of Obligations .....	C-56
Right to Redeem.....	C-56
Additional Covenants Required by Insurer .....	C-56
Rights of Insurer.....	C-56

## SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture of Trust, dated as of July 15, 1995 (as supplemented and amended, the "Master Indenture"), among Valley Children's Hospital, currently known as Children's Hospital Central California (the "Corporation"), The Valley Children's Hospital Foundation, currently known as The Children's Hospital Central California Foundation (the "Foundation") and U. S. Trust Company of California, N. A., predecessor trustee to BNY Western Trust Company, predecessor trustee to The Bank of New York Trust Company, N. A., as master trustee (the "Master Trustee"), the Supplemental Master Indenture for Obligation No. 3, dated as of June 1, 2006 (the "Supplemental Master Indenture"), between the Corporation, acting on behalf of itself and the Foundation, and the Master Trustee, the Installment Purchase Agreement, dated as of June 1, 2006 (the "Purchase Agreement"), between the County of Madera (the "County") and the Corporation, the Installment Sale Agreement, dated as of June 1, 2006 (the "Sale Agreement"), between the County and the Corporation, and the Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement"), among the County, the Corporation, and The Bank of New York Trust Company, N. A., as trustee (the "Trustee"). This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Master Indenture, the Supplemental Master Indenture, the Purchase Agreement, the Sale Agreement and the Trust Agreement. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Trust Agreement or, if not set forth in the Trust Agreement, in the Master Indenture.

## DEFINITIONS OF CERTAIN TERMS

**Accountant** means any firm of nationally recognized independent certified public accountants (but not an individual) selected by the Obligated Group Representative and acceptable to the Master Trustee.

**Act** means Title 3 of the Government Code of the State, as now in effect and as it may from time to time hereafter be amended, supplemented or modified.

**Additional Indebtedness** means, as to the Corporation and the Foundation, any Indebtedness (including all Obligations) incurred subsequent to the issuance of the first Obligations issued under the first Related Supplement executed pursuant to the Master Indenture and, as to any Member of the Obligated Group other than the Corporation and the Foundation, Indebtedness incurred subsequent to membership in the Obligated Group.

**Administrative Fees and Expenses** means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the County or the Trustee, including Supplemental Payments.

**Affiliate** means for purposes of the Master Indenture: (1) a nonprofit corporation, a majority of the members of the governing body of which are (a) the same as the corporate members or directors of a Member, (b) subject to election or appointment by a Member, (c) subject to election or appointment by a corporation that has the power to elect or appoint at least 50% of the members of the Governing Body of a Member, or (d) that has the power to elect or appoint a majority of the members of the Governing Body of a Member; or (2) a for-profit corporation, at least 50% of whose voting stock is owned by a Member or an Affiliate.

**Agreement, Installment Sale Agreement or Sale Agreement** means the Installment Sale Agreement, dated as of June 1, 2006, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

**Annual Debt Service** means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness calculated using the principles and assumptions set forth under the definition of Maximum Annual Debt Service.

**Annual Report** means any Annual Report provided by the Corporation in accordance with the provisions of the Continuing Disclosure Agreement.

**Auction Agent** means any auction agent appointed in accordance with the provisions of the Trust Agreement. The initial Auction Agent is Wilmington Trust Company.

**Auction Agent Agreement** means that certain Auction Agent Agreement, dated as of June 1, 2006, between the Corporation and the initial Auction Agent, and any similar agreement with a successor Auction Agent, in each case, as amended or supplemented from time to time.

**Auction Rate** means the interest rate to be determined for the Certificates pursuant to the provisions of the Trust Agreement.

**Auction Rate Period** means each period during which Certificates accrue interest at an Auction Rate.

**Authorized Representative** means, with respect to the County, the Chief Administrative Officer, the Auditor-Controller, the Treasurer/Tax Collector or any other person designated as an Authorized Representative of the County by a Statement of the County signed by the Chief Administrative Officer, the Auditor-Controller or the Treasurer/Tax Collector and filed with the Trustee, and means, with respect to the Corporation, either the chairman of the Governing Body of the Corporation, the chief executive officer of the Corporation, the chief financial officer of the Corporation or any other person designated as an Authorized Representative of the Corporation by a Statement of the Corporation signed by the chairman of the Governing Body of the Corporation, the chief executive officer of the Corporation, or the chief financial officer of the Corporation and filed with the Trustee.

**Authorized Representative of the Obligated Group Representative** means the chairman of the Governing Body or the chief executive officer or the chief financial officer or any other person designated as an Authorized Representative of the Obligated Group Representative by a certificate of the Obligated Group Representative signed by the chairman of the Governing Body, the chief executive officer or the chief financial officer of the Obligated Group Representative and filed with the Master Trustee.

**Balloon Indebtedness** means Long-Term Indebtedness of a Member, 25% or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

**Beneficial Owner** for purposes of the Continuing Disclosure Agreement means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate, including without limitation, any Persons holding Certificates through nominees or depositories, including the Depository.

**Book Value** means, when used in connection with Property, Plant and Equipment or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Member and in conformity with generally accepted accounting principles, 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 of each Member determined in such a way that no portion of such value of property of any Member is included more than once.

**Broker-Dealer** means Morgan Stanley & Co. Incorporated and any other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures: (i) that is an Agent Member (or an affiliate of an Agent Member); (ii) that has been selected by the Corporation; and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

**Broker-Dealer Agreement** means each agreement between a Broker-Dealer and the Auction Agent, substantially in such form as is attached as Exhibit A to the Auction Agent Agreement, pursuant to which a



Broker-Dealer, among other things, agrees to participate in Auctions as set forth in the Auction Procedures, in each case, as amended or supplemented from time to time.

**Business Day** means: (i) any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Corporate Trust Office of the Trustee is located is authorized by law or executive order to close or (B) a day on which The New York Stock Exchange is closed; or (ii) during an Auction Rate Period, solely for purposes of conducting an Auction, any other day or days as may be agreed to in writing by the Auction Agent, each Broker-Dealer, the Trustee and the Corporation.

**Central Post Office** means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the Securities and Exchange Commission as an intermediary through which filings required by the Continuing Disclosure Agreement may be made in compliance with the Rule.

**Certificate, Statement, Request, Order or Requisition** of the County or the Corporation mean, respectively, a written certificate, statement, request, order or requisition signed in the name of the County or the Corporation by an Authorized Representative of the County or the Corporation, as applicable.

**Certificates** means the certificates of participation evidencing a proportionate interest of the Holders thereof in Installment Payments to be made by the County pursuant to the Purchase Agreement, designated as the "County of Madera Certificates of Participation (Children's Hospital Central California), Series 2006."

**Certificateholder or Holder**, whenever used with respect to a registered Certificate, means the person in whose name such Certificate is registered.

**Certificate Payment Date** means, with respect to a Certificate, the date on which principal evidenced and represented by such Certificate becomes due and payable.

**Certificate Reserve Fund** means the fund so designated and established pursuant to the provisions of the Trust Agreement.

**Certificate Year** means, for purposes of the Purchase Agreement, the Sale Agreement and the Trust Agreement, the period of 12 consecutive months ending on March 15 in any year in which Certificates are Outstanding, provided that the first Certificate Year shall commence on the date of initial execution and delivery of the Certificates.

**Code** means the Internal Revenue Code of 1986 and the regulations issued thereunder or any successor thereto. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

**Commercial Paper Rate** means the Interest Rate Mode in which the interest rate is determined with respect to a Certificate during each Commercial Paper Rate Period applicable to that Certificate in accordance with the provisions of the Trust Agreement.

**Completion Indebtedness** means any Long-term Indebtedness incurred by the Obligated Group or any Member for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, (1) to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and (2) in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, (3) modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

**Construction Index** means the health care component of the implicit price deflator for the gross national product as most recently reported prior to the date in question by the United States Department of Commerce or its successor agency or, if such index is no longer published, another index that is certified to be comparable and

appropriate by the Obligated Group Representative in an Officer's Certificate delivered to the Master Trustee and which other index is acceptable to the Master Trustee.

**Continuing Disclosure Agreement** means that certain Continuing Disclosure Agreement, dated the date of initial execution and delivery of the Certificates, between the Corporation and The Bank of New York Trust Company, N. A., as trustee and dissemination agent, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

**Conversion** means, any conversion from time to time in accordance with the terms of the Trust Agreement of the Certificates from one Interest Rate Mode to another Interest Rate Mode.

**Conversion Date** means the date on which any Conversion becomes effective.

**Corporate Trust Office** or **corporate trust office** means with respect to the Trustee and the Master Trustee the principal corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California 94108, or such other or additional offices as may be designated by the Trustee and the Master Trustee.

**Corporation** means Children's Hospital Central California formerly known as Valley Children's Hospital, a nonprofit public benefit corporation duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Sale Agreement and the Master Indenture.

**Costs of Delivery** means all items of expense directly or indirectly payable by or reimbursable to the County or the Corporation and related to the authorization, execution, sale and delivery of the Certificates, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, documentary transfer tax, premiums for title insurance, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, initial Administrative Fees and Expenses, fees and charges for preparation, execution, transportation and safekeeping of Certificates, and any other cost, charge or fee in connection with the original delivery of Certificates.

**Costs of Delivery Fund** means the fund so designated and established pursuant to the provisions of the Trust Agreement.

**County** means the County of Madera, a county and political subdivision of the State duly organized and existing under the Constitution and the laws of the State.

**Current Value** means: (a) with respect to Property, Plant and Equipment: (i) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser acceptable to the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report shall be dated not more than 3 years prior to the date as of which Current Value is to be calculated) increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such report to the date as of which Current Value is to be calculated; plus (ii) the Book Value of any Property, Plant and Equipment acquired since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date of such acquisition to the date as of which Current Value is to be calculated; minus (iii) the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report increased or decreased by a percentage equal to the aggregate percentage increase or decrease in the Construction Index from the date as of which such Book Value was determined or the date of such report, as the case may be, to the earlier of the date of disposition of such Property, Plant and Equipment or the date as of which Current Value is to be calculated; and (b) with respect to any other Property, the fair market value of such Property, which fair market value shall be evidenced in a manner acceptable to the Master Trustee.

**Daily Rate** means the Interest Rate Mode in which the interest rate with respect to the Certificates is determined on each Business Day in accordance with the provisions of the Trust Agreement.

**Date of the Certificates** means June 22, 2006.

**Debt Service** means, with respect to the period of time for which calculated, the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid during such period on all Long-Term Indebtedness, less any amounts on deposit in escrow to be applied during such period to pay principal or interest on Long-Term Indebtedness.

**Defeasance Securities** means: (a) cash; (b) non-callable direct obligations of the United States of America ("Treasuries"); (c) evidences of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated; (d) subject to the prior written consent of the Insurer, pre-refunded municipal obligations rated "Aaa" by Moody's and "AAA" by S&P, respectively; or (e) subject to the prior written consent of the Insurer, securities eligible for "AAA" defeasance under then existing criteria of S&P or any combination thereof, unless the Insurer otherwise approves.

**Depository** means The Depository Trust Company and its successors and assigns or any securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a book entry-system to record ownership of book-entry interests in Certificates and to effect transfers of book-entry interests in Certificates in book-entry form.

**Disclosure Representative** means the Authorized Representative of the Corporation or his or her designee, or such other officer or employee as the Corporation shall designate in writing to the Trustee and Dissemination Agent from time to time.

**Dissemination Agent** means The Bank of New York Trust Company, N. A. , acting in its capacity as Dissemination Agent under the Continuing Disclosure Agreement, or any successor Dissemination Agent designated in writing by the Corporation and which has filed a written acceptance of such designation with the Trustee.

**Environmental Regulations** means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to Hazardous Substances to which the Members or any property of the Members is subject.

**Event of Default**, for purposes of the Trust Agreement, means any of the events of default specified in the Trust Agreement and, for purposes of the Master Indenture, means any of the events of default specified in the Master Indenture.

**Facilities** means: (i) the Real Property described in Exhibit A to the Purchase Agreement and in Exhibit A to the Sale Agreement; (ii) all buildings, structures, fixtures and improvements located or to be located on the aforesaid Real Property; and (iii) all personal property owned by the Corporation and used in, around or about the aforesaid Real Property, whether now existing or hereafter constructed, installed or acquired.

**Favorable Opinion of Special Counsel** means an opinion of Special Counsel, addressed to the Trustee to the effect that the action proposed to be taken will not, in and of itself, adversely affect any exclusion from gross income of amounts treated for federal income tax purposes as interest payments with respect to the Certificates.

**Financing** means a borrowing in connection with which an Obligation is issued under the Master Indenture.

**Fiscal Year** means that period adopted by the Obligated Group Representative as the annual accounting period for which consolidated or combined financial statements of the Obligated Group will be prepared pursuant to the provisions of the Master Indenture.

**Foundation** means The Children's Hospital Central California Foundation, formerly known as The Valley Children's Hospital Foundation, a nonprofit public benefit corporation duly organized and existing under the laws of the State, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

**Governing Body** means, when used with respect to any Member, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Person are vested except for those powers reserved to the corporate membership thereof by the articles of incorporation or bylaws of such Person.

**Government Issuer** means any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

**Government Obligations** means: (1) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any of the federal agencies and federally sponsored entities described in clause (3) below to the extent unconditionally guaranteed by the United States of America and including interest strips of bonds issued by the Resolution Funding Corporation and held in book-entry form by the Federal Reserve Bank of New York; (2) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (1); and (3) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration, Federal Home Loan Mortgage Corporation, Private Export Funding Corporation, and Student Loan Marketing Association and Government Trust Certificates and any obligation of any other agency or instrumentality of the government of the United States of America hereafter created, provided such obligation of any agency or instrumentality hereinafter created is approved for investment by a nationally recognized rating agency.

**Gross Revenues** means all revenues, income, receipts and money received by the Corporation, including (a) gross revenues collected from its operations and possession of and pertaining to its properties, (b) gifts, grants, bequests, donations and contributions, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Purchase Payments, Supplemental Payments, any payment with respect to indebtedness incurred by the Corporation and secured on a parity basis with such Purchase Payments and Installment Payments, including Obligations issued under the Master Indenture, or the payment of operating expenses of the Corporation, (c) proceeds derived from (i) condemnation proceeds, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical reimbursement programs and agreements, (vi) insurance proceeds, and (vii) contract rights and other rights and assets now or hereafter owned by the Corporation, and (d) rentals received from the lease of office space within the facilities of the Corporation.

**Gross Revenue Fund** means the fund by that name established pursuant to the provisions of the Series 1995 Sale Agreement.

**Guaranty** means all loan commitments and all obligations of any Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person that would, if such other Person were a Member, constitute Indebtedness.

**Hazardous Substances** means: (A) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulations; (B) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (C) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulations including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42

USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; (D) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (E) any other chemical, materials or substance which may or could pose a hazard to the environment.

**Historical Debt Service Coverage Ratio** means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Debt Service for such period.

**Historical Maximum Annual Debt Service Coverage Ratio** means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness then Outstanding for such period.

**Historical Pro Forma Debt Service Coverage Ratio** means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness then Outstanding and the Long-Term Indebtedness proposed to be issued.

**Holder or Certificateholder**, whenever used with respect to a registered Certificate, means the person in whose name such Certificate is registered.

**Holder or Obligation Holder**, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form that is not registered or is registered to bearer.

**Income Available for Debt Service** means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles and to which shall be added Net Transfers of Liquid Assets; provided that no such determination shall include any gain or loss resulting from either the extinguishment of Indebtedness or any disposition of capital assets or any revenue of an Affiliate which is not a Member.

**Indebtedness** means: (1) any Guaranty (other than any Guaranty by any Member of Indebtedness of any other Member); and (2) any indebtedness or obligation of any Member of the Obligated Group (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including, without limitation, obligations under conditional sales contracts or other title retention contracts, rental obligations under leases which are considered capital leases under generally accepted accounting principles, except for obligations of a Member to another Member; provided, however, that if more than one Member shall have incurred or assumed a Guaranty of a Person other than a Member, or if more than one Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time.

**Independent Consultant** means a firm (but not an individual) that is in fact independent, does not have any direct financial interest or any material indirect financial interest in any Member or any Affiliate, and is not connected with any Member or any Affiliate as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions, and designated by the Obligated Group Representative, acceptable to the Master Trustee and having the skill and experience necessary to render the particular report or certification required by the provision of the Master Indenture in which such requirement appears.

**Industry Restrictions** means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Members.

**Installment Payments** means all of the payments so designated and required to be made by the County pursuant to the Purchase Agreement.

**Installment Purchase Agreement** or **Purchase Agreement** means that certain Installment Purchase Agreement, dated as of June 1, 2006, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

**Installment Sale Agreement** or **Agreement** or **Sale Agreement** means the Installment Sale Agreement, dated as of June 1, 2006 between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

**Insurance** or **Insurance Policy** means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal represented by, and interest with respect to, the Certificates.

**Insurance Consultant** means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, a director, officer or employee of any Member, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

**Insurer** means Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

**Interest Fund** means the fund by that name established pursuant to the provisions of the Trust Agreement.

**Interest Payment Date** means: (A) if the Interest Rate Mode for the Certificates is the Auction Rate, (i) for an Auction Period of one hundred eighty (180) days or less, the Business Day immediately succeeding the last day of such Auction Period and (ii) for an Auction Period of more than one hundred eighty (180) days, each March 15 and September 15, provided, however, that if any March 15 or September 15 is not a Business Day, the following Business Day (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, Auctions will be held on the preceding Business Day and the Interest Payment Date shall be one (1) Business Day immediately succeeding the next Auction Date); (B) the Conversion Date; and (C) in any case, the final Interest Payment Date shall be the Maturity Date of the Certificates.

**Interest Period** means the period from, and including, each Interest Payment Date with respect to the Certificates to, and including, the day next preceding the next Interest Payment Date with respect to such Certificates, provided, however, that the first Interest Period for any Certificate shall begin on (and include) the Date of the Certificates and the final Interest Period shall end the day next preceding the Maturity Date of such Certificates.

**Interest Rate Exchange Agreement** means an agreement, commonly known as an "interest rate swap", whereby the Obligated Group Representative, acting on behalf of the Obligated Group, or any Member of the Obligated Group agrees with a third party to pay such third party's interest on a mutually agreed upon notional amount in exchange for such third party's agreement to pay the Obligated Group's or such Member of the Obligated Group's interest on such amount, all at such interest rates and over such periods of time as may be mutually agreed upon; provided that no such agreement shall entail any exchange of principal or any assumption of liability for the payment of the principal of or interest on any Indebtedness of the Obligated Group, such Member of the Obligated Group, or such third party, as the case may be; and provided further that the documentation to be executed in connection with such Interest Rate Exchange Agreement shall provide that any termination payment or termination penalty payable by a Member in connection with the termination of such Interest Rate Exchange Agreement shall be payable on a subordinate basis to payment of debt service on the Certificates and on any other Related Bonds.

**Interest Rate Mode** means the Auction Rate, the Daily Rate, the Weekly Rate, the Commercial Paper Rate, and the Long Term Rate.

**Interest Rate Swap Agreement** means the International Swaps and Derivatives Association ("ISDA") Master Agreement, including the Schedule to the Master Agreement, the Credit Support Annex and the Confirmation thereto, each dated as of May 8, 2006, pursuant to which the Corporation and Morgan Stanley Capital Services Inc. have entered into an interest rate swap transaction with respect to the Certificates.

**Interim Indebtedness** means Long-Term Indebtedness with a final maturity 60 months or less from the date of incurrence.

**Investment Securities** means any of the investments listed below, in each case subject to the limitations described below.

(1) Obligations comprised of (a) direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("United States Treasury Obligations"), (b) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America, (c) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or (d) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(2) Federal Housing Administration debentures.

(3) The following obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America: (a) Federal Home Loan Mortgage Corporation (FHLMC); (b) Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)- Senior Debt obligations; (c) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) Consolidated system-wide bonds and notes; (d) Federal Home Loan Banks (FHL Banks) Consolidated debt obligations; (e) Federal National Mortgage Association (FNMA) Senior debt obligations and Mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts); (f) Student Loan Marketing Association (SLMA) Senior debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date); and (g) Financing Corporation (FICO) Debt obligations; and (h) Resolution Funding Corporation (REFCORP) Debt obligations.

(4) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than thirty (30) days) of any bank (including the Trustee and any of its affiliates) the short-term obligations of which are rated "A-1" or better by S&P.

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), in banks (including the Trustee and any of its affiliates) which have capital and surplus of at least five (5) million dollars.

(6) Commercial paper (having original maturities of not more than two hundred seventy (270) days) rated "Prime-1" by Moody's and "A-1+" by S&P.

(7) Money market funds rated "AAm" or "AAm-G" or better by S&P, including funds for which the Trustee or its affiliates provides investment advisory or other management services.

(8) State Obligations defined as follows: (a) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state, the unsecured general obligation debt of which is rated "A3" by Moody's and "A" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated; (b) Direct general short-term obligations of any state agency or subdivision or agency thereof described in

(a) above and rated "MIG-1" by Moody's and "A-1+" by S&P; or (c) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (a) above and rated "Aa" or better by Moody's and "AA" or better by S&P.

(9) Pre-refunded municipal obligations rated "Aaa" by Moody's and "AAA" by S&P and meeting the following requirements: (a) the municipal obligations are (1) not subject to redemption prior to maturity or (2) the trustee for the municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of the municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions; (b) the municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations; (c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow established in connection with such pre-refunded municipal obligations) has been verified by the report of independent certified public accountants (the "Verification") to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on the municipal obligations; (d) the cash or United States Treasury Obligations serving as security for the municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations; (e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and (f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(10) Repurchase agreements with: (i) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least "A" by Moody's and S&P; or (ii) any broker-dealer with "retail customers" or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least "A" by Moody's and S&P, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (iii) any other entity rated "A" or better by Moody's and S&P and acceptable to the Insurer; provided that (a) the market value of the collateral is maintained at levels and upon such conditions as would be acceptable to Moody's and S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach); (b) the Trustee or a third party acting solely as agent therefor or for the County (the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor's books); (c) the repurchase agreement shall state, and an opinion of counsel shall be rendered at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); (d) all other requirements of S&P in respect of repurchase agreements shall be met; and (e) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A3" by Moody's or "A-" by S&P, as appropriate, the provider must, at the direction of the Trustee (who shall give such direction if so directed by the Insurer), within ten (10) days of receipt of such direction, repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the Corporation or the Trustee. Notwithstanding the above, if a repurchase agreement has a term of two hundred seventy (270) days or less (with no evergreen provision), collateral levels need not be as specified in (a) above, so long as such collateral levels are 103% or better and the provider is rated at least "A" by Moody's and S&P, respectively.

(11) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, the claims paying ability of the guarantor, is rated at least "Aa" by Moody's and "AA" by S&P; provided that, by the terms of the investment agreement: (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Certificates; (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the Trustee hereby agrees to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid; (c) the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the investment agreement or an opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors; (d) the Corporation and the Trustee receive an opinion of domestic counsel (which opinion shall be addressed to the Corporation, the Trustee and



the Insurer) to the effect that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and an opinion of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Corporation, the Trustee and the Insurer; (e) the investment agreement shall provide that if during its term (i) the provider's rating by either Moody's or S&P falls below "Aa3" or "AA-," respectively, the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (1) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Moody's and S&P to maintain an "A" rating in an "A" rated structured financing (with a market value approach); or (2) repay the principal of and accrued but unpaid interest on the investment, and (ii) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A3" or "A-," respectively, the provider must, at the direction of the Trustee (who shall give such direction if so directed by the Insurer), within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Corporation or Trustee; (f) the investment agreement shall state, and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the Holder of the Collateral is in possession); (g) the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Trustee (who shall give such direction if so directed by the Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

**Lien** means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member has only a leasehold interest unless the Lien is with respect to such leasehold interest.

**Listed Events** means any of the events specified as such in the Continuing Disclosure Agreement.

**Long-Term Indebtedness** means Indebtedness having an original maturity greater than one (1) year or renewable at the option of a Member for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

**Long-Term Indebtedness Ratio** means the ratio determined by dividing the Obligated Group's total Long-Term Indebtedness by the sum of (a) such Long-Term Indebtedness and (b) the Obligated Group's total unrestricted fund balances (as reflected in or derived from the most recent audited combined financial statements of the Obligated Group prepared in accordance with generally accepted accounting principles).

**Long Term Rate** means the Interest Rate Mode in which the interest rate with respect to the Certificates is determined in accordance with the provisions of the Trust Agreement.

**Mandatory Sinking Account Payment** means the amount required pursuant to the provisions of the Trust Agreement to be applied by the Trustee on any single Certificate Payment Date for the retirement of Certificates.

**Master Indenture** means that certain Master Indenture of Trust, dated as of July 15, 1995, among the Corporation, the Foundation and the Master Trustee, as originally executed and as it may from time to time hereafter be supplemented, modified or amended in accordance with its terms.

**Master Trustee** means The Bank of New York Trust Company, N. A., as successor to BNY Western Trust Company, as successor to U. S. Trust Company of California, N.A., a national banking association

organized and existing under the laws of the United States and any successor or successors, as master trustee under the Master Indenture.

**Maximum Annual Certificate Service** means, as of any date of calculation, the sum of (1) interest falling due with respect to then Outstanding Certificates (assuming that all then Outstanding Certificates are retired at the times of and in amounts provided for by Mandatory Sinking Account Payments), assuming an interest rate per annum equal to the fixed rate payable by the Corporation pursuant to the Interest Rate Swap Agreement, and (2) the aggregate amount of Mandatory Sinking Account Payments required to be paid; all as computed for the then-current or any future Certificate Year in which such sum is the largest.

**Maximum Annual Debt Service** means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) there shall be excluded from the calculation of Maximum Annual Debt Service 80% of the Annual Debt Service on all obligations for which a Member has entered into a Guaranty; provided that no such exclusion shall be permitted in any Fiscal Year in which the Member has made a payment with respect to such Guaranty;

(b) for any Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Indebtedness will be amortized in accordance with such credit arrangement;

(c) for any Balloon Indebtedness and any Interim Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to thirty (30) years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest (determined as of the time of calculation of Maximum Annual Debt Service) equal to a rate certified by an Independent Consultant to be the rate at which the Obligated Group could reasonably expect to borrow by issuing an Obligation with a term of thirty (30) years;

(d) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the higher of: (i) the average rate of interest borne by such Long-Term Indebtedness during the twelve (12) month period immediately preceding the date of calculation (or which would have been borne as certified by an Independent Consultant if such Long-Term Indebtedness had been outstanding during the twelve (12) month period immediately preceding the date of calculation); or (ii) the average rate of interest borne by such Long-Term Indebtedness during the three (3) full calendar months immediately preceding the date of calculation (or which would have been borne as certified by an Independent Consultant if such Long-Term Indebtedness had been outstanding during the three (3) full calendar months immediately preceding the date of calculation);

(e) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness that is payable in the then-current Fiscal Year from sources other than the proceeds of such Long-Term Indebtedness;

(f) for any Indebtedness constituting Paired Obligations, the interest rate on such Indebtedness shall be the resulting fixed interest rate to be paid by the Member incurring such Indebtedness; and

(g) if moneys or Government Obligations have been deposited irrevocably with a trustee in an amount, together with earnings thereon, sufficient to pay all or a part of the principal of or interest on

Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall be excluded from the calculation of Maximum Annual Debt Service.

**Maximum Interest Rate** means with respect to Certificates in the Auction Rate, the Maximum Auction Rate; provided, however, that the Maximum Interest Rate shall not exceed the maximum interest rate permitted by law from time to time.

**Member** means each signatory to the Master Indenture (other than the Master Trustee), together with each other Person that is obligated under the Master Indenture to the extent and in accordance with the provisions of the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Member of the Obligated Group that withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture from and after the date of such withdrawal.

**Modified Debt Service** means, with respect to the period of time for which calculated, the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and sinking fund payments required to be paid during such period on all Long-Term Indebtedness, less the amount of any S.B. 1732 Reimbursement applied during such period to pay principal or interest on Long-Term Indebtedness and less any amounts on deposit in escrow to be applied during such period to pay principal or interest on Long-Term Indebtedness.

**Modified Historical Debt Service Coverage Ratio** means, for any period of time, the ratio determined by dividing Modified Income Available for Debt Service for that period by the Modified Debt Service for such period.

**Modified Income Available for Debt Service** means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period less S.B. 1732 Reimbursement received during such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles, and to which shall be added Net Transfers of Liquid Assets; provided that no such determination shall include any gain or loss resulting from either the extinguishment of Indebtedness or any disposition of capital assets not made in the ordinary course of business or any revenue of an Affiliate which is not a Member.

**Moody's** means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the County and the Trustee.

**National Repository** means any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

**Net Revenues** means the sum of total net operating revenues, plus net non-operating revenues, as shown on the consolidated or combined financial statements of the Obligated Group, as determined in accordance with generally accepted accounting principles, plus any investment income that is offset against interest expense in accordance with generally accepted accounting principles and as a result is not included in total operating revenues or non-operating revenues.

**Net Transfers of Liquid Assets** means (a) the average of transfers of cash or cash equivalents to a Member from an Affiliate which is not a Member for the two (2) most recent Fiscal Years immediately preceding the determination of Income Available for Debt Service for which audited financial statements are available minus (b) the annual average of transfers of cash or cash equivalents to such Affiliate during such period (excluding transfers in the ordinary course of business).

**Non-Recourse Indebtedness** means any Indebtedness that is not a general obligation and which is secured by a Lien, 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.

**Obligated Group** means all Members collectively.

**Obligated Group Representative** means the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

**Obligation** means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which has been authenticated by the Master Trustee and which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, interest rate swap agreements, loan agreements, leases or reimbursement agreements.

**Obligation Holder or Holder**, whenever used with respect to an Obligation, means the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

**Obligation No. 1** means the obligation issued pursuant to the Master Indenture and Supplement No. 1.

**Obligation No. 2** means the obligation issued pursuant to the Master Indenture and Supplement No. 2.

**Obligation No. 3** means the obligation issued pursuant to the Master Indenture and Supplement No. 3.

**Officer's Certificate** means a certificate signed by the Authorized Representative of the Obligated Group Representative.

**Official Statement** means that certain Official Statement, relating to the Certificates (including all exhibits or appendices thereto), used in connection with the offer and sale of the Certificates.

**Opinion of Bond Counsel**, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of public finance whose opinions are generally accepted by purchasers of obligations issued by or on behalf of a Government Issuer.

**Opinion of Counsel**, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Purchase Agreement, the Sale Agreement or the Trust Agreement, means a written opinion of counsel (who may be counsel for the County) selected by the County.

**Opinion of Counsel**, whenever used with respect to an opinion to be delivered pursuant to the provisions of the Master Indenture, means a written opinion signed by an attorney or firm of attorneys (who may be counsel for the Obligated Group Representative) acceptable to the Master Trustee.

**Optional Prepayment Account** means the account by that name in the Prepayment Fund established pursuant to the provisions of the Trust Agreement.

**Outstanding**, when used as of any particular time with reference to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore, or thereupon being, executed and delivered by the Trustee under the Trust Agreement except: (1) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Certificates with respect to which all liability of the County shall have been discharged in accordance with the defeasance provisions of the Trust Agreement; and (3) Certificates for the transfer or exchange of

or in lieu of or in substitution for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

**Outstanding**, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than: (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation; (2) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; (3) any Obligation held by any Member of the Obligated Group; and (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit that secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that Obligation that produces the greater amount of Debt Service to be included in the calculation being made.

**Paired Obligations** means Indebtedness, designated as Paired Obligations in a Certificate of the Obligated Group Representative, which are simultaneously outstanding and (i) the principal of which is of equal amount maturing and to be retired on the same dates and in the same amounts and (ii) the interest rates on which, taken together, result in an irrevocably fixed interest rate obligation of a Member for the term of such Indebtedness.

**Participating Underwriter** means the original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

**Payment Dates** means each Interest Payment Date and each Certificate Payment Date.

**Permitted Encumbrances** means and includes:

(a) Any judgment lien or notice of pending action against any Member so long as such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed;

(b) (i) 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; (ii) any liens on any Property for taxes, assessment, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due for less than ninety (90) days; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property that do not materially impair the use of such Property or materially and adversely affect the value thereof; (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof; and (v) to the extent that it affects title to any Property, the Master Indenture;

(c) Any Lien described in Exhibit A to the Master Indenture which was existing on the date of execution thereof, provided that no such Lien or the amount of Indebtedness secured thereby (other than Liens described in subsection (b) of this definition) 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, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(d) Any Lien in favor of the Master Trustee securing all Obligations (other than Non-Recourse Indebtedness) on a parity basis;

(e) Liens arising by reason of good faith deposits with 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;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any 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 similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

(g) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(h) Any Lien on the proceeds of Indebtedness in favor of the trustee with respect to such Indebtedness prior to the application of such proceeds;

(i) Liens on moneys deposited by patients or others with any Member as security for or as prepayment for the cost of patient care;

(j) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon, up to the fair market value of such Property;

(k) Statutory rights of the United States of America by reason of federal funds made available under 92 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(l) Liens securing Non-Recourse Indebtedness;

(m) Liens on Property acquired by a Member if an Officer's Certificate is delivered to the Master Trustee certifying that (i) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than a Member prior to the acquisition of such Property by a Member, and (ii) the Lien was created prior to the decision of the Member to acquire the Property and was not created for the purpose of enabling a Member to avoid the limitations hereof on creation of Liens on Property of the Obligated Group;

(n) Liens resulting from a Person's becoming a Member pursuant to the provisions of the Master Indenture or from a consolidation, merger or acquisition of assets pursuant to the provisions of the Master Indenture;

(o) Liens on accounts receivable and the proceeds thereof, provided that the principal amount of Indebtedness secured by any such Lien does not exceed the aggregate sales price of such accounts receivable received by the Member selling the same;

(p) Any leases entered into in accordance with the provisions of the Master Indenture described below under the caption "Sale, Lease or Other Disposition of Property," any leases, licenses or similar rights existing as of the date of the initial execution and delivery of the Master Indenture and any

renewals and extensions thereof, and any leases, licenses or similar rights to use Property whereunder a Member is lessee, licensee or the equivalent thereof;

(q) Liens on Property due to rights of third party payors for recoupment of excess reimbursement amounts paid to any Member;

(r) Liens on real property constituting Property not necessary for the delivery of patient care by any Member;

(s) Any other Lien on Property provided that:

(i) the Current Value of all Property encumbered by all Liens permitted by the provisions of the Master Indenture described in this subsection (s) does not exceed 10% of the Current Value of all Property of the Obligated Group at the time of creation of such Lien; or

(ii) the Book Value of all Property encumbered by all Liens permitted the provisions of the Master Indenture described by this subsection (s) does not exceed 10% of the Book Value of all Property of the Obligated Group at the time of creation of such Lien; or

(iii) the principal amount of Indebtedness secured by all Liens permitted by this subsection (s) does not exceed 10% of the lesser of the Current Value and the Book Value of all Property of the Obligated Group at the time of creation of such Lien;

(t) Purchase money security interests, whether now existing or hereafter created;

(u) Liens securing the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title agreement; and

(v) Any other Lien securing Indebtedness of any Member incurred in accordance with the provisions of the Master Indenture.

**Person** means an individual, corporation, firm, association, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**Prepayment Fund** means the fund by that name established pursuant to the provisions of the Trust Agreement.

**Prepayment Price** means, with respect to any Certificate (or portion thereof), the principal amount with respect to such Certificate (or portion) plus the applicable premium, if any, payable upon prepayment thereof pursuant to the provisions of such Certificate and the Trust Agreement.

**Primary Obligor** means that Member or those Members primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement. The Corporation and the Foundation are the Primary Obligors with respect to Obligation No. 3.

**Principal Fund** means the fund by that name established pursuant to the provisions of the Trust Agreement.

**Principal Revenue-Producing Operating Facility** means, with respect to any Member, an operating facility which accounts for 15% or more of gross revenues of such Member and for 10% or more of net income of such Member.

**Project Fund** means the fund by that name established pursuant to the provisions of the Trust Agreement.

**Projected Debt Service Coverage Ratio** means, for any future period of time, the ratio determined by dividing the projected Income Available for Debt Service for that period by the Maximum Annual Debt Service for the Long-Term Indebtedness expected to be Outstanding during such period.

**Property** means any and all rights, titles and interests in and to any and all property of a Member whether real or personal, tangible or intangible and wherever situated.

**Property, Plant and Equipment** means all Property of a Member which is considered property, plant and equipment of such Member under generally accepted accounting principles.

**Purchase Agreement or Installment Purchase Agreement** means that certain Installment Purchase Agreement, dated as of June 1, 2006, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

**Purchase Agreement Default** means any of the events of default so specified in the Purchase Agreement.

**Purchase Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Sale Agreement.

**Rate Period** means any period during which a single interest rate is in effect with respect to a Certificate.

**Real Property** means the real estate described in Exhibit A to the Purchase Agreement.

**Rebate Fund** means the Rebate Fund established pursuant to the provisions of the Trust Agreement.

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

**Regular Record Date** means with respect to any Interest Period during which the Interest Rate Mode is the Auction Rate, one (1) Business Day preceding an Interest Payment Date for such Interest Period.

**Related Bonds** means the revenue bonds, certificates of participation or other obligations issued or authorized to be executed and delivered by any Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Corporation or another Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer.

**Related Bond Indenture** means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds are issued or executed and delivered.

**Related Bond Issuer** means the Government Issuer of any issue of Related Bonds

**Related Bond Trustee** means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

**Related Supplement** means an indenture supplemental to, and authorized and executed pursuant to the term of, the Master Indenture.

**Repository** means each National Repository and each State Repository.



**Required Payment** means any payment required to be made by any Member under the Master Indenture, any Related Supplement, any Obligation or otherwise in connection with a Financing, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

**Revenues** means all amounts received by the County or the Trustee for the account of the County under the Trust Agreement pursuant or with respect to the Sale Agreement or Obligation No. 3, including, without limiting the generality of the foregoing, Installment Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including any Administrative Fees and Expenses, any Supplemental Payments, any indemnification or expenses paid by the Corporation to the County pursuant to the Purchase Agreement, the Sale Agreement or the Trust Agreement or any funds on deposit or required to be deposited in the Rebate Fund.

**Rule** means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**S.B. 1732 Reimbursement** means all amounts, including earnings thereon, received by the Corporation or any other Member of the Obligated Group from the State pursuant to an agreement entered into with the State pursuant to Section 14085.5(b)(5) of the Welfare and Institutions Code of the State.

**S&P** means Standard & Poor's Ratings Group, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the County and the Trustee.

**Sale Agreement, Installment Sale Agreement or Agreement** means the Installment Sale Agreement, dated as of June 1, 2006, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Trust Agreement.

**Sale Agreement Default** means any of the events of default so specified in the Sale Agreement.

**Series 1995 Certificates** means the certificates of participation, evidencing a proportionate interest of the Holders thereof in Installment Payments to be made by the County pursuant to the Series 1995 Purchase Agreement, designated as County of Madera Certificates of Participation (Valley Children's Hospital Project) Series 1995.

**Series 1995 Purchase Agreement** means the Installment Purchase Agreement, dated as of July 15, 1995, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms.

**Series 1995 Purchase Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Series 1995 Sale Agreement.

**Series 1995 Sale Agreement** means the Installment Sale Agreement, dated as of July 15, 1995, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms and the terms of the Series 1995 Trust Agreement.

**Series 1995 Sale Agreement Default** means any of the events of default so specified in the Series 1995 Sale Agreement.

**Series 1995 Supplemental Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Series 1995 Sale Agreement.

**Series 1995 Trust Agreement** means the Trust Agreement, dated as of July 15, 1995, among the County, the Corporation and BNY Western Trust Company, successor trustee to First Interstate Bank of California, as trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms.

**Series 1995 Trustee** means The Bank of New York Trust Company, N. A., successor to BNY Western Trust Company, successor to First Interstate Bank of California, as trustee, a national banking association organized and existing under the laws of the United States of America, or its successor, as trustee under the provisions of the Series 1995 Trust Agreement.

**Series 1998 Certificates** means the certificates of participation, evidencing a proportionate interest of the Holders thereof in Installment Payments to be made by the County pursuant to the Series 1998 Purchase Agreement, designated as County of Madera Certificates of Participation (Valley Children's Hospital Project) Series 1998.

**Series 1998 Purchase Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Series 1998 Sale Agreement.

**Series 1998 Sale Agreement** means the Installment Sale Agreement, dated as of April 1, 1998, between the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms and the terms of the Series 1998 Trust Agreement.

**Series 1998 Sale Agreement Default** means any of the events of default so specified in the Series 1998 Sale Agreement.

**Series 1998 Supplemental Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Series 1998 Sale Agreement.

**Series 1998 Trust Agreement** means the Trust Agreement, dated as of April 1, 1998, among the County, the Corporation and The Bank of New York Trust Company, N. A., successor trustee to BNY Western Trust Company, successor trustee to First Interstate Bank of California, as trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with its terms.

**Series of Obligations or Obligations of a Series** means all Obligations designated as being of the same series and issued pursuant to a single Related Supplement.

**Short-Term Indebtedness** means all Indebtedness which has an original term less than or equal to one (1) year and that is not renewable or extendable at the option of a Member to a date or for a period ending more than one (1) year after the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

**Sinking Accounts** means the subaccounts in the Principal Fund so designated and established pursuant to the provisions of the Trust Agreement.

**Special Counsel** means Orrick, Herrington & Sutcliffe LLP or independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes selected by an Authorized Representative of the Corporation.

**Special Prepayment Account** means the account by that name in the Prepayment Fund established pursuant to the provisions of the Trust Agreement.

**Special Record Date** means the date established by the Trustee pursuant to the Trust Agreement as the record date for the payment of defaulted interest with respect to the Certificates.

**Special Services Covenant** means the provisions of the Sale Agreement so designated by which the Corporation agrees to provide certain services as described in the Sale Agreement.

**State** means the State of California.

**State Repository** means any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

**Subordinated Indebtedness** means Indebtedness that by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment upon default to all Outstanding Obligations.

**Supplement No. 1** means that certain Supplemental Master Indenture of Trust for Obligation No. 1, dated as of July 15, 1995, between the Corporation and the Master Trustee.

**Supplement No. 2** means that certain Supplemental Master Indenture of Trust for Obligation No. 2, dated as of April 1, 1998, between the Corporation and the Master Trustee.

**Supplement No. 3** means that certain Supplemental Master Indenture of Trust for Obligation No. 3, dated as of June 1, 2006, between the Corporation and the Master Trustee.

**Supplemental Payments** means the payments so designated and required to be made by the Corporation pursuant to the provisions of the Sale Agreement.

**Supplemental Purchase Agreement** means any supplemental installment purchase agreement hereafter duly authorized and entered into between the County and the Corporation, supplementing, modifying or amending the Purchase Agreement; but only if and to the extent such Supplemental Purchase Agreement is specifically authorized under the Purchase Agreement and under the Trust Agreement.

**Supplemental Sale Agreement** means any supplemental installment sale agreement hereafter duly authorized and entered into between the County and the Corporation, supplementing, modifying or amending the Sale Agreement; but only if and to the extent that such Supplemental Sale Agreement is specifically authorized under the Sale Agreement and under the Trust Agreement.

**Supplemental Trust Agreement** means any supplemental trust agreement hereafter duly authorized and entered into among the County, the Corporation and the Trustee, supplementing, modifying or amending the Trust Agreement; but only if and to the extent such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

**Tax Agreement** means that certain Tax Certificate and Agreement, dated as of the date of initial execution and delivery of the Certificates, and executed by the County and the Corporation, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

**Trust Agreement** means that certain Trust Agreement, dated as of June 1, 2006, among the County, the Corporation and the Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

**Trustee** means The Bank of New York Trust Company, N. A. a national banking association organized and existing under the laws of the United States of America, or its successor, as trustee under the provisions of the Trust Agreement.

**Variable Rate Indebtedness** means Indebtedness the interest rate on which is not established, at the time of incurrence, at a fixed or constant rate, provided, however, that if the interest rate on such Indebtedness is subsequently converted to a fixed interest rate to maturity, such Indebtedness shall no longer be treated as Variable Rate Indebtedness for any purpose under the Master Indenture.

**Weekly Rate** means the Interest Rate Mode in which the interest rate with respect to the Certificates is determined weekly in accordance with the provisions of the Trust Agreement.

## **INSTALLMENT PURCHASE AGREEMENT**

### **Installment Purchase and Sale of the Real Property**

The Corporation in the Purchase Agreement sells to the County, and the County purchases from the Corporation, the Real Property at the price set forth in the Purchase Agreement and otherwise in the manner and in accordance with the provisions of the Purchase Agreement. The County and the Corporation agree that title to the Real Property shall immediately be deemed conveyed to and vested in the County.

### **Payment Provisions**

**Purchase Price.** The purchase price of the Real Property is \$40,000,000 (the "principal component"), payable in accordance with the installment payment schedule set forth in the Purchase Agreement, plus the interest to accrue on the unpaid balance of such principal component over the term of this Purchase Agreement. All amounts attributable to interest (the "interest component") shall be calculated and determined in accordance with the provisions set forth in Article II of the Trust Agreement concerning the method of determining interest represented by the Certificates and shall be paid by the County as and constitute interest.

The County shall pay the purchase price through Installment Payments, over a period of approximately thirty (30) years; provided, however, that the County's obligation to make the Installment Payments is limited exclusively to the payments, and other moneys and assets received by the Trustee on behalf of the County pursuant to the Sale Agreement and/or Obligation No. 3 and the County is not directly or indirectly or contingently or morally obligated to make Installment Payments from any other moneys or assets of the County. Subject to that limitation, the interest component of the Installment Payments shall be paid on the fifth Business Day prior to each Interest Payment Date and the principal component of the Installment Payments shall be paid annually by the County on the fifth Business Day prior to March 15 in each of the years set forth in the schedule in the Purchase Agreement (provided that while the Certificates bear interest at an Auction Rate, if March 15 of any year set forth in the schedule in the Purchase Agreement is not an Interest Payment Date, the amount attributable to principal shall be payable on the fifth Business Day prior to the Interest Payment Date immediately preceding such March 15).

The Installment Payments shall be made to the Trustee at the Corporate Trust Office. In the event the County should fail to make any of the Installment Payments, the Installment Payments so unpaid shall continue as an obligation of the County until such amount shall have been fully paid and the County agrees to pay the same with interest thereon at a rate of interest equal to the rate of interest on the unpaid principal components of such unpaid Installment Payments, subject to the limitations set forth in the Purchase Agreement.

The Corporation agrees in the Sale Agreement to make each Purchase Payment due under the Sale Agreement directly to the Trustee in satisfaction of the County's Installment Payment obligations under the Purchase Agreement. The County grants to the Corporation a security interest in the Purchase Payments for the purpose of securing the Installment Payments due from the County under the Purchase Agreement.

The County shall have the right at any time or from time to time to prepay all or any part of the Installment Payments from prepayments received from the Corporation pursuant to and subject to the terms of the Sale Agreement.

**Obligations of County Unconditional.** The obligations of the County to make the payments required under the Purchase Agreement and to perform and observe the other agreements on its part contained in the Purchase Agreement are absolute and unconditional except as otherwise provided in the Purchase Agreement, and, until such time as all of the Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made in accordance with the provisions of the Purchase Agreement), the County (i) will not suspend or discontinue any payments provided for in the Purchase Agreement, (ii) will perform and observe all of its other agreements contained in the Purchase Agreement, and (iii) will not terminate the Purchase Agreement for any cause

including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Facilities or the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Purchase Agreement.

Nothing in the Purchase Agreement shall be construed to release the Corporation from the performance of any of the agreements on its part contained in the Purchase Agreement; and in the event the Corporation should fail to perform any such agreement, the County may institute such action against the Corporation as the County may deem necessary to compel performance or recover its damages for nonperformance so long as such action shall not violate the agreements of the County contained in the Purchase Agreement.

**Limitation on Liability of County.** Notwithstanding anything to the contrary contained in the Purchase Agreement, the County is not obligated to pay any Installment Payment or any portion of the purchase price or make any other payments or advance any moneys or be liable for any other costs or expenses except from the payments and other moneys and assets received by the County pursuant to the Sale Agreement or Obligation No. 3. The County is not directly or indirectly or contingently or morally obligated to use any other moneys or assets of the County for all or any portion of the purchase price or for all or any portion of such other costs or expenses. Neither the faith and credit nor the taxing power of the County or the State or any political subdivision thereof is pledged to the payment of the principal component or premium or interest component with respect to the Certificates.

#### **Purchase Agreement Defaults and Remedies**

**Purchase Agreement Defaults Defined.** The following events shall be "Purchase Agreement Defaults:"

(A) Failure by the County to pay or cause to be paid any Installment Payment required to be paid under the Purchase Agreement at the time specified therein;

(B) Failure by the County to observe and perform any covenant, condition or agreement in the Purchase Agreement on its part to be observed or performed, other than as described above in paragraph (A) for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the County by the Corporation or the Insurer, unless the Corporation and the Insurer shall agree in writing to an extension of such time; or

(C) A Sale Agreement Default.

**Remedies on Default.** Whenever any Purchase Agreement Default shall have happened and be continuing, the Trustee, as assignee of the Corporation, may take any one or more of the following remedial steps; provided, however, that the Trustee, prior to taking any such steps, shall obtain the written consent of the Insurer if the Insurance is then in full force and effect and if the Insurer has not failed to make a payment as required in connection therewith:

(A) The Trustee may, if the payment of the Certificates has been accelerated pursuant to the provisions of the Trust Agreement and upon notice to the County, declare the principal component of all Installment Payments, plus all accrued and unpaid interest thereon, to be immediately due and payable, whereupon the same shall become immediately due and payable; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to the provisions of the Trust Agreement, acceleration of the Installment Payments shall be rescinded and annulled, but no such rescission and annulment shall extend to or affect any subsequent default or shall impair or exhaust any right or power consequent thereto;

(B) The Trustee may exercise and enforce all or any of the rights and remedies provided for in the Sale Agreement; and/or

(C) The Trustee may take whatever action at law or in equity as may appear necessary or desirable to enforce performance and observance of any obligation, condition or covenant of the County under the Purchase Agreement.

Notwithstanding any other provision of the Purchase Agreement to the contrary, subject to the limitations on the rights of the Insurer set forth in the Purchase Agreement, the Insurer shall have the right at any time during the continuance of a Purchase Agreement Default, by an instrument or instruments in writing to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of this Purchase Agreement, including, without limitation, the right to accelerate, to annul any declaration of acceleration, and to approve all waivers of Purchase Agreement Defaults under the Purchase Agreement, provided that such direction shall not be otherwise than in accordance with the provisions of law and the Purchase Agreement.

**No Remedy Exclusive.** No remedy conferred upon or reserved to the Corporation, the Trustee or the Insurer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Purchase Agreement or now or hereafter existing at law or in equity or by statute. No delay in exercising or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Corporation to exercise any remedy reserved to it, it shall not be necessary to give any notice, other than such notice as may be expressly required under the Purchase Agreement. Such rights and remedies as are given to the Corporation under the Purchase Agreement shall also extend to the Trustee and to the Insurer, and the Corporation, the Trustee, the Insurer and the Holders of the Certificates executed and delivered pursuant to the Trust Agreement shall be deemed third party beneficiaries of all covenants and conditions contained in the Purchase Agreement.

**Agreement to Pay Attorneys' Fees and Expenses.** In the event the County should default under any of the provisions of the Purchase Agreement and the Corporation should employ attorneys or incur other expenses for the enforcement of performance or observance of any obligation or agreement on the part of the County contained in the Purchase Agreement, the County agrees that it will on demand therefor pay to the Corporation the actual and reasonable fees and expenses of such attorneys and such other expenses so incurred by the Corporation, subject to the limitations set forth in the Purchase Agreement.

**No Additional Waiver Implied by One Waiver.** In the event any agreement contained in the Purchase Agreement should be breached by either party and thereafter waived by the Corporation, the Trustee or the Insurer, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Purchase Agreement.

## **INSTALLMENT SALE AGREEMENT**

### **Installment Purchase and Sale of the Facilities**

The County in the Sale Agreement sells to the Corporation, and the Corporation purchases from the County, the Real Property at the purchase price (payable in installments) specified in the Sale Agreement and otherwise in the manner and in accordance with the provisions of the Sale Agreement. The County and the Corporation agree that title to the Real Property shall immediately be deemed conveyed to and vested in the Corporation.

As additional consideration for the conveyance of the Real Property to the Corporation, the Corporation, as Obligated Group Representative, agrees to issue and cause to be authenticated and delivered to the County or its designee, pursuant to the Master Indenture and Supplement No. 3, Obligation No. 3. The County agrees that Obligation No. 3 shall be registered in the name of the Trustee.

### **Payment Provisions**

**Purchase Price.** The Corporation shall pay the purchase price for the Real Property conveyed by making installment payments, to be referred to as "Purchase Payments." The Corporation shall pay the Purchase

Payments to the Trustee, as assignee of the County, for deposit in the Interest Fund and Principal Fund. The Purchase Payments, in the aggregate, shall be in an amount sufficient for the payment in full of all obligations to the Holders of the Certificates from time to time Outstanding under the Trust Agreement, including the total interest components due and payable with respect to the Installment Payments of the County under the Purchase Agreement, the total principal components of such Installment Payments, including Mandatory Sinking Account Payments as provided in the Trust Agreement, and the prepayment premiums, if any, that shall be payable on the prepayment of Certificates prior to their respective stated Certificate Payment Dates; less the amount of other funds available for such payment as provided in the Trust Agreement.

The Corporation shall pay the Purchase Payments as follows: (i) on or before the fifth Business Day next preceding each Interest Payment Date, the full amount of the interest with respect to the Certificates becoming due and payable on such Interest Payment Date on all Certificates then Outstanding (less any amounts on deposit in the Interest Fund available for the payment of such interest); and (ii) on or before the fifth Business Day next preceding each Principal Payment Date, the aggregate amount of principal with respect to the Certificates becoming due and payable on the Certificates then Outstanding, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid, in each case on such Principal Payment Date (less any amounts on deposit in the Principal Fund available for the payment of such principal or Mandatory Sinking Account Payments); provided that while the Certificates bear interest at an Auction Rate, if any Mandatory Sinking Account Payment date is not an Interest Payment Date, the amount of such Mandatory Sinking Account payment shall be payable on the fifth Business Day prior to the Interest Payment Date immediately preceding such Mandatory Sinking Account Payment date in order to enable the Trustee to prepay Certificates from such Mandatory Sinking Account payment in accordance with the provisions of the Trust Agreement.

Each Purchase Payment shall be paid in lawful money of the United States of America to the Trustee at the Corporate Trust Office and held, invested, disbursed and applied as provided in the Trust Agreement. The Corporation shall make each such Purchase Payment directly to the Trustee in satisfaction of the County's Installment Payment obligations under the Purchase Agreement. In the event the Corporation should fail to make any of the payments required by the provisions of the Sale Agreement described herein, the installment so in default shall continue as an obligation of Corporation until the amount in default shall have been fully paid with interest thereon at a rate of interest equal to the rate of interest on the principal components of such unpaid Purchase Payments.

The Corporation shall pay to the County, at the time the Sale Agreement is executed and delivered, an amount sufficient to pay any taxes which may be imposed by the State or the County on the sale, resale, use, possession or ownership of the Real Property conveyed pursuant to the Sale Agreement and the Purchase Agreement. If the State or the County later requires the payment of additional taxes on such sale, and resale, use, possession or ownership, the Corporation will pay such amounts when and as due and payable.

**Supplemental Payments.** In addition to Purchase Payments, the Corporation shall also pay to the County or to the Trustee, as the case may be, "Supplemental Payments," as follows:

(A) All taxes and assessments of any type or character charged to the County or to the Trustee affecting the amount available to the County or the Trustee from payments to be received under the Sale Agreement or in any way arising due to the transactions contemplated by the Sale Agreement, the Purchase Agreement or the Trust Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments), but excluding franchise taxes based upon the capital and/or income of the County or the Trustee and taxes based upon or measured by the net income of the County or the Trustee; provided, however, that the Corporation shall have the right to protest and contest any such taxes or assessments and to require the County or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon the County or the Trustee and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Holders, the County or the Trustee;

(B) The annual (or other regular) fees and expenses of the Trustee and all reasonable fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Trust Agreement, as and when the same become due and payable;

(C) The reasonable fees and expenses of such accountants, management consultants, attorneys and other experts as may be engaged by the County or the Trustee to prepare audits, financial statements, reports or opinions or to provide such other services required under the Sale Agreement, the Purchase Agreement, the Trust Agreement, Supplement No. 3 and Obligation No. 3;

(D) The reasonable fees and expenses of the County in connection with the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Certificates or Obligation No. 3, including, without limitation, any and all expenses incurred in connection with the authorization, sale and delivery of the Certificates or in connection with any litigation which may at any time be instituted involving the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Certificates or Obligation No. 3, or any of the other documents contemplated thereby; and

(E) All other reasonable and necessary fees and expenses attributable to the Sale Agreement.

Such Supplemental Payments shall be billed to the Corporation by the County or the Trustee from time to time. After such a demand, amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of such bill by the Corporation.

**Gross Revenue Fund.** Under the Series 1995 Sale Agreement, the Corporation agreed that, as long as any of the Series 1995 Certificates remain Outstanding or any Series 1995 Supplemental Payments remain unpaid or any payment required with respect to indebtedness incurred by the Corporation and secured on a parity basis with the Series 1995 Purchase Payments and the Series 1995 Supplemental Payments (herein referred to as "Parity Debt"), including Obligations issued under the Master Indenture, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Corporation has agreed to establish and maintain, subject to the provisions of the Series 1995 Sale Agreement described in the following paragraph, in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate, in writing to the Series 1995 Trustee for such purpose (herein called the "Depository Bank(s)"). Subject only to the provisions of the Series 1995 Sale Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation pledged, and to the extent permitted by law, granted a security interest to the Series 1995 Trustee, as assignee of the County, in the Gross Revenue Fund and all of the Gross Revenues to secure the payment of the Series 1995 Purchase Payments, the Series 1995 Supplemental Payments, payments with respect to Obligation No. 1 and any payments required in connection with Parity Debt, which payments include Series 1998 Purchase Payments, the Series 1998 Supplemental Payments, payments with respect to Obligation No. 2, the Purchase Payments, the Supplemental Payments and payments with respect to Obligation No. 3, and the performance by the Corporation of its other obligations under the Series 1995 Sale Agreement, the Series 1998 Sale Agreement and the payment and performance of all obligations of the Corporation under any agreement securing Parity Debt, which includes the Sale Agreement.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as otherwise provided in the Series 1995 Sale Agreement. In the event that the Corporation is delinquent for more than one (1) Business Day in the payment or required prepayment of any Series 1995 Purchase Payment, Series 1995 Supplemental Payment or any payment with respect to Parity Debt, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, the Series 1995 Trustee shall notify the Corporation and the Depository Bank(s) of such delinquency, and, unless such Series 1995 Purchase Payment, Series 1995 Supplemental Payment or payment with respect to Parity Debt, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, is paid within ten (10) days after receipt of such notice, the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Series 1995 Trustee, as assignee of the County. The Gross Revenue Fund shall remain in the name and to the credit of the Series 1995 Trustee, until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Series 1995 Purchase Payments and Series 1995 Supplemental Payments in default and payments required with respect to Parity Debt, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, in default and until all other Series 1995 Sale Agreement Defaults and events of default with respect to Parity Debt, including Series 1998 Sale Agreement Defaults and Sale Agreement Defaults, known to the Series 1995 Trustee shall have been made good or cured to the satisfaction of the Series 1995 Trustee or provision deemed by the Series 1995 Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund



(except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Series 1995 Trustee, the Series 1995 Trustee shall use and withdraw from time to time amounts in said fund, to make Series 1995 Purchase Payments, Series 1995 Supplemental Payments and the other payments required of the Corporation under the Series 1995 Sale Agreement or with respect to any Parity Debt, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Series 1995 Purchase Payments, Series 1995 Supplemental Payments and debt service on such Parity Debt, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, ratably, according to the amounts due respectively for Series 1995 Purchase Payments, Series 1995 Supplemental Payments and such debt service, including any Series 1998 Purchase Payment, Series 1998 Supplemental Payment, Purchase Payment or Supplemental Payment, without any discrimination or preference, and to such other payments in the order which the Series 1995 Trustee, in its discretion, shall determine to be in the best interests of the holders of the Series 1995 Certificates and such Parity Debt, including holders of the Series 1998 Certificates and Holders of the Certificates, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Series 1995 Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Series 1995 Trustee so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues.

Pursuant to the Sale Agreement, the Corporation agrees that, as long as any of the Certificates remain Outstanding or any Supplemental Payments remain unpaid, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in the Gross Revenue Fund established and maintained by the Corporation pursuant to the provisions of the Series 1995 Sale Agreement, which provisions are incorporated by reference in the Sale Agreement and reaffirmed for the benefit of the County and the Holders of the Certificates.

**Obligations of the Corporation Unconditional; Net Contract.** The obligations of the Corporation to make the Purchase Payments and Supplemental Payments required under the Sale Agreement and to perform and observe the other agreements on its part contained in the Sale Agreement are absolute and unconditional, and shall not be abated, rebated, set-off, reduced, abrogated, terminated, waived, diminished, postponed or otherwise modified in any manner or to any extent whatsoever, while any Certificates remain Outstanding or any Supplemental Payments remain unpaid, regardless of any contingency, act of God, event or cause whatsoever, including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, eviction or constructive eviction, the taking by eminent domain or destruction of or damage to the Real Property or the Facilities, commercial frustration of purpose, any change in the laws of the United States of America or of the State or any political subdivision of either or in the rules or regulations of any governmental authority, or any failure of the County to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Sale Agreement, the Purchase Agreement or the Trust Agreement. The Sale Agreement shall be deemed and construed to be a "net contract," and the Corporation shall pay absolutely net the Purchase Payments, Supplemental Payments and all other payments required under the Sale Agreement, regardless of any rights of set-off, recoupment, abatement or counterclaim that the Corporation might otherwise have against the County or the Trustee or any other party or parties.

**Credits for Payments.** The Corporation shall receive credit against its payments required under the Sale Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

- (a) on installments of interest in an amount equal to moneys in the Interest Fund, to the extent such amounts have not previously been credited against such payments;
- (b) on installments of principal in an amount equal to moneys in the Principal Fund, to the extent such amounts have not previously been credited against such payments; and
- (c) on installments of principal and interest in an amount equal to the amount specified in the Certificate of the Corporation filed with the Trustee pursuant to the provisions of the Sale Agreement in

connection with the prepayment of Purchase Payments. Such credits shall be made against the installments of Purchase Payments specified in said Certificate of the Corporation.

**Prepayment.** The Corporation shall have the right at any time or from time to time to the extent, in the manner and as permitted by the provisions of the Trust Agreement, to prepay all or any part of the Purchase Payments, and the County shall accept such prepayments when the same are tendered by the Corporation.

(A) All prepayments being made from moneys derived from condemnation awards or the proceeds of hazard insurance relating to the Facilities shall be deposited in the Special Prepayment Account and used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement.

(B) All prepayments being made from Mandatory Sinking Account Payments shall be deposited in the Sinking Account and used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement.

(C) All prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the prepayment of Certificates) being made by the Corporation in connection with optional prepayment of the Certificates in accordance with the provisions of the Trust Agreement shall be deposited in the Optional Prepayment Account and, at the request of the Authorized Representative of the Corporation, credited against Purchase Payments due from the Corporation in order of their due date or used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement. The Corporation shall also have the right to surrender Certificates acquired by the Corporation in any manner whatsoever to the Trustee for cancellation, and such Certificates, upon such surrender and cancellation, shall be deemed to be paid and retired and shall be applied as set forth in the Trust Agreement.

Notwithstanding any such prepayment or surrender of Certificates, as long as any Certificates remain Outstanding or any Purchase Payments or Supplemental Payments remain unpaid, the Corporation shall not be relieved of its obligations under the Sale Agreement.

### **Particular Covenants**

**Tax Covenant.** The Corporation shall not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income for federal income tax purposes under Section 103 of the Code of the interest component payable with respect to the Certificates.

**Special Services Covenant.** As long as any Certificates are Outstanding, the Corporation covenants and agrees that it will operate the Facilities within the territorial limits of the County for the benefit of, among others, the residents of the County. For the benefit of the residents of the County, the Corporation further covenants and agrees that, as long as any Certificates are Outstanding, it will provide or cause to be provided general acute care pediatric services to the residents of the County and such community health education programs as it may from time to time determine. Notwithstanding the foregoing, the Corporation may, without the consent of the County, discontinue providing any specific medical service offered on the date of execution and delivery of the Certificates which, in the opinion of the Corporation, becomes inadequate, obsolete, unsuitable, undesirable or outmoded due to an advance in medical technique or technology or otherwise.

Notwithstanding the provisions described above, the failure of the Corporation to operate the Facilities as described above shall not constitute a Sale Agreement Default but, in the event of such failure, the County shall be entitled, at the expense of the Corporation, to institute and prosecute an action in any court or before any board or commission having jurisdiction to compel the Corporation to comply with the covenant described above and to exercise whatever other remedies (including an action for damages) the County might have with respect thereto arising from the Sale Agreement.

**Continuing Disclosure Covenant.** The Corporation covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding the covenant described

above, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not constitute a Sale Agreement Default, but in the event of such failure, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least twenty-five (25%) aggregate principal amount of Certificates Outstanding, shall) or any Holder or any Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the provisions of the Sale Agreement described herein. In the event that the Interest Rate Mode on the Certificates shall be converted to the Daily Rate, the Weekly Rate, or the Commercial Paper Rate, for so long as the Certificates bear interest at a Daily Rate, a Weekly Rate, or a Commercial Paper Rate, the Corporation shall not be required to comply with the provisions of the Continuing Disclosure Agreement unless the Rule shall require such continuing disclosure undertaking.

#### **Non-Liability of County; Expenses; Indemnification**

**Non-Liability of County.** The County shall not be obligated to pay Installment Payments or the principal component, prepayment premium, if any, or interest component with respect to the Certificates, except from Revenues. The County shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the County for all or any portion of the Installment Payments or for all or any portion of such other costs or expenses. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof or the County is pledged to the payment of the principal component, prepayment premium, if any, or interest component with respect to the Certificates.

The Corporation acknowledges in the Sale Agreement that the County's sole source of moneys to pay Installment Payments will be provided by the payments made by the Corporation pursuant to the Sale Agreement and payments made under Obligation No. 3, and agrees that if the payments to be made under the Sale Agreement shall ever prove insufficient to pay any Installment Payment or all principal components, prepayment premium, if any, and interest components with respect to the Certificates as the same shall become due (whether by maturity, prepayment, acceleration or otherwise), then upon notice from the Trustee, the Corporation shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal components, prepayment premium or interest components, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the County, the Trustee, the Corporation or any third party, including, without limitation, the Insurer.

**Expenses.** The Corporation covenants and agrees to pay and to indemnify the County and the Trustee (the assignee of the County's rights under the Sale Agreement) against all fees, costs and charges, including reasonable fees of attorneys, accountants, consultants and other experts, incurred in good faith or arising out of or in connection with the Sale Agreement, the Purchase Agreement, the Trust Agreement, the Master Indenture, Supplement No. 3, Obligation No. 3, the Certificates or any related document.

**Indemnification.** The Corporation agrees, to the extent permitted by law, to indemnify and hold harmless the County, the members of its Board of Supervisors of the County and its officers, employees and agents, and the Trustee (the assignee of the County's rights under the Sale Agreement) and its directors, officers, employees and agents from and against any and all losses, claims, damages, liabilities or expenses, of every conceivable kind, character and nature whatsoever (excepting therefrom only such losses, claims, damages, liabilities, or expenses arising from the gross negligence of the County or the negligence of the Trustee), including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting from or in any way connected with (1) the Project or the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of the Project or Facilities or any part thereof; (2) the execution, delivery and sale of any Certificates and the carrying out of any of the transactions contemplated by the Certificates, the Sale Agreement, the Purchase Agreement, the Trust Agreement, the Master Indenture, Supplement No. 3, Obligation No. 3, the Tax Agreement or any related document; (3) any violation of any Environmental Regulation or the release of any Hazardous Substance on or near the Project or the Facilities; or (4) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Certificates; provided, however, that such indemnification shall not apply to (a) in the case of the County, information in the Official Statement, in the section entitled "The County" and (b) in the case of the Trustee, any information in the Official

Statement relating to the Trustee or its powers. The Corporation further agrees, to the extent permitted by law, to pay or to reimburse the County and the members of the Board of Supervisors of the County and the Trustee and its directors and their respective officers, employees and agents for any and all costs, reasonable attorneys' fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions.

### **Sale Agreement Defaults and Remedies**

**Sale Agreement Defaults.** The following events shall be "Sale Agreement Defaults":

(A) Failure by the Corporation to pay in full any payment required under the Sale Agreement when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Sale Agreement;

(B) If any representation or warranty made by the Corporation in the Sale Agreement or in any document, instrument or certificate furnished to the Trustee or the County in connection with the execution and delivery of the Certificates shall at any time prove to have been incorrect in any material respect as of the time made;

(C) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Sale Agreement on its part to be observed or performed, other than as described in paragraph (A) or (B), above and other than with respect to the covenants described above under the caption "Special Services Covenant" and "Continuing Disclosure Covenant"), or shall breach any warranty by the Corporation contained in the Sale Agreement, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that the same be remedied, has been given to the Corporation by the County or the Trustee or the Insurer, unless the County, the Trustee and the Insurer shall agree in writing to an extension of such time;

(D) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Facilities;

(E) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(F) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the Facilities of the Corporation, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

(G) If any Event of Default under the Trust Agreement or a Purchase Agreement Default shall occur; or

(H) If any Event of Default under the Master Indenture shall occur.

**Remedies on Default.** If a Sale Agreement Default shall occur, then, and in each and every such case during the continuance of such Sale Agreement Default, the County or the Trustee may take any one or more of the remedial steps, provided, however, that the County or the Trustee, prior to taking any such steps, shall obtain the

written consent of the Insurer if the Insurance is in full force and effect and if the Insurer has not failed to make a payment as required in connection therewith:

(A) If Obligation No. 3 has been declared immediately due and payable and if the Purchase Payments and the Certificates represented thereby have been declared to be due and payable immediately pursuant to the provisions of the Trust Agreement and upon notice in writing to the Corporation, the County or the Trustee shall declare all installments of Purchase Payments and Supplemental Payments payable for the remainder of the term of the Sale Agreement to be immediately due and payable, whereupon the same shall be immediately due and payable, anything in the Sale Agreement to the contrary notwithstanding; "all installments" as used in this subsection (A) shall mean an amount equal to the entire principal components of the Purchase Payments represented by the Certificates then Outstanding, together with any applicable prepayment premiums and all interest components of the Purchase Payments accrued or to accrue on and prior to the next succeeding prepayment date or dates on which the Certificates can be prepaid after giving notice to the Holders thereof as required by the Trust Agreement (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due under the Sale Agreement, including, without limitation, any unpaid fees and expenses of the Trustee which are then due or will become due prior to the time that the Certificates are paid in full and the trust established by the Trust Agreement is terminated; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to the provisions of the Trust Agreement, acceleration of the Purchase Payments and the Supplemental Payments shall be rescinded and annulled.

(B) The County and the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Purchase Payments, Supplemental Payments and any other payments then due and thereafter to become due under the Sale Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Sale Agreement to be observed or performed by the Corporation.

Any such action by the County or the Trustee, however, is subject to the condition that if, at any time after such action and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Purchase Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Purchase Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the County or the Trustee (other than in the payment of the Purchase Payments due and payable solely by reason of such action) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall rescind and annul such action and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Notwithstanding the foregoing, if the Insurance is in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith, the Insurer shall have the right to direct the remedies upon any Sale Agreement Default and the consent of the Insurer shall be required to remedial action taken under the Sale Agreement, including the declaration or annulment of a declaration of acceleration.

**Remedies Not Exclusive; No Waiver of Rights.** No remedy conferred upon or reserved to the County, the Trustee or the Insurer under the Sale Agreement is intended to be exclusive of any other available remedy or remedies, but each and every such remedy, to the extent permitted by law, shall be cumulative and shall be in addition to every other remedy given under the Sale Agreement or now or hereafter existing at law or in equity or otherwise. In order to entitle the County, the Trustee or the Insurer to exercise any remedy, to the extent permitted by law, reserved to such party in the Sale Agreement, it shall not be necessary to give any notice, other than such notice as may be expressly required under the Sale Agreement. Such rights and remedies as are given to the County under the Sale Agreement shall also extend to the Trustee, and the Trustee may exercise any rights and will be charged with the obligations of the County under the Sale Agreement, and the Trustee, the Insurer and the Holders of the Certificates executed and delivered under the Trust Agreement shall be deemed third party beneficiaries of all covenants and conditions contained in the Sale Agreement.

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

**Expenses on Default.** In the event the Corporation should default under any of the provisions of the Sale Agreement and the County or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Sale Agreement, the Corporation agrees that it will on demand therefor pay to the County or the Trustee the reasonable fees of such attorneys and such other reasonable expenses so incurred by the County or the Trustee.

## TRUST AGREEMENT

### Validity of Certificates

The validity of the authorization, execution and delivery of the Certificates is not dependent on and shall not be affected in any way by any proceedings taken by the County or the Trustee with respect to or in connection with the Sale Agreement or the Purchase Agreement.

### Pledge and Assignment of Revenues

Pursuant to the Trust Agreement, the County transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates, (i) all of its interests in the Revenues and any other amounts held in any fund or account established pursuant to the Trust Agreement, excluding the Rebate Fund and the Purchase Fund, Administrative Fees and Expenses and any amounts paid by the Corporation relating to indemnification and reimbursement of certain expenses, pledged pursuant to the Trust Agreement, (ii) all of its right, title and interest in Obligation No. 3, and (iii) all of its right, title and interest in the Sale Agreement, excluding the right to receive any Administrative Fees and Expenses payable to the County and the rights of the County to receive amounts relating to indemnification and reimbursement of certain expenses paid by the Corporation pursuant to the Sale Agreement.

Pursuant to the Trust Agreement, the Corporation hereby transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates, (i) all of its interests in the Installment Payments, (ii) all of its interest in the Revenues and any other amounts held in any fund or account established pursuant to the Trust Agreement, excluding the Rebate Fund and the Purchase Fund, Administrative Fees and Expenses and any amounts relating to indemnification and reimbursement of certain expenses paid to the County pursuant to the Sale Agreement, pledged pursuant to the Trust Agreement, and (iii) all of its right, title and interest in the Purchase Agreement.

The Trustee shall be entitled to and shall collect and receive all of the Revenues. The Trustee also shall be entitled to and shall take all steps, actions and proceedings following a Sale Agreement Default reasonably necessary in its judgment to enforce all of the rights of the County which have been assigned to the Trustee, all of the obligations of the Corporation under the Sale Agreement (other than with respect to the special services covenant) and all obligations of the Members of the Obligated Group under Obligation No. 3.

### Establishment of Funds and Accounts

The Trustee shall establish the following funds and accounts pursuant to the Trust Agreement: (1) Project Fund; (2) Costs of Delivery Fund; (3) Interest Fund; (4) Principal Fund, including the Sinking Accounts; (5) Prepayment Fund, including the Optional Prepayment Account and the Special Prepayment Account; (6) Certificate Reserve Fund; and (7) Rebate Fund.

**Establishment and Application of Project Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." Moneys in the Project Fund shall be used and withdrawn by the Trustee, as directed by Requisitions of the Corporation, submitted by the Corporation, to pay the costs of the Project.

Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Trustee a Requisition of the Corporation stating, in part, that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund.

Upon receipt of each such Requisition of the Corporation, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be so paid, which has not been released or will not be released simultaneously with such payment.

When the Project shall have been completed, the Corporation shall deliver to the Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Subject to the provisions of the Trust Agreement, upon the receipt of such Certificate, the Trustee shall, as directed by the Certificate, transfer any remaining balance in the Project Fund, less the amount of any such retention, to the Interest Fund or to Optional Prepayment Account as the Certificate shall specify and the Project Fund shall thereupon be closed.

**Establishment and Costs of Delivery Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Delivery Fund." All moneys deposited in the Costs of Delivery Fund shall be used to pay Costs of Delivery of the Certificates. At the end of one hundred eighty (180) days from the date of initial execution and delivery of the Certificates or upon earlier receipt of a Statement of the Corporation that amounts in the Costs of Delivery Fund are no longer required for the payment of Costs of Delivery, the Costs of Delivery Fund shall be closed and any amounts then remaining shall be transferred to the Project Fund.

**Establishment and Application of Interest Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Interest Fund." Moneys in the Interest Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Trust Agreement. The Trustee shall deposit the following Revenues in the Interest Fund when and as such Revenues are received unless otherwise directed by the Insurer: (i) the interest component of all Purchase Payments, including the interest component of all cash prepayments of Purchase Payments made pursuant to the provisions of the Sale Agreement; (ii) the interest component of all payments made pursuant to Obligation No. 3; (iii) after completion of the Project, all interest, profits and other income received from the investment of moneys in the Interest Fund; and (iv) any other Revenues not required to be deposited in any other fund or account established pursuant to the Trust Agreement.

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest component of the Installment Payments of the County as the same become due and payable pursuant to the Purchase Agreement (including accrued interest with respect to any Certificates purchased or prepaid prior to their stated Certificate Payment Date pursuant to the Trust Agreement), which interest is payable to the Holders as their respective Certificates become due and payable.

**Establishment and Application of Principal Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Principal Fund." Moneys in the Principal Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Trust Agreement. The Trustee shall deposit the following Revenues in the Principal Fund when and as such Revenues are received: (i) the principal component of all Purchase Payments, but excluding the principal component of all cash prepayments of Purchase Payments made pursuant to the provisions of the Sale Agreement, which shall be deposited in the Prepayment Fund; (ii) the principal component of all payments made pursuant to Obligation No. 3, but excluding the principal component of all cash prepayments of Purchase Payments made pursuant to Obligation No. 3, which shall be deposited in the Optional Prepayment Account; and (iii) after completion of the Project, all interest, profits and other income received from the investment of moneys in the Principal Fund.

All amounts in the Principal Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal component of the Installment Payments of the County as the same become due and payable

pursuant to the Purchase Agreement, which principal component is payable to the Holders as their respective Certificates become due and payable.

The Trustee shall establish and maintain within the Principal Fund a separate account designated as the "2036 Sinking Account." On each Mandatory Sinking Account Payment date, the Trustee shall apply the Mandatory Sinking Account Payment required on that date (or, as and to the extent applicable, on the Interest Payment Date preceding such Mandatory Sinking Account Payment Date as provided in the Trust Agreement) hereof to the prepayment (or payment on their stated Certificate Payment Date, as the case may be) of Certificates, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such prepayment, the Trustee may apply moneys in the Sinking Account to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Certificates. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Certificates with moneys in the Sinking Account, or, during said period and prior to giving said notice of prepayment, the Corporation has deposited Certificates with the Trustee (together with a Request of the Corporation to apply such Certificates so deposited to the Mandatory Sinking Account Payment due on said date with respect to the Certificates), or Certificates were at any time purchased or prepaid by the Trustee from the Prepayment Fund and allocable to said Mandatory Sinking Account Payment, such Certificates so purchased or deposited or prepaid shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Certificates purchased or deposited pursuant to the provisions of the Trust Agreement described herein, if any, shall be cancelled by the Trustee. Certificates purchased from the Principal Fund, purchased or prepaid from the Prepayment Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Corporation may specify.

**Establishment and Application of Prepayment Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Prepayment Fund" and shall establish and maintain within the Prepayment Fund, a separate Optional Prepayment Account and a separate Special Prepayment Account.

The Trustee shall deposit the following Revenues in the Optional Prepayment Account when and as such Revenues are received: (i) except as provided in pursuant to the provisions of the Trust Agreement described below, the principal component of all cash prepayments of Purchase Payments made pursuant to the Sale Agreement; (ii) except as provided in pursuant to the provisions of the Trust Agreement described below, the principal component of all cash prepayments made pursuant to Obligation No. 3; and (iii) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Optional Prepayment Account.

The Trustee shall deposit the following Revenues in the Special Prepayment Account when and as such Revenues are received: (i) the principal component of all cash prepayments of Purchase Payments made pursuant to the Sale Agreement which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the Facilities; (ii) the principal component of all cash prepayments made pursuant to Obligation No. 3 which are specified in a Statement of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the Facilities; and (iii) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Special Prepayment Account.

All amounts deposited in the Optional Prepayment Account and the Special Prepayment Account shall be used and withdrawn by the Trustee solely for the purpose of prepaying the principal components of the installment Payments of the County and thereby prepaying Certificates, in the manner and upon the terms and conditions specified in the Trust Agreement, at the next succeeding date of prepayment for which notice has not been given and at the Prepayment Prices then applicable to prepayments from the Optional Prepayment Account and the Special Prepayment Account, respectively; provided that, at any time prior to giving such notice of prepayment, at the written direction of the Corporation, the Trustee may apply such amounts to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Trustee may be directed by the Corporation, except that the purchase price (exclusive of accrued interest) may not exceed the Prepayment Price then applicable to the Certificate (or, if the



Certificates are not then subject to prepayment, the par value of such Certificates); and provided further that, in the case of the Optional Prepayment Account in lieu of prepayment at such next succeeding date of prepayment, or in combination therewith, amounts in such account may be transferred to the Principal Fund and credited against the principal components of Installment Payments in order of their due dates as set forth in a Request of the Corporation. All Certificates purchased or prepaid from the Prepayment Fund shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Corporation may specify.

**Establishment and Application of the Certificate Reserve Fund.** The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Certificate Reserve Fund." Upon delivery of the Certificates, an amount equal to the Certificate Reserve Requirement shall be deposited in the Certificate Reserve Fund.

All amounts in the Certificate Reserve Fund (including all amounts which may be obtained from letters of credit, surety bonds and/or insurance policies deposited in the Certificate Reserve Fund in accordance with the provisions of the Trust Agreement described below) shall be used and withdrawn solely by the Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund or (together with any other moneys available therefor) for the payment or prepayment of all Certificates then Outstanding.

In the event of any transfer from the Certificate Reserve Fund for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, the Trustee shall immediately notify the Authorized Representative of the Corporation of the amount of such transfer, and the Corporation shall restore the amount on deposit in the Certificate Reserve Fund to an amount equal to the Certificate Reserve Requirement no later than one hundred eighty (180) days from the date of such transfer, such amount to be paid to the Trustee in six (6) substantially equal monthly installments.

All Investment Securities held on deposit in the Certificate Reserve Fund shall be valued by the Trustee at their market value and marked to market at least annually on or before February 15, commencing February 15, 2007 (or more frequently as may be reasonably requested by the Authorized Representative of the Corporation) and such valuation shall be reported immediately to the Authorized Representative of the Corporation. Subject to compliance with the provisions of the Trust Agreement, any amount in the Certificate Reserve Fund in excess of the Certificate Reserve Requirement shall be transferred to the Interest Fund; provided, however, that the Trustee shall incur no liability for any sale of investments, or the consequences thereof, caused by the sale of an investment on deposit in the Certificate Reserve Fund in order to make such transfer. To the extent that the amount then on deposit in the Certificate Reserve Fund on any valuation date is less than the Certificate Reserve Requirement, the Corporation shall, within one hundred twenty (120) days after receiving notice of such valuation, pay to the Trustee an amount sufficient to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Requirement.

In lieu of making the Certificate Reserve Requirement deposit in cash or in replacement of moneys then on deposit in the Certificate Reserve Fund (which shall be transferred to the Project Fund prior to completion of the Project and thereafter to the Optional Prepayment Account of the Prepayment Fund and used to prepay Certificates or applied by the Corporation to pay capital costs upon receipt by the Corporation of a Favorable Opinion of Special Counsel), the Corporation may deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated in one of the two highest rating categories of each nationally recognized rating agency then rating the Certificates in an amount, which, together with moneys, Investment Securities or surety bonds or insurance policies (as described below) on deposit in the Certificate Reserve Fund, will equal the Certificate Reserve Requirement. Such letter of credit shall have an original term of no less than three (3) years or, if less, the final Certificate Payment Date of the Certificates and such letter of credit shall provide by its terms that it may be drawn upon as provided in this Section 5.05. At least one (1) year prior to the stated expiration of such letter of credit, the Corporation shall deliver to the Trustee either (i) a replacement letter of credit, (ii) an extension of the letter of credit for at least one (1) additional year or, if less, the maturity of the Certificates, or (iii) a surety bond or an insurance policy satisfying the requirements of the Trust Agreement described below). Upon delivery of such replacement letter of credit, extension of the letter of credit, or surety bond or insurance policy, the Trustee shall deliver the then-effective letter of credit to or upon the order of the Authorized Representative of the Corporation. If the Corporation shall fail to deposit a replacement letter of credit, an extension of the letter of credit

or surety bond or insurance policy with the Trustee, the Corporation shall immediately commence to make monthly deposits to the Trustee so that an amount equal to the Certificate Reserve Requirement will be on deposit in the Certificate Reserve Fund no later than the stated expiration date of the letter of credit. If an amount equal to the Certificate Reserve Requirement as of the date following the expiration of the letter of credit is not on deposit in the Certificate Reserve Fund one (1) week prior to the stated expiration date of the letter of credit (excluding from such determination the amount of the letter of credit then in effect), the Trustee shall draw on the letter of credit then in effect to fund the deficiency resulting therefrom in the Certificate Reserve Fund.

In lieu of making the Certificate Reserve Requirement deposit in cash, or in replacement of moneys then on deposit in the Certificate Reserve Fund (which shall be transferred by the Trustee to the Project Fund prior to completion of the Project and thereafter to the Optional Prepayment Account of the Prepayment Fund and used to prepay Certificates or applied by the Corporation to pay capital costs upon receipt by the Corporation of a Favorable Opinion of Special Counsel), the Corporation may deliver to the Trustee a surety bond or an insurance policy securing an amount, which, together with moneys, Investment Securities or letters of credit on deposit in the Certificate Reserve Fund, will equal the Certificate Reserve Requirement. Such surety bond or insurance policy shall be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated in one of the two highest rating categories of each nationally recognized rating agency then rating the Certificates. Such surety bond or insurance policy shall have a term of no less than the maturity of the Certificates. In the event that such surety bond or insurance policy for any reason lapses or expires, the Corporation shall immediately comply with provisions of the Trust Agreement described herein or (ii) or shall make the required deposits to the Certificate Reserve Fund.

In the event of a deficiency in the Interest Fund or the Principal Fund and if a letter of credit, surety bond or insurance policy has been delivered to the Trustee in order to satisfy all or a portion of the Certificate Reserve Requirement, the Trustee shall, on a pro rata basis with respect to the portion of the Certificate Reserve Fund held in cash or Investment Securities and amounts held in the form of letters of credit and amounts held in the form of surety bonds and insurance policies (calculated by reference to the maximum amounts of such letters of credit and surety bonds and insurance policies and the amount of the initial deposit of such cash and Investment Securities), draw under each letter of credit or surety bond or insurance policy or Certificate Reserve Fund, in a timely manner and pursuant to the terms of such letter of credit or surety bond or insurance policy to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay, when due, the principal component and the interest component of the Certificates, including Sinking Account payments. In the event that the Trustee has notice that any payment made with respect to the principal component or interest component of a Certificate has been recovered from a Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee, pursuant to and provided that the terms of the letter of credit or surety bond or insurance policy, if any, securing the Certificates so provide, shall so notify the issuer thereof and draw on such letter of credit or surety bond or insurance policy to the lesser of the extent required or the maximum amount of such letter of credit or surety bond or insurance policy in order to pay to such Holder the amount of principal component and interest component so recovered.

**Establishment and Application of the Rebate Fund.** The Trustee shall establish and maintain the Rebate Fund in accordance with the provisions of the Trust Agreement and the Tax Agreement. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be specified by the Tax Agreement. Subject to the transfer provisions provided in the Trust Agreement, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Amount (as defined in the Tax Agreement), for payment to the federal government of the United States of America. Neither the County, the Corporation, the Insurer nor the Holder of any Certificates shall have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by the provisions of the Trust Agreement and by the Tax Agreement.

**Investment of Moneys in Funds and Accounts.** Subject to the limitations provided in the Trust Agreement, all moneys in any of the funds and accounts established pursuant to the Trust Agreement shall be invested by the Trustee at the written direction of Corporation solely in Investment Securities.

## **Auction Rate Period**

**Determination of Auction Rates.** The initial Interest Rate Mode for the Certificates shall be an Auction Rate. During each Auction Rate Period, the Certificates shall bear interest at the Auction Rate, which shall be determined as provided in the Trust Agreement. See "The Certificates" in the front portion of this Official Statement and Appendix D - "Auction Procedures."

**Conversion Provisions.** For a description of the provisions of the Trust Agreement applicable to conversion from one Auction Period to another Auction Period, see "The Certificates - Conversion From One Auction Period to Another Auction Period" in the in the front portion of this Official Statement. For a description of the provisions of the Trust Agreement applicable to conversion from the Auction Rate to another Interest Rate Mode, see "The Certificates - Conversion From Auction Rate to Another Interest Rate Mode" in the in the front portion of this Official Statement.

**Notice of Conversion; Cancellation of Conversion.** In the event that the Corporation shall elect to adjust the interest rate with respect to the Certificates from an Auction Rate, to a Daily Rate, a Weekly Rate, Long Term Rate or Commercial Paper Rate as provided in the Trust Agreement, a written direction shall be furnished by the Corporation to the Trustee, the Insurer, the Auction Agent, and the Broker-Dealer, such written direction to be delivered by registered or certified mail, or by telecopy or electronic means, confirmed by registered or certified mail. Any such direction of the Corporation shall specify whether the Certificates are to bear interest at the Daily Rate, the Weekly Rate, the Commercial Paper Rate or the Long Term Rate and shall be accompanied by a copy of the notice of mandatory tender for purchase required to be given by the Trustee pursuant to the Trust Agreement.

In connection with any Conversion of the Interest Rate Mode, the Corporation shall cause a Favorable Opinion of Special Counsel to be provided to the Trustee, the County and the Corporation on the proposed Conversion Date. In the event that Special Counsel fails to deliver a Favorable Opinion of Special Counsel or any other condition precedent to such conversion is not met on the proposed Conversion Date, then the Interest Rate Mode for such Certificates shall not be adjusted.

In the event of a failed conversion with respect to the Certificates being converted adjusted from an Auction Rate to a Daily Rate, a Weekly Rate, a Commercial Paper Rate, a Long Term Rate, or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Rate for the next Auction will be the Maximum Auction Rate and the Auction Period will be a seven (7)-day Auction Period.

The Corporation may cancel its election to adjust the Interest Rate Mode on the Certificates on any date prior to the date on which notice of such Conversion has been mailed to the Holders of Certificates as provided in the Trust Agreement upon notice to the Trustee, the Insurer, the County, the Auction Agent and the Broker-Dealer. In such event, such Certificates shall remain in Auction Rate and the Auction Rate on such Certificates shall continue to be determined as provided in the Trust Agreement.

**Mandatory Purchase of Certificates on Conversion Date.** The Certificates shall be subject to mandatory purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, on each Conversion Date. Notwithstanding the foregoing, in the event that the conditions to a Conversion from an Auction Rate Period are not satisfied or in the event all Certificates are not remarketed in connection with a Conversion, the Certificates will not be subject to mandatory purchase and will be returned to their Holders.

## **Prepayment; Mandatory Purchase in Lieu of Prepayment**

**Prepayment.** Prepayment provisions applicable to the Certificates while in the Auction Rate are described in the front portion of this Official Statement. See "The Certificates - Prepayment" in the front portion of this Official Statement.

**Mandatory Purchase in Lieu of Prepayment.** Each Holder, by purchase and acceptance of any Certificate irrevocably grants to the Corporation the option to purchase such Certificate, at any time such Certificate

is subject to optional prepayment as provided in the Trust Agreement at a Purchase Price equal to the Prepayment Price then applicable to such Certificate. In order to exercise such option, the Corporation shall secure the written consent of the Insurer (which written consent shall not be required in connection with any open market tender for any Certificate) and shall deliver to the Trustee and the County such written consent and an Opinion of Special Counsel to the effect that such purchase, will not, in and of itself cause the interest with respect to the Certificates to be included in gross income, and the Corporation shall direct the Trustee to provide notice of mandatory purchase. On the date fixed for purchase of any Certificate pursuant to the provisions of the Trust Agreement described herein, the Corporation shall pay the Purchase Price of such Certificate to the Trustee in immediately available funds and the Trustee shall pay the same to the Holders of Certificates being purchased against delivery thereof. No Holder may elect to retain a Certificate subject to mandatory purchase pursuant to the provisions of the Trust Agreement described herein.

### **Particular Covenants**

**Extension of Payment of Certificates.** Neither the Corporation nor the County shall directly or indirectly extend or assent to the extension of the payment dates of any of the Installment Payments or the Certificates represented thereby or the time of payment of any of the claims for interest represented thereby by the purchase or funding of such Certificates or claims for interest or by any other arrangement and if the payment dates of any of the Installment Payments or Certificates represented thereby or the time of payment of any such claims for interest shall be extended, such Certificates or claims for interest shall not be entitled, in case of any default under the Trust Agreement, to the benefits of the Trust Agreement, except subject to the prior payment in full of the principal component of all of the Installment Payments or Certificates represented thereby then Outstanding and of all claims for interest with respect thereto which shall not have been so extended.

**Against Encumbrances.** The County shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned pursuant to the Trust Agreement while any of the Certificates are Outstanding, except the pledge and assignment created by the Trust Agreement.

**Accounting Records of the Trustee.** The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with sound corporate trust industry practice, in which complete and accurate entries shall be made of all transactions relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Certificates, the Revenues, the Purchase Agreement, the Sale Agreement, Obligation No. 3 and all funds and accounts established pursuant to the Trust Agreement. Such books of record and account shall be available for inspection by the County, the Authorized Representative of the Corporation, the Insurer and any Certificateholder, or their agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances.

The Trustee shall file and furnish to the County (if requested in a Request of the County) and to each Certificateholder, upon such Certificateholder's written request and at such Certificateholder's cost (1) a copy of the most recent audited financial statements of the Corporation, as furnished to the Trustee pursuant to the Sale Agreement, and (2) on or before April 15 of each year, a statement (which need not be audited) covering receipts, disbursements, allocation and application of Revenues and any other moneys (including proceeds of Certificates) in any of the funds and accounts established pursuant to the Trust Agreement for the Certificate Year ended on the preceding March 15.

**Continuing Disclosure Covenant.** The Corporation covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding the covenant described above, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default, but in the event of such failure, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Certificates Outstanding, shall) or any Holder or any Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Continuing Disclosure Agreement.

## Events of Default and Remedies

**Events of Default.** The term "Event of Default" as used in the Trust Agreement means any of the following:

- (A) default in the due and punctual payment of the principal or Prepayment Price or interest with respect to the Certificates when and as the same shall become due and payable;
- (B) default by the County or the Corporation in the observance of any of the other covenants, agreements or conditions on its part contained in the Trust Agreement (other than the covenant relating to continuing disclosure), if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Holders of not less than 25% in aggregate principal amount of the Certificates at the time Outstanding; or
- (C) a Purchase Agreement Default or a Sale Agreement Default.

**Acceleration.** If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Holders of a majority in aggregate principal amount of the Certificates then Outstanding shall, upon notice in writing to the Insurer, the Corporation and the County, declare the principal component of all of the Installment Payments and the Certificates by which they are represented then Outstanding, and the interest accrued with respect thereto, to be due and payable immediately, and upon such declaration the same shall become and shall be immediately due and payable; provided that, if the Insurance is in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith, no declaration by the Trustee as aforesaid shall occur with respect to the Certificates without the prior written consent of the Insurer.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Installment Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Installment Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount with respect to the Certificates then Outstanding, by written notice to the Insurer, the County, the Corporation and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Holders of all of the Certificates, rescind and annul such declaration and its consequences and waive such default; provided that such rescission and annulment shall be at the written direction of the Insurer, as long as the Insurer is not failing to make a payment as required; and provided further that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. In the case of any such annulment, the Insurer, the Corporation, the County, the Trustee, and the Holders shall be restored to their former positions and rights under the Trust Agreement.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Trust Agreement or in the Certificates to the contrary notwithstanding, interest shall cease to accrue with respect to such Certificates from and after the date set forth in such notice (which shall be not more than seven (7) days from the date of such declaration).

**Application of Revenues and Other Funds After Default.** If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Trust Agreement (except as otherwise set forth in the Trust Agreement and except for amounts, if any, on deposit in the Rebate Fund and the Purchase Fund) shall be applied by the Trustee as follows and in the following order:

(1) To the payment of any expenses or charges necessary in the opinion of the Trustee to protect the interests of the Holders of the Certificates and payment of reasonable fees, charges and expenses and other amounts owed to the Trustee under the Trust Agreement or under the Sale Agreement (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Trust Agreement; and;

(2) To the payment of the principal or Prepayment Price and interest then due with respect to the Certificates (upon presentation of the Certificates to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Trust Agreement, as follows:

(i) Unless the principal component of the Installment Payments shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or Prepayment Price with respect to any Certificates which shall have become due, whether on their stated Certificate Payment Date or Certificate Payment Dates or by call for prepayment, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Certificates, and, if the amount available shall not be sufficient to pay or prepay in full all the Certificates due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Prepayment Price due on such date to the Persons entitled thereto, without any discrimination or preference;

(ii) If the principal component of the Installment Payments shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid with respect to the Certificates, with interest on the overdue principal at the rate borne by the respective Certificates, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, 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 Certificate over any other Certificate, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

**Trustee to Represent Certificateholders.** The Trustee is irrevocably appointed under the Trust Agreement (and the successive respective Holders of the Certificates by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Certificates for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Certificates, the Trust Agreement, the Sale Agreement, the Purchase Agreement, Obligation No. 3 and applicable provisions of any other law. Subject to the rights of the Insurer with respect to the enforcement of remedies related to the Certificates as described herein, upon the occurrence and continuance of an Event of Default under the Trust Agreement or other occasion giving rise to a right in the Trustee to represent the Holders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power in the Trust Agreement granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Trust Agreement, the Purchase Agreement, the Sale Agreement, Obligation No. 3, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the

Revenues and other assets pledged under the Trust Agreement, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Certificates then Outstanding in excess of twenty-five percent (25%). All rights of action under the Trust Agreement or the Certificates or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Certificates, subject to the provisions of the Trust Agreement.

**Certificateholders' Direction of Proceedings.** Anything in the Trust Agreement to the contrary notwithstanding (except provisions relating to the rights of the insurer to direct proceedings as provided in the Trust Agreement), the Holders of a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee under the Trust Agreement, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction or would otherwise subject the Trustee to personal liability, and provided, further that the written consent of the Insurer shall be required if the Insurance is in full force and effect and if the Insurer has not failed to make a payment as required in connection therewith.

**Limitation on Certificateholders' Right to Sue.** No Holder of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Trust Agreement, the Sale Agreement, the Purchase Agreement, Obligation No. 3 or any other applicable law with respect to such Certificate, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted under the Trust Agreement or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Certificates then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; provided, however, that the written consent of the Insurer shall be required if the Insurance is in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith.

**Termination of Proceedings.** In case any proceedings taken by the Trustee or any one or more Holders or the Insurer on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee, the Insurer or the Holders, then in every such case the County, the Insurer, the Corporation, the Trustee and the Holders, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Trust Agreement, severally and respectively, and all rights, remedies, powers and duties of the County, the Corporation, the Insurer, the Trustee and the Holders shall continue as though no such proceedings had been taken.

**Remedies Not Exclusive.** No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Certificates is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or otherwise.

**No Waiver of Default.** No delay or omission of the Trustee, the Insurer or of any Holder of the Certificates to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the Trust Agreement to the Trustee, to the Insurer or to the Holders of the Certificates may be exercised from time to time and as often as may be deemed expedient.

**Waivers of Events of Default.** Except as otherwise provided in the Trust Agreement, the Trustee in its discretion, with the written consent of the Insurer, may, or with such consent and upon the written request of the Holders of not less than a majority in aggregate principal amount of all Certificates Outstanding shall, waive any Event of Default under the Trust Agreement and rescind its consequences, provided that such consent of the Insurer shall only be required if the Insurance is then in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith. In the case of any such waiver and rescission, the County, the Corporation, the Insurer, the Trustee and the Certificateholders shall be restored to their former positions and rights under the Trust Agreement, respectively, but no such waiver and rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

**Insurer Direction of Remedies Upon Event of Default.** Anything in the Trust Agreement to the contrary notwithstanding, the Insurer, provided that the Credit Facility is in full force and effect and the Insurer is not then failing to make a payment as required in connection therewith, shall have the right, at any time during the continuance of an Event of Default, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Trust Agreement, or for the appointment of a receiver or any other proceedings under the Trust Agreement; provided that such direction shall not be otherwise than in accordance with the provisions of law and of the Trust Agreement.

#### **Modification or Amendment of Trust Agreement, Purchase Agreement and Sale Agreement**

**Amendments Permitted.** (A) The Trust Agreement, the Purchase Agreement and the Sale Agreement, and the rights and obligations of the County, the Corporation, the Holders of the Certificates and the Trustee may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, as applicable, which the County, the Corporation and the Trustee, as applicable, may enter into when the written consent of (i) the Insurer or (ii) the Holders of at least a majority in aggregate principal amount of the Certificates then Outstanding shall have been filed with the Trustee; provided that if the Insurance is in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith, the Insurer shall also consent in writing to such modification or amendment, which consent shall not be unreasonably withheld; and provided further that if such modification or amendment will, by its terms, not take effect so long as any Certificates of any particular stated Certificate Payment Date remain Outstanding, the consent of the Holders of such Certificates shall not be required and such Certificates shall not be deemed to be Outstanding for the purpose of any calculation of Certificates Outstanding for purposes of the provisions described under this caption.

No such modification or amendment shall: (1) extend the stated Certificate Payment Date of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Trust Agreement for the payment of any Certificate, or reduce the rate of interest with respect thereto, or extend the time of payment of interest with respect thereto, or reduce any premium payable upon the prepayment thereof, without the written consent of the Holder of each Certificate so affected; or (2) reduce the aforesaid percentage of Certificates the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Holders of the Certificates of the lien created by the Trust Agreement on such Revenues and other assets (except as expressly provided in the Trust Agreement), without the consent of the Holders of all of the Certificates then Outstanding.

(B) The Trust Agreement, the Purchase Agreement and the Sale Agreement and the rights and obligations of the County, the Corporation, the Trustee and the Holders of the Certificates may also be modified or amended from time to time and at any time by a Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, respectively, which the County, the Corporation and the Trustee, as applicable, may enter into for any one or more of the following purposes without the consent of any Holders, but with the written consent of the Insurer, which consent shall not be unreasonably withheld; provided, however, that such written consent of the Insurer shall be required only if the Insurance is in full force and effect and if the Insurer is not then failing to make a payment as required in connection therewith:



(1) to add to the covenants and agreements of the County or the Corporation contained in the Trust Agreement, the Purchase Agreement or the Sale Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved to or conferred upon the County or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Certificates;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Trust Agreement, the Purchase Agreement or the Sale Agreement, or in regard to matters or questions arising under the Trust Agreement, the Purchase Agreement or the Sale Agreement, as the County or the Corporation may deem necessary or desirable and not inconsistent with the Trust Agreement, the Purchase Agreement or the Sale Agreement, as applicable, and which shall not materially adversely affect the interests of the Holders of the Certificates;

(3) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which modification, amendment or supplement shall not materially adversely affect the interests of the Holders of the Certificates;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Installment Payments, the Purchase Agreement or the Certificates;

(5) to facilitate (i) the transfer of Certificates from one Depository to another Depository, or (ii) the withdrawal from a Depository of Certificates held in a book-entry system and the execution and delivery issuance of replacement Certificates in fully registered form to persons other than a Depository;

(6) to authorize different authorized denominations of the Certificates and to make correlative amendments and modifications to the Trust Agreement regarding exchangeability of Certificates of different authorized denominations, prepayments of portions of Certificates of particular authorized denominations and similar amendments and modifications of a technical nature;

(7) to make any amendments appropriate or necessary to provide for any Liquidity Facility, any alternate Credit Facility, or any insurance policy, letter of credit, guaranty, surety bond, line of credit, revolving credit agreement, standby certificate purchase agreement or other agreement or security device delivered to the Trustee and/or the Tender Agent providing for (i) payment of the principal, interest and prepayment premium on the Certificates or a portion thereof, (ii) payment of the purchase price of the Certificates or (iii) both (i) and (ii), including without limitation any amendment necessary to modify the maximum Liquidity Facility Rate;

(8) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Certificates; or

(9) to modify, alter, amend or supplement the Trust Agreement, the Purchase Agreement or the Sale Agreement in any other respect which is not materially adverse to the Certificateholders.

(C) The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Trust Agreement, Supplemental Sale Agreement or Supplemental Purchase Agreement authorized under the provisions described above which adversely affects the Trustee's own rights, duties or immunities under the Trust Agreement or otherwise.

#### **Defeasance**

**Discharge of Trust Agreement.** When the obligations of the County under the Purchase Agreement shall cease pursuant to the provisions of the Purchase Agreement (except for the right of the Trustee and

the obligation of the County to have the money and Defeasance Securities mentioned therein applied to the payment of Installment Payments as therein set forth), then and in that case the obligations created by the Trust Agreement shall thereupon cease, terminate and become void, except for the right of the Trustee to apply such moneys and Defeasance Securities to the payment of the Certificates as therein set forth, and the Trustee shall turn over to the Corporation, as an overpayment of Purchase Payments, any balances remaining in any of the funds or accounts established under the Trust Agreement (except the Rebate Fund, which shall be governed by the Tax Agreement, and the Purchase Fund) other than moneys and Investment Securities held for the payment of the Certificates on their stated Certificate Payment Date or Certificate Payment Dates or upon prepayment, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the benefit of the Holders and shall be applied by the Trustee to the payment, when due, of the principal, premium, if any, and interest represented by the Certificates, and after such payment, the Trust Agreement shall become void.

**Deposit of Money or Securities with Trustee.** Whenever in the Trust Agreement or the Purchase Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Agreement (excluding the Rebate Fund and the Purchase Fund) and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Certificates and all unpaid interest thereto to their stated Certificate Payment Date or Certificate Payment Dates, except that, in the case of Certificates which are to be prepaid prior to their stated Certificate Payment Date or Certificate Payment Dates and in respect of which notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price with respect to such Certificates and all unpaid interest thereon to the prepayment date; or

(b) Defeasance Securities (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due will provide money sufficient to pay the principal or Prepayment Price and all unpaid interest to the stated Certificate Payment Date or Certificate Payment Dates or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such principal or Prepayment Price and interest become due, provided that, in the case of Certificates which are to be prepaid prior to their stated Certificate Payment Date or Certificate Payment Dates, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Trust Agreement and the Purchase Agreement or by Order of the County and the Corporation) to apply such money to the payment of such principal or Prepayment Price and interest with respect to such Certificates, and provided further, that with respect to the deposit of Defeasance Securities as described in subsection (b) above, the Trustee shall have received a report from a firm of independent certified public accountants or other financial services firm acceptable to the Trustee to the effect that the amount deposited is sufficient to make the payments specified therein.

**Payment of Certificates After Discharge of Trust Agreement.** Notwithstanding any provisions of the Trust Agreement, , but subject to the unclaimed property laws of the State, any moneys held by the Trustee in trust for the payment of the principal, Prepayment Price, or interest with respect to any Certificates and remaining unclaimed for two (2) years (or, if shorter, and to the extent permitted by law, one (1) day before such moneys would escheat to the State under then applicable State law) after the principal and interest with respect to any of the Certificates have become due and payable (whether at the stated Certificate Payment Date or Certificate Payment Dates or upon call for prepayment or by acceleration as provided in the Trust Agreement), if such moneys were so held at such date, or two (2) years (or, if shorter, and to the extent permitted by law, then one (1) day before such moneys would escheat to the State under then applicable State law) after the date of deposit of such moneys if deposited after said date when all of the Certificates became due and payable, shall be repaid to the Corporation free from the trusts created by the Trust Agreement, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to the Corporation as aforesaid, the Corporation or the Trustee, as the case may be, may (at the cost of the Corporation) first mail a notice, in such form as may be deemed appropriate by the Trustee to the Holders of the Certificates so payable and not presented and with

respect to the provisions relating to the repayment to the Corporation of the moneys held for the payment thereof at the addresses shown on the registration books maintained by the Trustee. In the event of the repayment of such moneys to the Corporation as aforesaid, the Holders of the Certificates with respect to which such moneys were deposited shall thereafter be deemed to be general unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Certificates and so repaid to the Corporation (without interest thereon), subject to any applicable statute of limitations.

## MASTER INDENTURE OF TRUST

### General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group. An Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

### Authorization and Issuance of Obligations

Pursuant to the provisions of the Master Indenture, each Member authorizes the issuance from time to time of Obligations or a Series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, which Obligations or Series of Obligations shall be subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement. Pursuant to the provisions of the Master Indenture, the Obligated Group Representative acting on behalf of the Obligated Group may authorize the issuance of an Obligation and a Series of Obligations by entering into a Related Supplement, subject to satisfaction of the terms, conditions and limitations of the Master Indenture. Currently, the Obligated Group is comprised of the Corporation and the Foundation. The Corporation has been designated the Obligated Group Representative pursuant to the provisions of the Master Indenture.

### Particular Covenants of the Members

**Payment of Principal and Interest.** Each Member jointly and severally covenants and agrees to pay or cause to be paid promptly all Required Payments, including the principal of, and premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

**Insurance.** Each Member agrees that it will keep the Property, Plant and Equipment and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. The Obligated Group Representative shall employ an Insurance Consultant at least once every two (2) years to review the insurance requirements of the Members. If the Insurance Consultant makes recommendations for the increase of any of the Obligated Group's insurance coverage, the Obligated Group Representative shall increase or cause to be increased 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. In lieu of maintaining insurance coverage, the Members shall have the right to adopt alternative risk management programs which the Governing Body of the Obligated Group Representative 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 shall be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

**Negative Pledge.** Each Member agrees that it will not create, assume or suffer to exist any Lien upon its Property or the Property of the Obligated Group, and each Member further agrees that if such a Lien is created or assumed by any Member, such Member will obtain the written consent of the Obligated Group Representative and will make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally and ratably with any such Indebtedness or other obligation secured by such Lien; provided, however, that, each Member may create, assume or suffer to exist Permitted Encumbrances.

**Limitations on Additional Indebtedness.** Each Member, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(i) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness issued or incurred pursuant to the provisions of the Master Indenture described in this subsection (a) (i) does not exceed 10% of the Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the incurrence of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to the provisions of the Master Indenture described in this subsection (a)(i) subsequently complies with any other incurrence requirement such Long-Term Indebtedness shall thereafter not be deemed to be incurred pursuant to the provisions of the Master Indenture described in this subsection (a)(i)); or

(ii) there is delivered to the Master Trustee

(A) an Officer's Certificate (accompanied by the written report of an Accountant) certifying the Historical Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, and such Historical Debt Service Coverage Ratio is not less than 1.10:1.0; and

(B) an Officer's Certificate (accompanied by the written report of an Independent Consultant unless the Projected Debt Service Coverage Ratio for each of the Fiscal Years specified below is at least 1.50:1.0)

(1) stating (and certifying the calculation of) the Projected Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements (or the portion of such Long Term Indebtedness allocated in such Officer's Certificate to such use), the next 2 Fiscal Years succeeding the date on which such capital improvements are expected to be in operation and (y) in the case of Long-Term Indebtedness not being incurred to finance capital improvements (or the portion of such Long-Term Indebtedness allocated in such Officer's Certificate to such use), the next 2 Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred (it being understood that, if any such allocations are made, the portions described in clauses (x) and (y) must sum to 100% of the proposed Long-Term Indebtedness), and

(2) certifying that the Projected Debt Service Coverage Ratio for such Fiscal Year is not less than 1.20:1.0, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(iii) there is delivered to the Master Trustee the written report of an Independent Consultant stating that Industry Restrictions have or will make it impossible for the ratios described

in subsection (a)(ii) hereof to be met, and that such ratios are not less than 1.0:1.0 and shall apply to the actual Debt Service on all Long-Term indebtedness for such Fiscal Year rather than Maximum Annual Debt Service; or

(iv) there is delivered to the Master Trustee an Officer's Certificate (accompanied by the written report of an Independent Consultant unless the Projected Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for the next 2 Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred is expected to be at least 1.40:1.0) certifying that the Projected Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, is expected to be not less than 1.20:1.0 for the Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion indebtedness without limitation.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Outstanding Long-Term indebtedness if prior to incurrence thereof there is delivered to the Master Trustee a resolution of the Governing Body of the Obligated Group Representative finding that such refunding is in the best interests of the Obligated Group and stating the reasons for such finding.

(d) Short-Term Indebtedness, provided that the total amount of such Short-Term Indebtedness, together with Indebtedness incurred in connection with leases of equipment which are properly capitalized on a balance sheet, does not exceed 15% of Net Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; provided that if the total amount of Short-Term Indebtedness, together with Indebtedness incurred in connection with leases of equipment which are properly capitalized on a balance sheet exceeds such percentage, the conditions described in subsection (a) above with respect to Long-Term Indebtedness are satisfied prior to the incurrence of such Short-Term Indebtedness.

(e) Non-Recourse Indebtedness without limitation.

(f) Balloon Indebtedness, provided that the conditions described in subsection (a) above with respect to Long-Term Indebtedness are satisfied with respect to the incurrence of such Balloon Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service" set forth above under the caption "Definitions of Certain Terms."

(g) Variable Rate Indebtedness provided that the conditions described in subsection (a) above with respect to Long-Term Indebtedness are met with respect to such Variable Rate Indebtedness when it is assumed that such Variable Rate Indebtedness bears interest at the rate described in clause (d) of the definition of "Maximum Annual Debt Service" set forth above under the caption "Definitions of Certain Terms."

(h) Subordinated Indebtedness without limit.

(i) Interim Indebtedness, provided that the conditions described in subsection (a) above are met with respect to such Interim Indebtedness when it is assumed that such Interim Indebtedness bears interest at the rate described in subsection (c) of the definition of "Maximum Annual Debt Service" set forth above under the caption "Definitions of Certain Terms."

(j) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit or liquidity facilities used to secure or provide liquidity for Indebtedness.

(k) Liabilities for contributions to alternative risk management programs described above under the caption "Master Indenture Of Trust -- Particular Covenants of the Members - Insurance."

(l) Liabilities incurred in connection with an Interest Rate Exchange Agreement.

(m) Liabilities incurred in connection with a sale of accounts receivable with recourse consisting of an obligation to repurchase all or a portion of such accounts receivable upon certain conditions, provided that the principal amount of such liabilities permitted hereby shall not exceed the aggregate sales price of such accounts receivable; any limitation described under this subsection being applicable only if such liabilities (in accordance with generally accepted accounting principles) constitute Indebtedness.

**Restrictions on Guaranties.** Each Member agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties of Indebtedness of another Member;

(b) Guaranties of Obligations issued under the Master Indenture; and

(c) Any other Guaranty, provided that the conditions described in subsection (a) above under the caption "Master Indenture Of Trust - Particular Covenants of the Members - Limitations on Additional Indebtedness" are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in subsection (a) of the definition of "Maximum Annual Debt Service."

**Rates and Charges; Debt Coverage.** (a) Each Member agrees to fix, charge and collect, commencing with the first full Fiscal Year following the execution of the Master Indenture and subject to applicable requirements or restrictions imposed by law or regulation, such rates, fees and charges for the use of its facilities and for the services furnished or to be furnished which, together with all other receipts and revenues of the Obligated Group and any other funds available therefor, will be reasonably projected to be sufficient in each Fiscal Year so that the Historical Debt Service Coverage Ratio of the Obligated Group as a whole at the end of such Fiscal Year is not less than 1.10:1.0.

(b) Within one hundred fifty (150) days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture) the Obligated Group Representative shall compute Income Available for Debt Service, Annual Debt Service, and the Historical Debt Service Coverage Ratio for such Fiscal Year and shall promptly furnish to the Master Trustee a Certificate setting forth the results of such computation. The Obligated Group Representative further agrees that, if at the end of such Fiscal Year the Historical Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Members or the methods of operation of the Members. Each Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, and 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, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations.

If the Members comply in all material respects with the reasonable recommendations of the Independent Consultant in respect to said rates, fees, charges and methods of operation or collection, the Members will be deemed to have complied with the covenants described under this caption for such Fiscal Year notwithstanding that Income Available for Debt Service shall be less than the amount required as described in (a) above; provided that such ratio shall not be reduced to less than 1.0:1.0 and shall apply to actual Debt Service rather than Maximum Annual Debt Service, and provided further that the Members shall not be excused from taking any action or performing any duty required under the Master Indenture and that no other Event of Default shall be waived by the operation of the provision described herein.

(c) If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible consistent with prudent business judgment for the ratio described

in subsection (a) above to be met and that the Obligated Group has generated the maximum amount of Income Available for Debt Service that, in the opinion of such Independent Consultant, could reasonably have been generated given such Industry Restrictions, then such ratio shall be reduced to 1.0:1.0 and shall apply to actual Debt Service rather than Maximum Annual Debt Service.

(d) Notwithstanding the foregoing, a Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the Governing Body of such Member, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any political subdivision or instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

**Sale, Lease or Other Disposition of Property.** Each Member agrees that it will not, in any consecutive 12-month period, sell, lease or otherwise dispose of any of its Property unless:

(a) The Master Trustee receives an Officer's Certificate to the effect that such assets shall be or within the next 2 Fiscal Years are reasonably expected to become inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Obligated Group and the disposition thereof will not materially and adversely impair the operations of the Members; or

(b) Such sale, lease or other disposition is made to another Member or to a Person who is not a Member if such Person shall become a member pursuant to the provisions of the Master Indenture substantially simultaneously with such sale, lease or other disposition; or

(c) The Master Trustee receives an Officer's Certificate to the effect that the Property to be sold, leased or otherwise disposed of consists solely of assets that are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on an Obligation or Long-Term Indebtedness or operating expenses; or

(d) Such sale, lease or other disposition is in the ordinary course of business, or for the fair market value of the Property so disposed of, or in return for other Property of equal or greater value and usefulness; or

(e) The Master Trustee receives an Officer's Certificate to the effect that the Obligated Group would be able to issue at least one dollar (\$1.00) of Long-Term Indebtedness immediately after such sale, lease or other disposition pursuant to the provisions of the Master Indenture.

**Disposition of Liquid Assets.** Each Member agrees that it will not dispose of any cash or cash equivalents unless:

(a) Such disposition is made to another Member:

(b) Such disposition is in the ordinary course of business; or

(c) The Master Trustee receives an Officer's Certificate to the effect that the Obligated Group would be able to issue at least one dollar (\$1.00) of Long-Term Indebtedness immediately after such disposition pursuant to the provisions of the Master Indenture;

provided, however, that nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans provided that any such loan (i) is evidenced in writing and (ii) the Master Trustee receives an Officer's Certificate stating that (a) the Obligated Group Representative reasonably expects such loan to be repaid and (b) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

**Consolidation, Merger, Acquisition, Sale or Conveyance.** Each Member covenants that it will not merge or consolidate with any other corporation not a Member or acquire substantially all of the assets of a Person not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) After giving effect to the merger, consolidation, acquisition, sale or conveyance (hereinafter referred to under this caption as the "transaction"), the successor or surviving corporation (hereinafter, the "Surviving Corporation") will be the Member, or, if not, the Surviving Corporation shall be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation shall become a Member pursuant to the provisions of the Master Indenture and shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture;

(b) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, acquisition, sale or conveyance, would be in default as a result of such merger, consolidation, acquisition, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture;

(c) So long as any Related Bonds which are tax exempt obligations are Outstanding, there shall have been delivered to the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such transaction, in and of itself, would not cause interest payable thereon to be includable in gross income for federal income tax purposes and that such transaction and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture; and

(d) The Master Trustee shall have received an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, a written report of an Accountant or an Independent Consultant) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness immediately after such transaction pursuant to the provisions of the Master Indenture.

In case of any such transaction, and upon such assumption of obligations, the Surviving Corporation shall be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect that affect or relate to any Financing, and the Surviving Corporation shall, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as the Master Trustee may reasonably require in order to effect the said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation shall, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member of the Obligated Group as at the date of the execution of the Master Indenture and shall thereafter have the right to participate in Financings under the Master Indenture to the same extent as the Members of the Obligated Group; and all Financings undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such merger, consolidation, sale or conveyance.

#### **Obligated Group Membership and Withdrawal**

**Membership in Obligated Group.** Additional Members may be added to the Obligated Group from time to time provided that:

(a) There shall have been delivered to the Master Trustee a copy of a resolution of the proposed new Member which authorizes the execution of the Related Supplement described in subsection (b) below and which authorizes compliance with the terms of the Master Indenture;

(b) There shall have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness represented by the Obligations;



(c) There shall have been delivered to the Master Trustee an irrevocable power of attorney authorizing the execution of Obligations by the Obligated Group Representative;

(d) There shall be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(e) There shall be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness that the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) The Master Trustee shall have received an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, a written report of an Accountant or an Independent Consultant) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness immediately after the addition of the new Member to the Obligated Group pursuant to the provisions of the Master Indenture;

(g) There shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member, in and of itself, will not cause the interest payable on any Related Bonds which are tax exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended (unless such registration, if required has occurred); and

(h) There shall have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture.

**Withdrawal from Obligated Group.** Any Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) Such Member is not a Primary Obligor with respect to any Outstanding Obligations;

(c) The Master Trustee shall have received an Officer's Certificate (and, if required pursuant to the provisions of the Master Indenture, the written report of an Accountant or an Independent Consultant) to the effect that the Obligated Group would be able to incur at least one dollar (\$1.00) of Long-Term Indebtedness pursuant to the provisions of the Master Indenture immediately after the withdrawal of such Member from the Obligated Group;

(d) The Master Trustee shall have received an Opinion of Bond Counsel to the effect that the withdrawal of such Member will not cause the interest payable on any Related Bonds which are tax exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended (unless such registration, if required, has occurred).

#### **Events of Default and Remedies**

**Events of Default.** Event of Default under the Master Indenture include:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of, redemption premium, if any, or interest on an Obligation;

(b) Default in the payment of any Indebtedness for borrowed moneys (other than Non-Recourse Indebtedness or an Obligation), whether such Indebtedness now exists or shall hereafter be created, and any period of grace with respect thereto shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur and any period of grace with respect thereto shall have expired; provided, however, that such default shall not constitute an Event of Default under the Master Indenture if within thirty (30) days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness;

(c) Failure of any Member to observe or perform any other covenant or agreement under the Master Indenture for a period of thirty (30) days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 30-day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(d) Entry of a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days;

(e) Any Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing; or

(f) An event of default shall exist under any Related Bond Indenture.

**Acceleration; Annulment of Acceleration.** (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may and, upon (i) the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default described under subsection (a) above under the caption "Master Indenture Of Trust - Events of Default and Remedies - Events of Default" has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable, whereupon such Obligations shall become and shall be immediately due and payable; provided, however, that, if the terms of any Related Supplement give a person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In such event, there shall be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest which accrues on such principal and interest to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may 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.** Upon the occurrence and continuance of any Event of Default under the Master 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 of any Holder if an Event of Default described under subsection (a) above under the caption "Master Indenture Of Trust - Events of Default and Remedies - Events of Default" has occurred, 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 Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

- (i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;
- (ii) Suit upon all or any part of the Obligations;
- (iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;
- (iv) Civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and
- (v) Enforcement of any other right or remedy of the Holders conferred by law or the Master Indenture.

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, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security given under the Master Indenture by any acts which may be unlawful or in violation hereof, 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 Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

**Holders' Control of Proceedings.** If an Event of Default shall have occurred and be continuing, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right to direct the method and place of conducting any proceeding or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee as provided in the Master Indenture) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders of Obligations not joining in such direction.

**Waiver of Event of Default.** No delay or omission of the Master Trustee or of any Holder of the Obligations 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. The Master Trustee may waive any Event of Default that has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it or before the completion of the enforcement of any other remedy under the Master Indenture. Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture relating to acceleration, a default in the payment of the amounts due on any Obligation may not be waived without the written consent of the Holders of all the Outstanding Obligations.

## **Supplements and Amendments**

**Supplements Not Requiring Consent of Holders.** The Obligated Group Representative and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission therein; (b) to correct or supplement any provision that may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders; (c) to grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended; (e) to create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture; (f) to obligate a successor to any Member of the Obligated Group; (g) to add a new Member; or (h) to make any other change that does not materially adversely affect the interests of the Holders of any Obligations.

**Supplements Requiring Consent of Holders.** Other than Related Supplements referred to under the immediately preceding caption, the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding shall have the right to consent to and approve the execution by the Master Trustee and the Obligated Group Representative of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, any of the terms or provisions contained in the Master Indenture. No Related Supplement shall be permitted that would: (i) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holder of such Obligation; (ii) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, 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 Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

## **Discharge of Master Indenture**

**Satisfaction and Discharge of Master Indenture.** If the Members shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation which have become due and payable, or the Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee) as trust funds the cash or Governmental Obligations or both sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including the principal and interest due or to become due to such date of maturity or redemption date, as the case may be, such sufficiency to be evidenced by a report of an Accountant or other financial services firm acceptable to the Master Trustee, and if the Members shall pay or cause to be paid all other sums payable under the Master Indenture, then the Master Indenture shall cease to be of further effect.

**SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 1  
AND  
SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 2**

**General**

Supplement No. 1 provided for the issuance of Obligation No. 1 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 1 further secures the obligation of the Corporation arising under and pursuant to the Series 1995 Sale Agreement.

Supplement No. 2 provided for the issuance of Obligation No. 2 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 2 further secures the obligation of the Corporation arising under and pursuant to the Series 1998 Sale Agreement.

**Additional Covenants Required by Insurer for Series 1995 Certificates and the Series 1998 Certificates**

Supplement No. 1 contains a number of covenants which the MBIA Insurance Corporation ("MBIA") required as a condition to the issuance of a financial guaranty insurance policy in connection with the execution and delivery of the Series 1995 Certificates. These covenants impose limitations which are more restrictive than the covenants contained in the Master Indenture and described above under the caption "Master Indenture of Trust - Particular Covenants of the Members." Such covenants were incorporated by reference in Supplement No. 2 for the benefit of MBIA as a condition to the issuance of a financial guaranty insurance policy in connection with the execution and delivery of the Series 1998 Certificates. Such covenants may be waived or modified by MBIA in its sole discretion and are not summarized in this Official Statement.

**SUPPLEMENTAL MASTER INDENTURE OF TRUST FOR OBLIGATION NO. 3**

**General**

Supplement No. 3 provided for the issuance of Obligation No. 3 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 3 further secures the obligation of the Corporation arising under and pursuant to the Sale Agreement.

**Payments on Obligation; Credits**

Payment of principal of, premium, if any and interest on Obligation No. 3 shall be made to the Trustee at the times and in the amounts specified in Obligation No. 3. The Corporation shall receive credit for payment on Obligation No. 3, in addition to any credits resulting from payment of prepayment from other sources as follows:

- (a) On installments of interest on Obligation No. 3 in an amount equal to moneys deposited in the Interest Fund created under the Trust Agreement, to the extent such amounts have not previously been credited against payments on Obligation No. 3;
- (b) On installments of principal on Obligation No. 3 in an amount equal to moneys deposited in the Principal Fund created under the Trust Agreement, to the extent such amounts have not been previously credited against payments on Obligation No. 3 and
- (c) On installments of principal and interest on Obligation No. 3 in an amount equal to principal of the amount specified in the Certificate of the Corporation filed with the Trustee pursuant to the provisions of the Sale Agreement in connection with a prepayment of Purchase Payments.

## **Prepayment of Obligation**

(a) So long as all amounts which have become due under Obligation No. 3 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance all or part of the amount to become due under Obligation No. 3. Prepayments may be made by payments of cash or surrender of Certificates.

(b) Prepayments made under Supplement No. 3 shall be credited against amounts to become due on Obligation No. 3 as provided in Supplement No. 3.

(c) The Corporation may also prepay all of its indebtedness under Obligation No. 3 by providing for prepayment of the Certificates in accordance with Article XI of the Trust Agreement.

## **Registration, Number, Negotiability and Transfer of Obligations**

So long as any Certificates remain outstanding, Obligation No. 3 shall consist of a single Obligation without coupons registered as to principal and interest in the name of the Trustee and no transfer of Obligation No. 3 shall be registered under the Master Indenture except for transfers to a successor Trustee and except as described in the paragraph immediately following this paragraph.

Upon the principal of all Obligations Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 3 may be transferred if and to the extent the Trustee requests that the restrictions described in the preceding paragraph on transfers be terminated.

## **Right to Redeem**

Obligation No. 3 shall be subject to redemption, in whole or in part, prior to the maturity at the times and in the amounts applicable to prepayment of the Certificates as specified in the Trust Agreement; provided that in no event shall Obligation No. 3 be redeemed unless a corresponding amount of Certificates is also prepaid.

## **Additional Covenants Required by Insurer**

Supplement No. 3 contains a number of covenants which the Insurer required as a condition to the issuance of the Insurance. These covenants impose limitations on the Corporation and each other Member of the Obligated Group which are more restrictive than the covenants contained in the Master Indenture and described above under the caption "Master Indenture of Trust - Particular Covenants of the Members." Such covenants may be waived or modified by the Insurer in its sole discretion and are not summarized in this Official Statement.

## **Rights of Insurer**

The Insurer shall be entitled to direct the Trustee as Holder of Obligation No. 3 in connection with all actions, notices and directions taken under or pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture - Events of Default and Remedies," including such rights as the Holder of Obligation No. 3 may have with respect to declaring or noticing an Event of Default or a breach which, with the passage of time or the giving of notice or both, would become an Event of Default. The Insurer shall be deemed to be the Holder of Obligation No. 3 for purposes of exercising all remedies following the occurrence of an Event of Default, including without limitation, acceleration of the principal represented by Obligation No. 3 and the direction of the Master Trustee to exercise rights and powers conferred upon the Master Trustee pursuant to the provisions of the Master Indenture described above under the caption "Master Indenture of Trust - Events of Default and Remedies." Obligation No. 3 shall not be subject to acceleration pursuant to the provisions of the Master Indenture without the written consent of the Insurer. Each of the rights of the Insurer described herein shall become effective and remain effective for so long as Obligation No. 3 is Outstanding and for so long as the Insurance is in full force and effect and the Insurer is not then failing to make a payment as required in connection therewith, which failure has not been cured.

**APPENDIX D**

**AUCTION PROCEDURES**

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## AUCTION PROCEDURES

### Certain Definitions

In addition to the terms defined elsewhere (see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions of Certain Terms"), the following terms shall have the following meanings, unless the context otherwise requires:

**Affiliate** of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

**Agent Member** means a member of, or participant in, DTC.

**All-Hold Rate** means on any date of determination the interest rate per annum equal to the lesser of (i) the Maximum Interest Rate and (ii) 55% (as such percentage may be adjusted as described in Section (A)) below of the One Month LIBOR Rate.

**Auction** means each periodic implementation of the Auction Procedures.

**Auction Agent** means the auction agent appointed in accordance with the Trust Agreement. The initial Auction Agent is Wilmington Trust Company.

**Auction Date** means, (1) initially, the date(s) shown on the inside front cover of this Official Statement, (2) for each respective Auction Period thereafter, every Wednesday (subject to adjustment as provided in the Trust Agreement) or, if such day is not a Business Day, the preceding Business Day, and (3) with respect to Certificates bearing interest at an Auction Rate, during any period in which the Auction Procedures are not suspended in accordance with the provisions of the Trust Agreement, (i) if the Certificates are in a daily Auction Period, each Business Day, (ii) if the Certificates are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and (iii) if the Certificates are in any other Auction Period, the Business Day immediately preceding each Interest Payment Date with respect to such Certificates (whether or not an Auction will be conducted on such date); provided, that the last Auction Date with respect to Certificates in an Auction Period other than a daily Auction Period or a Flexible Auction Period will be the earlier of (a) the Business Day immediately preceding the Interest Payment Date with respect to such Certificates immediately preceding the effective date of a change in the Interest Rate Mode from an Auction Rate Period to a different Interest Rate Mode for such Certificates and (b) the Business Day immediately preceding the Interest Payment Date with respect to such Certificates immediately preceding the Maturity Date for such Certificates; and provided further, that if such Certificates are in a daily Auction Period, the last Auction Date will be the earlier of (x) the Business Day immediately preceding the effective date of a change in the Interest Rate Mode applicable to such Certificates from an Auction Rate Period to a different Interest Rate Mode and (y) the Business Day immediately preceding the Maturity Date for such Certificates; and provided further, that the last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first (1st) Auction Period following the conversion.

**Auction Period** means:

(1) for the initial Auction Period, the period commencing on the day following the initial Auction Date shown on the inside front cover of this Official Statement; and

(2) for each subsequent Auction Period,

(a) the Flexible Auction Period with respect to Certificates in a Flexible Auction Period;

(b) with respect to Certificates in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(c) with respect to Certificates in a seven (7)-day Auction Period and with Auctions generally conducted on (i) Mondays, a period of generally seven (7) days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Tuesdays, a period of generally seven (7) days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Wednesdays, a period of generally seven (7) days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, on the Monday following such Wednesday), (iv) Thursdays, a period of generally seven (7) days beginning on a Friday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the Thursday thereafter, and (v) Fridays, a period of generally seven (7) days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(d) with respect to Certificates in a twenty-eight (28)-day Auction Period and with Auctions generally conducted on (i) Mondays, a period of generally twenty-eight (28) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth (4th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Tuesdays, a period of generally twenty-eight (28) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth (4th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iii) Wednesdays, a period of generally twenty-eight (28) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth (4th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Thursdays, a period of generally twenty-eight (28) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Thursday) and ending on the fourth (4th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Fridays, a period of generally twenty-eight (28) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth (4th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(e) with respect to Certificates in a thirty-five (35)-day Auction Period and with Auctions generally conducted on (i) Mondays, a period of generally thirty-five (35) days beginning on a Tuesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Monday) and ending on the fifth (5th) Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) Tuesdays, a period of generally thirty-five (35) days beginning on a Wednesday (or the last day of the prior Auction Period if the prior Auction Period does not end on Tuesday) and ending on the fifth (5th) Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is

followed by a Business Day), (iii) Wednesdays, a period of generally thirty-five (35) days beginning on a Thursday (or the last day of the prior Auction Period if the prior Auction Period does not end on Wednesday) and ending on the fifth (5th) Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) Thursdays, a period of generally thirty-five (35) days beginning on a Friday (or the last day of the prior Auction Period if the prior Auction Period does not end on Thursday) and ending on the fifth (5th) Thursday thereafter (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), and (v) Fridays, a period of generally thirty-five (35) days beginning on a Monday (or the last day of the prior Auction Period if the prior Auction Period does not end on Sunday) and ending on the fifth (5th) Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(f) with respect to Certificates in a three (3)-month Auction Period, a period of generally three (3) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is ninety (90) days thereafter (unless such day is not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day; and

(g) with respect to Certificates in a six (6)-month Auction Period, a period of generally six (6) months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the day that is one hundred eighty (180) days thereafter (unless such day is not Wednesday, in which case on the first (1st) Wednesday succeeding such day), provided, that if such day is not followed by a Business Day, on the next succeeding day which is followed by a Business Day;

provided, that:

(a) if there is a conversion of Certificates with Auctions generally to be conducted on Mondays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Monday (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(b) if there is a conversion of Certificates with Auctions generally to be conducted on Tuesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment

Date for the prior Auction Period) and shall end on Tuesday (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(c) if there is a conversion of Certificates with Auctions generally to be conducted on Wednesdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Wednesday (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

(d) if there is a conversion of Certificates with Auctions generally to be conducted on Thursdays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Thursday (unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion; and

(e) if there is a conversion of Certificates with Auctions generally to be conducted on Fridays (i) from a daily Auction Period to a seven (7)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a twenty-eight (28)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-one (21) days but not more than twenty-eight (28) days from such date of conversion, and (iii) from a daily Auction Period to a thirty-five (35)-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on Sunday (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than twenty-eight (28) days but no more than thirty-five (35) days from such date of conversion;

provided further, that any Auction Period that is greater than thirty-five (35) days may be extended as provided in Section B below.

**Auction Procedures** means the procedures set forth in Sections C, D, E and F below.

**Auction Rate** means the interest rate to be determined for the Certificates as described in this Appendix D.

**Available Auction Certificates** shall have the meaning set forth in Section E below.

**Bid** shall have the meaning set forth in Section C below.

**Bidder** shall have the meaning set forth in Section C below.

**Broker-Dealer** means Morgan Stanley & Co. Incorporated and any other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures (i) that is an Agent Member (or an affiliate of an Agent Member), (ii) that has been selected by Children's Hospital Central California (the "Corporation") and (iii) that has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

**Electronic Notice** means notice transmitted through a time-sharing terminal, if operative as between any two parties, or if not operative, in writing, by facsimile transmission or by telephone (promptly confirmed in writing or by facsimile transmission).

**Existing Holder** means, for purposes of each Auction, a Person who is listed as the beneficial owner of Certificates in the records of the Auction Agent as of the Regular Record Date in respect of the last Interest Payment Date for the Auction Period then ending.

**Flexible Auction Period** means, with respect to Certificates bearing interest at the Auction Rate, (a) any period one hundred eighty-two (182) days or less which is divisible by seven (7) and begins on an Interest Payment Date and ends (i) in the case of Certificates with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Certificates with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Certificates with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of Certificates with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of Certificates with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or (b) any period which is longer than one hundred eighty-two (182) days, which begins on an Interest Payment Date and ends not later than the final scheduled Maturity Date of such Certificates.

**Hold Order** shall have the meaning set forth in Section C below.

**Index** means the One Month LIBOR Rate.

**Interest Payment Date** means: (A) if the Interest Rate Mode for the Certificates is the Auction Rate, (i) for an Auction Period of one hundred eighty (180) days or less, the Business Day immediately succeeding the last day of such Auction Period and (ii) for an Auction Period of more than one hundred eighty (180) days, each March 15 and September 15, provided, however, that if any March 15 or September 15 is not a Business Day, the following Business Day (in each case it being understood that in those instances where the immediately preceding Auction Date falls on a day that is not a Business Day, Auctions will be held on the preceding Business Day and the Interest Payment Date shall be one (1) Business Day immediately succeeding the next Auction Date); (B) the Conversion Date; and (C) the maturity date of the Certificates which shall be the final Interest Payment Date.

**Maximum Auction Rate** means fifteen percent (15%) per annum.

**Maximum Interest Rate** means fifteen percent (15%) per annum; provided, however, that the Maximum Interest Rate shall not exceed the maximum interest rate permitted by law from time to time.

**One Month LIBOR Rate** means, as of any date of determination, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

**Order** shall have the meaning set forth in Section C below.

**Potential Holder** means any Person, including any Existing Holder, who may be interested in acquiring the beneficial ownership of Certificates during an Auction Rate Period or, in the case of an Existing Holder thereof, the beneficial ownership of an additional principal amount of Certificates during an Auction Rate Period.

**Prevailing Market Conditions** means, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Certificates, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions, economic conditions in the health care industry and financial conditions that may affect or be relevant to the Certificates; and such other facts, circumstances and conditions as the Broker-Dealer, in its sole discretion, shall determine to be relevant to the remarketing of the Certificates at the principal amount thereof.

**Sell Order** shall have the meaning set forth in Section C below

**Standard Auction Period** means, an Auction Period of seven (7) days, and, after the establishment of a different period as described in Section B of this Appendix D means, such different period.

**Submission Deadline** means 1:00 p.m. (New York City Time) on any Auction Date or such other time on any Auction Date by which Brokers-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

**Submission Processing Deadline** means the earlier of (i) 40 minutes after the Submission Deadline and (ii) the time when the Auction Agent begins to disseminate the results of the Auction to the Broker-Dealers.

**Submitted Bid** shall have the meaning set forth in Section E below.

**Submitted Hold Order** shall have the meaning set forth in Section E below.

**Submitted Order** shall mean have the meaning set forth in Section E below.

**Submitted Sell Order** shall mean have the meaning set forth in Section E below.

**Sufficient Clearing Bids** shall mean have the meaning set forth in Section E below.

**Winning Bid Rate** shall mean have the meaning set forth in Section E below.

## **Section A      General**

(1) During any Auction Rate Period, the Certificates shall bear interest at the Auction Rate determined as described in this Summary. The Auction Rate for any initial Interest Period immediately after any Conversion to an Auction Rate Period shall be the rate of interest per annum determined and

certified to the Trustee (with a copy to the Insurer and the Corporation) by the Broker-Dealer on a date not later than the effective date of such Conversion as the minimum rate of interest which, in the opinion of the Broker-Dealer, would be necessary as of the date of such Conversion to market such Certificates under Prevailing Market Conditions in a secondary market transaction at a price equal to the principal amount thereof; provided that such interest rate shall not exceed the Maximum Auction Rate. Except as otherwise provided with respect to the initial Interest Period and as described above with respect to any initial Interest Period immediately after any Conversion to an Auction Rate Period, the Auction Rate shall be the rate of interest per annum that results from implementation of the Auction Procedures; provided that such interest rate shall not exceed the Maximum Auction Rate.

(2) Except as provided below, if on any Auction Date for any reason an Auction is not held, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate on and as of such Auction Date.

(a) Determination of the Auction Rate pursuant to the Auction Procedures shall be suspended upon the occurrence of an Event of Default. Upon the occurrence of an Event of Default on any Auction Date, no Auction will be held, all Submitted Bids and Submitted Sell Orders shall be rejected, the existence of Sufficient Clearing Bids shall be of no effect and the Auction Rate shall be equal to the Maximum Interest Rate as determined on and as of the immediately preceding Auction Date for each Auction Period commencing after the occurrence of such Event of Default and continuing to and including the Auction Period, if any, during which or commencing less than two (2) Business Days after the earlier of (1) such Event of Default has been cured or waived and (2) the first date on which all of the following conditions shall have been satisfied: (A) no default shall have occurred and be continuing under the Insurance Policy (the satisfaction of such condition to be conclusively evidenced, absent manifest error, to each of the Trustee and the Auction Agent by a certificate of a duly authorized officer of the Insurer (to such effect delivered to such entity); (B) the Corporation shall have delivered to the Auction Agent an instrument, satisfactory in form and substance to the Auction Agent, containing (y) an unconditional agreement of the Corporation to furnish to the Auction Agent amounts sufficient to pay all fees of each Broker-Dealer, as provided in the Broker-Dealer Agreements, and of the Auction Agent, and (z) such other agreements and representations as the Auction Agent shall reasonably require; and (C) the Auction Agent shall have advised the Trustee that the Auction Agent has been directed by the Insurer not to suspend, or to resume, the implementation of the Auction Procedures.

(b) For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, the Auction Rate on the Auction Rate Certificates will be determined as follows: (i) if the preceding Auction Period was a period of thirty-five (35) days or less, the new Auction Period will be the same as the preceding Auction Period and the Auction Rate for the new Auction Period will be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period uses a period of greater than thirty-five (35) days, the new Auction Period will be a seven (7)-day Auction Period and the Auction Rate for the new Auction Period will be the same as the Auction Rate for the preceding Auction Period.

(c) In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of thirty-five (35) days or less, the new Auction Period will be the same as the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than thirty-five (35) days, the new Auction Period will be a seven (7)-day Auction Period. In both cases, the Auction Rate for the new Auction Period will be the same as the Auction Rate for the preceding Auction Period, provided however, that it shall not exceed the Maximum Auction Rate.

(d) If Certificates bearing interest at an Auction Rate are no longer registered in the name of DTC, or other Depository, the interest rate will be the Maximum Auction Rate determined by the Auction Agent on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of physical certificates representing the Certificates pursuant to Section G (below).

(3) Auction Periods may be changed pursuant to Section (B) (below) at any time unless an Event of Default has occurred and has not been cured or waived. Each Auction Period shall be a Standard Auction Period unless a different Auction Period is established pursuant to Section (B) (below) and each Auction Period which immediately succeeds an Auction Period that is not a Standard Auction Period shall be a Standard Auction Period unless a different Auction Period is established pursuant to Section (B) (below).

(4) The Broker-Dealer shall from time to time increase any or all of the percentages set forth in the definition of "All-Hold Rate" in order that such percentages take into account any amendment to the Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury, after the date hereof which (A) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (B) imposes or would impose or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest on a governmental obligation the interest on which is excludable from federal gross income under Section 103 of the Code. The Broker-Dealer shall give notice of any such increase by means of a written notice delivered at least two (2) Business Days prior to the Auction Date on which such increase is proposed to be effective to the Trustee, the Auction Agent, the Corporation, the Insurer and DTC.

**Section B Auction Rate Period: Change of Auction Period**

(1) During an Auction Rate Period, the Corporation may change (a) the length of a single Auction Period or the Standard Auction Period, (b) the Interest Payment Date for Certificates with a changed Auction Period and (c) the Auction Date by means of a written notice delivered at least twenty (20) days but not more than sixty (60) days prior to the Auction Date for such Auction Period to the Trustee, the Insurer, the Auction Agent, the Broker-Dealer, the County and DTC. The length of an Auction Period or the Standard Auction Period may not be changed pursuant to this Section (B) unless Sufficient Clearing Bids existed at both the Auction immediately preceding the date the notice of such change was given and the Auction immediately preceding such changed Auction Period.

(2) The change in length of an Auction Period or the Standard Auction Period shall take effect only if (a) the Trustee and the Auction Agent receive, by 11:00 a.m. (New York City time) on the Business Day immediately preceding the Auction Date for such Auction Period, a Certificate from the Corporation, by telecopy or similar means, authorizing the change in the Auction Period or the Standard Auction Period, which shall be specified in such Certificate, and confirming that Special Counsel expects to be able to give a Favorable Opinion of Special Counsel, (b) the Trustee shall not have delivered to the Auction Agent by 12:00 noon (New York City time) on the Auction Date for such Auction Period notice that an Event of Default has occurred and is continuing, (c) Sufficient Clearing Bids exist at the Auction on the Auction Date for such Auction Period, and (d) the Trustee, the Insurer and the Auction Agent receive by 9:30 a.m. (New York City time) on the first day of such Auction Period, a Favorable Opinion of Special Counsel. If the condition referred to in (a) above is not met, the Auction Rate for the next succeeding Auction Period shall be determined pursuant to the Auction Procedures and the next succeeding Auction Period shall be a Standard Auction Period. If any of the conditions referred to in (b), (c) or (d) above is not met, the Auction Rate for the next succeeding Auction Period shall equal the Maximum Auction Rate as determined as of the Auction Date for such Auction Period and the next succeeding Auction Period shall be a 7-day Auction Period. The Auction Rate for succeeding Auction Periods shall be determined in accordance with the provisions described in this Appendix C.

**Section C Auction Rate Period: Orders by Existing Holders and Potential Holders**

(1) Subject to the provisions of Section (A) (above), Auctions shall be conducted on each Auction Date in the manner described in this section and in Sections (D), (E) and (F) (below). Prior to the Submission Deadline on each Auction Date during an Auction Rate Period:

(a) each Existing Holder may submit to the Broker-Dealer information as to:



(i) the principal amount of Certificates, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period;

(ii) the principal amount of Certificates, if any, held by such Existing Holder which such Existing Holder offers to sell if the Auction Rate for the next succeeding Auction Period shall be less than the rate per annum specified by such Existing Holder; and

(iii) the principal amount of Certificates, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Auction Period;

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Certificates which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Auction Period shall not be less than the interest rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (a)(i), (a)(ii) or (a)(iii) or clause (b) above is hereinafter referred to as an "Order" and each Existing Holder and Potential Holder placing an Order is hereinafter referred to as a "Bidder;" an Order containing the information referred to in clause (a)(i) above is hereinafter referred to as a "Hold Order;" an Order containing the information referred to in clause (a)(ii) or clause (b) above is hereinafter referred to as a "Bid;" and an Order containing the information referred to in clause (a)(iii) above is hereinafter referred to as a "Sell Order."

(2) (a) Subject to the provisions of Section (D) (below), a Bid by an Existing Holder shall constitute an offer to sell:

(i) the principal amount of Certificates specified in such Bid if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be less than the interest rate per annum specified therein; or

(ii) such principal amount or a lesser principal amount of Certificates to be determined as set forth in subsection (1)(d) of Section (F) (below) if the Auction Rate determined pursuant to the Auction Procedures on such Auction Date shall be equal to the interest rate per annum specified therein; or

(iii) such principal amount if the interest rate per annum specified therein shall be higher than the Maximum Auction Rate or such principal amount or a lesser principal amount of Certificates to be determined as set forth in subsection (2)(c) of Section (F) (below) if such specified rate shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids do not exist.

(b) Subject to the provisions of Section (D) (below), a Sell Order by an Existing Holder shall constitute an offer to sell:

(i) the principal amount of Certificates specified in such Sell Order; or

(ii) such principal amount or a lesser principal amount of Certificates as set forth in subsection (2)(c) of Section (F) (below) if Sufficient Clearing Bids do not exist.

(c) Subject to the provisions of Section (D) (below), a Bid by a Potential Holder shall constitute an offer to purchase:

(i) the principal amount of Certificates specified in such Bid if the Auction Rate determined on such Auction Date shall be higher than the rate specified therein; or

(ii) such principal amount or a lesser principal amount of Certificates as set forth in subsection (1)(e) of Section (F) (below) if the Auction Rate determined on such Auction Date shall be equal to such specified rate.

**Section D Auction Rate Period: Submission of Orders by Broker-Dealers to Auction Agent**

(1) During an Auction Rate Period each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline, but subject to the Submission Processing Representation, on each Auction Date during the Auction Rate Period, all Orders obtained by such Broker-Dealer and shall specify with respect to each such Order:

(a) the name of the Bidder placing such Order;

(b) the aggregate principal amount of Certificates that are subject to such Order;

(c) to the extent that such Bidder is an Existing Holder:

(i) the principal amount of Certificates, if any, subject to any Hold Order placed by such Existing Holder;

(ii) the principal amount of Certificates, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(iii) the principal amount of Certificates, if any, subject to any Sell Order placed by such Existing Holder; and

(d) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

(2) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth (.001) of 1%.

(3) If an Order or Orders covering all Certificates held by an Existing Holder is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Certificates held by such Existing Holder and not subject to Orders submitted to the Auction Agent. The County, the Corporation, the Trustee and the Auction Agent shall not be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(4) If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Certificates held by such Existing Holder, such Orders shall be considered valid as follows and in the following order of priority:

(a) all Hold Orders shall be considered valid, but only up to and including the principal amount of Certificates held by such Existing Holder, and, if the aggregate principal amount of Certificates subject to such Hold Orders exceeds the aggregate principal amount of Certificates held by such Existing Holder, the aggregate principal amount of Certificates subject to each such Hold Order shall be reduced pro rata to cover the aggregate principal amount of Certificates held by such Existing Holder;

(b) (i) any Bid shall be considered valid up to and including the excess of the principal amount of Certificates held by such Existing Holder over the aggregate principal amount of Certificates subject to any Hold Orders referred to in paragraph (a) above;

(ii) subject to clause (i) above, if more than one Bid with the same rate is submitted on behalf of such Existing Holder and the aggregate principal amount of Certificates subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess, and the principal amount of Certificates subject to each Bid with the same rate shall be reduced pro rata to cover the principal amount of Certificates equal to such excess;

(iii) subject to clauses (i) and (ii) above, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids shall be considered valid in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(iv) in any such event, the aggregate principal amount of Certificates, if any, subject to Bids not valid under this paragraph (b) shall be treated as the subject of a Bid by a Potential Holder at the rate therein specified; and

(c) all Sell Orders shall be considered valid up to and including the excess of the principal amount of Certificates held by such Existing Holder over the aggregate principal amount of Certificates subject to valid Hold Orders referred to in paragraph (a) and valid Bids referred to in paragraph (b) above.

(5) Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Certificates not equal to \$25,000 or an integral multiple thereof shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Certificates not equal to \$25,000 or an integral multiple thereof shall be rejected.

(6) In connection with any Auction, the Broker-Dealer shall be permitted to aggregate some or all of the Sell Orders that are submitted by Existing Holders prior to submitting the orders to the Auction Agent.

(7) Broker-Dealers may submit an Order after the Submission Deadline and prior to the Submission Processing Deadline if the Order was (i) received by the Broker-Dealer from Existing Owners or Potential Owners prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline. Each Order submitted to the Auction Agent after the Submission Deadline and prior to the Submission Processing Deadline shall constitute a representation by the Broker-Dealer that such Order was (i) received from an Existing Owner or Potential Owner prior to the Submission Deadline or (ii) initiated internally by the Broker-Dealer for its own account prior to the Submission Deadline (the "Submission Processing Representation").

**Section E Auction Rate Period: Determination of Sufficient Clearing Bids, Winning Bid Rate and Auction Rate**

(1) Not later than 9:30 a.m. (New York City time) on each Auction Date, the Auction Agent will advise the Broker-Dealer and the Trustee by telephone or other electronic communication acceptable to them of the All-Hold Rate, the Maximum Auction Rate and the Index.

(2) Not earlier than the Submission Deadline on each Auction Date during the Auction Rate Period, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to

as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order") and shall determine:

(a) the excess of the total principal amount of Certificates over the aggregate principal amount of Certificates subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Certificates"); and

(b) from the Submitted Orders whether the aggregate principal amount of Certificates subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of:

(i) the aggregate principal amount of Certificates subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate; and

(ii) the aggregate principal amount of Certificates subject to Submitted Sell Orders,

(in the event of such excess or such equality exists (other than because the sum of the principal amounts of Certificates in clauses (i) and (ii) above is zero because all of the Certificates are subject to Submitted Hold Orders), such Submitted Bids in clause (b) above are hereinafter reflected to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the lowest rate specified in the Submitted Bids (the "Winning Bid Rate") which if:

(i) (I) each Submitted Bid from Existing Holders specifying such lowest rate and (II) all other Submitted Bids from Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the principal amount of Certificates subject to such Submitted Bids; and

(ii) (I) each Submitted Bid from Potential Holders specifying such lowest rate and (II) all other Submitted Bids from Potential Holders specifying lower rates were accepted; and

(iii) would result in such Existing Holders described in clause (i) above continuing to hold an aggregate principal amount of Certificates which, when added to the aggregate principal amount of Certificates to be purchased by such Potential Holders described in clause (ii) above, would be not less than the Available Auction Certificates.

(3) Promptly after the Auction Agent has made the determinations pursuant to subsection (1) of this Section (E), the Auction Agent by telecopy, confirmed in writing, shall advise the Corporation and the Trustee of the Maximum Auction Rate and the All-Hold Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Auction Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Winning Bid Rate so determined;

(b) If Sufficient Clearing Bids do not exist (other than because all of the Certificates are the subject of Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the Maximum Auction Rate; and

(c) If all of the Certificates are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Period therefor shall be equal to the All-Hold Rate.

**Section F Auction Rate Period: Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Auction Certificates**

During an Auction Rate Period, Existing Holders shall continue to hold the principal amounts of Certificates that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to subsection (1) of Section (E) (above), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other actions as are set forth below:

(1) If Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of paragraphs (4) and (5) of this Section (F), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Certificates subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Certificates subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Certificates subject to such Submitted Bids;

(d) each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Certificates subject to such Submitted Bid, unless the aggregate principal amount of Certificates subject to all such Submitted Bids shall be greater than the principal amount of Certificates (the "remaining principal amount") equal to the excess of the Available Auction Certificates over the aggregate principal amount of the Certificates subject to Submitted Bids described in paragraphs (b) and (c) of this subsection (1), in which event such Submitted Bid of such Existing Holder shall be rejected in part, and such Existing Holder shall be entitled to continue to hold the principal amount of Certificates subject to such Submitted Bid, but only in an amount equal to the principal amount of Certificates obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of Certificates held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the sum of the principal amounts of Certificates subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

(e) each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted but only in an amount equal to the principal amount of Certificates obtained by multiplying the excess of the Available Auction Certificates over the aggregate principal amount of Certificates subject to Submitted Bids described in paragraphs (b), (c) and (d) of this subsection (1) by a fraction the numerator of which shall be the aggregate principal amount of Certificates subject to such Submitted Bid of such Potential Holder and the denominator of which shall be the sum of the principal amount of Certificates subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

(2) If Sufficient Clearing Bids have not been made (other than because all of the Certificates are subject to Submitted Hold Orders), subject to the provisions of subsection (4) of this Section (F), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(a) Existing Holders, Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Certificates subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, thus requiring each such Potential Holder to purchase the aggregate principal amount of Certificates subject to such Submitted Bids; and

(c) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Orders of each Existing Holder shall be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Certificates subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Certificates obtained by multiplying the aggregate principal amount of Certificates subject to Submitted Bids described in paragraph (b) of this subsection (2) by a fraction, the numerator of which shall be the aggregate principal amount of Certificates held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of Outstanding Auction Certificates subject to all such Submitted Bids and Submitted Sell Orders.

(3) If all Certificates are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(4) If, as a result of the procedures described in subsection (i) or (ii) of this Section (F), any Existing Holder would be required to sell, or any Potential Holder would be required to purchase, a principal amount of Certificates that is not equal to \$25,000 or an integral multiple thereof, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, round up or down the principal amount of such Certificates to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount purchased or sold by each Existing Holder or Potential Holder shall be equal to \$25,000 or an integral multiple thereof.

(5) If, as a result of the procedures described in subsection (1) of this Section (F), any Potential Holder would be required to purchase less than \$25,000 in aggregate principal amount of Certificates, the Auction Agent shall, in such manner as, in its sole discretion, it shall determine, allocate Certificates for purchase among Potential Holders so that only Certificates in principal amounts of \$25,000 or an integral multiple thereof are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Certificates.

(6) Based on the results of each Auction, the Auction Agent shall determine the aggregate principal amounts of Certificates to be purchased and the aggregate principal amounts of Certificates to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker Dealer, to the extent that such amounts differ, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers of Certificates such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers of Auction Certificates such Broker-Dealer shall receive, as the case may be, Certificates.

(7) None of the County, the Corporation or any Affiliate thereof may submit an Order in any Auction. The Auction Agent shall have no duty or liability with respect to monitoring or enforcing the provisions of this paragraph.

**Section G DTC Required During Auction Rate Mode; Limitations on Transfer**

(1) Except as otherwise provided in this Section (G), Certificates bearing interest at the Auction Rate shall be registered in the name of DTC or its nominee and ownership thereof shall be maintained in book-entry-only form by DTC for the account of the Agent Members thereof.

(2) If at any time DTC notifies the County and the Corporation that it is unwilling or unable to continue as owner of Certificates or if at any time DTC shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to DTC is not appointed by the County at the direction of the Corporation, the Trustee, the Auction Agent and the Broker-Dealer, within ninety (90) days after the County and the Corporation receive notice or become aware of such condition, as the case may be, the Trustee shall execute and deliver physical certificates representing the Certificates. Certificates issued as described in this Section (G)(2) shall be registered in such names and authorized denominations as DTC, pursuant to instructions from the Agent Members or otherwise, shall instruct the County and the Trustee. The Trustee shall deliver the Certificates to the Persons in whose names such Certificates are so registered on the Business Day immediately preceding the first day of an Auction Period. If Certificates bearing interest at an Auction Rate are no longer registered in the name of DTC, or other Depository, the interest rate will be the Maximum Auction Rate.

So long as the ownership of the Certificates is maintained in book-entry-only form by DTC, an Existing Holder may sell, transfer or otherwise dispose of Certificates only pursuant to a Bid or Sell Order placed in an Auction or to or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer. The Auction Rate for any Auction Period commencing after physical certificates representing the Certificates have been distributed as described in this section shall be equal to the Maximum Auction Rate on each Auction Date.

**Section H Calculation of All-Hold Rate and Determination of Maximum Auction Rate**

The Auction Agent shall calculate the All-Hold Rate and shall determine the Maximum Auction Rate on each Auction Date. If the ownership of the Certificates is no longer maintained in book-entry-only form by the Depository, the Auction Agent shall determine the Maximum Auction Rate on the Business Day immediately preceding the first day of each Auction Period commencing after the delivery of physical certificates representing the Certificates pursuant to Section (G) (above). If an Event of Default shall have occurred, the Auction Agent, upon receipt of notice thereof, shall determine the Maximum Interest Rate on the first day of each Auction Period commencing on and after the occurrence of such Event of Default to and including the Auction Period, if any, commencing not less than two (2) Business Days after all such Events of Default are cured.

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**APPENDIX E**

**FORM OF OPINION OF SPECIAL COUNSEL**

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**FORM OF OPINION OF SPECIAL COUNSEL**

[Closing Date]

County of Madera  
Madera, California

\$40,000,000  
Certificates of Participation  
Evidencing Proportionate Interests of the Holders Thereof  
in Installment Payments to be Paid by the  
County of Madera  
in Accordance with the Installment Purchase Agreement with  
Children's Hospital Central California  
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the County of Madera (the "County") in connection with the execution and delivery of \$40,000,000 aggregate principal amount of certificates of participation (the "Certificates"), each evidencing undivided ownership interests of the registered holders thereof in the rights to receive certain installment payments (the "Installment Payments") made by the County pursuant to an Installment Purchase Agreement, dated as of June 1, 2006 (the "Purchase Agreement"), between the County and Children's Hospital Central California, a California nonprofit public benefit corporation (the "Corporation"), such rights to receive Installment Payments having been assigned without recourse by the Corporation to The Bank of New York Trust Company, N. A., as trustee (the "Trustee"). The Certificates have been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of June 1, 2006, (the "Trust Agreement"), among the County, the Corporation and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Purchase Agreement, the Trust Agreement, an Installment Sale Agreement, dated as of June 1, 2006 (the "Sale Agreement"), between the County and the Corporation, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the County and the Corporation, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation and the Trustee, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of the Certificates in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the certificate-financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in the interest component of the Installment Payments being included in gross income for federal income tax purposes, possibly from the date of execution and delivery of the Certificates.

The interest rate mode and certain agreements, requirements and procedures contained or referred to in the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Installment Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms

and conditions set forth in such documents. No opinion is expressed herein as to the Purchase Agreement, any Certificate or the interest component any Installment Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. With delivery of this opinion, our engagement with respect to the Purchase Agreement and the Certificates has concluded, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of the Installment Payments to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Purchase Agreement, the Sale Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Purchase Agreement, the Sale Agreement and the Trust Agreement have been duly executed and delivered by the County and constitute valid and binding obligations of the County.

2. The obligation of the County to make the Installment Payments during the term of the Purchase Agreement constitutes a valid and binding obligation of the County, payable solely from the funds received by the County from the Corporation pursuant to the Sale Agreement. The obligation of the County to make the Installment Payments does not constitute a debt of the County or of the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction and does not constitute an obligation for which the County or the State of California or any political subdivision thereof is obligated to levy or pledge any form of taxation or for which the County or the State of California or any political subdivision thereof has levied or pledged any form of taxation.

3. The Trust Agreement creates a valid pledge, to secure the payment of the principal and interest components of the Installment Payments, of the Purchase Payments and any other amounts (including proceeds of the sale of the Certificates) held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund and the Purchase Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement. Assuming due authorization, execution and delivery by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The interest component of the Installment Payments made by the County under the Purchase Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. The interest component of the Installment Payments made by the County under the Purchase Agreement and received by the Holders of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that the interest component of the Installment Payments made by the County under the Purchase Agreement and received by the Holders of the Certificates is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of the Certificates or the accrual or receipt of the interest component of the Installment Payments made by the County under the Purchase Agreement.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

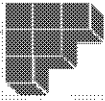
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**APPENDIX F**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N-

Effective Date:

Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent" for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert (and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. **THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.**

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

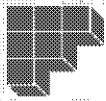
By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)



**FINANCIAL  
SECURITY  
ASSURANCE®**

**ENDORSEMENT NO. 1 TO  
MUNICIPAL BOND  
INSURANCE POLICY  
(California Insurance  
Guaranty Association)**

ISSUER:

Policy No. -N

BONDS:

Effective Date

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the insurance provided by this Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Endorsement to be executed on its behalf by its Authorized Officer.

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
31 West 52<sup>nd</sup> Street, New York, N.Y. 10019

(212) 826-0100

Form 660NY (CA 1/91)

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**APPENDIX G**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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## FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated June \_\_, 2006 (this "Disclosure Agreement"), is executed and delivered by Children's Hospital Central California, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation") and The Bank of New York Trust Company, N. A., a national banking association duly organized and existing under the laws of the United States of America, as trustee (the "Trustee") and as dissemination agent (the "Dissemination Agent") in connection with the execution and delivery of \$40,000,000 in aggregate principal amount of certain certificates of participation (the "Certificates") which are being executed and delivered pursuant to a Trust Agreement, dated as of June 1, 2006 (the "Trust Agreement"), among the County of Madera (the "County"), the Corporation and the Trustee. In connection with the execution and delivery of the Certificates, the County and the Corporation have entered into an Installment Sale Agreement, dated as of June 1, 2006 (the "Sale Agreement").

Pursuant to Section 6.07 of the Trust Agreement and Section 6.1 of the Sale Agreement, the Corporation, the Trustee and the Dissemination Agent covenant and agree as follows:

**SECTION 1. Purpose of this Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Corporation, the Trustee and the Dissemination Agent for the benefit of the Holders (as such term is defined in the Trust Agreement) and Beneficial Owners (as hereinafter defined) of the Certificates and in order to assist the Participating Underwriter (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Corporation, the Trustee and the Dissemination Agent acknowledge that the County has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any person, including any Holder or Beneficial Owner of the Certificates, with respect to any such reports, notices or disclosures or with respect to the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

**Annual Report** shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Section 3 and Section 4 of this Disclosure Agreement.

**Beneficial Owner** means any Person which has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificate, including, without limitation, any Persons holding Certificates through nominees, depositories, or other intermediaries.

**Central Post Office** means the DisclosureUSA website maintained by the Municipal Advisory Council of Texas or any successor thereto, or any other organization or method approved by the staff or members of the SEC as an intermediary through which filings required by this Disclosure Agreement may be made in compliance with the Rule.

**Disclosure Representative** shall mean the Authorized Representative of the Corporation or his or her designee, or such other person as the Corporation shall designate in writing to the Trustee and the Dissemination Agent from time to time.

**Dissemination Agent** shall mean The Bank of New York Trust Company, N. A., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Trustee a written acceptance of such designation.

**Insurer** shall mean Financial Security Assurance Inc., a New York stock insurance company, or any successor thereto or assignee thereof.

**Listed Events** shall mean any of the events listed in Section 5(A) of this Disclosure Agreement.

**National Repository** shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the SEC are listed at <http://www.sec.gov/info/municipal/nrmsir.htm>.

**Official Statement** shall mean the Official Statement, dated June \_\_, 2006 relating to the Certificates.

**Participating Underwriter** shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with offering of the Certificates.

**Quarterly Report** shall mean any Quarterly Report provided by the Corporation pursuant to, and as described in, Section 3 of this Disclosure Agreement.

**Repository** shall mean each National Repository and each State Repository.

**Rule** shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SEC** shall mean the Securities and Exchange Commission or any successor agency thereto.

**State** shall mean the State of California.

**State Repository** shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of execution and delivery of this Disclosure Agreement, there is no State Repository.

**SECTION 3. Provision of Annual Reports and Quarterly Reports.** (A) The Corporation shall, or shall cause the Dissemination Agent to, not later than four (4) months after the end of the fiscal year of the Corporation, commencing with the Annual Report for the fiscal year of the Corporation ending September 30, 2006, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; **provided** that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if such audited financial statements are not available by that date. If the fiscal year of the Corporation changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(F).

(B) Not later than fifteen (15) Business Days prior to the date specified in subsection (A) for providing the Annual Report to the Repositories, the Corporation shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by fifteen (15) Business Days prior to such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Corporation and the Dissemination Agent to determine if the Corporation is in compliance with subsection (A).

(C) If the Trustee is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (A), the Trustee shall send a notice to each Repository, such notice to be in substantially the form attached as Exhibit A hereto.

(D) Unless the Corporation shall have informed the Dissemination Agent in writing that the Corporation has provided the Annual Report directly to each Repository, in which case the Corporation shall: (i) determine prior to the date for providing the Annual Report for such year the name and address of each National Repository and each State Repository, if any; and (ii) file a report with the County, the Dissemination Agent and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided, the Dissemination Agent shall: (i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; (ii) file a report with the Corporation, the County and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual



Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided; and (iii) file a copy of the Annual Report with the Insurer. The Dissemination Agent shall have no responsibility for the content of the Annual Report.

(E) In addition to providing the Annual Report required to be filed pursuant to subsection (A), the Corporation shall provide to each Repository, unaudited financial information on a quarterly basis, such unaudited financial information to be provided for the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter and to consist of a balance sheet and a statement of operations of the Corporation, The Children's Hospital Central California Foundation (the "Foundation"), any additional Member of the Obligated Group and such affiliates or subsidiaries as are required to be included in accordance with generally accepted accounting principles (such unaudited financial information being hereinafter referred to as a "Quarterly Report"). The Corporation shall, or shall cause the Dissemination Agent to, provide a Quarterly Report, consistent with this subsection (E) not later than sixty (60) days after the end of the first fiscal quarter, the second fiscal quarter, and the third fiscal quarter, commencing with the fiscal quarter ending December 31, 2006, each such Quarterly Report to be provided to each Repository and to the Trustee (if the Trustee is not the Dissemination Agent).

(F) The Corporation reserve the right to make any filing required to be made with a Repository pursuant to this Disclosure Agreement by submitting such filing information, or causing such filing information to be submitted, to the Central Post Office.

(G) Notwithstanding any other provision of this Disclosure Agreement to the contrary, the Corporation may provide any Annual Report or any Quarterly Report to Beneficial Owners by means of posting such Annual Report or Quarterly Report on an internet site that provides open access to Beneficial Owners.

**SECTION 4. Content of Annual Reports.** The Annual Report shall contain or include by reference the following:

(A) The audited financial statements of the Corporation, the Foundation, any additional Member of the Obligated Group and such affiliates or subsidiaries as are required to be included in accordance with generally accepted accounting principles (the "Audited Financial Statements") for the prior fiscal year, prepared in accordance with generally accepted accounting principles applicable in the United States as promulgated from time to time. If the Audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(A), the Annual Report shall contain unaudited financial statements in a format similar to the Audited Financial Statements contained in the final Official Statement and the Audited Financial Statements shall be filed in the same manner as the Annual Report when such Audited Financial Statements become available.

(B) An update (as of the most recently ended fiscal year of the Corporation) of the information concerning the Corporation contained in the table entitled "Hospital Utilization Statistics" set forth under the caption "Historical Utilization Data" in Appendix A of the Official Statement - "Information Regarding Children's Hospital Central California and The Children's Hospital Central California Foundation."

(C) An update (as of the most recently ended fiscal year of the Corporation) of the information contained in the table entitled "Sources of Gross Patient Service Revenue" set forth under the caption "Summary of Financial Information - Sources of Revenue" in Appendix A of the Official Statement - "Information Regarding Children's Hospital Central California and The Children's Hospital Central California Foundation."

(D) An update (as of the most recently ended fiscal year of the Corporation) of the information contained in the table entitled "Capitalization" set forth under the caption "Summary of Financial Information - Capitalization" in Appendix A of the Official Statement - "Information Regarding Children's Hospital Central California and The Children's Hospital Central California Foundation."

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as such term is defined in the Rule), which have been submitted to each of the Repositories or the SEC. If the document included

by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(A) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Modifications to the rights of Holders;
4. Optional, contingent or unscheduled Certificate calls;
5. Defeasances;
6. Rating changes;
7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Installment Payments evidenced by the Certificates;
8. Unscheduled draws on debt service reserves reflecting financial difficulties;
9. Unscheduled draws on credit enhancements reflecting financial difficulties;
10. Substitution of the credit or liquidity providers or any failure by such credit or liquidity providers to perform; and
11. Release, substitution or sale of property securing repayment of the Certificates.

(B) The Trustee shall, within one (1) Business Day, or as soon thereafter as is practicable, of obtaining at its Corporate Trust Office actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event, and request that the Corporation promptly direct the Dissemination Agent in writing whether or not to report such event pursuant to subsection (F).

(C) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (B) or otherwise, the Corporation shall as soon as possible determine if such event would be material under applicable federal securities laws.

(D) If the Corporation has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (F).

(E) If in response to a request under subsection (B), the Corporation determines that the Listed Event would not be material under applicable federal securities laws, the Corporation shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (F).

(F) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories, with a copy to the Corporation and the Insurer. Notwithstanding the foregoing, notice of Listed Events described in

subsections (A)(4) and (A)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Holders of affected Certificates pursuant to the Trust Agreement.

**SECTION 6. Termination of Reporting Obligation.** The obligations of the Corporation, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final stated Certificate Payment Date of the Certificates, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(F). If the Corporation's obligations under the Sale Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation and the original Corporation shall have no further responsibility hereunder.

**SECTION 7. Dissemination Agent.** The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Corporation, the Trustee and the Dissemination Agent may amend this Disclosure Agreement (and the Trustee and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided, neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(A) If the amendment or waiver relates to the provisions of Sections 3(A), 4, or 5(A), such amendment or waiver may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(B) This Disclosure Agreement, as amended or taking into account the waiver proposed, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement with respect to amendments to the Trust Agreement which require the consent of Holders, or (ii) does not, in the opinion of the Trustee and the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(F), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no

obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the Corporation or the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Certificates, shall), or any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or a Sale Agreement Default, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action seeking mandate or to compel performance.

**SECTION 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent.** Article VIII of the Trust Agreement, including, without limitation, Section 8.04 of the Trust Agreement, is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent shall be entitled to the benefits afforded to the Trustee hereunder. The Dissemination Agent shall be paid reasonable compensation for services rendered, and reimbursement for expenses incurred, pursuant to this Disclosure Agreement and the Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement. The Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Certificates.

**SECTION 12. Beneficiaries.** This Disclosure Agreement shall inure solely to the benefit of the County, the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters, the Holders and the Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity. No person shall have any right to commence any action against the Trustee or the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. Neither the Trustee nor the Dissemination Agent shall be liable under any circumstances for monetary damages to any person for any breach of this Disclosure Agreement.

**SECTION 13. Notices.** All notices or communications herein required or permitted to be given shall be in writing mailed, sent by telecopy or other direct written electronic means, receipt of which shall be confirmed, or delivered as follows:

(i) If to the Corporation:

Children's Hospital Central California  
9300 Valley Children's Place  
Madera, California 93638  
Attention: Vice President and Chief Financial Officer  
Telephone: (559) 353-7090  
Fax: (559) 353-5311

(ii) If to the Trustee and Dissemination Agent:

The Bank of New York Trust Company, N. A.  
550 Kearny Street, Suite 600  
San Francisco, California 94108  
Attention: Corporate Trust Department  
Telephone: (415) 263-2416  
Fax: (415) 399-1647

(iii) If to the County:  
County of Madera  
Government Center  
209 West Yosemite Avenue  
Madera, California 93637  
Attention: County Administrative Officer  
Telephone: (559) 675-7703  
Fax: (559) 673-0262

(iv) If to the Insurer:  
Financial Security Assurance Inc.  
31 West 52nd Street  
New York, New York 10019  
Attention: Managing Director – Surveillance,  
Re: Policy No. \_\_\_\_\_  
Telephone: (212) 826-0100  
Fax: (212) 339-3556

The Corporation, the Trustee, the Dissemination Agent, the County and the Insurer may, by written notice hereunder, designate any further or different address to which subsequent notices, certificates or other communications shall be sent.

SECTION 14. **Counterparts.** This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 15. **Governing Law.** This Disclosure Agreement shall be construed in accordance with and governed by the Constitution and laws of the State of California.

CHILDREN'S HOSPITAL CENTRAL CALIFORNIA

By \_\_\_\_\_  
Vice President and Chief Financial Officer

THE BANK OF NEW YORK TRUST COMPANY, N. A.,  
as Trustee and Dissemination Agent

By \_\_\_\_\_  
Assistant Vice President

**Exhibit A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: County of Madera (the "County")

Name of Issue: County of Madera Certificates of Participation (Children's Hospital Central California), Series 2006

Name of Corporation: Children's Hospital Central California (the "Corporation")

Date of Execution and Delivery of Certificates: June 22, 2006

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-referenced Certificates as required by Section 6.07 of the Trust Agreement, dated as of June 1, 2006, among the County, the Corporation and The Bank of New York Trust Company, N. A., as trustee, and as required by Section 6.1 of the Installment Sale Agreement, dated as of June 1, 2006, between the County and the Corporation. [The Corporation anticipates that the Annual Report will be filed by \_\_\_\_\_.]

Dated: \_\_\_\_\_.

THE BANK OF NEW YORK TRUST COMPANY, N. A.,  
as trustee on behalf of Children's Hospital Central California

cc: County  
Corporation  
Insurer

**APPENDIX H**  
**BOOK-ENTRY SYSTEM**

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## BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued in the total aggregate principal amount of the Certificates and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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 Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

To facilitate subsequent transfers, all Certificates 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 Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates 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 Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Redemption proceeds, distributions, and dividend payments with respect to the Certificates 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 County 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 nor of its nominee, the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County 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 Certificates at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, 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 County and the Obligated Group believe to be reliable, but neither the County nor the Obligated Group take responsibility for the accuracy thereof.

**The County and the Obligated Group cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal of, premium, if any, and interest with respect to the Certificates paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the**

manner described in this Official Statement. Neither the County nor the Obligated Group is responsible or liable for the failure of DTC or any Participant or Indirect Participant to make any payments or give any notice to a Beneficial Owner with respect to the Certificates or any error or delay relating thereto.

None of the County, Obligated Group or the Trustee will have any responsibility or obligation to Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Participant, or any Indirect Participant; (ii) the payment by DTC or any Participant or Indirect Participant of any amount with respect to the principal of, premium, if any, or interest with respect to the Certificates; (iii) any notice that is permitted or required to be given to Owners under the Trust Agreement; (iv) the selection by DTC, any Participant or any Indirect Participant of any person to receive payment in the event of a partial redemption of the Certificates; (v) any consent given or other action taken by DTC as securities depository for the Certificates; or (vi) any other procedures or obligations of DTC, Participants or Indirect Participants under the book-entry system.

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