

In the opinion of Orrick, Herrington & Sutcliffe llp, Bond 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, interest on the Bonds 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 Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.



\$200,000,000
CALIFORNIA STATEWIDE COMMUNITIES
DEVELOPMENT AUTHORITY
Revenue Bonds
(John Muir Health)
Series 2006A

Dated: Date of Delivery

Due: August 15, as shown on the inside cover

The California Statewide Communities Development Authority (the "Authority") is offering \$200,000,000 of California Statewide Communities Development Authority Revenue Bonds (John Muir Health) Series 2006A ("the Bonds"). The Bonds are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Beneficial owners of the Bonds will not receive physical certificates representing the Bonds purchased but will receive a credit balance on the books of the nominees of such purchasers. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds will be paid by The Bank of New York Trust Company, N.A., as Bond Trustee, to DTC, which, in turn, will remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein. Interest on the Bonds is payable on February 15 and August 15 of each year, commencing August 15, 2006.

The Bonds are limited obligations of the Authority, secured under the provisions of the Bond Indenture and the Loan Agreement, as described herein, and will be payable from Loan Repayments made by John Muir Health (the "Corporation") under the Loan Agreement and from certain funds held under the Bond Indenture. The obligation of the Corporation to make such payments is evidenced and secured by the issuance of Obligation No. 10 under the Master Indenture described herein, which obligates the Corporation to make payments on Obligation No. 10 in an amount sufficient to pay principal of and interest on the Bonds when due.

The Bonds are subject to optional, mandatory and extraordinary redemption and purchase in lieu of redemption prior to their respective maturities, as described herein.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, OTHER THAN THE AUTHORITY, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE BOND INDENTURE OR OBLIGATION NO. 10 AND THE LOAN AGREEMENT AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

The Bonds were sold pursuant to a public auction process conducted by Shattuck Hammond Partners LLC on May 23, 2006.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND PRICES
(See Succeeding Page)

The Bonds are offered when, as and if received by the winning bidder (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, Bond Counsel and counsel to the Authority, and the approval of certain matters for the Corporation by its counsel, Latham & Watkins LLP, and by disclosure counsel, Ropes & Gray LLP. It is expected that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about June 14, 2006.

Date: May 23, 2006

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

Maturity Schedule

\$200,000,000
CALIFORNIA STATEWIDE COMMUNITIES DEVELOPMENT AUTHORITY
REVENUE BONDS
(John Muir Health)
Series 2006A

Consisting of:

\$97,510,000 Serial Bonds

Maturity Date (August 15)	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2017	\$4,045,000	5.000	4.420%	104.703
2018	4,250,000	5.000	4.490	104.121
2019	4,465,000	5.000	4.530	103.789
2020	3,080,000	5.000	4.550	103.624
2021	6,000,000	5.000	4.610	103.131
2022	6,295,000	5.000	4.610	103.131
2023	6,610,000	4.625	4.670	99.466
2024	6,915,000	4.625	4.690	99.205
2025	7,240,000	4.750	4.720	100.233
2026	7,580,000	4.750	4.740	100.073
2027	-	-	-	-
2028	13,015,000	5.000	4.750	101.991
2029	13,665,000	5.000	4.770	101.829
2030	14,350,000	5.000	4.800	101.587

\$102,490,000 Term Bonds

Maturity Date (August 15)	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>
2032	\$30,890,000	5.000%	4.820%	101.426
2034	34,055,000	5.000	4.840	101.266
2036	37,545,000	5.000	4.850	101.186

The front and inside cover pages contain certain information for quick reference only. Such information is not intended to be a summary of the security or terms of this bond issue. Investors are instructed to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

No dealer, salesperson or any other person has been authorized by the Authority, the Corporation or the Underwriter to give any information or to make any representation concerning the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of them. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of the Bonds 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.

The Official Statement has been approved by the Corporation, and the use and distribution of this Official Statement for the purposes described in this Official Statement have been authorized by the Authority and by the Obligated Group (defined herein). The information set forth herein under the caption "THE AUTHORITY" and under "ABSENCE OF MATERIAL LITIGATION", solely as it relates to the Authority, has been furnished by the Authority. The information set forth in "THE BONDS - Book-Entry System" and APPENDIX F has been furnished by DTC. All other information set forth herein has been obtained from the Corporation and other sources 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 Authority 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 Bonds shall, in any circumstances, create any implication that there has not been a change in the affairs of the Authority, the Corporation or DTC since the date of this Official Statement.

The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

In making an investment decision, investors must rely upon their own examination of the terms of the offering, including the merits and risks involved.

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

CAUTIONARY STATEMENTS REGARDING PROJECTIONS, ESTIMATES, AND OTHER
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 "THE PROJECT AND THE PLAN OF FINANCE" and "BONDHOLDERS' RISKS" in the forepart of this Official Statement and the statements contained under the captions "Management's Discussion And Analysis Of Recent Financial Performance" in APPENDIX A to this Official Statement.

The achievement of certain results or other expectations contained in such forward-looking statements involve 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 Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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OFFICIAL STATEMENT

\$200,000,000
California Statewide Communities Development Authority
Revenue Bonds
(John Muir Health)
Series 2006A

INTRODUCTORY STATEMENT

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 in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. See APPENDIX C for summaries of certain provisions of the Master Indenture, the Bond Indenture and the Loan Agreement, each as defined herein. Capitalized terms used in the forepart of this Official Statement and not defined herein are defined in APPENDIX C.

Purpose of this Official Statement

This Official Statement, including the cover page and the appendices hereto, describes the \$200,000,000 California Statewide Communities Development Authority Revenue Bonds (John Muir Health) Series 2006A (“the Bonds” or the “Series 2006A Bonds”). The Bonds will be issued pursuant to, and secured under, a Bond Indenture dated as of June 1, 2006, between the California Statewide Communities Development Authority, referred to in this Official Statement as the Authority, and The Bank of New York Trust Company, N.A., as Bond Trustee.

John Muir Health

John Muir Health is a California nonprofit public benefit corporation and is exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). John Muir Health is referred to in this Official Statement as the Corporation. The Corporation and its affiliates form a health system that owns and operates, among other things, two general acute care hospitals (a 324-bed facility called John Muir Medical Center-Walnut Creek, in Walnut Creek, California and a 254-bed facility called John Muir Medical Center-Concord, in Concord, California), a 73-bed psychiatric hospital, and an outpatient and ambulatory care center called John Muir Medical Center-Brentwood, as well as a wide array of inpatient and outpatient health care services in Contra Costa County in the San Francisco Bay Area in northern California.

Purpose of the Bonds

The Authority will lend the proceeds of the sale of the Bonds to the Corporation pursuant to a Loan Agreement (the “Loan Agreement”) dated as of June 1, 2006 by and between the Authority and the Corporation. The proceeds of the loan, together with other funds, will be used (i) to finance and refinance the cost of acquisition, construction, improvement, equipping, renovation, rehabilitation, remodeling and other capital projects on or about the John Muir Medical Center-Walnut Creek campus, (ii) to finance various routine capital expenditures and the cost of acquisition of equipment to be located on the John Muir Medical Center-Concord campus, (iii) to provide for payment of a portion of interest on the Bonds, and (iv) to pay certain costs incurred in connection with the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.” It is anticipated that the Authority will issue its Insured Revenue Bonds (John Muir Health) Series 2006B (the “Series 2006B Bonds”) and its Insured Revenue Bonds (John Muir Health) Series 2006C (the “Series 2006C Bonds”) in the aggregate principal amount of \$100,000,000 (issued initially as variable rate bonds in auction mode) simultaneously with the issuance of the Bonds for purposes of financing a portion of the costs of the same projects (collectively, the Series 2006A Bonds, the Series 2006B Bonds and the Series 2006C Bonds are the “2006 Bonds”). See “THE PROJECT AND THE PLAN OF FINANCE.”

The Master Indenture

The Corporation is the sole member of an Obligated Group (the “Obligated Group”) formed under a Master Trust Indenture, dated as of November 1, 1985, as amended (the “Master Indenture”) with U.S. Bank National Association, as master trustee (the “Master Trustee”). The obligations of the Corporation under the Loan Agreement will be secured by Obligation No. 10 (“Obligation No. 10”) to be issued by the Corporation pursuant to the Master Indenture and the Supplemental Master Indenture for Obligation No. 10 dated as of June 1, 2006 between the Corporation and the Master Trustee (the “Supplemental Master Indenture”). Pursuant to Obligation No. 10, the Corporation as sole Member of the Obligated Group agrees to make payments in amounts sufficient to pay the principal of and interest on the Bonds when due. The obligations of the Corporation with respect to such payments are secured by a pledge of the Gross Revenues of the Corporation as sole Member of the Obligated Group. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – The Master Indenture.”

Limited Obligation of Authority

The Bonds constitute limited obligations of the Authority, payable solely from Revenues, which consist primarily of Loan Repayments to be made by the Corporation pursuant to the Loan Agreement and Obligation No. 10.

The Bonds shall not be deemed to constitute a debt or liability of the Authority, the State of California or of any political subdivision thereof or a pledge of the faith and credit of the State of California or any political subdivision thereof, other than the Authority, but shall be payable solely from the funds provided therefor. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds, or interest thereon, except from the funds provided under the Bond Indenture or Obligation No. 10 and the Loan Agreement and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof, including the Authority, is pledged to the payment of the principal of or interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation or to make any appropriation for their payment. The Authority has no taxing power.

Bondholders’ Risks

Certain risks are inherent in the purchase of the Bonds. See the information herein under the caption, “BONDHOLDERS’ RISKS” for a discussion of certain of these risks.

Book-Entry Only

The Bonds, when issued, will be payable solely in book-entry form through The Depository Trust Company. See APPENDIX F – “Information Regarding Book-Entry Only System.”

Continuing Disclosure

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide to the Bond Trustee, as dissemination agent, (i) certain financial and operating data for each of the Corporation’s fiscal years, (ii) certain unaudited financial information for each of the Corporation’s fiscal quarters of each year and (iii) notices of the occurrence of certain enumerated events. See the information under the caption “CONTINUING DISCLOSURE.”

THE AUTHORITY

The Authority is a public entity organized pursuant to a Joint Powers Agreement among a number of California counties, cities and special districts entered into pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code. The Authority is authorized to participate in financings for the benefit of organizations described under Section 501(c)(3) of the Code.

THE BONDS

General

The Bonds are being issued in the aggregate principal amount set forth on the inside cover of this Official Statement. The Bonds will be delivered in fully registered form without coupons. The Bonds will be dated and will be payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, or DTC. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in the denominations hereinafter set forth. See “THE BONDS – Book-Entry System.”

The Bonds will bear interest at the rates set forth on the inside cover page hereof, payable on February 15 and August 15 of each year commencing August 15, 2006 (each an “Interest Payment Date”) to the Holder thereof as of the Record Date (the first day of the month, whether or not a Business Day, in which an Interest Payment Date occurs) for each Interest Payment Date (except with respect to interest in default, for which a Special Record Date shall be established) by check mailed by first-class mail on each Interest Payment Date to such Holder at the Holder’s address as it appears on the registration books maintained by the Bond Trustee or, at the written request of any Holder of at least one million dollars (\$1,000,000) in aggregate principal amount of Bonds, received by the Bond Trustee at least one Business Day prior to the Record Date, by wire transfer to an account within the United States of America. Payment of the principal or redemption price of Bonds will be payable upon surrender thereof at the corporate trust office of the Bond Trustee. So long as Cede & Co. is the registered owner of the Bonds, principal of and interest on the Bonds are payable by wire transfer by the Bond Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants for subsequent disbursement to the Beneficial Owners. See APPENDIX F – “Information Regarding Book-Entry Only System.”

Redemption and Purchase in Lieu of Redemption

Optional Redemption. The Bonds maturing on or before August 15, 2016 are not subject to redemption prior to maturity except as described herein under the heading “Extraordinary Optional Redemption.” The Bonds maturing after August 15, 2016 are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised upon request of the Corporation), from any source of available funds, in whole or in part on any date on or after August 15, 2016 (in such maturities as are designated by the Corporation or, if the Corporation fails to designate such maturities, in inverse order of maturity for such Series, and by lot among such Bonds within a maturity), at 100% of the principal amount of the Bonds called for redemption plus accrued interest to the date fixed for redemption.

Mandatory Redemption. The Bonds maturing on August 15, 2032, August 15, 2034 and August 15, 2036 are subject to redemption prior to their respective stated maturity, in part, by lot, from Mandatory Sinking Account Payments on the dates set forth below, at the principal amount thereof and interest accrued thereon to the date fixed for redemption in the amounts indicated below.

Bonds Maturing on August 15, 2032

Mandatory Sinking Account Payment Dates (August 15)	Mandatory Sinking Account Payments
2031	\$15,070,000
2032*	15,820,000

*Maturity

Bonds Maturing on August 15, 2034

Mandatory Sinking Account Payment Dates (August 15)	Mandatory Sinking Account Payments
2033	\$16,610,000
2034*	17,445,000

*Maturity

Bonds Maturing on August 15, 2036

Mandatory Sinking Account Payment Dates (August 15)	Mandatory Sinking Account Payments
2035	\$18,315,000
2036*	19,230,000

*Maturity

Extraordinary Optional Redemption of Bonds. The Bonds are subject to redemption prior to their respective stated maturities, at the option of the Authority (which option shall be exercised upon request of the Corporation), as a whole or in part on any date (in such amounts and maturities as may be specified by the Corporation or, if the Corporation fails to designate the maturities, in inverse order of maturity, and by lot among Bonds within a maturity), from certain hazard insurance or condemnation proceeds received with respect to the facilities of any Member, at a redemption price equal to the principal amount thereof, together with interest accrued thereon to the date fixed for redemption. The Bonds are also subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised upon request of the Corporation) as a whole (but not in part) on any date at the principal amount thereof and interest accrued thereon to the date fixed for redemption if, as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by the Corporation that (a) the Master Indenture has become void or unenforceable or impossible to perform, or (b) unreasonable burdens or excessive liabilities have been imposed on such Member, including without limitation, federal, state or other ad valorem property, income or other taxes being then imposed which were not being imposed on the date of issuance of the Bonds.

Notice of Redemption; Rescission of Notice; Effect of Redemption. Notice of redemption will be mailed by first-class mail by the Bond Trustee, not less than 30 days and not more than 60 days prior to the redemption date, to the Holders of any Bonds designated for redemption at their addresses appearing on the registration books of the Bond Trustee, the Securities Depository and certain information services.

Any notice of optional redemption under the Bond Indenture may be rescinded by written notice given by the Corporation to the Bond Trustee no later than five Business Days prior to the date specified for redemption. The Bond Trustee will give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the initial notice of redemption was given in accordance with the Bond Indenture.

The failure by the Bond Trustee to give notice of redemption to either one or both of the Securities Depositories or information services, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. The failure by the Bond Trustee to mail notice of redemption to any one or more of the Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for the redemption of the Bonds with respect to the Holder or Holders to whom such notice was mailed. The Bonds so called for redemption shall become due and payable at the redemption price (together with interest accrued thereon, if any) specified in such notice; interest on such Bonds shall cease to accrue from and after the redemption date; said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture; and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment. Neither the Authority nor the Bond Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto.

Mandatory Purchase in Lieu of Redemption. Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in the Bond Indenture. Such Bond is to be purchased at a purchase price equal to the then applicable redemption price of such Bond plus accrued interest. The Corporation may only exercise such option after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Trustee, and shall have directed the Trustee to provide notice of mandatory purchase (such notice to be provided, as and to the extent applicable, in accordance with the notice of redemption provisions of the Indenture). On the date fixed for purchase of any Bond in lieu of redemption as described in this paragraph, the Corporation shall pay the purchase price of such Bond to the Trustee in immediately available funds, and the Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this paragraph shall operate to extinguish the indebtedness of the Authority evidenced by such Bond. No Holder may elect to retain a Bond subject to mandatory purchase in lieu of redemption.

Book-Entry System

The Bonds will be issued in book-entry form. DTC will act as the initial Securities Depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of Bonds in the total aggregate principal amount due on such maturity and will be deposited with or upon the direction of DTC. See APPENDIX F – "Information Regarding Book-Entry Only System."

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending December 31, the amounts required to be made available for the payment of principal and interest due on the Bonds at maturity (including Mandatory Sinking Account Payments). The table contains the same information for the Insured Revenue Bonds (John Muir Health) Series 2006B and Series 2006C that the Corporation anticipates the Authority will issue simultaneously with the Bonds. The table further includes debt service for each year ending December 31 on other long-term indebtedness evidenced or secured by Obligations to be outstanding under the Master Indenture subsequent to the issuances of the 2006 Bonds. The table does not include debt service on any other long-term indebtedness of the Obligated Group that is not evidenced or secured by Obligations. The aggregate principal amount of such other indebtedness approximated \$6,016,000 as of December 31, 2005. For a complete description of long-term indebtedness of the Obligated Group, see Note 8 to APPENDIX B hereto.

Year Ending December 31,	Series 2006A Bonds			Series 2006B Bonds and Series 2006C Bonds			Debt Service on Other Indebtedness ⁽²⁾	Total Debt Service
	Principal	Interest	Total	Principal	Interest ⁽¹⁾	Total		
2007	-	\$9,912,231	\$9,912,231	-	\$3,450,520	\$3,450,520	\$8,405,844	\$21,768,595
2008	-	9,912,231	9,912,231	-	3,508,899	3,508,899	9,761,200	23,182,331
2009	-	9,912,231	9,912,231	-	3,449,070	3,449,070	9,748,925	23,110,226
2010	-	9,912,231	9,912,231	-	3,450,520	3,450,520	9,736,356	23,099,108
2011	-	9,912,231	9,912,231	-	3,450,520	3,450,520	9,741,744	23,104,495
2012	-	9,912,231	9,912,231	-	3,442,724	3,442,724	9,745,169	23,100,125
2013	-	9,912,231	9,912,231	-	3,515,245	3,515,245	9,712,275	23,139,751
2014	-	9,912,231	9,912,231	-	3,450,520	3,450,520	9,708,275	23,071,027
2015	-	9,912,231	9,912,231	-	3,450,520	3,450,520	9,705,206	23,067,958
2016	-	9,912,231	9,912,231	-	3,442,543	3,442,543	12,770,100	26,124,875
2017	\$4,045,000	9,912,231	13,957,231	-	3,448,889	3,448,889	6,417,900	23,824,020
2018	4,250,000	9,709,981	13,959,981	-	3,450,520	3,450,520	6,415,263	23,825,764
2019	4,465,000	9,497,481	13,962,481	-	3,516,876	3,516,876	6,414,153	23,893,511
2020	3,080,000	9,274,231	12,354,231	-	3,442,543	3,442,543	7,986,507	23,783,281
2021	6,000,000	9,120,231	15,120,231	-	3,449,070	3,449,070	5,276,062	23,845,363
2022	6,295,000	8,820,231	15,115,231	-	3,450,520	3,450,520	5,276,981	23,842,733
2023	6,610,000	8,505,481	15,115,481	-	3,450,520	3,450,520	5,280,275	23,846,277
2024	6,915,000	8,199,769	15,114,769	-	3,508,899	3,508,899	5,278,207	23,901,875
2025	7,240,000	7,879,950	15,119,950	-	3,449,070	3,449,070	5,276,143	23,845,163
2026	7,580,000	7,536,050	15,116,050	\$7,000,000	3,360,276	10,360,276	5,277,800	30,754,126
2027	-	7,176,000	7,176,000	-	3,208,984	3,208,984	48,770,968	59,155,952
2028	13,015,000	7,176,000	20,191,000	7,000,000	3,113,553	10,113,553	-	30,304,553
2029	13,665,000	6,525,250	20,190,250	7,000,000	2,878,454	9,878,454	-	30,068,704
2030	14,350,000	5,842,000	20,192,000	7,000,000	2,686,761	9,686,761	-	29,878,761
2031	15,070,000	5,124,500	20,194,500	8,000,000	2,380,480	10,380,480	-	30,574,980
2032	15,820,000	4,371,000	20,191,000	8,000,000	2,101,129	10,101,129	-	30,292,129
2033	16,610,000	3,580,000	20,190,000	10,000,000	1,804,455	11,804,455	-	31,994,455
2034	17,445,000	2,749,500	20,194,500	10,000,000	1,461,163	11,461,163	-	31,655,663
2035	18,315,000	1,877,250	20,192,250	-	1,242,187	1,242,187	-	21,434,437
2036	19,230,000	961,500	20,191,500	36,000,000	796,955	36,796,955	-	56,988,455
Total	\$200,000,000	\$232,960,950	\$432,960,950	\$100,000,000	\$90,812,388	\$190,812,388	\$206,705,353	\$830,478,692

(1) Assumes that interest on the Series 2006B Bonds and the Series 2006C Bonds (which will be issued initially as Auction Rate Securities) is payable at an average annual rate of 3.46%

(2) Assumes that interest on certain prior variable-rate indebtedness is payable at an average annual rate of 3.46%

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

The Bond Indenture

The Bonds are limited obligations of the Authority, payable solely from Revenues which consist primarily of Loan Repayments made by the Corporation under the Loan Agreement and payments made by the Corporation as the sole Member of the Obligated Group pursuant to Obligation No. 10. In the Loan Agreement, the Corporation agrees to make Loan Repayments to the Bond Trustee, which payments, in the aggregate, are required to be in amounts sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable on the Bonds to their respective stated maturities and the principal amount of such Bonds. The Corporation is also required to pay other fees and expenses (consisting generally of reasonable fees and charges of the Bond Trustee, accountants' fees and reasonable fees and expenses of the Authority associated with the issuance of the Bonds).

Under the Bond Indenture, the Authority will assign to the Bond Trustee for the benefit of the Holders of the Bonds (a) all of the right, title and interest of the Authority in the Loan Agreement and Obligation No. 10 (except for the right to receive any Administrative Fees or Expenses to the extent payable to the Authority, any rights of indemnification and the Authority's rights under the special services covenant in the Loan Agreement), and (b) all of the Revenues and any other amounts held in any fund or account established pursuant to the Bond Indenture, other than the Rebate Fund.

The Master Indenture

General. Under the Master Indenture, the Corporation may authorize, and may designate any other entity that may become a Member of the Obligated Group in the future to authorize, pursuant to a Related Supplement to issue Obligations to evidence or secure indebtedness, for itself and on behalf of the other Obligated Group Members. All Members are jointly and severally liable with respect to the payment of each Obligation issued under the Master Indenture, including Obligation No. 10.

Five Obligations are currently Outstanding under the Master Indenture. They are Obligations Nos. 5, 6, 7, 8, and 9, described below. Obligations Nos. 1, 2, 3 and 4 are no longer Outstanding. The total amount of previously issued and Outstanding Obligations as of March 31, 2006 is approximately \$134,383,000.

The Corporation previously issued its Obligations No. 5 and 6 pursuant to the Fifth and Sixth Related Supplements, respectively, dated as of October 1, 1997 to evidence the obligations of the Obligated Group Members to make payments sufficient to pay principal of and interest on the Authority's \$90,000,000 Certificates of Participation, John Muir/Mt. Diablo Health System (1997).

The Corporation previously issued its \$44,614,795 Obligation No. 7 pursuant to a Supplemental Master Indenture for Obligation No. 7 made and entered into as of October 1, 1999 to evidence and secure the obligations of the Corporation pursuant to that certain Standby Certificate Purchase Agreement, dated as of October 1, 1999 by and between the Corporation and JP Morgan Chase relating to the Authority's \$44,000,000 Certificates of Participation, John Muir/Mt. Diablo Health System (1999).

The Corporation previously issued its \$43,760,000 Obligation No. 8 pursuant to the Supplemental Master Indenture for Obligation No. 8 made and entered into as of May 1, 2005 to pay the outstanding principal of and prepayment premium and interest on the City of Walnut Creek Certificates of Participation Refunding Series 1994 issued in 1994 for the benefit of the Corporation. The Corporation simultaneously issued Obligation No. 9 to MBIA Insurance Corporation ("MBIA") under and pursuant to the Master Indenture, as supplemented, to evidence and secure the obligations of the Corporation to MBIA under an agreement between MBIA and the Corporation.

Obligation No. 10 will be issued by the Corporation on the date of delivery of the Bonds under and pursuant to the Master Indenture, as supplemented, to secure the Corporation's obligations under the Loan Agreement with respect to the Bonds. At the same time, the Corporation will issue its Obligation No. 11 and Obligation No. 12, each in the amount of \$50,000,000, pursuant to Supplemental Indentures for Obligation No. 11

and Obligation No. 12, respectively, each made and entered into as of June 1, 2006 to secure the Corporation's obligations under loan agreements with respect to the Authority's Series 2006B Bonds and Series 2006C Bonds, issued for the benefit of the Corporation in the aggregate principal amount of \$100,000,000. The proceeds of the Series 2006B Bonds and the Series 2006C Bonds, together with proceeds of the Bonds, will be used to fund a portion of the cost of a major building project further described herein under the heading "THE PROJECT AND THE PLAN OF FINANCE" and in APPENDIX A – "Information Concerning John Muir Health and Affiliates."

The Corporation will, simultaneously with the issuance of Obligations Nos. 10, 11 and 12, issue Obligation No. 13 to MBIA under and pursuant to the Master Indenture, as supplemented, to evidence and secure the obligations of the Corporation to MBIA under an agreement between the Corporation and MBIA as issuer of a bond insurance policy insuring payment of the principal of and interest on the Series 2006B Bonds and the Series 2006C Bonds. The payment of the principal of and interest on the Series 2006A Bonds will not be insured by MBIA.

The Corporation is the sole member of the Obligated Group at present. Subject to the conditions set forth in the Master Indenture, additional Obligated Group Members may be added from time to time and made jointly and severally liable with the Corporation with respect to Obligations issued under the Master Indenture. Additionally, Obligated Group Members may withdraw from the Obligated Group from time to time and be released from all liability with respect to Obligations. See APPENDIX C – "Summary Of Principal Documents – Master Indenture – Membership in and Withdrawal from the Obligated Group."

See APPENDIX C – "Summary Of Principal Documents – Master Indenture."

Grant of Security Interest in Gross Revenues. In the Master Indenture, the Corporation, as sole Obligated Group Member, has agreed that, so long as any of the Obligations remain Outstanding, all of its Gross Revenues shall be deposited as soon as practicable upon receipt in a deposit account or securities account designated as the "Gross Revenue Fund" which has been established and may be maintained in one or more accounts at such banking institution or securities intermediary designated in writing to the Master Trustee for such purpose (referred to in this Official Statement as the Depository Bank(s)). The Corporation, Wells Fargo Bank, N.A., and the Master Trustee have entered into that certain Four Party Wholesale Lockbox Agreement dated May 10, 2005. Subject only to the provisions of the Master Indenture permitting the application of the Gross Revenues for the purposes and on the terms and conditions set forth therein, the Corporation has pledged and to the extent permitted by law has granted a security interest to the Master Trustee in the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the performance of the obligations of the Obligated Group under the Master Indenture. The Corporation has executed and filed Uniform Commercial Code financing statements and executed and delivered such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) in order to maintain as perfected the security interest to the extent a security interest in the Gross Revenues and the Gross Revenue Fund can be perfected under the Uniform Commercial Code. Each future Member of the Obligated Group shall, as a condition of membership in the Obligated Group, make and carry out similar agreements.

The Corporation (and each other Member of the Obligated Group in the future) may use and withdraw amounts in the Gross Revenue Fund at any time for any lawful purpose, except as provided in this paragraph. In the event that it is delinquent for more than one business day in the payment of any required payment with respect to any Obligation issued pursuant to a Related Supplement, the Master Trustee, upon notice from the Corporation or actual knowledge of such delinquency, shall notify the Corporation and the Depository Bank(s) of such delinquency, and exclusive control over the Gross Revenue Fund shall be exercised by the Master Trustee as provided in the Account Control Agreement. The Master Trustee shall continue to hold the Gross Revenue Fund until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all required payments in default and all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master 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 appropriate Obligated Group Members. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make required payments as such payments become due (whether by maturity, 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 required payments ratably without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion,

shall determine to be in the best interests of the Holders of Obligations without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Obligated Group Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated Group unless (and then only to the extent that) the Master Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Obligated Group Members; provided, however, that the Obligated Group Members may be entitled to withdraw amounts not constituting Gross Revenues and submit requests to the Master Trustee as to which expenses to pay out of Gross Revenues and in which order.

The security interest in Gross Revenues described above has been perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of California. The grant of a security interest in Gross Revenues may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and 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 laws that may affect the enforceability of the Master Indenture or the grant of a security interest in Gross Revenues, and (vi) rights of third parties in Gross Revenues converted into cash and not in the possession of the Master Trustee or a Depository Bank. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types and material amounts of Gross Revenues (e.g., gifts, donations, certain insurance proceeds, Medicare and Medi-Cal payments) prior to actual receipt by any Member for deposit in the Gross Revenue Fund.

Unsecured Debt. Except for the pledge of Gross Revenues described above (see “Grant of Security Interest in Gross Revenues”), Obligations issued under the Master Indenture are not secured by a lien on real or personal property of the Corporation. Accordingly, holders of Obligations, including the Bond Trustee as holder of Obligation No. 10, would likely be unsecured creditors in any bankruptcy or insolvency proceeding involving the Corporation. For a description of the limitations on the enforceability of the Master Indenture, see “BONDHOLDERS’ RISKS—Other Risk Factors-Bankruptcy” and “—Enforceability of Joint and Several Obligations” herein.

Springing Reserve Account. The Bond Indenture provides for the establishment of a Reserve Account, which will not be funded at the time of the issuance of the Bonds. In the event that the Corporation has failed to maintain at least 80 Days Cash on Hand as of the end of any Fiscal Year, the Corporation shall deposit in the Reserve Account an amount equal to the Reserve Account Requirement. See APPENDIX C – “Summary of Principal Documents – Bond Indenture – Application of Reserve Account.”

Proposed Amendment of Master Indenture. The Corporation proposes to amend the Master Indenture for the purposes of:

- (1) modifying the definition of Net Revenues (used primarily to calculate the Historical Debt Service Coverage Ratio and the Projected Debt Service Coverage Ratio under the Master Indenture) to exclude unrealized losses on securities and other accounting, non-cash items;
- (2) modifying the definition of Debt Service Requirements to take interest rate swaps and other hedging arrangements into account in the calculation of the Historical Debt Service Coverage Ratio and the Projected Debt Service Coverage Ratio;
- (3) permitting the issuance of Obligations to secure obligations other than Indebtedness, including interest rate swaps and other hedging arrangements;
- (4) modifying the definition of the Unsecured Debt Ratio to permit the inclusion of liens securing obligations other than Indebtedness, subject to the limitations contained in the Master Indenture; and
- (5) modifying the amendment provisions of the Master Indenture to permit amendment of Master Indenture with the consent of the holders of a majority in aggregate principal amount of Obligations then outstanding.

The proposed amendments (the “Amendments”) are summarized in APPENDIX C – “Summary of Principal Documents – Supplemental Master Indenture – Proposed Amendments to Master Indenture.”

Each purchaser of the Bonds shall be deemed to have consented to a provision in the Bond Indenture that directs the Bond Trustee, as Holder of Obligation No. 10, upon request of the Corporation, to consent to the Amendments. The Corporation may determine to implement all or some of the proposed amendments in the future, although there is no assurance it will do so. The Amendments will not be effective without the consent of all holders of Obligations under the Master Indenture.

Limited Liability of the Authority

The Bonds shall not be deemed to constitute a debt or liability of the Authority, the State of California or of any political subdivision thereof or a pledge of the faith and credit of the State of California or any political subdivision thereof, other than the Authority, but shall be payable solely from the funds provided therefor. Neither the State of California nor the Authority shall be obligated to pay the principal of the Bonds, or interest thereon, except from the funds provided under the Bond Indenture or Obligation No. 10 and the Loan Agreement and neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof, including the Authority, is pledged to the payment of the principal of or interest on the Bonds. The issuance of the Bonds shall not directly or indirectly or contingently obligate the State of California or any political subdivision thereof to levy or to pledge any form of taxation or to make any appropriation for their payment. The Authority has no taxing power.

THE PROJECT AND THE PLAN OF FINANCE

The issuance of the Bonds is a component of a plan of finance for a significant multi-year capitalization and modernization program on the John Muir Medical Center–Walnut Creek campus. A portion of the proceeds of the Bonds, together with other available funds, will be used to finance a portion of the costs of the building program on the Walnut Creek campus, and may also be used to fund the acquisition of equipment for use on the John Muir Medical Center–Concord campus and other routine capital expenditures at such campus. The project on the Walnut Creek campus will include the construction of a multi-level patient care tower to replace existing inpatient beds and to increase bed capacity on the campus, the addition of new treatment beds in the Emergency Department, the addition of new inpatient and outpatient operating rooms, the addition of several neonatal nursery beds and the construction of a new parking structure. The remainder of the proceeds will be used to provide for payment of a portion of the interest on the Bonds and certain costs incurred in connection with the issuance of the Bonds. The project is further described in APPENDIX A – “Information Concerning John Muir Health and Affiliates” attached hereto. It is anticipated that the Authority will issue \$100,000,000 aggregate principal amount of its Series 2006B and Series 2006C Bonds (issued initially as variable rate bonds in auction mode) simultaneously with the issuance of the Bonds for purposes of financing a portion of the costs of the same building program on the Walnut Creek campus program, the same potential equipment acquisition and routine capital expenditures for the Concord campus, and the costs of issuing such bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds. The proceeds to be received from the sale of the Bonds and other available funds will be applied as set forth in the following table.

<u>Sources</u>	<u>Series 2006A Bonds</u>
Par Amount of Bonds	\$ 200,000,000
Premium	\$ 3,016,972
Total Sources	<u>\$ 203,016,972</u>
 <u>Uses</u>	
Deposit to the Project Fund	\$ 200,876,856
Issuance Costs*	\$ 1,500,652
Underwriter's Discount	\$ 639,464
Total Uses	<u>\$ 203,016,972</u>

* Includes legal, printing and the Authority's fees and expenses, and other miscellaneous issuance costs.

CONTINUING DISCLOSURE

Because the Bonds are limited obligations of the Authority, payable solely from amounts received from the Corporation and other Obligated Group Members, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds. Accordingly, the Authority is not providing any such information. The Corporation has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds, as described below, and the Authority shall have no liability to the Holders of the Bonds or any other Person with respect to Rule 15c2-12, referred to in this Official Statement as the Rule, promulgated under the Securities Exchange Act of 1934 by the Securities and Exchange Commission.

The Corporation has covenanted for the benefit of Holders and Beneficial Owners of the Bonds to provide to the Bond Trustee, as dissemination agent, for dissemination (i) certain financial information and operating data relating to the Corporation by not later than five months following the end of the Corporation's fiscal year (which currently is December 31) (referred to as the "Annual Report"), commencing with the report for the December 31, 2006 fiscal year (due May 31, 2007), (ii) within 45 days after the end of each fiscal quarter of each year, commencing with the fiscal quarter ending June 30, 2006, certain unaudited financial information relating to the Corporation, and (iii) notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the dissemination agent on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository and with a repository designated by the State of California as the state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission (referred to as the State Repository). As of the date of this Official Statement, there is no State Repository. The notices of material events will be filed by the dissemination agent on behalf of the Corporation with each Nationally Recognized Municipal Securities Information Repository and with the State Repository, if any. See APPENDIX D – "Proposed Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriter in complying with the Rule.

BONDHOLDERS' RISKS

The purchase of the Bonds involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should evaluate all of the information presented in this Official Statement. This

section on Bondholders' Risks focuses primarily on the general risks associated with the operations and activities of hospitals and health care systems; whereas APPENDIX A describes the Obligated Group specifically. These should be read together.

General

Except as noted under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," the Bonds are payable solely from and secured by Loan Repayments made pursuant to the Loan Agreement and payments made pursuant to Obligation No. 10. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the payments under the Loan Agreement or Obligation No. 10 and, thus, to pay principal of and interest on the Bonds.

The Corporation and its affiliates are subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental agencies and private entities that administer the Medicare and Medi-Cal programs and other payment arrangements and are subject to actions by, among others, the National Labor Relations Board, the Joint Commission on Accreditation of Healthcare Organizations, or JCAHO, the Centers for Medicare and Medicaid Services, or CMS, of the U.S. Department of Health and Human Services, or DHHS, and other federal, state and local governmental agencies. The future financial condition of the Corporation and its affiliates could be adversely affected by, among other things, changes in the method and amount of payments to the Corporation and its affiliates by nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, 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 Loan Agreement and Obligation No. 10 and, consequently, on the Bonds. In addition, the tax-exempt status of the Corporation and its tax-exempt affiliates and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Corporation and its affiliates are summarized in general terms below and are explained in greater detail in subsequent sections.

Reliance on Medicare. Hospitals and health care systems rely to a high degree on payment from the federal Medicare program. Future changes in the underlying law and regulations, as well as in payment policy and timing, create uncertainty and could have a material adverse impact on hospitals' payment stream from Medicare. With health care and hospital spending reported to be increasing faster than the rate of general inflation, Congress and/or CMS may take action in the future to decrease or restrain Medicare outlays for hospitals.

Managed Care Exposure. Certain hospital markets, including the communities served by the Corporation and its affiliates, are strongly impacted by managed care. In those areas, managed care companies have significant bargaining power over hospital rates, utilization and competition. Rate pressure imposed by managed care payers may have a material adverse impact on hospitals, particularly if employer groups and other major purchasers put increasing pressure on payers to restrain rate increases.

Capital Needs vs. Capital Capacity. Hospital and other health care 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 construction may exceed estimates. Total capital needs may exceed capital capacity.

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, including environmental

approvals, 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 skilled trade labor, scarcity of building materials and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – “Building Programs and the Project.”

Government “Fraud” Enforcement. “Fraud” in government funded health care programs is a significant concern of DHHS, 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 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 and Sanctions. The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government may impose 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 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.

Personnel Shortage. Currently, a shortage of physicians and nursing and other technical personnel exists which may have its primary impact on hospitals. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, State regulation of nurse staff ratios will likely intensify the shortage of nursing personnel. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in 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 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 are increasing, bringing with it operational limitations, enforcement and liability risks, and significant and sometimes unanticipated cost impacts.

Proliferation of Competition. Hospitals 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 payer classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. These new sources of competition may have material adverse impact on hospitals, particularly where a group of a hospital’s principal physician admitters may curtail their use of a hospital service in favor of competitor facilities.

Labor Costs and Disruption. Hospitals are labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital operations and financial

condition. Hospital 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 Medi-Cal Program. While the Medi-Cal program is rarely as important to hospital financial results as Medicare, it nevertheless constitutes an important payer source to many hospitals. This program often pays hospitals at levels that are below the actual cost of the care provided. As Medi-Cal is partially funded by the State of California, the financial condition of the State of California may result in lower funding levels and/or payment delays. This could have a material adverse impact on hospitals.

General Economic Conditions; Bad Debt and Indigent Care. Economic downturns and lower funding of the Medi-Cal program 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 give rise to increased bad debt and higher indigent care utilization. These factors may 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.

Medical Liability Litigation and Insurance. Medical liability litigation is subject to public policy determinations and legal 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. Hospitals may be affected by negative financial and liability impacts on physicians. Costs of insurance, including self-insurance, may increase dramatically.

Facility Damage. Hospitals 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 and financial status.

Nonprofit Healthcare Environment

The Corporation is a nonprofit public benefit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. As a nonprofit, tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business transactions and is a major employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare 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. These challenges and examinations raise broader and more fundamental concerns about the core business practices of the nonprofit, tax-exempt hospitals and health care systems. Areas which 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 many sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures, and patients, and in many forums, including hearings, audits and litigation. These challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Corporation.

Congressional Hearings. The House Committee on Energy and Commerce (the "House Committee") has launched a nationwide investigation of hospital billing practices and prices charged to uninsured patients. Twenty large hospital and health care systems were requested by the House Committee to provide detailed historical charge

and billing practice information for acute care services. The Subcommittee on Oversight and Investigations of the House Committee conducted hearings in the summer of 2004 at which a number of representatives of the health care industry and others testified.

In April 2005, the House Committee requested additional information from the hospital industry regarding how hospital charges are communicated to patients and how hospital charge masters may affect the prices paid by patients and other payers. It is uncertain if the House Committee will recommend legislative changes as a result of its inquiry.

In addition, the Senate Finance Committee (the "Senate Committee") conducted hearings on required reforms to the nonprofit sector in the summer of 2004. At the hearings, the Senate Committee released a staff discussion draft on proposals for reform in the area of tax-exempt organizations, including a proposal for a five-year review of tax-exempt status by the IRS. It is uncertain if any of the staff proposals will be adopted by the entire Senate Committee or if the Senate Committee will recommend legislative changes as a result of the hearing.

The Senate Committee has also requested information from a number of nonprofit hospitals and hospital systems regarding their charitable activities, patient billing and ventures with for-profit corporations and hospitals. It is uncertain what effect this inquiry may have on the operations of nonprofit hospitals or their tax-exempt status. It is also uncertain whether the Senate Committee will recommend legislative changes as a result of its inquiry.

Complementary to the Senate Committee hearings, the House Committee on Ways and Means held a hearing on April 20, 2005 to examine the tax-exempt sector. On May 26, 2005, the Committee conducted a hearing that focused more specifically on hospital tax-exemptions. On March 16, 2006, the Ways and Means Committee's subcommittee on select revenue measures held a hearing on the use of tax-preferred bond financing. It is uncertain whether the Ways and Means Committee will recommend legislative changes as a result of its inquiries.

IRS Examination of Compensation Practices. In August 2004, the IRS announced a new effort to identify and halt 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. It is uncertain what effect this inquiry may have on the operations of nonprofit hospitals or their tax-exempt status. It is also uncertain whether the IRS will promulgate new regulations as a result of its inquiry.

California Attorney General. California nonprofit corporations, including the Corporation and its nonprofit affiliates, are subject at all times to examination by the California Attorney General (the "AG") to ensure that the purposes of the nonprofit corporations are being carried out. The AG has, in recent years, made inquiries regarding the billing practices of nonprofit hospitals. It is unclear whether these inquiries represent an increased interest or scrutiny by the AG of hospital billing practices generally, or whether the AG will extend its inquiry to other nonprofit hospital issues.

California Legislative Hearings. On December 7, 2005, the Chair of the California Assembly Committee on Revenue and Taxation held an oversight hearing to look at tax benefits received by nonprofit hospitals operating in California in parallel and in conjunction with the efforts of legislative committees at the federal, state and local levels. The Chair of the Committee has stated that the Committee desires to conduct a detailed examination of a variety of topics, including charity care, executive compensation, billing and pricing practices, treatment of the uninsured, tax-exempt status, for-profit affiliations, financial performance and related matters. It is uncertain whether the Committee will recommend legislative changes as a result of its inquiries.

Class Action Litigation. Lawsuits were filed in 2004 in both federal and state courts against certain nonprofit hospitals and health care systems, alleging, among other things, that such hospitals and health care systems failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of those cases have since been dismissed by the courts. However, a number of cases are still pending, including cases involving California hospitals and health care systems.

Actions by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, 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.

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 charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly more difficult operating environment for health care organizations, including the Corporation and its affiliates. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals' operating revenue and their continued financial viability.

Patient Service Revenues

The Medicare Program. Medicare is the federal health insurance system under which hospitals and other health care providers 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. Compliance is determined by the state, but hospitals with JCAHO accreditation are deemed compliant. 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 to address such changing requirements.

In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The legislation mandates substantial and wide ranging changes to the Medicare program which will be implemented over a number of years. Some significant changes include, without limitation, the expansion of outpatient prescription drug coverage through the creation of a new voluntary prescription drug benefit, the replacement of the current Medicare managed care program with a new program that offers additional health plan options, modifications to coverage and payment for various providers under traditional fee-for-service Medicare, changes to combat waste, fraud and abuse, and reforms to regulatory procedures. Most recently, CMS proposed a significant reform to the current payment system for inpatient care. The proposed new prospective payment system would weight DRGs based on hospital costs rather than charges, beginning October 1, 2006. And by no later than 2008, CMS would replace the current 526 DRGs with either a system of 861 "consolidated severity-adjusted" DRGs or an alternative severity-adjusted DRG system developed in response to public comments the agency is soliciting. The forms are intended to more accurately reflect the costs of services provided by hospitals. The individual or collective impact of these changes cannot be determined at this time. Additional actions by the federal government in future years affecting Medicare coverage and payment may occur.

The Corporation's hospitals are Medicare-certified and for the fiscal years ended December 31, 2004 and December 31, 2005, Medicare represented approximately 40% and 39%, respectively, of the Corporation's gross patient service revenue for each year. See APPENDIX A — "Summary Financial Information – Sources of Revenues."

Hospital Inpatient Payments. Hospitals are generally paid a pre-determined payment amount for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups, or DRGs. The DRG rate covers all care provided to a beneficiary during an inpatient stay. The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates

are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

Hospital Outpatient Payments. Hospitals are also paid a pre-determined payment amount for most outpatient services based upon ambulatory payment classification (“APC”) groups. An APC group includes various services and procedures determined to be similar. There can be no assurance that the hospital APC payment, which bases payment on APC groups rather than on individual services, will be sufficient to cover the actual costs of the outpatient services.

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, and home health services are based on regulatory formulas or pre-determined rates. There is no guarantee that these rates, as they may change from time to time, will be adequate to cover the actual cost of providing these services to Medicare patients.

Medi-Cal Program. Medi-Cal is a California program of medical assistance, funded jointly by the federal government and the State of California, for certain qualifying individuals and their dependants. The federal government provides substantial funding to the Medi-Cal program, so long as it meets federal standards. Attempts to balance or reduce the federal budget and/or California’s budget will likely negatively impact Medi-Cal spending.

The State of California selectively contracts with general acute care hospitals to provide certain inpatient services to Medi-Cal patients. The Corporation is not a contracting provider in the Medi-Cal program, but does provide services to Medi-Cal patients on an emergency basis.

For the fiscal years ended December 31, 2004 and December 31, 2005, the Corporation received approximately 3% and 4%, respectively, of gross patient service revenues from Medi-Cal programs for each year. See APPENDIX A — “Summary Financial Information – Sources of Revenues.”

Disproportionate Share Payments. The federal Medicare and the California Medi-Cal programs provide additional payment for hospitals that serve a disproportionate share of certain low income patients. John Muir Medical Center - Concord qualifies as a disproportionate share hospital under the Medicare program only, and is expected to qualify from time to time in future years, but there can be no assurance that John Muir Medical Center - Concord will qualify for disproportionate share status in the future. There also can be no assurance that disproportionate share payments will not be decreased or eliminated in the future.

State Budget. The State of California faces severe financial challenges that 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 the fiscal years 2005-06 and 2006-07. Cuts in state Medi-Cal spending which were scheduled to become effective January 1, 2004 are the subject of pending litigation, placing in question whether and when the cuts in Medi-Cal spending will be effective.

The financial challenges facing the State of California 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 Medi-Cal and/or reductions in Medi-Cal payment rates.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of “managed care” plans, including health maintenance organizations, or HMOs, and preferred provider organizations, or PPOs. To control costs, managed care plans typically contract with hospitals and other providers for discounted prices, review medical services for medical necessity, require members to pay copayments and deductibles, and channel patients to contracted providers of health care services. Medicare and Medi-Cal 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.

For the fiscal years ended December 31, 2004 and December 31, 2005, managed care constituted approximately 48% of gross patient service revenues of the Corporation for each year. See APPENDIX A — “Summary Financial Information – Sources of Revenues.”

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. A hospital may assume financial risk for the cost and scope of institutional care given. If payment is insufficient to meet a hospital’s actual costs of care, or if utilization by such enrollees materially exceeds projections, the financial condition of a hospital could erode rapidly and significantly. The Corporation does not have any HMO contracts under which it is paid a capitated payment.

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 a 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 net patient services revenues. Conversely, participation may result in lower net income if participating hospitals are unable to adequately contain their costs.

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 other health care providers 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 or other health care provider from participation in the Medicare/Medi-Cal programs, civil monetary penalties, and suspension of Medicare/Medi-Cal

payments. Fraud and abuse 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 each violation.

Laws governing fraud and abuse may apply to hospitals and other health care providers, and to nearly all individuals and entities with which a hospital or other health care provider does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals and other health care providers. 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, or 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 can result 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 weapons against health care 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 or other health care provider.

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 may be 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 or health care system does business, including hospital-physician joint ventures, hospital-physician integration vehicles (such as a medical foundation), medical director agreements, physician recruitment agreements, physician office leases, purchases from vendors, and other transactions.

Violation or alleged violation of the Anti-Kickback Law can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Each violation is a felony, subject to a fine of up to \$25,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medi-Cal 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 by a physician of Medicare and Medi-Cal patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and various diagnostic imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital or other health care provider 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. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute “financial relationships” within the meaning of the Stark statute. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute.

Medicare may deny payment for all services related to a prohibited referral and a hospital or other health care provider 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, a 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; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital or other health care provider may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medi-Cal programs. Potential repayments to CMS, settlements, fines or exclusion

for a Stark violation or alleged violation could have a material adverse impact on a hospital or other health care provider.

HIPAA. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, adds additional 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 money, funds or other assets of a health care benefit program. A health care provider convicted of health care fraud could be excluded from Medicare.

Exclusions from Medicare or Medi-Cal Participation. The government may exclude a hospital or other health care provider from Medicare/Medi-Cal 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, felony fraud against any federal, state or locally financed health care program or a felony 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/Medi-Cal program means that a hospital or other health care provider would be terminated from participation and no program payments can be made. Any hospital exclusion could be a materially adverse event, even within a large hospital system.

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. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

Enforcement Activity. Enforcement activity against hospitals and health care providers has increased and enforcement authorities have adopted aggressive approaches. Hospitals and other health care providers are frequently subject to audits, investigations or other enforcement actions regarding the health care fraud laws mentioned above. In addition, enforcement agencies increasingly pursue sanctions for violations of health care fraud and abuse laws through civil administrative actions. 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.

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, Medi-Cal 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 or other health care provider 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 or other health care provider, 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 can be compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals or health care providers in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals or health care providers in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital or other health care provider could have materially adverse consequences to a health system taken as a whole.

Liability Under State "Fraud" and "False Claims" Laws. Hospitals and other health care providers in California also are subject to state laws related to false claims, anti-kickback, and physician referrals, which pose the possibility of material adverse impact for the same reasons as the federal statutes. In addition, in contrast to federal laws which typically apply only to services rendered to beneficiaries covered under federal or state health care

financing programs, these state laws typically apply to services rendered to any patients, regardless of the source of payment for such services.

Privacy Requirements. Federal and state laws address the confidentiality of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of relevant federal and state statutes 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 \$50,000 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, or EMTALA, is a federal civil statute that requires hospitals to 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 Medicare and Medi-Cal programs. In addition, a hospital may be liable for any claim by an individual who has suffered harm as a result of a violation of EMTALA.

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 the 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, certifications or accreditations 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 a hospital; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

Hospitals 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; 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 care systems often own, control or have affiliations with relatively large physician groups. Generally, the sponsoring hospital or health care 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. These goals may not be achieved, however, 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 care 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 a hospital or health care system's investment at risk, and potentially reducing its managed care leverage and/or overall utilization. For a discussion of the Corporation's relationship to physician groups, see APPENDIX A — "Affiliated Nonprofit Corporations – John Muir Physician Network."

Indigent Care, Underinsured and Uninsured Patients. Tax-exempt 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 affects the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, state and federal health care programs (including Medicare and Medi-Cal) 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 a hospital's organized medical staff. Medical staff bylaws, rules and policies establish the criteria and procedures by which a physician may obtain medical staff membership and clinical privileges, and 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 a hospital's governing body to adequately oversee the conduct of its medical staff may result in hospital liability to third parties.

Competition Among Health Care Providers. 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 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.

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on cardiovascular and/or orthopedic surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's cardiovascular or orthopedic surgeons develop their own specialty hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters) taking with them their patient base, a hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to a hospital.

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-profit business, may not accept indigent patients or low paying

programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

Additionally, scientific and technological advances, new procedures, drugs and devices, preventive medicine and outpatient health care delivery may reduce utilization and revenues of a hospital 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. 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, and anticompetitive business conduct or practices. 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 for hospitals and other health care providers are joint action among providers with respect to payor contracting, medical staff credentialing disputes and anticompetitive business conduct or practices by hospitals and other health care providers with sufficiently large market share.

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. Moreover, successful private or governmental litigants may obtain injunctive relief that can affect the defendant's ability to conduct or continue certain business practices or activities.

Labor Relations and Collective Bargaining. Hospitals 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.

Certain employees of the Corporation currently are covered by collective bargaining agreements, one of which has expired and many of which will expire before the end of 2006. In addition, a two-day work stoppage by employees represented by UHW-SEIU recently occurred at John Muir Medical Center-Concord, and the Corporation expects that additional strikes could occur from time to time in the future. See APPENDIX A – "Employees/Labor Relations."

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 Internal Revenue Services (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 (e.g., physicians) 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 hospitals.

Effective January 1, 2004, California implemented mandatory nurse staffing ratios for all patient care areas. The impact on California hospitals varies by facility. The required staffing, in aggregate, has proven more costly than prior staffing patterns. The mandatory nurse staffing ratios have been, and continue to be, the subject of legislative actions and judicial challenges seeking to alter the proscribed ratios.

Professional Liability Claims 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 hospitals and other 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 the hospital or other health care provider if determined or settled adversely.

There is no assurance that the Corporation will be able to maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover malpractice judgments rendered against the Corporation or that such coverage will be available at a reasonable cost in the future. For a description of insurance coverage maintained by the Corporation, see APPENDIX A — "Insurance."

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of the Corporation. The tax-exempt status of the Bonds depends upon maintenance by the Corporation 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 other permissible 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 business operations and 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 financings, partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that a hospital or health care system 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 organizations, it could do so in the future. Loss of tax-exempt status by the Corporation potentially could result in loss of tax exemption of the Bonds and of other tax-exempt debt of the Corporation. Defaults in covenants regarding the Bonds 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 a 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 the Corporation or the tax status of the Bonds 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 of California 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 the Corporation 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.

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 Corporation is currently treated as exempt from real property taxation. Although the real property tax exemptions of the Corporation with respect to their core hospital facilities, have 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 exemptions of the Corporation.

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 Corporation by requiring payment of income, sales, local property or other taxes.

Unrelated Business Income. In recent years, the IRS and state, county and local tax authorities have audited the operations of tax-exempt hospitals and health care systems with respect to their exempt activities and the generation of unrelated business taxable income, or UBTI. Most hospitals and health care systems participate in activities that may generate UBTI. An investigation or audit could result in assessment of taxes, interest and penalties with respect to unreported UBTI and in some cases ultimately could affect the tax-exempt status of such entity, as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds and other tax-exempt debt of the Corporation.

Maintenance of Tax-Exempt Status of Interest on the Bonds. The Code imposes a number of requirements that must be satisfied for interest on state and local obligations such as the Bonds to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States Treasury, and a requirement that the Authority file an information report with the IRS. The Corporation has covenanted in the Loan Agreement that it will comply with such requirements. Future 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 on the Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in the Bond Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds 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. The Bonds may be, from time to time, subject to audits by the IRS. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption “TAX MATTERS.” The Corporation has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that an IRS examination of the Bonds will not adversely affect the market value of the Bonds. See “TAX MATTERS” herein.

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code. As a tax-exempt organization, the Corporation is limited with respect to its 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. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and health care systems and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities

of hospitals and health care systems 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 the Corporation's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Corporation and might lead to loss of tax exemption of interest on the Bonds.

Construction Risks

The development and construction of new hospital facilities are susceptible to various risks and uncertainties, such as:

- inflation of construction costs;
- general construction risks, including cost overruns, change orders and plan or specification modification, shortages of equipment, materials or skilled labor, labor disputes, unforeseen environmental, engineering or geological problems, work stoppages, fire and other natural disasters, construction scheduling problems and weather interferences;
- changes and concessions required by governmental or regulatory authorities;
- delays in obtaining, or inability to obtain, all licenses, permits and authorizations required to complete and/or operate the project; and
- disruption of existing operations and facilities.

Hospitals and health systems in California are experiencing significant escalation in the estimated costs of hospital facility construction and costs. The anticipated costs and construction period for projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by the Corporation in consultation with the Corporation's architects and contractors. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of one or more projects may be delayed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns, or failures of the construction or renovation projects to achieve market acceptance could have a material adverse effect on the hospitals' business, financial condition and results of operations. Furthermore, the projects, including the Project funded by the Bonds, may not help the Corporation compete with new or increased competition. See APPENDIX A – "Building Programs and the Project."

Certain permits, licenses and approvals necessary for some of the Corporation's current or anticipated projects have not yet been obtained. The scope of the approvals required for expansion, development or renovation projects can be extensive and may include state and local land-use permits and building and zoning permits. Unexpected changes or concessions required by local, state or federal regulatory authorities could involve significant additional costs and delay the scheduled openings of the facilities. The Corporation may not receive the necessary permits, licenses and approvals or obtain the necessary permits, licenses and approvals within the anticipated time frame.

The failure to complete any construction or renovation project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have an adverse effect on the hospitals' business, financial condition and results of operations. Further, the magnitude and scope of construction and renovation projects, and the management of multiple construction and renovation projects at the same time, may divert management resources from ongoing operations and/or construction and/or opening of any one project. Management's inability to devote sufficient time and attention to ongoing operations and/or any one project may have an adverse effect on the ongoing operations of the hospitals or delay the construction or opening of any or all of the projects. Any delay caused by such circumstances could have a negative effect on business and operations.

In addition, although hospital construction and renovation is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction and renovation of hospital facilities will not

disrupt the ongoing operations of the hospitals or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the business, operations and revenues of the hospitals.

Other Risk Factors

Changes in Federal and State Legislation and Regulation. Hospitals and health care systems are subject to a wide variety of federal and state legislative, regulatory and policy changes which could have a significant impact on their operations and activities. Federal and state legislative bodies and regulatory agencies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of hospital and health care systems, including the Medicare and Medi-Cal programs. In addition, federal and state legislative bodies and regulatory agencies may in the future enact legislation which imposes significant new burdens on the operations or activities of hospitals and health care systems, or require the termination or restructuring of certain common business transactions and arrangements.

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in northern California could destroy or disable the hospitals of the Corporation or otherwise severely disrupt its operations and the regional economy.

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. Delays in compliance with the January 1, 2008 deadline will be permitted if a hospital shows that capacity lost in the closure of a facility cannot be provided by another facility in the area or if a hospital agrees that, on or before January 1, 2013, designated services will be provided by moving into an existing conforming building, relocating to a newly built building or continuing in the building as retrofitted to comply with the standards.

Legislation has been proposed that would extend the January 1, 2008 deadline to January 1, 2020, if the governing body of the hospital submits to the California Department of Health Services by July 1, 2006, a resolution that the governing body commits to comply with the more stringent seismic safety standards with respect to the entire hospital facility by January 1, 2020. It cannot be predicted whether this legislation will be enacted.

Investments. The Corporation has significant 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 Corporation's investments, see APPENDIX A — "Summary Financial Information – Liquidity and Capital Resources."

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

A bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against 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 its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Corporation, including its Gross Revenues, could be used for the financial rehabilitation of the Corporation despite any security interest of the Bond Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

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

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

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

Enforceability of Joint and Several Obligations. Currently, the Corporation is the only Member of the Obligated Group. In the future, there may be more than one Member of the Obligated Group, and in such event, it is possible that the joint and several obligations of a Member of the Obligated Group to make payments under its Obligations in respect of moneys used by another Member of the Obligated Group may be avoided in an action brought by creditors of the first Member pursuant to the California fraudulent conveyance statutes or may be avoided for the benefit of other creditors by a debtor or trustee in bankruptcy in the event of the bankruptcy of such Member. Depending upon whether the federal Bankruptcy Code or California fraudulent conveyance statutes are applicable, an obligation may be avoided if (a) the obligation was incurred without receipt by the obligor of “fair consideration” or “reasonably equivalent value,” and (b) the obligation renders the obligor “insolvent,” as such terms are defined under the applicable statute. Interpretation by the courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. For example, joint and several obligation under the Master Indenture to pay all Obligations issued thereunder, including payments in respect of funds used for the benefit of other Members, may be held to be a “transfer” which makes such Members “insolvent,” in the sense that the total amount due under all Obligations could be considered as causing liabilities to exceed its assets. Also, a Member may be deemed to have received less than “fair consideration” for its joint and several obligation because only a portion of the proceeds of the Bonds are to be used to finance facilities occupied or used by a Member. While a Member may benefit generally from facilities financed with Bond proceeds for the other Members, the actual cash value of this benefit may be less than the value of the Member’s joint and several obligation.

In addition, Members may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others. Such a determination may be made if the Member making the payments has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligation paid was incurred for purposes inconsistent with or beyond the scope of the charitable purposes of the Member which made the payment.

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of hospitals and other health care providers, including the Corporation, or the market value of the Bonds, to an extent that cannot be determined at this time.

- (a) 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.

- (b) Reduced demand for the services of the Corporation that might result from decreases in population.
- (c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- (d) 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.
- (e) The occurrence of a pandemic or a natural or man-made disaster that could damage the Corporation's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or workforce loss or otherwise impair the Corporation's operations and the generation of revenues from the facilities.
- (f) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

ABSENCE OF MATERIAL LITIGATION

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale or issuance of the Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, the validity or enforceability of the documents executed by the Authority in connection with the Bonds, the completeness or accuracy of this Official Statement or the existence or powers of the Authority relating to the sale of the Bonds.

There is no controversy or litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, which would restrain or enjoin the issuance of the Bonds or in any way contest or affect (i) the validity of the Bonds or (ii) any proceedings of the Corporation taken concerning the issuance or sale thereof, or the collection of Revenues pledged under the Bond Indenture.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond 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, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the

adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds 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 Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on 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 Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond 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 Bonds. The Authority and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds.

In addition, Bond Counsel has relied, among other things, on the opinion of Latham & Watkins 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. Bond Counsel has also relied upon representations of the Corporation concerning its “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation 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 Internal Revenue Service. 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 to operate the facilities refinanced by the Bonds in a manner that is substantially related to the Corporation’s charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Certain requirements and procedures contained or referred to in the Bond Indenture, the Loan Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel is of the opinion that interest on the Bonds 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 Bonds 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. Bond 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 Bonds to be subject, directly or indirectly, to federal or state income taxation, or otherwise prevent the 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 Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Obligated Group Members, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Obligated Group Members or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the Obligated Group Members 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 Authority or the Obligated Group Members legitimately disagree may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, the Corporation or the Beneficial Owners to incur significant expense.

APPROVAL OF LEGALITY

The issuance of the Bonds is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, substantially in the form set forth as APPENDIX E. Bond Counsel takes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Corporation by its counsel, Latham & Watkins LLP, for the Authority by its counsel, Orrick, Herrington & Sutcliffe LLP, and by Ropes & Gray LLP, disclosure counsel.

UNDERWRITING

The Bonds are being purchased by Merrill Lynch & Co., as Underwriter. The Underwriter has agreed to purchase the Bonds at a purchase price of \$202,377,508. The difference between the par amount of the Bonds and the purchase price is composed of a net original issue premium of \$3,016,972 and an underwriting discount of \$639,464. The initial public offering prices set forth on the cover may be changed without notice from time to time by the Underwriter.

AUCTION ADVISOR

Shattuck Hammond Partners LLC has served as electronic auction manager and has conducted the auction of the Bonds through its proprietary auction site, www.ShattuckHammondAuction.com. See the Official Notice of Sale accompanying this Official Statement.

INDEPENDENT AUDITORS

The consolidated financial statements of John Muir Health and Subsidiaries as of and for the years ended December 31, 2005, 2004 and 2003 included in APPENDIX B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in the report of such firm also included in APPENDIX B.

RATINGS

Moody's Investor Service, Inc. and Standard and Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. (collectively, the "Rating Agencies") have assigned ratings which are shown on the cover page hereof. The Corporation has furnished to the Rating Agencies certain information and materials concerning the Bonds and itself. The rating and an explanation of its significance may be obtained from the rating agency. Such rating only reflects the views of the Rating Agencies.

Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the ratings agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The Authority and the Corporation have not undertaken any responsibility to bring to the attention of the Holders of the Bonds any proposed revision or withdrawal of any rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of any rating could have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions of provisions of the Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture and Obligation No. 10 and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of the provisions of such documents. The appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture and Obligation No. 10 may be obtained during the offering period upon request to the Underwriter and thereafter upon request to the principal corporate trust office of the Bond Trustee.

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APPENDIX A

**INFORMATION CONCERNING
JOHN MUIR HEALTH
AND AFFILIATES**

The information in this Appendix A has been obtained from
John Muir Health

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Introduction

This Appendix A provides operating, financial and other information about the Corporation and the Affiliated Entities. The audited consolidated financial statements of the Corporation and the Affiliated Entities are presented in Appendix B. None of the Affiliated Entities is a Member of the Obligated Group or obligated with respect to the Master Indenture, to any Obligations outstanding under the Master Indenture from time to time or to any related bonds or other obligations or liabilities arising under such agreements.

John Muir Health (the “Corporation”) is a California nonprofit public benefit corporation that operates a health system serving Contra Costa County (the “County”) and surrounding communities in the San Francisco Bay Area of northern California. The Corporation is the sole corporate member of several California nonprofit public benefit corporations and holds a 50% or greater economic interest in the various joint ventures shown on the chart on the following page (collectively, the “Affiliated Entities”).

The Corporation and the Affiliated Entities provide health care services through two acute care hospitals with a combined total of 578 licensed beds, a 73-bed psychiatric hospital, a managed care contracting network that includes over 175 primary care and 530 specialty physicians, and 21 primary care and urgent care centers staffed by over 85 primary care physicians.

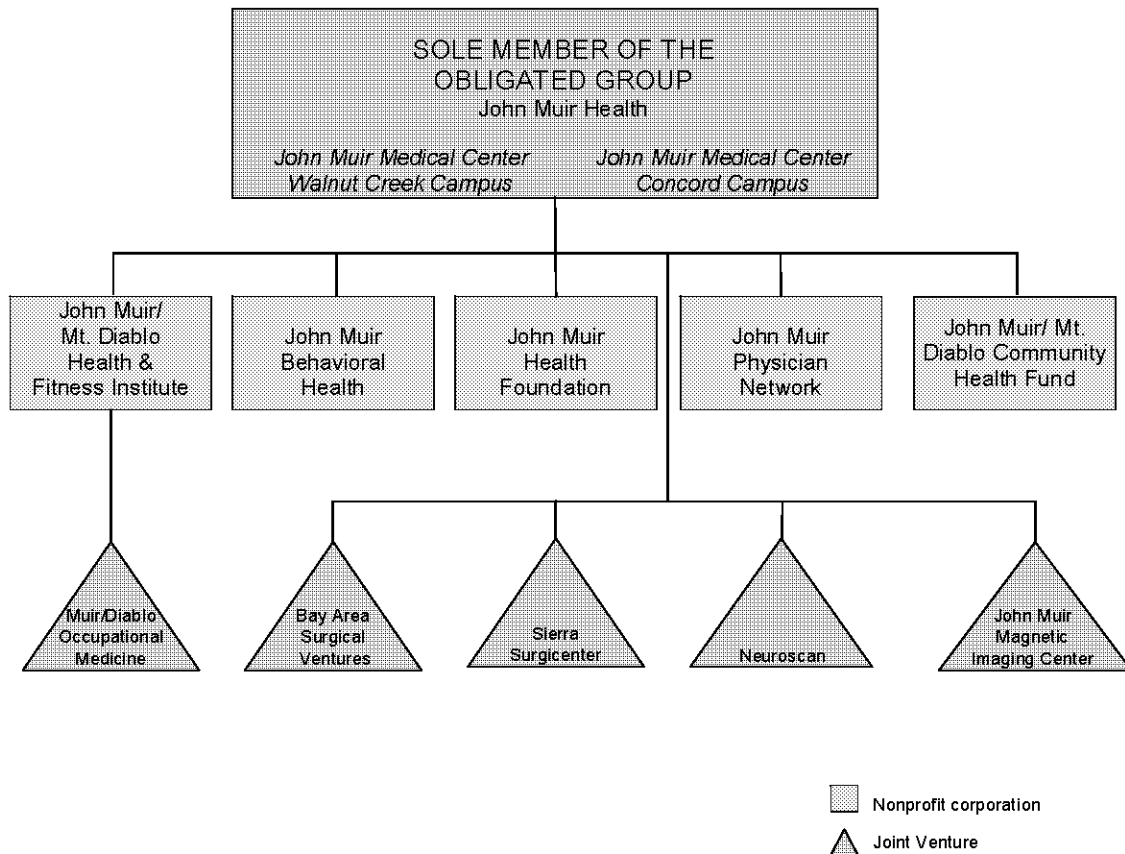
The Corporation provides acute care hospital services at two campuses, John Muir Medical Center – Walnut Creek Campus (“JMMC – Walnut Creek”) and John Muir Medical Center – Concord Campus (“JMMC – Concord”), which are located eight miles apart in Walnut Creek and Concord, California, respectively (the “Hospitals”). The Hospitals provide primary and secondary services, as well as selected tertiary services, and had a combined total of 691 active medical staff members as of March 31, 2006 representing major specialties and subspecialties.

The Corporation, either directly or through Affiliated Entities, also provides a wide range of outpatient, ambulatory and ancillary health care services, including clinical laboratory, diagnostic imaging and ambulatory surgical services at various locations within Contra Costa County. The Corporation, in May 2005, opened a new 108,500-square foot outpatient and ambulatory care center located in Brentwood, California in the eastern portion of the County (“JMMC – Brentwood”).

The communities comprising the primary and secondary service areas served by the Hospitals had a population estimated at more than 1 million individuals in 2005 that is projected to grow by 8% by 2010. The Hospitals accounted for 28% of inpatient discharges within the Hospitals’ service area in 2004, the last year for which data are available from the California Office of Statewide Health Planning and Development (“OSHPD”), giving the Corporation the largest market share among hospitals operating within the County. On a consolidated basis, the Corporation and the Affiliated Entities generated approximately \$1 billion of operating revenue, before investment income, and excess of revenues over expenses of approximately \$114 million, including investment income, for the year ended December 31, 2005, and its total assets and net assets at December 31, 2005 were approximately \$1.1 billion and \$759 million, respectively. The Corporation and the Affiliated Entities employed approximately 5,500 people as of December 31, 2005.

Corporate Organization

The Corporation is a California nonprofit public benefit corporation that is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (the “Code”) as an organization described in Section 501(c)(3) of the Code. The Corporation owns and operates two general acute care hospitals, JMMC – Walnut Creek and JMMC – Concord, and is the sole corporate member of the California nonprofit public benefit corporations and holds a 50% or greater economic interest in the joint ventures shown on the following chart:



The Corporation

The Corporation owns and operates two licensed acute care hospitals on campuses eight miles apart in the central Contra Costa County communities of Concord and Walnut Creek, and provides various outpatient and ancillary health care services at locations throughout the County, including an outpatient facility in the eastern Contra Costa County community of Brentwood.

- John Muir Medical Center – Walnut Creek Campus.** The Corporation owns and operates JMMC – Walnut Creek, a 324-bed general acute care hospital which is located on an approximately 18-acre campus in Walnut Creek, California. JMMC – Walnut Creek provides a full array of acute care hospital services, including outpatient services, general surgery, rehabilitation, comprehensive imaging and diagnostic laboratory services, as well as various tertiary specialty services, including orthopedics, obstetrics,

pediatrics, cardiovascular care and cancer treatment. Additionally, JMMC – Walnut Creek is the sole trauma center for the County.

- **John Muir Medical Center – Concord Campus.** The Corporation owns and operates JMMC – Concord, a 254-bed general acute care hospital which is located on a campus of approximately 16 acres in Concord, California. JMMC – Concord provides all inpatient services typical of community hospitals, with the exception of obstetrics, including cardiovascular and cancer care services, as well as various outpatient services, including ambulatory surgery, outpatient physical rehabilitation, laboratory and comprehensive imaging services.
- **John Muir Medical Center – Brentwood Campus.** The Corporation leases approximately 80,000 square feet of the approximately 108,500-square foot outpatient and ambulatory care center known as JMMC – Brentwood which is located upon two of the approximately 55 acres owned by the Corporation in Brentwood, California. The Corporation provides a variety of ambulatory health care services, including diagnostic imaging, clinical laboratory service and cardiac rehabilitation, at JMMC – Brentwood.

For a more detailed description of the health care facilities and services of the Corporation, see “Health Care Facilities and Services of the Corporation” below.

Affiliated Nonprofit Corporations

The Corporation is the sole corporate member of each of the Affiliated Entities described immediately below (the “Affiliated Nonprofit Corporations”). Each of the Affiliated Nonprofit Corporations is a California nonprofit public benefit corporation that is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (the “Code”) as an organization described in Section 501(c)(3) of the Code. The Corporation holds certain approval rights under the bylaws of each of the Affiliated Nonprofit Corporations and, except in the case of the John Muir/Mt. Diablo Community Health Fund, the Corporation holds the right to appoint or approve the appointment of the majority of the members of the boards of directors of the Affiliated Nonprofit Corporations.

- **John Muir Physician Network** (the “Physician Network”) owns and operates 21 primary care and urgent care centers staffed by over 85 primary care physicians, operates a managed care network of more than 175 primary care and 530 specialty physicians, and coordinates and integrates the provision of hospital, physician and ancillary health care services to enrollees of managed care plans.
- **John Muir Behavioral Health** owns and operates a 73-bed psychiatric hospital known as the John Muir Behavioral Health Center located in Concord, California, and a 15-bed residential chemical dependency treatment facility located in Concord, California.
- **John Muir Health Foundation** (the “Foundation”) solicits donor funds for various programs and projects of the Corporation, including various education programs, operations, buildings and equipment.
- **John Muir/Mt. Diablo Community Health Fund** (the “Community Health Fund”) was established in 1997 to provide grants to and otherwise support organizations that address

unmet community health needs. See “History of the Corporation and the District” below for further discussion about the Community Health Fund.

- **John Muir/Mt. Diablo Health and Fitness Institute** (the “Health Institute”) provides physical therapy services and various employee wellness programs.

For a more detailed description of the Affiliated Nonprofit Corporations and their operations and activities, see “Affiliated Nonprofit Corporations” below.

Affiliated Joint Ventures

The Corporation has a 50% or greater economic interest in each of the following joint ventures:

- **Bay Area Surgical Ventures, LLC** (“BASV”), a joint venture ambulatory surgery center development and management company. BASV owns a 50% interest in Mt. Diablo Surgery Center, LLC, which operates a two-suite ambulatory surgery center on the JMMC – Concord campus, and an 83.33% interest in Brentwood Surgery Center, LLC, which is developing a two-suite ambulatory surgery center on the JMMC – Brentwood campus.
- **Sierra Surgi-Center Associates, L.P.**, which operates a five-suite ambulatory surgery center located on the JMMC – Walnut Creek campus.
- **John Muir Magnetic Imaging Center** (“JMMIC”), which provides magnetic resonance imaging (MRI) services at centers located on both the JMMC – Walnut Creek and JMMC – Concord campuses.
- **NeuroScan**, which provides computed tomography (CT) imaging services at a center located on the JMMC – Walnut Creek campus.
- **Muir/Diablo Occupational Medicine, LLC**, which provides management and administrative services for occupational medicine clinics located in Concord and Walnut Creek, California.

For a more detailed description of these joint venture and their operations and activities, see “Joint Ventures” below.

Corporation as Sole Member of Obligated Group; Nonliability of Affiliated Entities

The Corporation is the sole member of the Obligated Group. The Corporation and any other entities that become Members of the Obligated Group in the future will be jointly and severally obligated with respect to debt incurred pursuant to and secured by Obligations issued under the Master Indenture.

John Muir Physician Network, John Muir Behavioral Health, John Muir Health Foundation, John Muir/Mt. Diablo Community Health Fund, John Muir/Mt. Diablo Health and Fitness Institute and the various joint ventures shown in the organization chart set forth above are not Members of the Obligated Group and are therefore not subject to the covenants or obligated with respect to the Master Indenture, to any Obligations outstanding under the Master

Indenture from time to time or to any related bonds or other obligations or liabilities arising under such agreements.

Health Care Facilities and Services of the Corporation

John Muir Medical Center – Walnut Creek Campus

JMMC – Walnut Creek has operated continuously on an approximately 18-acre campus in Walnut Creek, California since 1965. It is licensed to operate 324 acute care hospital beds. In 2005 the facility had 18,541 discharges, 45,556 emergency room visits and 2,988 births. Its principal buildings were constructed in 1965, 1974 and 1989 and have approximately 368,000 total square feet.

JMMC – Walnut Creek provides a full array of acute care hospital services, including outpatient services, general surgery, rehabilitation, diagnostic imaging and clinical laboratory services, as well as various tertiary specialty services, including orthopedics, pediatrics, cardiovascular care and cancer treatment.

JMMC – Walnut Creek is the sole trauma center for the County and portions of neighboring Solano County. In 2005, JMMC – Walnut Creek provided medical care to approximately 1,100 trauma patients.

JMMC – Walnut Creek also offers a wide array of ob/gyn and pediatric services as part of the Corporation's Women's and Children's Services program. It offers ten labor/delivery/recovery rooms, 12 antepartum rooms, outpatient testing rooms for high-risk patients, operating rooms for Caesarian sections, and is the sole "community" neonatal intensive care unit in the County.

A major tertiary service at JMMC – Walnut Creek is the orthopedic service line. JMMC – Walnut Creek provides a variety of orthopedic surgical services, including minimally invasive knee and hip replacements and various spine related procedures. In 2005 the orthopedic service line accounted for 2,173 discharges, representing 12% of the total discharges at JMMC – Walnut Creek.

JMMC – Walnut Creek is also the location of the Corporation's Neurosciences Institute, an interdisciplinary service combining neurosurgery, neurology, neuro-interventional radiology, neuro-oncology, neuropsychology and physiatry (physical medicine). The Corporation has made a significant investment in specialized equipment for diagnosis, assessment and treatment of neurological disorders and injuries, including stereotactic radiosurgery equipment that enables focused, non-invasive treatment of cancerous and non-cancerous tumors of the brain and spine.

JMMC – Walnut Creek opened an outpatient reference laboratory business in 1994 that serves physicians and skilled nursing facilities. The reference laboratory business has over 225 full-time equivalent employees, operates 24 draw stations and provides services to approximately 315 skilled nursing facilities in northern California.

John Muir Medical Center – Concord Campus

JMMC – Concord is located on a campus of approximately 16 acres in Concord, California. It is licensed to operate 254 acute care hospital beds. In 2005 the facility had 9,878 discharges and 43,902 emergency room visits. The JMMC – Concord campus is made up of a series of buildings that were constructed between 1956 and 1993. The buildings comprise approximately 391,000 square feet.

While the Corporation has cardiovascular programs at both the JMMC – Walnut Creek and JMMC – Concord campuses, the majority of open heart surgeries are performed at JMMC – Concord. The Corporation’s current strategic plan for cardiovascular services, which is currently being reassessed, calls for most cardiac care services, including open and minimally invasive heart surgery procedures, valve repairs, angioplasties, stent placements and complex electrophysiology studies, to be performed on the JMMC – Concord campus by the end of 2010.

The Corporation has a surgical robotic system at the JMMC – Concord campus for minimally invasive surgery, using robotic arms that allow surgeons to reach around, beyond and behind delicate body structures previously inaccessible with earlier minimally invasive surgical equipment. A high-resolution viewing system provides three-dimensional images of the surgical field with ten-fold magnification.

JMMC – Concord also offers orthopedic, cancer care and bariatric services. In addition to these tertiary services, JMMC – Concord provides, with the exception of obstetrics, which was consolidated at the JMMC – Walnut Creek campus in 2001, all inpatient and outpatient services typical of community hospitals, including ambulatory surgery, outpatient physical rehabilitation, clinical laboratory and diagnostic imaging services.

John Muir Medical Center – Brentwood Campus

The Corporation owns approximately 55 acres in Brentwood, California, a portion of which the Corporation is developing as a multi-use health care campus. Brentwood is located in eastern Contra Costa County and is one of the fastest growing areas in the San Francisco Bay Area.

In May 2003, the Corporation entered into a Project Development Agreement with The DASCO Companies LLC (“DASCO”) for the development of the first medical facility on the Brentwood campus. At that time, the Corporation also entered into a long-term Ground Lease with an affiliate of DASCO (the “Ground Lease”) pursuant to which the Corporation leased to the DASCO affiliate approximately two acres of the Corporation’s property for the construction of an approximately 108,500-square foot outpatient and ambulatory care center known as JMMC – Brentwood. The Corporation has entered into long-term leases to lease from DASCO approximately 80,000 square feet of the JMMC – Brentwood facility. The remaining space in the facility is dedicated primarily for lease to physicians and medical groups.

The Corporation opened JMMC – Brentwood in May 2005. The Corporation, either directly or through Affiliated Entities, provides a variety of health care services at JMMC – Brentwood, including urgent care, diagnostic imaging (x-ray, mammography, ultrasound, CT, MRI and nuclear medicine), clinical laboratory and cardiac rehabilitation services. In addition, the Corporation, through BASV, is currently in the process of developing a two-suite ambulatory

surgery center at JMMC – Brentwood. The Corporation anticipates that the ambulatory surgery center will open in July 2006.

The Corporation holds an option to purchase the JMMC – Brentwood facility at certain specified times during the term of the Ground Lease, beginning May 1, 2012, subject to certain specified terms and conditions. In addition, the Corporation has a right of first offer and a right of first refusal with respect to sale of the JMMC – Brentwood facility, subject to certain specified terms and conditions.

Management believes the JMMC – Brentwood campus will help the Corporation secure market share in an area that is currently experiencing and is expected to continue to experience a relatively high population growth.

Building Programs and the Project

The Corporation is planning building programs for both the JMMC – Walnut Creek and JMMC – Concord campuses, and is evaluating the feasibility of the development of certain other facilities to meet the health care needs of the communities served by the Corporation. The proceeds of the Bonds will be used to finance the building program on the JMMC – Walnut Creek campus, to finance equipment acquisitions and various other capital expenditures for the JMMC – Concord campus, and for such other purposes as set forth in the front part of this Official Statement.

The Project

The Corporation currently plans to construct a multi-level patient care tower on the JMMC – Walnut Creek campus to replace existing inpatient beds and add new bed capacity, to more than double the number of treatment beds in the Emergency Department, to add several new inpatient and outpatient operating rooms, to increase the number of neonatal nursery beds and to construct a parking structure on the JMMC – Walnut Creek campus (the “Project”). The Project and the expansion of the JMMC – Walnut Creek facility is a result of a combination of the need for additional capacity to meet the current and forecasted increases in the demand for health care services resulting from the aging and growth of the population in the communities that the Corporation serves as well as the need to comply with seismic safety standards for hospital buildings. California regulations provide that hospitals may either comply with the seismic safety standards by 2008 or apply for permission to extend applicable compliance deadlines until 2013. The Corporation has applied for an extension to 2013.

The Project involves an estimated six years of construction planned in phases intended to minimize disruption of ongoing hospital operations. The plan for the initial phase calls for the construction of a seven-level, 280,000 square foot parking structure with one floor dedicated for medical use, and the renovation of the existing hospital facility totaling approximately 25,000 square feet to house the relocated Emergency Department.

The plan for the second phase calls for the construction of an approximately 377,000 square foot, five-story patient care tower, including 230 private patient rooms, expansion of the Emergency Department, and three additional operating rooms. The construction will result in a net increase of approximately 85 licensed beds (after taking into account licensed beds the Corporation intends to remove from service upon completion of the construction).

The Corporation has been working closely with the City of Walnut Creek on the JMMC – Walnut Creek campus Master Plan and the required permits and entitlement approvals for the Project. The City of Walnut Creek, on February 21, 2006, granted final planning approval for the Project. The Corporation, in December 2005, submitted plans for the hospital facility component of the Project to OSHPD, the agency responsible for reviewing hospital construction projects. Management estimates that the OSHPD review and approval will take approximately 24 months, but management can provide no assurances that OSHPD approval will be obtained within such timeframe or at all. Non-hospital components of the Project, including the parking structure, are not subject to OSHPD review and approval.

The Corporation selected The Ratcliff Architects (“Ratcliff”) as architects for the hospital facility component of the JMMC – Walnut Creek building program. Ratcliff has a diverse client base representing health care institutions across the nation. Ratcliff’s California clients include various Sutter Health affiliates, Kaiser Permanente and UC San Francisco Medical Center.

The Corporation has retained Turner Construction (“Turner”), a nationally recognized company specializing in large healthcare facilities, to provide preconstruction services during the design phase of the Project. Turner’s services include technical support, constructability review, cost estimating, value engineering and scheduling. The Corporation expects that final contractor selection based on a guaranteed maximum price contract will be completed by April 2008.

Management currently estimates that the Project will cost approximately \$621 million (excluding capitalized interest costs) and will be completed in 2012. Management’s current estimate is based on the cost of the project at current estimated construction costs and an estimated annual escalation of 15% of such costs until the time management estimates the Corporation will enter into the various construction contracts for the Project. Management anticipates that the costs of the Project will be funded as follows based on the current cost estimates:

Bond Proceeds (Net)	\$293 million ¹
Reserves and Operating Cash	\$288 million
Fundraising	\$40 million
Total Sources of Funds	\$621 million

The John Muir Health Foundation has undertaken a fundraising campaign in support of the Project with a goal of \$40 million. The Foundation had obtained non-binding commitments of approximately \$20 million for the Project as of February 28, 2006.

The Corporation has not entered into construction agreements for the major components of the Project. As a result, management anticipates that the estimated cost of the Project could change, perhaps significantly, as construction agreements are entered into by the Corporation. Any future project cost increases will be funded through a combination of operating cash flows, Board Designated Assets and potentially an additional debt offering in the future. (For a

¹ The Bond Proceeds (Net) represents the estimated net proceeds to the Corporation of the Revenue Bonds (John Muir Health) Series 2006A, the Insured Revenue Bonds (John Muir Health) Series 2006B and the Insured Revenue Bonds (John Muir Health) Series 2006C.

discussion of certain risk factors related to the various building programs of the Corporation, see “Bondholders’ Risks – Construction Risks” in the front part of this Official Statement.)

Other Building and Facilities Planning Programs

The Corporation is also planning a building program for the JMMC – Concord campus, and is evaluating the feasibility of the development of certain other facilities to meet the health care needs of the communities served by the Corporation.

The Corporation currently plans to construct a multi-level patient care tower to replace existing inpatient beds, to increase the number of Emergency Department treatment beds, to add cardiac catheterization laboratories, and to provide additional surface parking capacity at the JMMC – Concord campus. The Corporation, in November 2005, submitted plans for the hospital facility component of the JMMC – Concord building program to OSHPD as required by California regulations. The Corporation has submitted plans to the City of Concord for this building program and anticipates receiving approval in December of 2006.

In addition to the JMMC – Concord building program, the Corporation is also currently evaluating the feasibility of, and community need for, the construction of a free-standing clinical laboratory facility for the outpatient reference laboratory business of the Corporation, a general acute care hospital facility on the JMMC – Brentwood campus, and certain other health care facilities.

Based on the current building plans for the JMMC – Concord building program, management currently estimates that the JMMC – Concord building program will cost approximately \$197 million. The Corporation has not entered into construction agreements for the JMMC – Concord building program. As a result, management anticipates that the estimated cost of the building program for the JMMC – Concord campus could change, perhaps significantly, as construction agreements are entered into by the Corporation. While the various other facility planning projects currently being evaluated by the Corporation are not currently at a stage that would permit a precise estimate of the costs of such projects, the cost of the Project, the current building plans for the JMMC – Concord building program, the various other facility planning projects currently being evaluated, and the various other capital needs of the Corporation, could exceed \$1 billion in the aggregate for the years 2006 to 2012. (For a discussion of certain risk factors related to the various building programs of the Corporation, see “Bondholders’ Risks – Construction Risks” in the front part of this Official Statement.)

The Board and management regularly assess and reassess near-term and long-term capital needs and commitments in light of the strategic goals of the Corporation and the needs of the communities served by the Corporation. In light of the continued escalation in the estimated costs of the Project and the planned JMMC – Concord building program, as well as the potential capital needs associated with the various other facility planning projects currently under review and the other capital needs of the Corporation, management and the Board are currently in the process of reevaluating the scope of the building program of the JMMC – Concord campus and the various other facility planning projects.

The building program on the JMMC – Concord campus is a result of a combination of the need for additional capacity to meet the forecasted increases in the demand for health care services resulting from the aging and growth of the population the Corporation serves and the need to

comply with California seismic safety standards for hospital buildings. However, unlike the JMMC – Walnut Creek building program, the portion of the JMMC – Concord building program that is required for compliance with seismic safety standards by 2008 (or 2013 with OSHPD extension) is relatively modest. Additionally, the JMMC – Concord campus is not experiencing the capacity issues that are present on the JMMC – Walnut Creek campus. As a result, a portion of the currently planned JMMC – Concord building program could be deferred or modified if deemed necessary or appropriate by the Board. The Corporation has applied for an extension for compliance with the seismic safety standards to 2013.

Similarly, as the Corporation obtains cost estimates for the various other facility planning projects currently being evaluated by the Corporation, the Board and management will need to review and assess such projects in light of the strategic goals of the Corporation and the needs of the communities served by the Corporation, as well as the overall near-term and long-term capital needs and commitments of the Corporation. As a result, some or all of such projects (or portions of such projects) could be deferred or modified if deemed necessary or appropriate by the Board.

Management anticipates that the costs of these building programs will be funded by operating cash flow during the construction period, Board Designated Assets, and potentially additional borrowing secured under the Master Indenture.

Affiliated Nonprofit Corporations

The services and revenues of the Corporation from the operation of its hospital and ambulatory care facilities are integrally related to and supported by the operations of the following Affiliated Nonprofit Corporations:

John Muir Physician Network

The Corporation is the sole corporate member of John Muir Physician Network, a California nonprofit public benefit corporation that was formed in 1996 to coordinate and integrate the provision of hospital, physician and ancillary health care services to enrollees of managed care plans. Management believes that the integration model provides the most efficient means of delivering quality health care services in a cost-effective manner.

The Physician Network provides primary care and urgent care services at 21 centers throughout the service area of the Hospitals. The Physician Network's primary care and urgent care centers are staffed by more than 85 primary care physicians (family practice, internal medicine and pediatrics) affiliated with John Muir Medical Group, Inc., a California professional corporation ("JMMG"). The Physician Network, through JMMG, also provides inpatient hospitalist services at both JMMC – Walnut Creek and JMMC – Concord. As of December 31, 2005, JMMG employed 17 hospitalist physicians in addition to the more than 85 primary care physicians who staff the Physician Network's primary care and urgent care centers.

The Physician Network contracts with various managed care plans to provide primary care, specialty care and ancillary services. As of December 31, 2005, the Physician Network had 71,758 commercial members and 3,782 Medicare members of such managed care plans. Primary and specialty medical care is provided to these members through the Physician Network's primary care locations in affiliation with JMMG and the various primary care and

specialty care physicians affiliated with Muir Medical Group IPA, Inc., a California professional corporation (“Muir IPA”).

The following table summarizes the primary care (PCP) and specialist physicians employed or under contract with John Muir Medical Group and Muir Medical Group IPA as of December 31, 2005:

	<u>PCPs</u>	<u>Specialists</u>
Muir Medical Group IPA	177	539
John Muir Medical Group	<u>103</u>	<u>-</u>
	<u>280</u>	<u>539</u>

Beginning in 2005, the Physician Network contracted with the Corporation to provide various services for JMMC – Walnut Creek and JMMC – Concord, including utilization review, various educational activities, managed care contracting and other services. The financial impact of this contract is reflected as additional expenses to the Corporation and revenue for the Physician Network. The Corporation paid the Physician Network \$18.6 million in 2005 for the various services provided by the Physician Network. While management of the Corporation believes the payments made to the Physician Network are warranted based upon the services provided by the Physician Network and benefits of the Physician Network to the communities served by the Corporation, the Corporation can provide no assurances that the federal or state government or a private party will not challenge such arrangement under potentially applicable federal and state laws. For a discussion of certain risk factors, see “Bondholders’ Risks – Regulatory Environment” and “Tax-Exempt Status and Other Tax Matters” in the front part of this Official Statement.

John Muir Behavioral Health

The Corporation is the sole corporate member of John Muir Behavioral Health, a California nonprofit public benefit corporation, and has the right to appoint each member of the board of directors of John Muir Behavioral Health. John Muir Behavioral Health owns and operates a 73-bed psychiatric hospital known as the John Muir Behavioral Health Center and located in Concord, California, adjacent to the JMMC – Concord campus (the “Behavioral Health Center”). John Muir Behavioral Health also operates a 15-bed residential chemical dependency treatment facility located in Concord, California. The Behavioral Health Center is one of two inpatient psychiatric facilities in the Corporation’s primary service area. The Behavioral Health Center offers care for children, adolescents, adults and older adults who are experiencing emotional or behavioral problems, and for those dependent on alcohol or other drugs.

John Muir Health Foundation

The Corporation is the sole corporate member of John Muir Health Foundation, a California nonprofit public benefit corporation, and has the right to appoint each member of the board of directors of the Foundation other than the Chief Executive Officer of the Corporation, the President of the Foundation and the President of John Muir Auxiliary, each of whom serves ex-officio as a member of the Foundation board of directors. The Foundation raises funds for programs and projects of the Corporation, including various education programs, operations, buildings and equipment. The Foundation’s net assets at December 31, 2005 totaled approximately \$28.3 million.

John Muir/Mt. Diablo Community Health Fund

The Corporation is the sole corporate member of John Muir/Mt. Diablo Community Health Fund, a California nonprofit public benefit corporation, but the members of the boards of directors of the Community Health Fund are appointed by the Mt. Diablo Health Care District and the John Muir Association. The Community Health Fund was established in 1997 to make grants to local agencies to further the health of the community. The Corporation annually contributes \$1,000,000 to support the grants made by the Community Health Fund and an additional amount of up to \$200,000 to support its administrative expenses. See “History of the Corporation and the District” below for further discussion about the Community Health Fund.

John Muir/Mt. Diablo Health and Fitness Institute

The Corporation is the sole corporate member of John Muir/Mt. Diablo Health and Fitness Institute, a California nonprofit public benefit corporation, and has the right to appoint each member of the board of directors. The Health Institute provides physical therapy services and various employee wellness programs. The Health Institute holds a 50% membership interest in Muir/Diablo Occupational Medicine, a California limited liability company that manages two occupational medicine clinics located in Concord and Walnut Creek, California, respectively.

Joint Ventures

The services and revenues of the Corporation from the operation of its hospital and ambulatory care facilities are also supported by the operations of the following Affiliated Entities:

Bay Area Surgical Ventures, LLC

Bay Area Surgical Ventures, LLC (“BASV”), a California limited liability company, is a joint venture formed in May, 2005 by the Corporation and NSH Management of California, Inc. (“NSH”), an affiliate of National Surgical Hospitals, Inc., for the purpose of developing, owning and managing ambulatory surgery centers in the County. The Corporation and NSH are the sole members of BASV, and hold 60% and 40% membership interests, respectively. BASV holds a 50% membership interest in Mt. Diablo Surgery Center, LLC, a California limited liability company, which operates a two-suite ambulatory surgery center located on the JMMC – Concord campus. The remaining 50% membership interests are held by various physicians. BASV also holds a 83.33% interest in Brentwood Surgery Center, LLC, a California limited liability company, which is currently in the process of developing a two-suite ambulatory surgery center located on the JMMC – Brentwood campus. The remaining 16.67% membership interests are held by Muir Orthopaedic Specialists, A Medical Group, Inc. Management currently anticipates an offering to various potential physician investors at some point in the future. BASV is currently in the process of developing a six-suite joint venture ambulatory surgery center on the JMMC – Walnut Creek campus.

Sierra Surgi-Center Associates, L.P.

Sierra Surgi-Center Associates, L.P., a California limited partnership (the “Sierra Partnership”) operates a five-suite ambulatory surgery center located on the JMMC – Walnut Creek campus. The Corporation is the sole general partner of the Sierra Partnership and holds a 50% economic interest as general partner. The Corporation also holds limited partnership interests representing

an approximately 2% economic interest in the Sierra Partnership as of December 31, 2005. The remaining limited partnership interests in the Sierra Partnership are held by various physicians. Management currently anticipates that the Sierra Partnership will cease operations and be dissolved on or before December 31, 2008.

John Muir Magnetic Imaging Center

John Muir Magnetic Imaging Center (“JMMIC”), a California limited partnership, provides magnetic resonance imaging (MRI) services at centers located at both the JMMC – Walnut Creek and JMMC – Concord campuses. The Corporation is one of two general partners and holds a 10% economic interest in JMMIC as a general partner. The other general partner in JMMIC is Bay Imaging, LLC, a California limited liability company owned by various radiologists, which holds a 10% economic interest in JMMIC. The Corporation is the sole limited partner of JMMIC and holds an 80% economic interest in JMMIC as a limited partner.

NeuroScan

NeuroScan, a California general partnership, provides computed tomography (CT) imaging services at a center located on the JMMC – Walnut Creek campus. The Corporation is one of two general partners and holds a 90% economic interest in NeuroScan. Diablo Valley Imaging Partners I, a partnership owned by various active and retired radiologists, is the other general partner and holds the remaining 10% economic interest in NeuroScan.

Muir/Diablo Occupational Medicine, LLC

Muir/Diablo Occupational Medicine, LLC, a California limited liability company, provides management and administrative services for occupational medicine clinics located in Concord and Walnut Creek, California. The Health Institute and Occupational Physicians Medical Associates, Inc., a California professional corporation, are the sole members of Muir/Diablo Occupational Medicine, LLC, and each holds a 50% membership interest in Muir/Diablo Occupational Medicine, LLC.

Future Affiliations and Joint Venture Activities

The Corporation evaluates and pursues potential acquisitions, affiliations and joint ventures on a regular and consistent basis as part of its overall strategic planning and development process. The Corporation regularly engages in confidential discussions with physicians and other third parties regarding potential acquisition, affiliation and joint venture transactions.

Management believes there is an increasing likelihood that outpatient surgery, diagnostic imaging and other outpatient services will be provided through business entities owned, in whole or in part, by physicians, private and publicly traded for-profit management companies, and other third parties. Management therefore believes that the Corporation’s strategy may require greater reliance on joint venture arrangements than has been the historical experience of the Corporation, particularly with respect to outpatient and ambulatory health care services.

These arrangements can result in capital commitments from the Corporation and may have a dilutive impact on the overall operating results. In addition, these joint ventures and affiliations can give rise to legal or regulatory risks, including risk under federal tax-exemption laws and

federal and state fraud and abuse laws. For a discussion of certain risk factors, see “Bondholders’ Risks – Regulatory Environment” and “Tax-Exempt Status and Other Tax Matters” in the front part of this Official Statement.

History of the Corporation and the District

The Corporation has owned and operated JMMC – Walnut Creek since 1965. In 1997, the Corporation acquired JMMC – Concord (then known as Mt. Diablo Medical Center), the Behavioral Health Center (then known as the Mt. Diablo Pavilion), the Health Institute and substantially all the other assets of the Mt. Diablo Health Care District, a political subdivision of the State of California (the “District”) pursuant to a Community Benefit Agreement dated as of August 9, 1996 (the “Transfer Agreement”) between the Corporation and the District. The District continues to exist as a political subdivision under California law, although it neither owns nor operates facilities nor is it liable in any manner for payments with respect to the Bonds.

The Transfer Agreement contains a number of covenants that survive during the term of the Transfer Agreement. In particular, the Transfer Agreement requires that the Corporation (i) operate and maintain JMMC – Concord and the other assets transferred to the Corporation pursuant to the Transfer Agreement for the benefit of the communities served by the District in accordance with state law applicable to such transfers; (ii) maintain basic emergency services at both JMMC – Walnut Creek and JMMC – Concord; (iii) maintain separate acute care hospital licenses for both JMMC – Walnut Creek and JMMC – Concord; and (iv) establish and maintain the Community Health Fund, and provide annual funding of \$1,000,000 to support the grants made by the Community Health Fund and an additional amount of up to \$200,000 to support its administrative expenses. Failure of the Corporation to cure violation of any of these covenants within 90 days after notice from the District gives the District the right to terminate the Transfer Agreement and reclaim the District’s former assets from the Corporation, including JMMC – Concord.

In July 2001, the District initiated litigation against the Corporation alleging, among other things, that the Corporation’s closure of the obstetrics unit on the JMMC – Concord campus violated the Transfer Agreement and provisions of state law governing transfers of hospital district assets. The District sought, among other remedies, termination of the Transfer Agreement and a return of JMMC – Concord and related former assets of the District. In June 2002, the Corporation and the District entered into a Settlement and Release Agreement (the “Settlement Agreement”) pursuant to which the District agreed to dismiss with prejudice its litigation against the Corporation. The Settlement Agreement also clarifies the rights and obligations of the parties under the Transfer Agreement in a manner that management believes should reduce the likelihood of similar disputes arising in the future. For example, the Settlement Agreement clarifies that the Board of Directors of the Corporation has the sole and absolute discretion to determine the manner in which JMMC – Concord and the other assets transferred to the Corporation pursuant to the Transfer Agreement are operated and maintained for the benefit of the communities served by the District.

While there have been no material disputes between the Corporation and the District since the Settlement Agreement, the Corporation can provide no assurances that similar disputes will not arise in the future, nor that the District will not pursue action, whether under the Transfer Agreement or otherwise, to reclaim JMMC – Concord and other assets previously transferred to the Corporation under the Transfer Agreement.

The initial term of the Transfer Agreement extends through December 31, 2049, and may be extended for three additional 50-year terms by agreement of the Corporation and the District. The Transfer Agreement provides that, upon the expiration or earlier termination of the Transfer Agreement, the Corporation will transfer back to the District all assets previously transferred from the District to the Corporation, and all assets accumulated by the Corporation during the term of the Transfer Agreement arising out of or from the operation of the transferred assets.

Governance

Board of Directors

The Corporation is governed by a 19-member Board of Directors comprised of persons who reside or maintain their principal place of business within the communities served by the Corporation. The Corporation is a non-membership corporation under the California Nonprofit Public Benefit Corporation Law. New members of the Board are appointed by the existing members of the Board of Directors of the Corporation in accordance with the procedures set forth in the Bylaws of the Corporation, as described below.

Ten of the sixteen voting members of the Corporation Board of Directors are and must be persons who (i) reside in or who have their principal place of business in the Corporation's primary service area, and (ii) are not employed by or rendering services to or for the Corporation or any of its affiliates (the "Community Directors").

The remaining six voting members of the Corporation Board of Directors are and must be physicians, three of whom must be members of the Medical Staff of JMMC – Walnut Creek, and three of whom must be members of the Medical Staff of JMMC – Concord. Additionally, one physician chosen by the Medical Staffs of each of JMMC – Walnut Creek and JMMC – Concord serves as a non-voting member of the Board of Directors.

The Chief Executive Officer of the Corporation serves *ex officio* as a non-voting member of the Board of Directors.

The terms of the voting directors are three years, and are staggered so that approximately one-third of the directors' terms will expire each year. Directors may be reelected for subsequent terms, subject to term limits that prohibit voting directors from serving more than nine consecutive years, except in certain limited circumstances.

The current directors of the Corporation and their occupations are profiled in the following table. Their respective terms in office expire on December 31 of the year stated or upon replacement by qualified successors.

Name	Occupation	Expiration of current term
Ronald J. Banducci, Chair	Retired, former Oil Company Executive	2007 ⁽³⁾
S. Donley Ritchey, Vice Chair	Retired CEO, Corporate Director	2008 ⁽³⁾
Howard L. Jenkins, Secretary	Retired, Business Owner	2007 ⁽²⁾
Guy R. Henshaw, Treasurer	Managing Partner, Consulting Firm	2007 ⁽³⁾
J. Kendall Anderson	President & CEO, Corporation	Ex Officio/Non-Voting
Burton H. Baker, M.D.	Vascular Surgeon	2006 ⁽¹⁾
Richard J. Carmel, M.D.	Radiation Oncologist	2006 ⁽³⁾
Stephen L. Davenport	Retired CEO	2008 ⁽¹⁾
Marilyn M. Gardner	CFO, Education	2008 ⁽¹⁾
Thomas E. Greely, M.D.	Internal Medicine, Chief of Staff, JMMC – Concord	Non-Voting
John Knight, M.D.	Orthopedic Surgeon, President, Muir IPA	2007 ⁽¹⁾
Catherine O. Kutsuris	Deputy Director, Contra Costa County Community Development Department	2006 ⁽¹⁾
Peter D. Langley	Attorney	2008 ⁽¹⁾
Bernard J. Larner, M.D.	Pathologist	2008 ⁽¹⁾
Harry J. MacDannald, M.D.	Pulmonologist Chief of Staff, JMMC – Walnut Creek	Non-Voting
Malcolm J. McAuley	Retired business executive	2008 ⁽¹⁾
Ronald K. Mullin	Attorney	2007 ⁽¹⁾
Samuel C. Oommen, M.D.	Surgeon	2007 ⁽²⁾
John D. Zuorski, M.D.	President, JMMG	2006 ⁽³⁾

- (1) Currently serving first full term on the Board
(2) Currently serving second full term on the Board
(3) Currently serving third full term on the Board

When vacancies arise, the Board of Directors of the Corporation selects successors with the assistance of a nominating committee composed of at least one person residing within the boundaries of the District and at least one person residing within the primary service area of JMMC – Walnut Creek in the manner described below. While the nominating process may vary, depending upon the particular board seat that is being vacated (or is vacant) the Board of Directors of the Corporation ultimately elects any and all successor directors.

The District and the John Muir Association (the “Association”), a California nonprofit corporation formed by former members of the Corporation in connection with the consummation of the transactions contemplated by the Transfer Agreement and the acquisition of JMMC – Concord, each have a limited right to reject certain nominees. Under certain circumstances, the issue of whether a particular nominee satisfies the applicable selection criteria can be submitted to binding arbitration. The rights of the District and the Association in regard to the selection of successor directors cannot be changed without their approval.

Standing Board Committees

The Bylaws of the Corporation provide for seven standing committees to support the governance of the Corporation: the Executive Committee, Finance Committee, Audit Committee, Strategic Planning and Marketing Committee, Governance Committee (which also serves as the Corporation's Compliance Committee), Compensation/Human Resources Committee and Quality and Patient Safety Committee. In addition, the Board of Directors of the Corporation has established an Investment Committee, which is a subcommittee of the Corporation's Finance Committee.

Special Board Committees

The Board of Directors of the Corporation from time to time establishes special committees of the Board of Directors for particular programs or projects. For example, in light of the complexity and importance of the Project and the other facility and building programs of the Corporation, the Board of Directors has established a Building Committee to oversee such programs.

Conflicts of Interest

The Corporation from time to time enters into transactions or arrangements with physician-members of its Board of Directors and other individuals and entities (including medical groups) with which its directors are affiliated. Management believes that such transactions and arrangements are on terms no less favorable to the Corporation than could be obtained from other parties. The Corporation has a written conflict of interest policy pursuant to which directors having any financial interest in any transaction or arrangement involving the Corporation must disclose such conflict and abstain from voting on the matter. The policy also requires each director to complete and sign a conflict of interest disclosure statement annually and to supplement such statement with ongoing disclosures of potential or actual conflicts of interest.

Executive Management

The principal members of management responsible for the operations and financial reporting of the Corporation and the Physician Network are profiled below:

J. Kendall Anderson, President and Chief Executive Officer – Mr. Anderson was appointed the Chief Executive Officer of the Corporation in 1981. Prior to 1981, Mr. Anderson served as the Associate Administrator and then Executive Vice-President of JMMC – Walnut Creek. Before joining the Corporation, Mr. Anderson held positions with Pacific Presbyterian Medical Center in San Francisco, California and Baptist Medical Centers in Birmingham, Alabama. Mr. Anderson received a B.A. in Psychology from Willamette University in 1965 and an M.S. from Washington University in 1972.

Kenneth L. Meehan, Executive Vice President – Operations – Mr. Meehan was promoted to his current position in January 2006. Prior to this position, Mr. Meehan served as Chief Administrative Officer of JMMC – Walnut Creek beginning in January 2001, Senior Vice President – Clinical and Administrative Services for the Corporation beginning in 1997 and Vice President of Clinical and Administrative Services at JMMC – Walnut Creek beginning in 1992.

Mr. Meehan joined the Corporation in 1982 and has held various positions in Finance, including Vice President of Financial Services. Past positions held by Mr. Meehan include Corporate Controller of Children's Hospital of San Francisco, Director of Budget and Reimbursement of Children's Hospital of San Francisco and Supervisor of the Medicare Division of Blue Cross and Blue Shield of Greater New York. Mr. Meehan received a B.B.A. from Adelphi University in 1975 and an M.H.A. from C.W. Post College of Long Island University in 1977.

Paul Swenson, Executive Vice President – Administration – Mr. Swenson joined the Corporation in January 2006 after serving as a strategic consultant to various hospital, health plan and physician organizations during 2005. Previously, Mr. Swenson was with Blue Shield of California (1998 – 2004) in various positions including Chief Financial Officer, Senior Vice President for the Northern Region business unit and Executive Vice President - Corporate Development. Between 1990 and 1998, he held various general management positions with Aetna's health plan organization in California. Mr. Swenson holds a B.A. from Duke University and M.B.A. from the University of California, Berkeley.

Michael Moody, Chief Financial Officer – Mr. Moody was named Chief Financial Officer in December 2005. Mr. Moody joined the Corporation as Director of General Accounting in 1993. Mr. Moody was named the Director of Financial Operations in 1994, and served as Vice President of Financial Operations from January 1997 until his appointment as Chief Financial Officer. Prior to joining the Corporation, Mr. Moody was a Manager at Arthur Andersen in San Francisco specializing in health care. Mr. Moody received his B.S. in Business Administration from California State University – Hayward in 1987.

Janiece S. Nolan, Ph.D., President and Chief Executive Officer of the Physician Network – Mrs. Nolan was appointed President and Chief Executive Officer of the Physician Network in 1997. She joined the Corporation as Director of Ambulatory Care at JMMC – Walnut Creek in 1977, advancing to Assistant Administrator, then Vice President of Professional Services, and then to Chief Operating Officer of JMMC – Walnut Creek, a position she held for 10 years. Prior to joining the Corporation, she was Assistant Director, University of California, San Francisco Hospitals and Clinics. Mrs. Nolan received her MPH in Hospital Administration from the University of California, Berkeley in 1975. Other degrees include a Ph.D. in Biology from Tulane University (New Orleans), as well as B.A. and M.A. degrees from the University of Texas, Austin.

Ross Hallberg, Chief Compliance Officer – Mr. Hallberg was appointed Chief Compliance Officer of the Corporation in April, 1999. He also serves as the Health System Privacy Official. Previously, from 1994 to 1999, Mr. Hallberg was employed by a systems integration software development firm, as Chief Information Officer and Vice President for Internal Operations. From 1976 to 1994, Mr. Hallberg was Chief Information Officer at JMMC – Walnut Creek, and was also the Director of Corporate Strategic Planning during part of that period. Mr. Hallberg holds a B.A. from the University of California, Berkeley and an M.B.A. from San Francisco State University.

Service Area and Competition²

Service Area

The Corporation's geographic service area extends from southern Solano County to Pleasanton/Livermore in Eastern Alameda County. The service area includes most of Contra Costa County with the exception of the western portion.

The communities that comprise the Corporation's primary service area are those communities that account for 80% of the Corporation's inpatient acute care discharges. The primary service area is based on 2005 acute care discharges from Corporation facilities. The communities that comprise the primary service area (ranked from high to low volume based on 2005 discharge data) are: Concord, Walnut Creek, Pittsburg, Antioch, Martinez, Pleasant Hill, Danville, Lafayette, Brentwood, Clayton, San Ramon, Moraga, Oakley and Alamo. The population of these communities was approximately 734,000 in 2005. The population of the primary service area is expected to grow to more than 790,000 by 2010, a 7.6% increase.

The Corporation's secondary service area includes areas that account for the next 10% of acute care discharges (a total of 90% of all acute care discharges are in the primary and secondary service areas). These areas are southern Solano County, the far eastern portions of Contra Costa County, and the cities of Orinda, Pleasanton, Dublin and Livermore. The population of these areas was approximately 314,000 in 2005. The population of the secondary service area is expected to grow to more than 339,000 by 2010, an 8% increase.

Competition

As measured by discharges, the Corporation continues to maintain a stable market share that places it as the largest provider of inpatient hospital services in the Corporation's primary and secondary service areas. In the primary service area alone, the Corporation had a 36% market share in 2004 as measured by discharges. In the combined primary and secondary service areas of the Corporation, the Corporation had a 28% market share in 2004 as measured by discharges. The competition in the Corporation's primary and secondary service areas includes inpatient facilities operated by affiliates of Kaiser Permanente, Sutter Health, Tenet Healthcare Corporation and Contra Costa County.

Management views Kaiser Permanente as the Corporation's most significant competitor in the market, and believes that market share as measured by discharges from hospitals within the local market potentially understates the influence of Kaiser in the local market. Kaiser is distinct from the Corporation's other local competitors in that Kaiser owns and operates a health plan that provides health care insurance coverage for many residents in the local market. Though reliable data is not obtainable, management estimates the Kaiser enrollees represent between 35% and 40% of the residents with health care insurance coverage within the local market.

While many Kaiser Permanente health plan enrollees receive certain hospital services at Kaiser facilities within the local market, many of these enrollees also receive certain hospital services at

² Market share data in this Appendix A is based on data obtained from OSHPD for the year ended December 31, 2004 (OSHPD data for the year ended December 31, 2005 are not yet available). Population data in this Appendix A is Management's estimate based upon data from Solucient's *The Market Planner Plus*.

Kaiser facilities located outside of the Corporation’s market and at non-Kaiser facilities within the local market, including the Hospitals. The Corporation contracts with Kaiser Permanente to provide certain inpatient and outpatient hospital services to Kaiser health plan enrollees at the JMMC – Concord campus, and Kaiser enrollees receive emergency medical care at JMMC – Walnut Creek and JMMC – Concord. In 2005, the Corporation received payments in excess of \$31 million for services rendered to Kaiser health plan enrollees, and such enrollees represented 6.7% of the total discharges from the Hospitals. Currently, approximately 9.1% of the total net revenues generated at the JMMC – Concord campus are attributable to inpatient and outpatient services rendered to Kaiser enrollees. Kaiser is currently scheduled to open a new hospital in eastern Contra Costa County in 2008. Management anticipates that upon the opening of this facility the vast majority of Kaiser enrollees currently treated at JMMC – Concord will receive care at the new Kaiser facility.

The structure of Kaiser and its membership size could enable Kaiser in the future to increase its inpatient market share in the Corporation’s service area through the opening of additional inpatient facilities and services to serve its health plan enrollees.

The following table presents the Corporation’s inpatient market share as well as all other inpatient hospital facilities within the Corporation’s primary and secondary service areas based upon discharges for the year ended December 31, 2004 (data for the year ended December 31, 2005 are not yet available).

<u>Hospital</u>	<u>2004</u>
JMMC – Walnut Creek	18.6%
JMMC – Concord	9.5
Behavioral Health Center	<u>1.3</u>
Total	29.4%
Kaiser Permanente	24.8%
Contra Costa Regional Medical Center ⁽¹⁾	8.6
ValleyCare Medical Center	7.1
Delta Memorial Hospital ⁽²⁾	6.5
San Ramon Regional Medical Center ⁽³⁾	4.8
All Others	<u>18.8</u>
Total	<u>100%</u>

(1) Operated by Contra Costa County

(2) An affiliate of Sutter Health

(3) An affiliate of Tenet Healthcare Corporation

Source: OSHPD

The Corporation’s combined inpatient market share in certain health care markets or services exceeds those of its local competitors. The operations and activities of the Corporation and its Affiliated Entities are subject to federal and state antitrust and competition laws. While the Corporation endeavors to ensure that its operations and activities comply with such laws, the Corporation can provide no assurances that the federal or state government or a private party will not challenge the operations or activities of the Corporation under such laws. See “Bondholders’

Risks – Antitrust” in the front part of this Official Statement for further discussion of related considerations.

Historical Utilization

The following table presents selected historical utilization statistics for JMMC – Walnut Creek and JMMC – Concord on a combined basis for the years ended December 31, 2003, 2004 and 2005.

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Licensed Beds	576	576	578
Available Beds	548	548	548
Discharges	26,812	27,380	28,419
Patient Days	136,159	139,052	144,161
Average Length of Stay	5.08	5.08	5.07
Average Occupancy Percentage	68%	70%	72%
Emergency Room Visits	87,815	83,439	89,458
Outpatient Surgeries (1)	3,614	4,099	4,722

(1) Does not include outpatient surgeries performed at outpatient surgery centers affiliated with the Corporation.
Source: Corporation

Medical Staffs

As of March 31, 2006 the combined medical staffs of JMMC – Walnut Creek and JMMC – Concord numbered 1,077 physicians. Of these physicians, 691 held active privileges, 112 held provisional status and 274 held other privileges, mainly courtesy status. Of the active staff members, more than 90% are board certified. The average age of the active medical staff is 50. Many physicians maintain active privileges at both JMMC – Walnut Creek and JMMC – Concord.

Insurance

The Corporation maintains commercial professional liability insurance insuring the Corporation and all employees, while acting within the scope of their duties, against malpractice liability. The professional liability limit is \$40 million, with a deductible of \$5,000. The Corporation also maintains a comprehensive insurance program through a variety of commercial carriers, including general, automobile, directors and officers, managed care errors and omissions, excess workers’ compensation, property, difference in conditions, fiduciary and pollution liability, with limits that management considers to be adequate and similar to those of comparable facilities. See “Bondholder’s Risks – Professional Liability Claims and General Liability Insurance” in the front part of this Official Statement.

Employees/Labor Relations

The Corporation is one of the largest private-sector employers in the County. As of December 31, 2005 the Corporation and the Affiliated Entities had approximately 5,500 employees. A large percentage of the employees at JMMC – Concord are represented by collective bargaining units. The majority of the unionized employees are members of the California Nurses Association or the SEIU – United Healthcare Workers. The remaining service units of the

Corporation, including JMMC – Walnut Creek, do not have employees that are represented by collective bargaining units. The employees represented by SEIU – UHW have been working without a contract since October 15, 2005. The Corporation has experienced one work stoppage for two days since the expiration of this contract. Negotiations are continuing with SEIU – UHW. The collective bargaining contracts with the California Nurses Association (CNA) and the X-Ray Technologist Unit of the ILWU Local 6 currently expire on June 30, 2006. Management has not yet begun formal negotiations with either of these collective bargaining units. The Corporation expects that employees represented by SEIU – UHW, CNA and/or ILWU Local 6 may engage in additional strikes or work stoppages prior to the execution of new collective bargaining contracts. (For a discussion of certain risk factors related to the labor relations and collective bargaining, see “Bondholders’ Risks – Business Relationships and Other Business Matters – Labor Relations and Collective Bargaining” in the front part of this Official Statement.)

The following table sets forth information regarding the union membership of employees at JMMC – Concord as of December 31, 2005:

<u>Labor Union</u>	<u>Number of Employees</u>	<u>Current Contract Expires</u>
California Nurses Association	490	June 30, 2006
SEIU – United Healthcare Workers	408	October 15, 2005
X-Ray Technologist Unit of the ILWU Local 6	59	June 30, 2006
International Union of Operating Engineers Stationary Local 39	20	December 31, 2006

As part of an ongoing recruitment and retention program, management of the Corporation has developed various initiatives. The Corporation has been working with area colleges to develop a greater capacity in their nursing programs through the sponsorship of additional nursing faculty. The Corporation periodically develops focused recruiting campaigns for certain positions. These campaigns include awards to employees who refer candidates who are subsequently hired for these positions.

Summary Financial Information

The following tables titled “Condensed Statements of Operations” provide summaries of financial information for the Corporation and the Affiliated Entities and the Corporation for the years ended December 31, 2003, 2004 and 2005 and the three months ending March 31, 2005 and 2006. The annual financial information for the Corporation and the Affiliated Entities has been derived by management from the consolidated financial statements which have been audited by Deloitte & Touche LLP contained in Appendix B, and the quarterly information has been derived by management from the books and records of the Corporation and the Affiliated Entities. The 2005 annual financial information for the Corporation has been derived by management from the consolidating schedules accompanying the consolidated financial statements contained in Appendix B. The 2004 and 2003 annual financial information for the Corporation has been derived by management from consolidating schedules not included herein. The financial information should be read in conjunction with the consolidated financial statements and related notes included in Appendix B. The financial results for the three-year

period ended December 31, 2005 are not necessarily indicative of the financial performance to be expected for any fiscal year thereafter.

For each table management has determined that financial information for the Corporation alone and on a consolidated basis with the Affiliated Entities should be presented. As a coordinated delivery system each component of the health system controlled by the Corporation has some level of interdependency with other components of the health system. These interdependencies are reflected in the consolidated financial results.

John Muir Health
Condensed Statement of Operations
(in thousands)

	The Corporation and the Affiliated Entities (Consolidated)			The Corporation as the Sole Member of the Obligated Group		
	Year Ended December 31,			Year Ended December 31,		
	2003	2004	2005	2003	2004	2005
Total Operating Revenue, before Investment Income	\$ 759,539	\$ 884,143	\$ 1,001,268	\$ 637,733	\$ 741,950	\$ 834,916
Operating Expenses:						
Interest	6,219	6,048	6,014	6,123	5,964	5,904
Depreciation, Amortization and Impairment	30,458	32,130	35,023	27,765	29,310	31,672
All Other Operating Expenses	676,585	778,445	904,335	547,998	622,274	739,704
Total Operating Expenses	<u>713,262</u>	<u>816,623</u>	<u>945,372</u>	<u>581,886</u>	<u>657,548</u>	<u>777,280</u>
Income from Operations, before Investment Income	46,277	67,520	55,896	55,847	84,402	57,636
Investment Income	<u>14,303</u>	<u>28,913</u>	<u>57,760</u>	<u>14,247</u>	<u>28,834</u>	<u>57,471</u>
Excess of Revenues over Expenses	<u>\$ 60,580</u>	<u>\$ 96,433</u>	<u>\$ 113,656</u>	<u>\$ 70,094</u>	<u>\$ 113,236</u>	<u>\$ 115,107</u>

John Muir Health
Condensed Statement of Operations
(in thousands)

	The Corporation and the Affiliated Entities (Consolidated)		The Corporation as the Sole Member of the Obligated Group	
	As of the Three Months Ended March 31,		As of the Three Months Ended March 31,	
	2005	2006	2005	2006
Total Operating Revenue, before Investment Income	\$ 242,538	\$ 265,503	\$ 202,942	\$ 219,782
Operating Expenses:				
Interest	1,560	1,441	1,530	1,389
Depreciation, Amortization and Impairment	9,358	10,390	8,739	9,509
All Other Operating Expenses	216,443	244,749	173,484	200,081
Total Operating Expenses	<u>227,361</u>	<u>256,580</u>	<u>183,753</u>	<u>210,979</u>
Income from Operations, before Investment Income	15,177	8,923	19,189	8,803
Investment Income	<u>6,440</u>	<u>14,601</u>	<u>6,391</u>	<u>14,455</u>
Excess of Revenues over Expenses	<u>\$ 21,617</u>	<u>\$ 23,524</u>	<u>\$ 25,580</u>	<u>\$ 23,258</u>

Management's Discussion and Analysis of Recent Financial Performance

Historical Performance³

Over the past three years the Corporation and the Affiliated Entities have achieved significant positive financial results on a consolidated basis. The cumulative Income from Operations, before Investment Income, for the three years ending December 31, 2005 is in excess of \$170 million, representing an operating margin of 6% for the Corporation and the Affiliated Entities. Board Designated Assets of the Corporation have increased by \$248 million over the same time period. Management has continued to invest in the operations and strategic initiatives of the organization, evidenced by capital expenditures of approximately \$179 million over the same time period. Because of the upcoming building programs and the estimated costs at JMMC – Walnut Creek and JMMC – Concord, management and the Board of Directors made a conscious decision to transfer all excess funds to Board Designated Assets over the last three years. A portion of these funds along with the proceeds of borrowings and cash flow from operations will be used to fund the building programs.

Q1 2006 Compared to Q1 2005

The Corporation and the Affiliated Entities experienced Income from Operations, before Investment Income of \$8.9 million in the first quarter of 2006 versus Income from Operations, before Investment Income of \$15.2 million in the first quarter of 2005. The Corporation had Income from Operations, before Investment Income of \$8.8 million in the first quarter of 2006 versus \$19.2 million in 2005. A large component of this decrease is concentrated in Operating Revenues as the Corporation experienced a higher inpatient utilization of services by Medicare patients and patients without insurance with a corresponding decrease in patients with PPO insurance coverage. The operating margin in the first quarter of 2006 is 3.4% and 4.0% for the Corporation and the Affiliated Entities and the Corporation, respectively. In the first quarter of 2005 the operating margin was 6.3% and 9.5% for the Corporation and Affiliated Entities and the Corporation, respectively.

Total Operating Revenue, before Investment Income, for the Corporation and the Affiliated Entities increased by \$23.0 million in the first quarter of 2006 in comparison to the first quarter of 2005. Although the Corporation experienced an increase in utilization of patients without insurance and a decrease in utilization of services by PPO patients, the Corporation generated a \$16.8 million increase in Total Operating Revenue, before Investment Income, in the first quarter of 2006 in comparison to the first quarter of 2005. Approximately \$9.4 million of this increase is due to increased rates for patients with HMO and PPO insurance and \$4.6 million is due to increased contract rates from Kaiser at our JMMC-Concord facility.

Total Operating Expenses for the Corporation and the Affiliated Entities increased by \$29.2 million or 12.9% in the first quarter of 2006 versus the first quarter of 2005. The increase in expenses is concentrated in the Corporation. The largest component of this increase is for

³ Capitalized terms used in this section and not otherwise defined in this Appendix A shall refer to specific line item names from the consolidated financial statements of the Corporation and the Affiliated Entities presented in Appendix B. For a summary of Significant Accounting Policies, please see Footnote 2 in Appendix B.

Salaries and Wages which increased by \$10.0 million. The increase is due to additional employees hired in the last three quarters of 2005 and the first quarter of 2006, along with wage increases that occurred in the first quarter of 2006.

The remaining increases in expenses for the Corporation, when comparing the first quarter of 2006 versus the first quarter of 2005, are spread among Employee Benefits, Supplies and Purchased Services. The increase in Employee Benefits is directly related to the increase in employees and increased healthcare costs. The Corporation continues to experience price increases and a higher utilization of various implants and devices that is reflected in the Supplies expense category.

Fiscal Year 2005 Compared to Fiscal Year 2004

Total Operating Revenue, before Investment Income, for the Corporation and the Affiliated Entities increased approximately \$117 million, or 13%. The Corporation accounted for \$93 million of the increase. This revenue growth has been driven by both increases in volume as well as payment per case for HMO and PPO inpatient services as well as increases from Medicare. While inpatient volume for both HMO and PPO has increased 9%, payment per case has also increased 9% and 19% for HMO and PPO cases, respectively. Additionally, growth in outpatient services and increased payments for these services contributed to the growth in HMO and PPO revenue. Of the total \$93 million increase, HMO and PPO patients accounted for \$56 million or 60%. Both Hospitals experienced an overall increase in revenue of \$21 million from Medicare due to market basket increases.

The Physician Network experienced an increase in Total Operating Revenue of \$20 million (net of \$19 million from the new Support Services Agreement). This increase is due to additional revenue generated in the various practice sites as total fee-for-service visits increased by 16,708, or 8%, resulting in additional revenues of \$6 million. In addition, the Physician Network's managed care enrollees increased by 8,000, or 13% resulting in additional revenues of \$12 million.

Total Operating Expenses for the Corporation and the Affiliated Entities increased by \$129 million, or 16% in 2005. The expense for Salaries and Wages is the largest portion of the increase, accounting for \$41 million of the total for the Corporation and the Affiliated Entities. The Corporation accounted for \$38 million of this increase. The growth for salaries and wages is a function of increases in the number of employees and salary increases. The increase in full-time equivalent employees (FTEs) was 350 between 2005 and 2004. The increase in personnel is due to many factors, including nurse staffing ratio requirements and the need for additional employees as the business becomes more complex and regulated.

Employee Benefits increased by \$12 million for the Corporation and the Affiliated Entities. The increase in Benefits for the Corporation accounted for \$11 million of this increase. The majority of this increase, 55%, is due to increases in health benefit costs. Management evaluates the benefit structure annually and determines changes to be made that partially offset these cost increases, including increasing co-pays and deductibles. Changes to the benefit structure are balanced against the potential impact they will have on ongoing recruiting and retention efforts. The remaining cost increases are related to retirement and the employer's portion of FICA.

The Corporation and the Affiliated Entities experienced an increase in Supplies expense of \$14 million due to continued increases in costs for prosthetics and implants, drugs and certain other supplies. In response to these pricing pressures, the Corporation has negotiated additional payments from HMO and PPO plans. The majority of this increase is concentrated in the Corporation which accounts for \$14 million of this increase.

The provision for Uncollectible Accounts increased for the Corporation in 2005 by 18%. The Corporation experienced an increase in the number and severity of patients unable to pay their bill, or their portion of the bill, in 2005. The expense for physician services provided to the Physician Network increased by \$16 million to \$102 million in 2005 as a result of incremental managed care enrollees and the increased fee-for-service revenue generated at the practice sites.

Investment Income was \$58 million and \$57 million for the Corporation and the Affiliated Entities and the Corporation, respectively, in 2005. This compares with Investment Income of \$29 million for both the Corporation and the Affiliated Entities and the Corporation in 2004. Included in the Investment Income for 2005 is approximately \$19 million of realized gains related to the replacement of various investment managers in 2005. Upon the replacement of an investment manager, the investments held by that investment manager are liquidated and the proceeds of the liquidation are directed to the investment manager selected by the Corporation.

The balance sheet of the Corporation and the Affiliated Entities continued to strengthen in 2005. Cash and Cash Equivalents combined with Board Designated Assets increased by \$64 million for the Corporation and the Affiliated Entities. At December 31, 2005 the Corporation and the Affiliated Entities had 216 days cash on hand. The other material increase in assets is for Net Operating Property, Plant and Equipment totaling \$55 million. Included in this category are certain costs incurred for the development of the JMMC – Brentwood campus and the initial planning costs for the building programs at JMMC – Walnut Creek and JMMC – Concord. There were no material changes in the liabilities of the Corporation or the Corporation and the Affiliated Entities.

The Unrestricted Net Assets increased by \$94 million for the Corporation and the Affiliated Entities. The Excess of Revenues over Expenses generated in 2005 offset by the unrealized losses in the investment portfolio accounted for this increase. The Permanently and Temporarily Restricted Net Assets of the Corporation and the Affiliated Entities increased by \$3 million as a result of a fund raising campaign that began in 2005 related to the building programs. On a cumulative basis the Foundation had obtained non-binding commitments of approximately \$20 million for the building programs as of February 28, 2006. Management expects that the campaign will raise additional funds in 2006.

Fiscal Year 2004 Compared to Fiscal Year 2003

Total Operating Revenue, before Investment Income, for the Corporation and the Affiliated Entities increased approximately \$125 million, or 16%. The Corporation accounted for \$104 million of the increase. One factor in the revenue growth is the increase in average payments for inpatient services from HMO and PPO plans. Additionally, both facilities have experienced a growth in patients with PPO insurance versus 2003 with a corresponding decrease in patients with HMO coverage. The combination of these two factors increased the average payment by 24% for these two products resulting in additional revenues of \$71 million.

The Corporation experienced an increase in revenue from Medicare due to market basket increases and an increase in the case mix index. The total increase in revenue from the Medicare program is \$11 million. The 2004 results also include a settlement of \$10 million from a health plan for the underpayment of services rendered to patients in prior years.

The Physician Network experienced an increase in Total Operating Revenue of \$19 million. This increase is due to additional revenue generated in the various practice sites as total fee-for-service visits increased by 16,708, or 8%. In addition, the Physician Network's managed care enrollees increased by 8,000, or 13%. The additional managed care enrollees and rate increases from the various health plans generated increased revenues of \$15 million.

Total Operating Expenses for the Corporation and the Affiliated Entities increased by \$103 million, or 14%, in 2004. The expense for Salaries and Wages is the largest portion of the increase, accounting for \$42 million of the total for the Corporation and the Affiliated Entities. The growth is a function of increases in the number of employees and salary increases. The increase in FTEs was 277 between 2004 and 2003. The increase in personnel is due to many factors, including nurse staffing ratio requirements and the need for additional employees as the business becomes more complex, especially in the area of technology.

Employee Benefits increased by \$18 million for the Corporation and the Affiliated Entities of which health care benefits accounted for sixty percent. Management evaluates the benefit structure annually and determines changes to be made that partially offset these cost increases, including increasing co-pays and deductibles. Changes to the benefit structure are balanced against the potential impact they will have on ongoing recruiting and retention efforts. The remaining cost increases are related to Workers' Compensation and the employer's portion of FICA.

The Corporation and the Affiliated Entities experienced an increase in Supplies expense of \$13 million due to increasing costs for prosthetics and implants, drugs and certain other supplies. In response to these pricing pressures, the Corporation has negotiated additional payments from HMO and PPO plans.

The expense for physician services provided to the Physician Network increased by \$16 million to \$86 million in 2004 as a result of incremental managed care enrollees and the increased fee-for-service revenue generated at the practice sites.

The balance sheet of the Corporation and the Affiliated Entities was strengthened significantly in 2004. Cash and Cash Equivalents combined with Board Designated Assets increased by \$94 million for the Corporation and the Affiliated Entities. At December 31, 2004 the Corporation and the Affiliated Entities had 221 days cash on hand. The other material increase in assets is for Net Operating Property, Plant and Equipment totaling \$25 million. Included in this category are certain costs incurred for the development of the JMMC – Brentwood campus and the initial planning costs for the building programs at JMMC – Walnut Creek and JMMC – Concord. There were no material changes in the liabilities of the Corporation or the Corporation and the Affiliated Entities on a consolidated basis.

The Unrestricted Net Assets increased by \$118 million for the Corporation and the Affiliated Entities. The Excess of Revenues over Expenses generated in 2004 coupled with the increase in unrealized gains in the investment portfolio accounted for the major portion of the increase. The Permanently and Temporarily Restricted Net Assets of the Corporation and the Affiliated Entities increased by \$14 million as a result of a fund raising campaign that began in 2004 related to the building programs.

Liquidity and Capital Resources

Investment Policy – The Corporation’s investments are managed in accordance with an investment policy adopted by the Corporation’s Board of Directors. The investment policy establishes overall investment objectives. The Investment Committee provides detailed study, analysis and recommendations to the Finance Committee of the Corporation. Professional investment managers are retained to manage specific asset classes and professional consultants are utilized for investment performance reporting and investment manager evaluation. As of December 31, 2005, the Corporation and the Affiliated Entities had Board Designated Assets of approximately \$558 million.

The primary investment objective of the Corporation has been to achieve the highest possible total return commensurate with safety and preservation of capital. With the primary objective of capital appreciation, the Investment Policy recognizes a higher tolerance for volatility considering the lack of need for draws to meet cash flow requirements.

As the cost of the building programs are finalized and associated cash flow needs developed, the Investment Policy asset allocation will be reevaluated. This evaluation will be done subsequent to this bond offering that will partially finance the Project.

The Investment Policy includes an asset allocation that includes equities and fixed income investments. The following table presents the current target asset allocations and the actual asset allocations as of December 31, 2005 of all investment funds of the Corporation other than amounts separately invested in short-term obligations in order to be available to pay costs of the Corporation’s construction programs described above under the caption “Health Care Facilities and Services of the Corporation.”

	<u>Actual</u>	<u>Target</u>
Equities:		
Large Cap Value	19.5%	16.0%
Large Cap Growth	12.7%	12.5%
Mid Cap Growth	6.5%	5.0%
Small Cap	9.8%	10.0%
International	12.0%	15.0%
Fixed Income	<u>38.6%</u>	<u>38.5%</u>
Alternative Investments	<u>0.9%</u>	<u>3.0%</u>
Total	<u>100%</u>	<u>100%</u>

Sources of Revenues

Payments are made to the Corporation by the federal government under the Medicare program, by the federal government and the State of California under the Medicaid program, known as Medi-Cal in California, commercial insurance carriers and private pay patients. The Corporation has no capitated HMO contracts and has not had such arrangements during the time period for which the information is presented. See “Bondholders Risks” in the front part of this Official Statement for a discussion of Medicare, Medi-Cal, and managed care programs that contract with the Corporation.

The following is a percentage breakdown of the Corporation’s gross patient revenues by payer source for each of the years ending December 31 as indicated:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Medicare	40%	40%	39%
Medi-Cal	3	3	4
Managed Care	48	48	48
Commercial Insurance	3	3	3
Private Pay & Other	6	6	6

Source: Corporation

Historical and Pro Forma Debt Service Coverage

The following table sets forth the debt service coverage ratios on a historical basis for each of the years ended December 31, 2003, 2004 and 2005, and on a pro forma basis as of December 31, 2005 adjusted to reflect the issuance of the Series 2006A, Series 2006B and Series 2006C Bonds, in each case calculated in accordance with the Master Indenture. Ratios are presented for both the Corporation and the Affiliated Entities (Consolidated) and the Corporation.

Historical and Pro Forma Debt Service Coverage Ratios (In Thousands)

	The Corporation and the Affiliated Entities (Consolidated)			The Corporation as the Sole Member of the Obligated Group		
	2003	2004	2005	2003	2004	2005
Excess of Revenues over Expenses	\$ 60,580	\$ 96,433	\$ 113,656	\$ 70,094	\$ 113,236	\$ 115,107
Depreciation, Amortization & Impairment	30,458	32,130	35,023	27,765	29,310	31,672
Loss from early extinguishment of debt			1,820			1,820
Interest Expense	6,219	6,048	6,014	6,123	5,964	5,904
Net Revenue Available for Debt Service	<u>\$ 97,257</u>	<u>\$ 134,611</u>	<u>\$ 156,513</u>	<u>\$ 103,982</u>	<u>\$ 148,510</u>	<u>\$ 154,503</u>
Historic Debt Service Requirements	\$ 11,966	\$ 11,639	\$ 12,614	\$ 10,163	\$ 11,309	\$ 12,018
Historic Debt Service Coverage Ratio	<u>8.13</u>	<u>11.57</u>	<u>12.41</u>	<u>10.23</u>	<u>13.13</u>	<u>12.86</u>
Maximum Pro Forma Debt Service Requirements*	29,639	29,639	29,639	29,639	29,639	29,639
Pro Forma Debt Service Coverage Ratio	<u>3.28</u>	<u>4.54</u>	<u>5.28</u>	<u>3.51</u>	<u>5.01</u>	<u>5.21</u>

Source: Corporation

* The 1997 variable rate Certificates of Participation and the Series 2006B and Series 2006C Bonds are Balloon Indebtedness for purposes of computing Debt Service Requirements under the Master Indenture. For definitions of the capitalized terms, see the “Summary of Principal Documents” appended to this Official Statement.

Historical and Pro Forma Capitalization

The following tables sets forth the capitalization of the Corporation and the Affiliated Entities (Consolidated) and the Corporation on a historical basis as of December 31, 2005 and a pro forma basis adjusted to reflect the issuance of the Series 2006A, Series 2006B and Series 2006C Bonds.

The Corporation and the Affiliated Entities (Consolidated) Historical and Pro Forma Capitalization (in thousands)

	December 31, 2005 Historical	December 31, 2005 Pro Forma
Current Portion of Long-Term debt	\$ 4,149	\$ 4,149
Long-Term debt	139,389	139,389
Series 2006 Bonds	\$	\$ 300,000
Total Long-Term debt	\$ 143,538	\$ 443,538
Unrestricted Net Assets	\$ 730,480	\$ 730,480
Capitalization Ratio	16.4%	37.8%

Source: Corporation

The Corporation as the Sole Member of the Obligated Group Historical and Pro Forma Capitalization (in thousands)

	December 31, 2005 Historical	December 31, 2005 Pro Forma
Current Portion of Long-Term debt	\$ 3,376	\$ 3,376
Long-Term debt	137,024	137,024
Series 2006 Bonds	\$	\$ 300,000
Total Long-Term debt	\$ 140,400	\$ 437,024
Unrestricted Net Assets	\$ 718,850	\$ 718,850
Capitalization Ratio	16.3%	38.0%

Source: Corporation

	December 31, 2005	December 31, 2004
Days Cash on Hand	216	221

APPENDIX B

**John Muir Health and Subsidiaries Consolidated Financial Statements as of and for the
Years Ended December 31, 2005, 2004 and 2003 with Additional Consolidating Schedules and
Independent Auditors' Report**

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***John Muir Health (formerly
John Muir/Mt. Diablo Health
System) and subsidiaries***

*Consolidated Financial Statements as of and
for the Years Ended December 31, 2005,
2004 and 2003 with Additional Consolidating
Schedules, and Independent Auditors' Report*

JOHN MUIR HEALTH AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
John Muir Health and subsidiaries:

We have audited the accompanying consolidated balance sheets of John Muir Health (formerly John Muir/ Mt. Diablo Health System) and subsidiaries (the "Corporation") as of December 31, 2005, 2004 and 2003, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of John Muir Health and subsidiaries at December 31, 2005, 2004 and 2003, and the results of their operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The additional consolidating schedules listed in the table of contents are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position and results of operations of the individual companies and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Corporation's management. Such schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte + Touche LLP

April 19, 2006

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005, 2004, AND 2003 (In thousands)

	2005	2004	2003
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 15,097	\$ 20,257	\$ 8,020
Receivables for patient services, less allowance for uncollectible accounts of \$42,940, \$30,396, and \$30,599 for 2005, 2004, and 2003, respectively	132,244	115,497	116,247
Other receivables	8,850	6,276	7,071
Supply inventories	3,610	3,184	2,961
Other assets limited as to use	4,509	4,035	3,752
Prepaid expenses and deposits	<u>11,269</u>	<u>6,873</u>	<u>7,677</u>
Total current assets	<u>175,579</u>	<u>156,122</u>	<u>145,728</u>
ASSETS LIMITED AS TO USE:			
Board-designated assets	558,789	489,707	407,448
For workers' compensation benefits	25,233	19,904	16,483
Restricted donation investments	16,370	11,707	10,369
Restricted contribution receivable	11,681	12,866	-
Held pursuant to bond indenture agreements for bond reserves	<u>-</u>	<u>4,861</u>	<u>4,860</u>
Total assets limited as to use	<u>612,073</u>	<u>539,045</u>	<u>439,160</u>
OPERATING PROPERTY, PLANT, AND EQUIPMENT—Net	<u>294,606</u>	<u>239,399</u>	<u>214,151</u>
OTHER ASSETS:			
Real estate held for future use—at cost	6,108	18,807	18,807
Intangible assets—net	3,259	2,446	3,434
Other	<u>10,385</u>	<u>9,596</u>	<u>5,442</u>
Total other assets	<u>19,752</u>	<u>30,849</u>	<u>27,683</u>
TOTAL	<u>\$ 1,102,010</u>	<u>\$ 965,415</u>	<u>\$ 826,722</u>

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

(Continued)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2005, 2004, AND 2003 (In thousands)

	2005	2004	2003
LIABILITIES			
CURRENT LIABILITIES:			
Current maturities of long-term debt	\$ 4,149	\$ 4,230	\$ 3,859
Accounts payable	50,986	34,720	31,134
Payable to government agencies	6,194	4,972	6,534
Accrued liabilities:			
Payroll and payroll taxes	20,945	16,322	19,551
Vacation and other compensation	21,555	18,047	15,001
Employee medical benefit claims and workers' compensation benefits	12,595	11,829	12,794
Interest	1,319	1,921	1,947
Other	<u>6,224</u>	<u>4,410</u>	<u>4,338</u>
Total current liabilities	<u>123,967</u>	<u>96,451</u>	<u>95,158</u>
OTHER LIABILITIES:			
Workers' compensation benefits	39,982	33,573	22,149
Postretirement medical benefits	15,988	15,647	15,569
Pension	10,375	8,785	10,109
Professional liability	4,708	3,859	5,689
Minority interest and other	<u>9,071</u>	<u>2,668</u>	<u>2,595</u>
Total other liabilities	<u>80,124</u>	<u>64,532</u>	<u>56,111</u>
LONG-TERM DEBT—Less current maturities	<u>139,389</u>	<u>143,520</u>	<u>146,564</u>
TOTAL LIABILITIES:	<u>343,480</u>	<u>304,503</u>	<u>297,833</u>
NET ASSETS:			
Unrestricted	730,480	636,338	518,520
Temporarily restricted	23,130	20,028	6,615
Permanently restricted	<u>4,920</u>	<u>4,546</u>	<u>3,754</u>
Total net assets	<u>758,530</u>	<u>660,912</u>	<u>528,889</u>
TOTAL	<u>\$ 1,102,010</u>	<u>\$ 965,415</u>	<u>\$ 826,722</u>

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

(Concluded)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

(In thousands)

	2005	2004	2003
OPERATING REVENUE:			
Net patient revenue before charity care deduction	\$ 891,638	\$794,713	\$682,382
Less provision for charity care based on charges	<u>(15,603)</u>	<u>(17,070)</u>	<u>(13,328)</u>
Net patient revenue	876,035	777,643	669,054
Premium revenue	85,863	73,475	58,816
Other operating revenue	39,370	33,025	31,669
Net investment income —including realized gains and losses on investments	<u>57,760</u>	<u>28,913</u>	<u>14,303</u>
Total operating revenue	<u>1,059,028</u>	<u>913,056</u>	<u>773,842</u>
OPERATING EXPENSES:			
Salaries and wages	355,933	314,443	272,058
Employee benefits	112,739	101,227	83,383
Medical fees	52,404	44,118	40,802
Supplies	124,709	110,371	97,727
Purchased services	156,902	126,780	106,969
Insurance	7,635	4,424	5,956
Utilities and rent	20,634	16,922	15,516
Depreciation, amortization, and impairment	35,023	32,130	30,458
Provision for uncollectible accounts	56,077	47,687	41,672
Interest	6,014	6,048	6,219
Loss from early extinguishment of debt	1,820	-	-
Other	<u>15,482</u>	<u>12,473</u>	<u>12,502</u>
Total operating expenses	<u>945,372</u>	<u>816,623</u>	<u>713,262</u>
EXCESS OF REVENUE OVER EXPENSES	<u>\$ 113,656</u>	<u>\$ 96,433</u>	<u>\$ 60,580</u>

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

(Continued)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS—December 31, 2002	\$410,671	\$ 4,901	\$3,100	\$418,672
Excess of revenue over expenses	60,580	-	-	60,580
Decrease in minimum pension liability	2,329	-	-	2,329
Net change in unrealized gains and losses on investments	43,306	-	607	43,913
Restricted contributions and investment income	-	3,918	81	3,999
Change in charitable remainder trust	-	27	-	27
Net assets released from restrictions:				
To other operating revenue for operating expenditures		(603)	(34)	(637)
For property, plant, and equipment	1,629	(1,629)	-	-
Other	5	1	-	6
INCREASE IN NET ASSETS	<u>107,849</u>	<u>1,714</u>	<u>654</u>	<u>110,217</u>
NET ASSETS—December 31, 2003	518,520	6,615	3,754	528,889
Excess of revenue over expenses	96,433	-	-	96,433
Decrease in minimum pension liability	3,094	-	-	3,094
Net change in unrealized gains and losses on investments	17,075	-	322	17,397
Restricted contributions and investment income	-	13,627	452	14,079
Change in charitable remainder trust	-	1,887	-	1,887
Net assets released from restrictions:				
To other operating revenue for operating expenditures	-	(849)	-	(849)
For property, plant, and equipment	1,234	(1,234)	-	-
Other	(18)	(18)	18	(18)
INCREASE IN NET ASSETS	<u>117,818</u>	<u>13,413</u>	<u>792</u>	<u>132,023</u>
NET ASSETS—December 31, 2004	636,338	20,028	4,546	660,912
Excess of revenue over expenses	113,656	-	-	113,656
Net change in unrealized gains and losses on investments	(19,686)	-	172	(19,514)
Restricted contributions and investment income	-	3,736	233	3,969
Change in charitable remainder trust	-	170	-	170
Net assets released from restrictions:				
To other operating revenue for operating expenditures	-	(630)	(31)	(661)
For property, plant, and equipment	175	(175)	-	-
Other	(3)	1	-	(2)
INCREASE IN NET ASSETS	<u>94,142</u>	<u>3,102</u>	<u>374</u>	<u>97,618</u>
NET ASSETS—December 31, 2005	<u>\$730,480</u>	<u>\$23,130</u>	<u>\$4,920</u>	<u>\$758,530</u>

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

(Concluded)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003 (In thousands)

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ 97,618	\$ 132,023	\$ 110,217
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Net change in unrealized gains and losses on investments	19,514	(17,397)	(43,913)
Change in additional minimum pension liability	-	3,094	2,329
Restricted contributions and investment income received	(4,663)	(3,463)	(3,999)
Provision for uncollectible accounts	56,077	47,687	41,672
Gain on sale of fixed assets	(1,127)	-	-
Loss from early extinguishment of debt	1,820	-	-
Depreciation, amortization, and impairment	35,023	32,130	30,458
Changes in assets and liabilities:			
Receivables for patient services	(72,824)	(46,937)	(44,622)
Other receivables	(2,574)	795	(3,063)
Supply inventories, prepaid expenses, deposits, and other	(5,821)	(228)	(2,667)
Accounts payable	16,265	3,586	(2,407)
Payable to government agencies	1,222	(1,562)	(3,452)
Accrued liabilities	10,108	(1,102)	5,837
Other liabilities	15,966	5,703	(1,097)
Net cash provided by operating activities	<u>166,604</u>	<u>154,329</u>	<u>85,293</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in assets limited as to use	(92,542)	(82,488)	(54,065)
Net additions to operating property, plant, and equipment including construction in progress	(80,009)	(55,996)	(42,891)
Other	3,022	(4,398)	(365)
Net cash used in investing activities	<u>(169,529)</u>	<u>(142,882)</u>	<u>(97,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of long-term debt	47,706	1,132	-
Repayment of long-term debt	(53,166)	(3,805)	(3,944)
Proceeds received from restricted contributions and restricted investment income	4,663	3,463	3,999
Additions to deferred financing costs	(1,438)	-	-
Other	-	-	(1)
Net cash provided by (used in) financing activities	<u>(2,235)</u>	<u>790</u>	<u>54</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,160)	12,237	(11,974)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>20,257</u>	<u>8,020</u>	<u>19,994</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 15,097</u>	<u>\$ 20,257</u>	<u>\$ 8,020</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Interest paid			
	<u>\$ 6,616</u>	<u>\$ 6,074</u>	<u>\$ 6,262</u>

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

JOHN MUIR HEALTH AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2005, 2004, AND 2003

1. ORGANIZATION

John Muir Health (the “Corporation”), formerly John Muir/Mt. Diablo Health System, is a California nonprofit public benefit corporation, exempt from federal and state income taxes. In October 2005, the John Muir/Mt. Diablo Health System Board of Directors approved a re-branding strategy for the Health System that unites all its entities under one name. The name change is effective February 17, 2006. The Corporation, through its operations and various subsidiaries, operates a healthcare delivery system in Contra Costa County, California. The operations of the Corporation include the following activities:

John Muir Medical Center - Walnut Creek and Concord Campuses—John Muir Medical Center – Walnut Creek (“JMMC – Walnut Creek”), formerly John Muir Medical Center, is a 324 licensed bed general acute care facility located in Walnut Creek, California. John Muir Medical Center – Concord (“JMMC – Concord”), formerly Mt. Diablo Medical Center, is a 254 licensed bed general acute care facility located in Concord, California. JMMC – Walnut Creek and JMMC – Concord provide a comprehensive array of acute care and outpatient services.

The Corporation is the Obligated Group that is used to access capital markets. The Obligated Group is jointly and severally liable for the long-term debt outstanding under the Obligated Group’s Master Trust Indenture.

The Corporation is the sole corporate member of several California nonprofit public benefit corporations and participates in joint ventures, all of which provide certain types of healthcare services. The following is a brief description of these various activities.

John Muir Physician Network (the “Physician Network”), formerly John Muir/Mt. Diablo Health Network—The Physician Network is a nonprofit public benefit corporation that provides healthcare, charitable, research and educational services to its community. The Physician Network coordinates and integrates the provision of hospital, physician and ancillary healthcare services to enrollees of managed care plans. The Physician Network has entered into long-term contracts with a primary care medical group (the “Group”) and a physician independent practice association (the “IPA”) to provide the physician services. Costs incurred under these long-term contracts are included in purchased services in the accompanying consolidated statements of operations and changes in net assets. As part of these agreements both the Group and the IPA have one representative on the Board of Directors of John Muir Health. There are a total of nineteen board members on the John Muir Health Board of Directors.

The Group physicians provide primary care services to the practices owned by the Physician Network. The fee-for-service revenue of these practices is reflected as revenue of the Physician Network under the terms of the professional services agreement between the Physician Network and the Group. The professional services agreement became effective February 1, 1996 and continues until December 31, 2025.

Certain primary care and all specialty services are provided by the IPA. The Physician Network provides management services to the IPA. Revenues for providing these management services are reflected as other operating revenue in the accompanying consolidated statements of operations and changes in net assets. The agreement between the Health Network and the IPA became effective February 1, 1996 and continues until December 31, 2026.

John Muir Behavioral Health (the “Behavioral Health Center”), formerly known as Mt. Diablo Behavioral Medicine Corporation — The Corporation is the sole corporate member of John Muir Behavioral Health which is a not-for-profit mutual benefit corporation that owns and operates a freestanding acute care psychiatric facility.

Other Activities—The Corporation is the sole corporate member of John Muir Health Foundation (the “Foundation”), which raises funds and otherwise supports programs and activities of the Corporation. The Corporation is also the sole corporate member of the Health and Fitness Institute, which provides wellness and occupational health services. The Corporation participates in a number of partnerships and corporations that provide outpatient surgery, imaging, and occupational health services as either a majority or minority owner.

The Corporation is also the sole corporate member of the Community Health Fund (“CHF”). CHF receives \$1 million annually from the Corporation that is granted to local agencies to further the health of the community.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation—The accompanying consolidated financial statements include the accounts of the Corporation and all subsidiary corporations and organizations. All significant intercompany transactions and balances have been eliminated.

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

Cash and Cash Equivalents—Cash and cash equivalents consist primarily of cash, time deposits, certificates of deposit and government securities with original maturities of three months or less.

Supply Inventories—Supply inventories are stated at the lower of cost or market value, determined on the first-in, first-out basis.

Assets Limited as to Use—The Corporation’s Board of Directors has a policy of funding depreciation, to the extent that funds are available, to be used for future replacement of operating plant and equipment. These assets, along with assets set aside for payment of certain employee benefits, restricted donations, restricted contributions receivable and assets held by trustees under indenture agreements, are classified as assets limited as to use. Assets designated by the Board remain discretionary and may subsequently be used for other purposes.

Investments—Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenues over expenses unless the

income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from excess of revenue over expense, but are included in the determination of changes in net assets.

Upon determination that the market value of securities is other than temporarily impaired, adjustments are made to revalue the securities at the current market value. Any adjustments required by this policy for unrestricted assets are charged to investment income and for restricted assets are charged to the appropriate net asset category. During 2005 and 2003, various securities were determined to be other than temporarily impaired and resulted in the recognition of approximately \$862,000 and \$2,146,000, respectively, in investment losses. During 2004, no securities were determined to be other than temporarily impaired.

Promises to Give—Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the payments are received. Amortization of the discounts is included as a component of temporarily restricted net assets if the promises to give have donor-imposed restrictions that have not yet been met, or contribution revenue for unrestricted promises to give. Unconditional promises to give are included in restricted contributions receivable. Conditional promises to give are not included as support until the conditions are substantially met.

Operating Property, Plant and Equipment—Property is stated at cost, if purchased, and at fair market value at the date of donation, if donated. Depreciation is calculated using the straight-line method. The estimated useful lives by classification are as follows:

Land improvements	15 to 25 years
Buildings and building improvements	15 to 40 years
Equipment	5 to 15 years

The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than its carrying amount.

Capital leases—Capital leases are recorded as an asset and an obligation at the fair market value of the leased property at the inception of the lease. Depreciation is calculated using the straight-line method over the term of the lease.

Intangible assets—Intangible assets consist of goodwill and deferred financing costs. Deferred financing costs are amortized over the life of the associated debt. All other intangibles are amortized over a period between five and fifteen years. The Corporation reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than its carrying amount.

Fair Value of Financial Instruments—The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, receivables for patient services, accounts payable, accrued liabilities and amounts payable to governmental agencies approximate fair value. The fair value of debt is disclosed in Note 8 and the fair value of assets limited as to use is disclosed in Note 3.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Temporarily restricted net assets as of December 31, 2005 and 2004 are comprised primarily of unconditional promises to give related to the capital campaign for building programs at JMMC – Walnut Creek and JMMC – Concord, the value of charitable trusts for which the Foundation has been named remainderman and other contributions restricted by donor stipulation for equipment and programs. Temporarily restricted net assets as of December 31, 2003 include other contributions restricted by donor stipulation for equipment and programs and the value of charitable remainder trusts. Permanently restricted net assets as of December 31, 2005, 2004 and 2003 are comprised of endowments.

Ownership Interest in Other Activities—When the ownership interest in other activities is more than 50%, the activities are consolidated and a minority interest is recorded. When the ownership interest is at least 20% but not more than 50%, it is accounted for on the equity method and the income or loss is reflected in other operating revenue. Activities with less than 20% ownership are carried at the lower of cost or estimated net realizable value.

Self-Insurance Plans—The Health System has established self-insurance plans for workers' compensation benefits for employees and for certain employee medical benefits.

- **Workers' Compensation**—The self-insured retention level for workers' compensation was \$300,000 until September 2002 and increased to \$500,000 until September 2003 and \$1 million thereafter. Excess coverage for exposures above this amount are purchased from insurance companies. An actuarial estimate of uninsured losses, discounted at 5.5% and using a 90% confidence level, has been accrued as liabilities. In 2003, the State of California began requiring all companies self-insured for workers' compensation to pay funds into a state program. Payments into the fund totaled \$210,000, \$187,000 and \$163,000 in 2005, 2004 and 2003, respectively. These amounts are included in employee benefits expense.
- **Professional Liability**—Professional liability coverage is provided under a claims-made policy with a self-insured retention level of 50% of the first \$10,400 per claim until August 31, 2002 and \$5,000 per claim thereafter. The claims-made policy covers only claims that are filed in the periods during which the policy is in force. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured.

An actuarial estimate of potential uninsured losses for current and prior insurance policies, discounted at 5.5% and using a 90% confidence level, has been accrued as a long-term liability.

- **Medical Benefits**—An actuarially determined liability for payment of incurred and unpaid claims is included in accrued liabilities.

Excess of Revenues over Expenses—The statement of operations and changes in net assets includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in unrealized gains and losses on investments, restricted contributions and the investment income (loss), permanent transfers of assets to and from affiliates for other than goods and services, the change in additional minimum pension liability and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Net Patient Revenue—Gross patient revenue comprises usual and customary charges for services provided to all patients. The composition of consolidated gross patient revenues by major payer group is as follows:

	2005	2004	2003
Medicare	39 %	40 %	40 %
Medi-Cal	4	3	3
Contracted rate payors	48	48	48
Commercial insurance, self pay, and other payors	<u>9</u>	<u>9</u>	<u>9</u>
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Services are provided to beneficiaries of the federal Medicare program, the State of California Medi-Cal program and certain other payors at prices less than usual and customary charges based on a variety of payment mechanisms. For these programs, differences between charges for services rendered to patients and the payments made by the particular program are recorded to determine net patient revenue.

For Medicare beneficiaries, JMMC – Walnut Creek and JMMC – Concord are paid a stipulated amount per discharge for each inpatient relative to their principal diagnosis. The Behavioral Health Center is reimbursed for inpatient services on a blend of a stipulated amount per discharge for each inpatient relative to their principal diagnosis and a cost-based formula. Payments for all outpatient services are based on a stipulated amount per service.

For Medi-Cal inpatient beneficiaries, JMMC – Walnut Creek and JMMC – Concord are reimbursed for inpatient services on a cost basis. Outpatient services are paid based on a fee schedule.

Contracted services are paid on a percentage of charge, per diem, or per discharge basis.

Cost reports filed under the Medicare and Medi-Cal programs are subject to audit. The estimated amounts due to or from the Medicare and Medi-Cal programs are reviewed and adjusted annually based on the settlement of such audits and any subsequent appeals. Differences between final settlements and amounts accrued in previous years are reported as adjustments to the current year's net revenue. In 2005, 2004 and 2003, net patient revenue includes \$3,589,000, \$2,793,000 and \$7,680,000, respectively, related to prior years' cost report settlements.

Premium Revenue—The Physician Network has capitated agreements with various payers to provide physician services to both commercial and Medicare enrollees. Under these agreements, the Physician Network receives monthly premiums based on the number of enrollees. Premium revenue is recognized in the month the enrollees are entitled to service.

Charity Care and Community Service—Healthcare services are provided free of charge or at reduced rates to individuals who meet certain financial criteria. In order to qualify for this program the individual is required to provide certain information to the organization. To the extent that this information is not provided, the deduction is reflected as a component of the Provision for Uncollectible Accounts. The amount, based on gross patient charges is reflected as a deduction from net patient revenue in the accompanying consolidated statements of operations and changes in net assets.

The Corporation participates in or sponsors various programs that promote health issues in the community, including the Community Health Fund. The cost incurred in these efforts, for which there is no associated revenue, was approximately \$1,821,000, \$2,349,000, and \$1,978,000 in 2005, 2004 and 2003, respectively.

Contributions—Cash and other assets received from donations are reported at fair value at the date of their receipt. These gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets.

The Corporation or the Foundation is, from time to time, the beneficiary of various wills and trusts, the total realizable amounts of which are not initially determinable. Such bequests are recorded at the distribution date. The Foundation has been named remainderman to trusts that have an approximate present value of \$3,271,000, \$3,102,000, and \$1,215,000 at December 31, 2005, 2004 and 2003, respectively, and are included in the accompanying consolidated financial statements.

Income Taxes—The Corporation is a nonprofit public benefit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code.

Prior Year Reclassifications—Certain reclassifications have been made to the 2004 and 2003 financial statements to conform to 2005 presentation.

3. ASSETS LIMITED AS TO USE

The composition of assets limited as to use at December 31, 2005, 2004 and 2003 based on quoted market prices is as follows (in thousands):

	2005	2004	2003
Cash and cash equivalents	\$ 25,219	\$ 23,004	\$ 28,643
Government debt securities	23,510	17,785	15,344
Corporate debt securities	2,307	986	-
Equity securities	361,977	187,547	118,529
Mutual funds	186,919	296,539	276,268
Contributions receivable	11,682	12,866	-
Interest receivable	459	318	376
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 612,073</u>	<u>\$ 539,045</u>	<u>\$ 439,160</u>

Investment income and losses for assets limited as to use were comprised of the following for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	2005	2004	2003
Income (loss):			
Interest income	\$ 328	\$ 100	\$ 436
Dividends	12,871	8,088	8,785
Net realized gains (losses) on sales of securities and fixed assets	45,423	20,725	7,228
Other than temporary impairment	<u>(862)</u>	<u>-</u>	<u>(2,146)</u>
Total	<u>\$ 57,760</u>	<u>\$ 28,913</u>	<u>\$ 14,303</u>
Other changes in unrestricted net assets—			
Net change in unrealized gains and losses on investments	<u>\$ (19,686)</u>	<u>\$ 17,075</u>	<u>\$ 43,306</u>

The following table shows the investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005.

Description of Securities	Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Government debt securities	\$ 14,766	\$ 147	\$ 7,471	\$ 164
Corporate debt securities	<u>-</u>	<u>-</u>	<u>963</u>	<u>37</u>
Subtotal debt securities	14,766	147	8,434	201
Equity securities	51,792	4,904	2,272	427
Mutual funds	<u>208,159</u>	<u>1,823</u>	<u>21,110</u>	<u>571</u>
Total	<u>\$ 274,717</u>	<u>\$ 6,874</u>	<u>\$ 31,816</u>	<u>\$ 1,199</u>

The Corporation held 199 securities in an unrealized loss position out of a total of 553 securities at December 31, 2005. The fair market value of these investments has declined due to a number of reasons, including changes in interest rates, changes in economic conditions and changes in market outlook for various industries, among others. Because the Corporation has the ability to hold these investments until a recovery of fair value, or for a reasonable period of time sufficient for a forecasted recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2005.

4. RESTRICTED CONTRIBUTIONS RECEIVABLE

The Foundation has begun a comprehensive capital campaign for the building programs being planned at JMMC – Walnut Creek and JMMC – Concord. Additionally, the Foundation has been named as a beneficiary in various charitable remainderman trusts that are not associated with the building programs.

Included in restricted contributions receivable are the following (in thousands):

	2005	2004
Unconditional promises to give for the capital campaign before unamortized discount and allowance for uncollectibles	\$ 9,544	\$ 10,917
Less: Unamortized discount	<u>(1,015)</u>	<u>(1,052)</u>
Subtotal	8,530	9,865
Less: Allowance for uncollectible pledges	<u>(120)</u>	<u>(101)</u>
Net unconditional promises to give	8,410	9,764
Value of charitable remainder trusts	<u>3,271</u>	<u>3,102</u>
Total restricted contributions receivable	<u>\$ 11,681</u>	<u>\$ 12,866</u>
Unconditional promises to give due in:		
Less than one year	\$ 2,802	\$ 2,483
One to five years	6,662	7,514
More than five years	<u>80</u>	<u>920</u>
	<u>\$ 9,544</u>	<u>\$ 10,917</u>

Discount rates used to calculate the present value of unconditional promises to give ranged from 2.9% to 4.4% for 2005 and from 2.4% to 4.3% for 2004. There were no unconditional promises to give during 2003 that extended beyond one year.

5. OPERATING PROPERTY, PLANT AND EQUIPMENT

Operating property, plant and equipment at December 31, 2005, 2004 and 2003 consist of the following amounts (in thousands):

	2005	2004	2003
Land	\$ 23,346	\$ 11,675	\$ 11,735
Land improvements	11,493	8,711	6,330
Buildings and building improvements	239,357	224,186	216,624
Equipment	<u>346,409</u>	<u>302,043</u>	<u>279,157</u>
Total	620,605	546,615	513,846
Less accumulated depreciation	(372,267)	(339,360)	(311,151)
Construction in progress	<u>46,268</u>	<u>32,144</u>	<u>11,456</u>
Operating property, plant, and equipment—net	<u>\$ 294,606</u>	<u>\$ 239,399</u>	<u>\$ 214,151</u>

The leased capital assets included in operating property, plant and equipment at December 31, 2005, 2004 and 2003 totaled approximately \$4,715,000, \$4,621,000 and \$3,454,000, respectively, less accumulated depreciation of approximately \$3,360,000, \$2,928,000 and \$2,146,000, respectively. Depreciation expense of approximately \$34,433,000, \$30,749,000 and \$29,982,000 for 2005, 2004 and 2003, respectively, has been recorded in depreciation and amortization expense in the accompanying consolidated statement of operations and changes in net assets.

6. INTANGIBLE ASSETS

Intangible assets consist of intangible assets, deferred financing costs, and goodwill associated with investments in partnerships and corporations that provide health-related services.

Intangible assets at December 31, 2005, 2004 and 2003 consist of the following amounts (in thousands):

	2005	2004	2003
Goodwill	\$ 86	\$ -	\$2,270
Intangible assets	452	-	-
Deferred financing costs	<u>5,494</u>	<u>4,056</u>	<u>4,056</u>
Total	6,032	4,056	6,326
Less accumulated amortization	<u>(2,773)</u>	<u>(1,610)</u>	<u>(2,892)</u>
Net	<u>\$3,259</u>	<u>\$2,446</u>	<u>\$3,434</u>

During 2005, the Corporation defeased its 1994 Certificates of Participation and the unamortized balance of related deferred financing costs of \$571,000 was written off. This amount is included in the loss from early extinguishment of debt for 2005 in the accompanying consolidated statement of operations and changes in net assets.

Deferred financing costs of approximately \$1,438,000 were recorded during 2005 in conjunction with the Corporation's issuance of California Statewide Communities Development Authority Revenue Refunding Bonds. See Note 8 for further discussion of this issuance.

7. RETIREMENT PLANS

Certain employees of the Corporation are covered by a defined-benefit pension plan. This plan covers substantially all eligible employees except those whose retirement benefits are provided under union-sponsored plans.

Benefits are based on years of service and the employee's compensation. Contributions to the plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants.

The Corporation uses a September 30 measurement date for its plans.

In addition to providing retirement benefits, the Corporation provides healthcare benefits for certain retired employees. Eligible employees who have ten years of service and retire at age 55 or older qualify for these benefits.

The following table summarizes plan activities for the years ended December 31, 2005, 2004 and 2003 (in thousands):

	2005		2004		2003	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 148,343	\$ 11,204	\$ 137,432	\$ 7,304	\$ 110,361	\$ 5,521
Service cost	13,690	785	11,601	597	8,128	359
Interest cost	8,584	714	7,624	628	7,807	439
Amendments	306	8,364	245	(524)	8,297	1,167
Actuarial loss	6,333	1,510	(3,531)	3,637	6,377	171
Benefits and administrative expenses paid	(6,182)	(773)	(5,028)	(438)	(3,538)	(353)
Benefit obligation at end of year	171,074	21,804	148,343	11,204	137,432	7,304
Change in plan assets:						
Fair value of plan assets at beginning of year	109,963	-	94,922	-	72,535	-
Actual return on plan assets	13,078	-	9,771	-	11,226	-
Employer contribution	18,073	-	10,298	-	14,699	-
Benefits and administrative expenses paid	(6,182)	-	(5,028)	-	(3,538)	-
Fair value of plan assets at end of year	134,932	-	109,963	-	94,922	-
Funded status	(36,142)	(21,804)	(38,380)	(11,204)	(42,510)	(7,304)
Contributions after measurement date and on or before fiscal year-end	-	-	817	-	-	-
Unrecognized net actuarial gain (loss)	25,736	(3,397)	24,874	(5,107)	30,563	(8,744)
Unrecognized prior service cost	7,269	9,163	7,757	604	8,285	409
Unrecognized net transition obligation	-	50	-	60	-	70
Additional minimum liability included in unrestricted net assets	-	-	(375)	-	(3,094)	-
Accrued benefit cost	\$ (3,137)	\$ (15,988)	\$ (5,307)	\$ (15,647)	\$ (6,756)	\$ (15,569)

The accumulated benefit obligation for the defined benefit pension plan was \$ 131,730,616, \$116,085,704 and \$98,548,639 at December 31, 2005, 2004 and 2003, respectively.

Weighted-average assumptions used to determine benefit obligations and net periodic benefit cost as of and for the years ended December 31, 2005, 2004 and 2003:

	2005		2004		2003	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Discount rate	6.00 %	5.50 %	6.50 %	6.00 %	6.75 %	6.75 %
Expected return of plan assets	8.00	-	8.50	-	8.50	-
Rate of compensation increase	6.00	-	5.00	-	5.00	-

For the years ended December 31, 2005, 2004 and 2003 postretirement medical benefits were measured assuming a 9%, 10% and 11% annual rate of increase in the per capita cost of covered health care benefits for 2005, 2004 and 2003. The rate was assumed to decrease 0.857% each year to 5.0% for 2010 and remain at that level thereafter. The following table shows the components of the net periodic benefit costs (in thousands):

	2005		2004		2003	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
Components of net periodic benefit cost:						
Service cost	\$13,690	\$ 785	\$11,601	\$597	\$ 8,128	\$ 359
Interest cost	8,584	714	7,624	629	7,807	439
Expected return on plan assets	(8,488)	-	(7,794)	-	(5,973)	-
Transition obligation recognition	-	10	-	10	-	10
Amortization of prior service cost	794	(195)	773	(195)	236	(195)
Recognized net actuarial loss	<u>882</u>	<u>(200)</u>	<u>179</u>	<u>(525)</u>	<u>2,251</u>	<u>(948)</u>
Net periodic benefit cost (income)	<u>\$15,462</u>	<u>\$ 1,114</u>	<u>\$12,383</u>	<u>\$516</u>	<u>\$12,449</u>	<u>\$(335)</u>

One factor in determining pension expense is the assumption for the expected long-term rate of return on plan assets. Various factors are considered in the development of this assumption including past market performance, the relationship between fixed maturity and equity security securities, interest rates and the asset allocation.

Plan assets for the defined benefit pension plan are allocated across a diversified mix of fixed maturity securities and equity securities in various sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. As of the measurement date, the targeted and actual asset allocation by asset category is as follows:

	Target Allocation	Actual Allocation Pension Plan Assets		
		2005	2004	2003
Equity securities:				
Domestic equities	50 %	46 %	47 %	41 %
International equities	10	12	11	11
Fixed maturity securities	40	39	39	39
Other	-	3	3	9
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The funding strategy is to fund an amount at least equal to the minimum required funding as required by ERISA with consideration of factors such as the minimum pensions liability requirement. Discretionary contributions may also be made. For the years ended December 31, 2005, 2004 and 2003 contributions totaling \$17,256,299, \$11,115,000 and \$14,699,000, respectively, were made.

The estimated future payments for pension benefits and post-retirement medical benefits are as follows (in thousands):

	Pension Benefits	Post- Retirement Medical Benefits
2006	\$ 9,517	\$ 730
2007	10,397	825
2008	16,519	1,012
2009	15,845	1,217
2010	15,758	1,401
Thereafter	<u>119,567</u>	<u>11,014</u>
Total	<u>\$ 187,603</u>	<u>\$ 16,199</u>

Assumed healthcare cost trend rates have a significant affect on the amounts reported for the postretirement medical benefits plan. A one percent change in assumed healthcare cost trend rates would have the following effect (in thousands):

	One Percent Increase	One Percent Decrease
Effect on total of service and interest cost components	\$ 202	\$ 174
Effect on the postretirement benefit obligation	1,547	1,371

In addition to the pension benefits discussed above, certain other retirement benefits exist. These amounts are included in the pension liability as of December 31, 2005, 2004 and 2003. The related amounts included in employee benefits expense for 2005, 2004 and 2003 are not material.

JMMC – Concord also makes contributions to the union pension plans of two employee groups and to the individual retirement accounts of those employees in another employee group who elected to withdraw from JMMC Concord’s plan. Employer contributions included in employee benefits expense during 2005, 2004 and 2003 were approximately \$928,000, \$920,000 and \$934,000, respectively.

A tax-deferred annuity plan and defined contribution retirement plan are also offered to certain employees. Employer contributions to these plans included in employee benefits expense during 2005, 2004 and 2003 were approximately \$4,943,000, \$4,319,000 and \$3,360,000, respectively.

8. LONG-TERM DEBT

Long-term debt at December 31, 2005, 2004 and 2003 is summarized below (in thousands):

	2005	2004	2003
1997 Certificates of Participation, net of discount, payable in annual amounts ranging from \$1,350 in 2008 to \$3,570 in 2027, with fixed interest rates ranging from 5.2% to 5.5%.	\$ 45,149	\$ 45,109	\$ 45,070
1997 Variable Rate Certificates of Participation, payable in 2027, interest rates ranging from 0.6% to 2.16%.	44,000	44,000	44,000
1994 Certificates of Participation, net of discount, payable in annual amounts ranging from \$2,420 in 2004 to \$7,370 in 2020, with fixed interest rates ranging from 4.6% to 5.0%.	-	49,969	52,288
Series 2005A California Statewide Communities Development Authority Refunding Revenue Bonds, payable in annual amounts through 2020 ranging from \$2,225 to \$7,085, with fixed interest rates ranging from 3.0% to 5.0%.	45,234	-	-
Notes payable, secured by certain property, due in monthly installments through 2011, interest from 6.3% to 9.0%.	8,181	7,017	7,553
Other notes payable—unsecured	598	746	43
Capitalized lease obligations	376	909	1,469
	<u>143,538</u>	<u>147,750</u>	<u>150,423</u>
Total	143,538	147,750	150,423
Less current maturities	<u>(4,149)</u>	<u>(4,230)</u>	<u>(3,859)</u>
Total	<u>\$ 139,389</u>	<u>\$ 143,520</u>	<u>\$ 146,564</u>

The 1997 certificates are secured by the operating revenues of the Obligated Group members. Payments of principal and interest on the certificates are insured by municipal bond guaranty policies. The Master Trust Indenture of the Obligated Group includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and the maintenance of certain cash balances and other financial ratios.

The Corporation may redeem the certificates, in whole or in part, prior to the stated maturity; redemption is without premium if the certificates have a variable interest rate and with a premium of up to 2% if the certificates have a fixed rate.

The Corporation has the option to convert the variable-rate certificates to a fixed rate, holders of the variable-rate certificates have the option to tender the certificates as of designated purchase dates. In order to ensure the availability of funds to purchase any certificates tendered that the remarketing agent is unable to remarket, the Corporation has obtained bank credit agreements allowing for borrowings up to \$44 million that expire in October 2008. Accordingly, the variable-rate certificates have been classified as long-term debt in the accompanying consolidated balance sheets.

The 1997 fixed-rate certificates were issued at a discount. The discounts are being amortized to interest expense over the term of the bonds.

In May 2005, the Corporation borrowed \$43,760,000 in the form of California Statewide Communities Development Authority Revenue Refunding Bonds (“Series 2005A”). The purpose of the borrowing was to defease the 1994 Certificates of Participation. This defeasance resulted in a loss from early extinguishment of debt of \$1,820,000 in 2005.

The Series 2005A bonds were issued at a net premium of \$1,683,486, which is being amortized over the term of the bonds and is included as part of depreciation and amortization expense in the in the accompanying consolidated statement of operations and changes in net assets. The bonds are secured by the operating revenues of the Obligated Group members. Payments of principal and interest on the Series 2005A bonds are insured by a financial guaranty insurance policy. The Master Trust Indenture of the Obligated Group includes, among other things, limitations on additional indebtedness, liens on property, restrictions on the disposition or transfer of assets, and the maintenance of certain cash balances and other financial ratios. The Corporation has also agreed to certain financial covenants solely for the benefit of the bond insurer that are more restrictive than the covenants contained in the Master Trust Indenture.

Scheduled principal repayments on long-term debt and capital lease obligations are as follows (in thousands):

2006	\$ 4,149
2007	4,493
2008	6,071
2009	6,222
2010	6,027
Thereafter	<u>115,953</u>
Total payments	142,915
Less original issue discount	(851)
Plus original issue premium	<u>1,474</u>
Total principal payable	<u>\$ 143,538</u>

The fair value of long-term debt is estimated based on the quoted market prices for the same or similar issues and on the current rates offered to the Corporation for debt of the same remaining maturities. The estimated fair value of the debt instruments as of December 31, 2005, 2004 and 2003 is \$146,867,000, \$153,586,000 and \$155,200,000, respectively. This fair value does not represent amounts that would be required to satisfy the debt obligation.

9. LEASE COMMITMENTS

The Corporation leases certain office space and equipment under noncancelable operating leases. Total rent expense was \$12,349,000, \$9,192,000 and \$8,152,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Net minimum future lease payments under operating leases as of December 31, 2005, are listed below (in thousands):

2006	\$ 10,211
2007	9,639
2008	8,694
2009	7,123
2010	5,626
Thereafter	<u>22,942</u>
Total	<u>\$ 64,235</u>

10. CONTINGENT LIABILITIES AND FUTURE PROJECTS

Litigation—The Corporation is a defendant in various actions arising from its healthcare service and related activities. It is the opinion of management that such actions will not have a material adverse effect on the financial position of the Corporation.

Laws and Regulations—The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, payments for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Corporation is in compliance with fraud and abuse and other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Seismic Standards—The Corporation is assessing its earthquake retrofit requirements for healthcare facilities under State of California law. Planning measures are underway that may result in modifying the use of certain of the seismically noncompliant facilities.

11. SUBSEQUENT EVENT

On April 11, 2006, a preliminary agreement was reached with HealthNet to settle various contractual disputes that the Corporation and HealthNet had made against one another. Management anticipates that the final agreement will result in a payment to the Corporation of \$4.0 million. The impact of the favorable settlement is not reflected in the Statement of Operations and Changes in Net Assets for 2005.

* * * * *

ADDITIONAL CONSOLIDATING SCHEDULES

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2005 (In thousands)

	Obligated Group	John Muir Physician Network	John Muir Behavioral Health	Community Health Fund	John Muir Health Foundation	Other Health-Related Ventures	Eliminations	Consolidation
CURRENT ASSETS:								
Cash and cash equivalents	\$ 4,524	\$ -	\$1,298	\$1,015	\$ 1,341	\$ 6,919	\$ -	\$ 15,097
Receivables for patient services, less allowance for uncollectible accounts of \$42,940	-	-	-	-	-	-	-	-
	120,576	4,141	2,499	-	-	5,362	(334)	132,244
Receivables from affiliates	(8,879)	7,750	-	224	-	-	905	-
Other receivables	8,127	448	129	-	-	241	(95)	8,850
Supply inventories	3,272	215	40	-	-	83	-	3,610
Other current assets limited as to use	4,509	-	-	-	-	-	-	4,509
Prepaid expenses and deposits	10,576	486	40	-	-	167	-	11,269
Total current assets	<u>142,705</u>	<u>13,040</u>	<u>4,006</u>	<u>1,239</u>	<u>1,341</u>	<u>12,772</u>	<u>476</u>	<u>175,579</u>
ASSETS LIMITED AS TO USE:								
Board-designated assets	558,789	-	-	-	-	-	-	558,789
For workers' compensation benefits	25,233	-	-	-	-	-	-	25,233
Restricted donation investment	2,447	-	-	-	13,923	-	-	16,370
Restricted contribution receivable	-	-	-	-	11,681	-	-	11,681
Total assets limited as to use	<u>586,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,604</u>	<u>-</u>	<u>-</u>	<u>612,073</u>
OPERATING PROPERTY, PLANT, AND EQUIPMENT—Net								
	<u>276,518</u>	<u>11,051</u>	<u>1,187</u>	<u>-</u>	<u>-</u>	<u>5,850</u>	<u>-</u>	<u>294,606</u>
OTHER ASSETS:								
Real estate held for future use at cost	6,108	-	-	-	-	-	-	6,108
Intangible assets—net	3,009	250	-	-	-	2,980	(2,980)	3,259
Other	21,722	198	118	-	-	280	(11,933)	10,385
Total other assets	<u>30,839</u>	<u>448</u>	<u>118</u>	<u>-</u>	<u>-</u>	<u>3,260</u>	<u>(14,913)</u>	<u>19,752</u>
TOTAL	<u>\$1,036,531</u>	<u>\$24,539</u>	<u>\$5,311</u>	<u>\$1,239</u>	<u>\$26,945</u>	<u>\$21,882</u>	<u>\$(14,437)</u>	<u>\$1,102,010</u>

(Continued)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET AS OF DECEMBER 31, 2005 (In thousands)

	Obligated Group	John Muir Physician Network	John Muir Behavioral Health	Community Health Fund	John Muir Health Foundation	Other Health- Related Ventures	Eliminations	Consolidation
CURRENT LIABILITIES:								
Current maturities of long-term debt	\$ 3,376	\$ -	\$ -	\$ -	\$ -	\$ 773	\$ -	\$ 4,149
Accounts payable	46,365	3,525	200	-	-	933	(37)	50,986
Accounts payable—affiliates	(9,507)	9,730	-	256	(1,385)	393	513	-
Payable to government agencies	5,753	-	441	-	-	-	-	6,194
Accrued liabilities:	-	-	-	-	-	-	-	-
Payroll and payroll taxes	19,166	663	580	-	-	536	-	20,945
Vacation and other compensation	20,006	1,070	437	-	-	42	-	21,555
Employee medical benefit claims and workers' compensation benefits	11,838	535	222	-	-	-	-	12,595
Interest	1,319	-	-	-	-	-	-	1,319
Other	4,843	-	61	57	-	1,263	-	6,224
	<u>103,159</u>	<u>15,523</u>	<u>1,941</u>	<u>313</u>	<u>(1,385)</u>	<u>3,940</u>	<u>476</u>	<u>123,967</u>
Total current liabilities								
OTHER LIABILITIES:								
Workers' compensation benefits	37,976	850	1,156	-	-	-	-	39,982
Postretirement medical benefits	15,988	-	-	-	-	-	-	15,988
Pension	10,375	-	-	-	-	-	-	10,375
Professional liability	4,708	-	-	-	-	-	-	4,708
Minority interest and other	6,006	266	-	-	-	703	2,096	9,071
	<u>75,053</u>	<u>1,116</u>	<u>1,156</u>	<u>-</u>	<u>-</u>	<u>703</u>	<u>2,096</u>	<u>80,124</u>
Total other liabilities								
LONG-TERM DEBT—less current maturities	137,024	-	-	-	-	2,365	-	139,389
TOTAL LIABILITIES	<u>315,236</u>	<u>16,639</u>	<u>3,097</u>	<u>313</u>	<u>(1,385)</u>	<u>7,008</u>	<u>2,572</u>	<u>343,480</u>
NET ASSETS:								
Unrestricted	718,850	7,900	2,214	926	2,725	14,874	(17,009)	730,480
Temporarily restricted	2,445	-	-	-	20,685	-	-	23,130
Permanently restricted	-	-	-	-	4,920	-	-	4,920
	<u>721,295</u>	<u>7,900</u>	<u>2,214</u>	<u>926</u>	<u>28,330</u>	<u>14,874</u>	<u>(17,009)</u>	<u>758,530</u>
Total net assets								
TOTAL	<u>\$1,036,531</u>	<u>\$24,539</u>	<u>\$5,311</u>	<u>\$1,239</u>	<u>\$26,945</u>	<u>\$21,882</u>	<u>\$(14,437)</u>	<u>\$1,102,010</u>

(Concluded)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005 (In thousands)

	Obligated Group	John Muir Physician Network	John Muir Behavioral Health	Community Health Fund	John Muir Health Foundation	Other Health- Related Ventures	Eliminations	Consolidation
OPERATING REVENUE:								
Net patient revenue before charity care deduction	\$812,331	\$ 29,541	\$19,031	\$ -	\$ -	\$31,306	\$ (571)	\$ 891,638
Less provision for charity care based on charges	<u>(15,603)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,603)</u>
Net patient revenue	796,728	29,541	19,031	-	-	31,306	(571)	876,035
Premium revenue	3,377	82,486	-	-	-	-	-	85,863
Other operating revenue	34,811	38,476	313	1,461	2,285	210	(38,186)	39,370
Net investment income (loss)—including realized gains and losses on investments	<u>57,471</u>	<u>-</u>	<u>22</u>	<u>35</u>	<u>138</u>	<u>94</u>	<u>-</u>	<u>57,760</u>
Total operating revenue	<u>892,387</u>	<u>150,503</u>	<u>19,366</u>	<u>1,496</u>	<u>2,423</u>	<u>31,610</u>	<u>(38,757)</u>	<u>1,059,028</u>
OPERATING EXPENSES:								
Salaries and wages	321,951	18,162	10,672	167	838	4,143	-	355,933
Employee benefits	103,278	5,759	3,165	15	255	838	(571)	112,739
Medical fees	26,213	26,326	1,054	-	-	199	(1,388)	52,404
Supplies	116,954	3,752	317	10	53	3,623	-	124,709
Purchased services	86,371	77,930	2,949	16	641	9,813	(20,818)	156,902
Insurance	7,403	-	-	-	-	232	-	7,635
Utilities and rent	16,088	5,433	1,111	8	57	1,842	(3,905)	20,634
Depreciation, amortization, and impairment	31,672	2,399	192	-	-	760	-	35,023
Provision for uncollectible accounts	54,840	440	595	-	-	202	-	56,077
Interest	5,904	-	-	-	-	110	-	6,014
Loss on debt refinancing	1,820	-	-	-	-	-	-	1,820
Health system assessment	(10,990)	9,278	1,712	-	-	-	-	-
Other	<u>15,776</u>	<u>307</u>	<u>164</u>	<u>995</u>	<u>228</u>	<u>1,292</u>	<u>(3,280)</u>	<u>15,482</u>
Total operating expenses	<u>777,280</u>	<u>149,786</u>	<u>21,931</u>	<u>1,211</u>	<u>2,072</u>	<u>23,054</u>	<u>(29,962)</u>	<u>945,372</u>
EXCESS (DEFICIT) OF REVENUE OVER EXPENSES	<u>\$115,107</u>	<u>\$ 717</u>	<u>\$(2,565)</u>	<u>\$ 285</u>	<u>\$ 351</u>	<u>\$ 8,556</u>	<u>\$ (8,795)</u>	<u>\$ 113,656</u>

(Continued)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005

(In thousands)

	Obligated Group		John Muir Physician Network Unrestricted	John Muir Behavioral Health Unrestricted	Community Health Fund Unrestricted	John Muir Health Foundation		
	Unrestricted	Temporarily Restricted				Unrestricted	Temporarily Restricted	Permanently Restricted
Excess (deficit) of revenue over expenses	\$115,107	\$ -	\$ 717	\$ (2,565)	\$ 285	\$ 351	\$ -	\$ -
Net change in unrealized gains and losses on investments	(19,686)	-	-	-	-	-	-	172
Restricted contributions and investment income	-	589	-	-	-	-	3,147	233
Adjustments to net assets from affiliation	(2,195)	-	-	7,455	-	-	-	-
Change in charitable remainder trust	-	-	-	-	-	-	170	-
Net assets released from restrictions:	-	-	-	-	-	-	-	-
To other operating revenue for operating expenditures	-	(138)	-	-	-	-	(492)	(31)
For property, plant, and equipment	175	(89)	-	-	-	-	(86)	-
Other	(1)	-	1	-	-	1	1	-
INCREASE (DECREASE) IN NET ASSETS	93,400	362	718	4,890	285	352	2,740	374
NET ASSETS—December 31, 2004	<u>625,450</u>	<u>2,083</u>	<u>7,182</u>	<u>(2,676)</u>	<u>641</u>	<u>2,373</u>	<u>17,945</u>	<u>4,546</u>
NET ASSETS—December 31, 2005	<u>\$718,850</u>	<u>\$2,445</u>	<u>\$7,900</u>	<u>\$ 2,214</u>	<u>\$ 926</u>	<u>\$2,725</u>	<u>\$ 20,685</u>	<u>\$4,920</u>

(Continued)

JOHN MUIR HEALTH AND SUBSIDIARIES

CONSOLIDATING SCHEDULE OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005 (In thousands)

	Other Health-Related Ventures Unrestricted	Eliminations Unrestricted	Consolidated		
			Unrestricted	Temporarily Restricted	Permanently Restricted
Excess (deficit) of revenue over expenses	\$ 8,556	\$ (8,795)	\$113,656	\$ -	\$ -
Net change in unrealized gains and losses on investments	-	-	(19,686)	-	172
Restricted contributions and investment income	-	-	-	3,736	233
Adjustments to net assets from affiliation	-	(5,260)	-	-	-
Change in charitable remainder trust	-	-	-	170	-
Net assets released from restrictions:	-	-	-	-	-
To other operating revenue for operating expenditures	-	-	-	(630)	(31)
For property, plant, and equipment	-	-	175	(175)	-
Other	<u>(6,744)</u>	<u>6,740</u>	<u>(3)</u>	<u>1</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS	1,812	(7,315)	94,142	3,102	374
NET ASSETS—December 31, 2004	<u>13,062</u>	<u>(9,694)</u>	<u>636,338</u>	<u>20,028</u>	<u>4,546</u>
NET ASSETS—December 31, 2005	<u>\$ 14,874</u>	<u>\$ (17,009)</u>	<u>\$ 730,480</u>	<u>\$ 23,130</u>	<u>\$ 4,920</u>

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following are summaries of certain provisions of the Master Indenture, the Supplemental Master Indenture, the Bond Indenture and the Loan Agreement. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of such documents. All capitalized terms used in this Summary of Principal Documents and not defined herein have the same meanings as in the Master Indenture and the Bond Indenture, as applicable.

DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Documents.

“Accountant” means any independent certified public accountant or firm of such accountants selected by the Corporation and acceptable to the Master Trustee.

“Additional Indebtedness” means any Indebtedness (including all Obligations) incurred by any Member of the Obligated Group, subsequent to its becoming a Member of the Obligated Group.

“Additional Payments” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“Adjusted Operating Revenues” means, with respect to any period of time, operating revenues less contractual allowances, free care, discounts and allowances for bad debts, all determined in accordance with generally accepted accounting principles.

“Administrative Fees and Expenses” means any application, commitment, financing or similar fee charged, or reimbursement for administrative or other expenses incurred, by the Authority or the Bond Trustee.

“Authority” means the California Statewide Communities Development Authority or its successors and assigns.

“Authorized Representative” means with respect to the Corporation or any Member, the chairman or president of its Governing Board, its chief executive officer or its chief financial officer, or any other person designated as an Authorized Representative by a Certificate signed by one of the above parties and filed with the Bond Trustee.

“Balloon Indebtedness” means Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Short-Term Indebtedness will be Outstanding for more than 365 days as certified in an Officer’s Certificate, 35% or more of the original principal of which matures (or is payable or required to be purchased at the option of the holder) in the same Fiscal Year, if such 35% or more is not required to be amortized below 35% by mandatory redemption prior to such Fiscal Year.

“Beneficial Owner” means any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries).

“Bond Counsel” means legal 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 the Corporation and not objected to by the Bond Trustee.

“Bond Indenture” means the Bond Indenture, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

“Bond Trustee” means 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, or its successor as provided in the Bond Indenture.

“Bond Year” means the period of twelve consecutive months ending on August 15 in any year in which Bonds are Outstanding.

“Bonds; Serial Bonds; Term Bonds” means the California Statewide Communities Development Authority Revenue Bonds (John Muir Health), Series 2006A, authorized by, and at any time Outstanding pursuant to, the Bond Indenture. “Serial Bonds” mean the Bonds, each payable with respect to principal at their specified maturity date, for which no Mandatory Sinking Account Payments are provided, if any. “Term Bonds” mean the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for the purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

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

“Business Day” means a day that is not a Saturday, Sunday or legal holiday on which banking institutions in the State of California, the State of New York or in any state in which the office of the Master Trustee or the Bond Trustee is located are authorized to remain closed or a day on which the New York Stock Exchange is closed.

“Capitalization” means, as of any date of calculation, the principal amount of all Indebtedness then Outstanding plus the unrestricted fund balances (including any shareholder equity) of the Obligated Group for the last Fiscal Year for which audited financial statements are available, determined in accordance with generally accepted accounting principles.

“Certificate,” “Statement,” “Request,” “Requisition” and “Order” of the Authority or the Corporation, mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by any member of the Commission of the Authority or such other person as may be designated and authorized to sign for the Authority and designated by any member of the Commission of the Authority in writing to the Bond Trustee, or in the name of the Corporation by an Authorized Representative of the Corporation. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto, and any regulations promulgated thereunder.

“Completion Indebtedness” means any Long-Term Indebtedness incurred by any Member of the Obligated Group for the purpose of financing the completion of constructing or equipping facilities for the construction or equipping of which Long-Term Indebtedness has theretofore been incurred to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Indebtedness was originally incurred; provided, however, that there is delivered to the Master Trustee an Officer’s Certificate stating that at the time the Indebtedness was originally incurred the proceeds of such Indebtedness were projected to be sufficient, together with other funds available, or projected to be available therefor, to complete the project for which such Indebtedness was incurred without the need for incurring additional Indebtedness.

“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, such other index which is certified to be comparable and appropriate by the Corporation in an Officer’s Certificate delivered to the Master Trustee and which other index is acceptable to the Master Trustee.

“Consultant” means an independent firm which is a professional management consultant, selected by the Corporation or other Member of the Obligated Group, as the case may be, acceptable to the Master Trustee and having the skill and experience necessary to render the particular report required by the provision thereof in which such requirement appears.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement, dated the Date of Issuance, between the Corporation and the Bond Trustee as dissemination agent thereunder, as originally executed and as it may be amended in accordance with its terms.

“Corporate Trust Office” means the office of the Bond Trustee located at 550 Kearny Street, Suite 600, San Francisco, California 94108-2527, Attn: Corporate Trust, or such other or additional offices as shall be specified by the Bond Trustee in writing delivered to the Authority and the Corporation.

“Corporation” means John Muir Health, a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

“Date of Issuance” means the date on which the Bonds are initially issued.

“Days Cash on Hand” means for each semiannual period, the aggregate amount of unrestricted and unencumbered (i) cash, (ii) cash equivalents and (iii) marketable debt and equity securities divided by the quotient of (x) operating expenses less depreciation and amortization divided by (y) the number of calendar days in the period. Notwithstanding any of the foregoing to the contrary, Days Cash on Hand shall not include (A) self-insurance funds, (B) proceeds of any short-term borrowings including, without limitation, internal affiliate loans and draws on lines of credit regardless of the maturity date of the line of credit, (C) proceeds of put debt not supported by a liquidity facility with term-out features, (D) funds or investments subject to any donor restrictions, permanent or temporary, regardless of whether such funds or investments are considered restricted for purposes of generally accepted accounting principals, (E) any collateral required under a Financial Products Agreement and (F) any non-scheduled payments to be made by any Member or any realized loss that has resulted from the Financial Products Agreement.

“Debt Service Requirement” means, for any period of time, the aggregate of the payments required to be made in respect of principal and interest on Outstanding Long-Term Indebtedness of each Member of the Obligated Group during such period (calculated in such a manner that no portion of Long-Term Indebtedness is included more than once), taking into account (for purposes of calculating any projected debt service requirements) (i) that any Indebtedness represented by a Guaranty or Balloon Indebtedness shall be deemed payable on the dates and in the amounts contemplated in the Master Indenture and not necessarily on the stated maturity or due date or dates of such Indebtedness, (ii) with respect to Indebtedness issued with a variable rate of interest (other than Indebtedness which is treated as Balloon Indebtedness), the interest rate for each year in which such Indebtedness is Outstanding and for which the actual interest rate cannot be determined shall be assumed to be a rate equal to the most recently published Bond Buyer Revenue Bond Index. There shall be delivered to the Master Trustee a letter of a banking or investment banking institution knowledgeable in matters of health care finance confirming such interest rate, and (iii) with respect to Indebtedness refunded or refinanced during such period, the amount of principal taken into account during such period shall be assumed to equal only the principal not payable from the proceeds of Indebtedness; provided, however, that in reference to any projection of Debt Service Requirement with respect to Long-Term Indebtedness incurred to finance the construction of capital improvements, during the period of such construction, (a) principal shall be excluded from the determination of the Debt Service Requirement for the purpose of the definition of Maximum Annual Debt Service until the earlier of the Fiscal Year in which the first required payment of principal occurs or the first Fiscal Year following the completion of such construction, and (b)

interest shall be excluded from the determination of the Debt Service Requirement to the extent that escrowed or trustee held funds which were set aside at the time such Indebtedness was incurred are available to pay such interest.

“Event of Default” means any of the events specified under the Master Indenture and Bond Indenture.

“Financial Products Agreement” means an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Bond Trustee as having been entered into by a Member not for investment purposes but with respect to Indebtedness for the purpose of (1) reducing or otherwise managing the Member’s risk of interest rate changes or (2) effectively converting the Member’s interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

“Fiscal Year” means the period beginning on January 1 of each year and ending on December 31, or any other twelve-month period thereafter selected and designated as the official fiscal year period of the Corporation.

“Governing Board” means the board of directors, board of trustees or other board or group of individuals in which the power of a corporation or other entity is vested, except for those powers reserved to the corporate membership by the articles of incorporation or bylaws of such corporation or entity.

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

“Governmental Issuer” means any federal, state or municipal corporation or political subdivision thereof or any instrumentality of any of the foregoing empowered to issue obligations on behalf thereof or described as a political subdivision under Section 103 of the Code.

“Gross Revenues” means all revenues, rents, profits, receipts, benefits, royalties, money and income of any Member arising from services provided by the Members or arising in any manner with respect to, incident to or on account of the Members’ operations, including, without limitation, (i) the Members’ rights under agreements with insurance companies, Medicare, Medi-Cal, governmental units and prepaid health organizations, including rights to Medicare and Medi-Cal loss recapture under applicable regulations and (ii) gifts, grants, bequests, donations, contributions and pledges to any Member and (iii) insurance proceeds or any award, or payment in lieu of an award, resulting from condemnation proceedings and (iv) all goods, inventory and other tangible and intangible property, and all rights to receive the foregoing, whether now owned or hereafter acquired by any Member and regardless of whether generated in the form of accounts, accounts receivable, contract rights, chattel paper, documents, instruments, investment property, proceeds of insurance and all proceeds of the foregoing, whether cash or noncash; excluding, however, gifts, grants, bequests, donations, contributions and pledges to any Member heretofore or hereafter made, and the income and gains derived therefrom, which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with its use for payments required under the Master Indenture or on the Indebtedness.

“Guaranty” means any commitment by a Member of the Obligated Group to make a loan to a Person other than a Member of the Obligated Group, and any obligation of a Member of the Obligated Group guaranteeing in any manner, whether directly or indirectly, any obligation of any other Person which would, if such other Person were a Member of the Obligated Group, constitute Indebtedness under the Master Indenture.

“Historical Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing Total Net Revenues for such period by the Debt Service Requirement for such period.

“Holder,” “Bondholder” or “Obligation Holder” means the registered owner of any Bond or Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

“Indebtedness” means all obligations for borrowed money, or installment sale and capitalized lease obligations, incurred or assumed by any Member of the Obligated Group, including Guaranties (other than any Guaranty by any Member of the Obligated Group of Indebtedness of any other Member of the Obligated Group), except obligations of a Member of the Obligated Group to another Member of the Obligated Group; provided, however, if more than one Member of the Obligated Group shall have incurred or assumed a Guaranty of a Person other than a Member of the Obligated Group, for purposes of any computations or calculations under the Master Indenture, such Guaranty shall be included only one time.

“Insurance Consultant” means a firm selected by the Corporation and acceptable to the Master Trustee which is qualified to survey risks and recommend insurance coverage for facilities of the type used by the Obligated Group, and which may be a broker or agent with whom the Corporation transacts business but which shall have no specific financial interest, direct or indirect, in the Corporation.

“Interest Account” means the account by that name established in the Revenue Fund pursuant to the Bond Indenture.

“Interest Payment Date” means February 15 and August 15 of each year, commencing August 15, 2006.

“Investment Securities” means any of the following:

(A) United States Government Obligations;

(B) Obligations of any federal agency;

(C) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of AA-Am-G; AAA-m; or AA-m and, if rated by Moody’s, rated Aaa, Aa1 or Aa2, including funds for which the Bond Trustee and its affiliates provide investment advisory or other management services;

(D) Certificates of deposit secured at all times by collateral described in clause (A) above if issued by commercial banks, savings and loan associations or mutual savings banks; the collateral must be held by a third party and the Bond Trustee, on behalf of the Bondholders, must have a perfected first security interest in such collateral;

(E) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF, (including those of the Bond Trustee and its affiliates);

(F) Investment agreements, including GICs, forward purchase agreements and reserve fund put agreements;

(G) Commercial paper which is rated at the time of purchase “P-1” or better by Moody’s and “A-1” or better by S&P;

(H) Municipal obligations issued by any state or municipality with a rating by both Moody’s and S&P in one of the two highest Rating Categories by such Rating Agencies;

(I) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime – 1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.

“Irrevocable Deposit” means the irrevocable deposit in trust of cash in an amount (or Qualified Investments the principal of and interest on which will be in an amount) and under terms sufficient to pay all or a

portion of the principal of, and premium, if any, and interest on, as the same shall become due or payable upon redemption, any Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Obligation Trustee or any other trustee authorized to act in such capacity.

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

“Loan Agreement” means that certain loan agreement by and between the Authority and the Corporation, dated as of June 1, 2006, 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 Bond Indenture.

“Loan Default Event” means any of the events specified in the Loan Agreement.

“Loan Repayments” means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

“Long-Term Indebtedness” means all Indebtedness which, at the time of incurrence, has a final maturity or term greater than one year or which is renewable at the option of the debtor for a term greater than one year from the date of original issuance.

“Mandatory Sinking Account Payment” means the amount required by the Bond Indenture to be paid on any single date for the retirement of Term Bonds.

“Master Indenture” means that certain master indenture of trust, dated as of November 1, 1985, between the Corporation and the Master Trustee and as it has been and may from time to time be supplemented, modified or amended in accordance with the terms thereof.

“Master Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, or its successor, as successor master trustee under the Master Indenture.

“Maximum Annual Bond Service” means, as of any date of calculation, the sum of (1) interest falling due on then Outstanding Bonds (assuming that all then Outstanding Term Bonds are retired at the times of and in amounts provided for by Mandatory Sinking Account Payments), (2) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (3) the aggregate amount of Mandatory Sinking Account Payments required to be paid; all as computed for the then-current or any future Bond Year in which such sum is the largest.

“Maximum Annual Debt Service” means the highest Debt Service Requirement for the current or any succeeding Fiscal Year.

“Member of the Obligated Group” or “Member” means the Corporation, and any Person which has become a Member of the Obligated Group in accordance with the provisions of the Master Indenture, as the case may be.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and 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 Authority and the Bond Trustee.

“Net Revenues” means, with respect to any period of time, excess of revenues over expenses, or, in the case of for-profit entities, net income after tax, as determined in accordance with generally accepted

accounting principles, to which shall be added depreciation, amortization, and interest expense on Long-Term Indebtedness, and from which shall be excluded any extraordinary items, any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of assets not made in the ordinary course of business and any revenues or expenses of any Person which is not a Member of the Obligated Group.

“Non-Recourse Indebtedness” means any Indebtedness secured by a Lien, which is not a general obligation of the debtor, and liability for which is effectively limited to the Property subjected to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

“Obligated Group” means the group consisting of Members of the Obligated Group.

“Obligation” means the evidence of particular Indebtedness issued under the Master Indenture, provided it has been authenticated by the Master Trustee as provided in the Master Indenture.

“Obligation No. 10” means the obligation issued under the Master Indenture and Supplement No. 10.

“Officer’s Certificate” means a certificate, a certified copy of which shall be sent to the Trustee, signed by the president or chief financial officer of the Corporation or such other person designated in writing by such president or chief financial officer or by resolution of the Governing Body of the Corporation.

“Opinion of Bond Counsel” means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee or Bond Trustee, as applicable and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority or Bond Counsel) selected by the Corporation and not objected to by the Authority or the Bond Trustee.

“Optional Redemption Account” means the account by that name in the Redemption Fund established pursuant to the Bond Indenture.

“Outstanding,” when used with respect to the Bond Indenture and when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except: (1) Bonds theretofore cancelled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Bond Indenture, including Bonds (or portions of Bonds) referred to in the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture, and when used as of any particular time with reference to Indebtedness shall have the meaning set forth in the Master Indenture.

“Outstanding” when used with respect to the Master Indenture and when used with reference to Obligations, means, as of any date of determination, all Obligations theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Obligations deemed paid and no longer Outstanding as provided in the Master Indenture hereof or for which an Irrevocable Deposit has been established, (iii) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the 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, and (iv) any Obligation held by any Member of the Obligated Group or, when referring to Indebtedness other than Obligations, means, as of any date of determination, all Indebtedness theretofore issued or incurred other than (a) Indebtedness which has been paid, (b) Indebtedness for which an Opinion of Counsel stating that such Indebtedness has been discharged has been provided to the Master Trustee, (c) evidence of Indebtedness for which new evidence has been substituted in a manner analogous to clause (iii) above and (d) any evidence of Indebtedness held by any Member of the Obligated Group, provided that Obligations or evidence of Indebtedness held by any Member of the Obligated Group may be deemed by the

Corporation to be continuously Outstanding if such Obligations or evidences of Indebtedness were acquired with an intent that they only be held temporarily in connection with an effort to remarket them to Persons other than Members of the Obligated Group.

“Permitted Liens” shall consist of the following:

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

(ii) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, 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 which, 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 60 days; (C) easements, rights of way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) 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 or materially and adversely affect the value thereof; and (E) to the extent that it affects title to any Property, the Master Indenture;

(iii) Any lease which relates to Property of the Obligated Group which is of a type that is customarily the subject of such leases, such as office space for physicians and educational institutions, food service facilities, gift shops and radiology or other hospital based specialty services, pharmacy and similar departments;

(iv) Any Lien in favor of the Master Trustee securing all Obligations (other than Obligations representing Subordinated Indebtedness or Non Recourse Indebtedness) on a parity basis;

(v) Any Lien 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;

(vi) 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;

(vii) Any Lien arising by reason of an Irrevocable Deposit;

(viii) Any Lien in favor of a trustee on the proceeds of Indebtedness or cash or investments deposited with such trustee with such proceeds prior to the application of such proceeds or cash or investments;

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

(x) Any Lien on Property received by any Member through gifts, grants or bequests, such lien 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;

(xi) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 et seq. and similar rights under other federal and state statutes;

(xii) Any Liens on Property securing Indebtedness, provided that the Unsecured Debt Ratio will be at least 1.25 immediately following the incurrence of such Lien;

(xiii) Liens arising by virtue of a “lease and leaseback,” “sale sale,” “sale and leaseback” or similar arrangements entered into by any Member of the Obligated Group with a Related Obligation Issuer to the extent required in connection with the issuance of a series of Related Obligations;

(xiv) to the extent that it affects title to any Property, the Master Indenture;

(xv) landlord’s liens;

(xvi) Any Lien securing Non Recourse Indebtedness provided that the Property purchased, acquired, constructed, or equipped with the proceeds of such Non Recourse Indebtedness does not replace any Property of the Obligated Group which generated more than twenty percent (20%) of the Total Revenue of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available;

(xvii) Liens on Property due to rights of third party payors for recoupment of amounts paid to any Obligated Group Member;

(xviii) Liens on Property or Gross Revenues existing at the time a Person becomes an Obligated Group Member pursuant to the Master Indenture or existing at the time a Person is merged into an Obligated Group Member pursuant to the Master Indenture; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property or Gross Revenues not subject to such lien on the date such Person becomes an Obligated Group Member unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Indenture; provided further that any such Lien shall be permitted pursuant to this paragraph only if (A) the Master Trustee has received an Officer’s Certificate stating that the ratio determined by dividing Income Available for Debt Service by the Debt Service Requirement for the most recent Fiscal Year for which audited financial statements are available immediately preceding the proposed date of such merger or addition of an Obligated Group Member, adjusted to reflect such merger or addition as if it had occurred at the beginning of such Fiscal Year would be not less than 1.75, or (B) the Master Trustee has received an Officer’s Certificate to the effect that the forecast Debt Service Coverage Ratio, taking the proposed merger or addition into account, for each of the two Fiscal Years succeeding the date of such proposed merger or addition is not less than 1.75 in each such Fiscal Year; provided that upon such Person becoming a Member of the Obligated Group, the Unsecured Debt Ratio will be at least 1.25;

(xix) Liens on accounts receivable, which Lien shall be prior to the security interest granted in the Master Indenture, securing Short Term Indebtedness; provided that the aggregate principal amount of the Short Term Indebtedness secured by such accounts receivable does not exceed 35% of accounts receivable of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available;

(xx) Liens securing leases of Property;

(xxi) Purchase money security interests and security interests existing on any Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Property to secure a portion of the purchase price thereof, or placed upon Related Obligations or other instruments evidencing Indebtedness to secure the purchase price thereof, or lessee's interests in leases required to be capitalized in accordance with generally accepted accounting principles; and

(xxii) Any Lien described in Exhibit A to the Fourth Related Supplement which is existing on the date of execution thereof provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any Obligated Group Member not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture.

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

"Prevailing Rate" means the projected yield at par of an obligation as set forth in the report of a Consultant, investment banker or other person acceptable to the Master Trustee based on the yield evaluations at par of not less than five obligations selected by such Consultant, investment banker or other person, which such Consultant, investment banker or other person states in his/her opinion are reasonable comparators for utilizing in developing such Prevailing Rate.

"Principal Account" means the account by that name established in the Revenue Fund pursuant to the Bond Indenture.

"Principal Payment Date" means, with respect to a Bond, the date on which principal evidenced by such Bond becomes due and payable, whether at maturity, upon redemption, by declaration of acceleration or otherwise.

"Pro Forma Statement" means separate, combined or consolidated, as appropriate, pro forma balance sheets, statements of income or of revenue and expenses and statements of changes in financial position for such future period or periods together with a statement of the relevant assumptions upon which such pro forma statements are based.

"Projected Debt Service Coverage Ratio" means for any future period of time, the ratio determined by dividing projected Total Net Revenues for that period by Maximum Annual Debt Service.

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

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

"Qualified Investments" means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations, notes or other evidence of indebtedness issued or guaranteed by any of the following: Federal Farm Credit Bank, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Government National Mortgage Association, Farmer's Home Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration, or any other agency or instrumentality of the United States of America created by an Act of Congress which is substantially similar to the foregoing in its legal relationship to the United States of America; (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and (2), provided that such obligations are held in the custody of a bank or trust company acceptable to the Master Trustee in a special account separate from the general assets of such custodian; (4) debt obligations, whether or not interest thereon is exempt from federal income taxes which, at the time of deposit, are rated by either Moody's or S&P in either of the

two highest long-term debt Rating Categories of such Rating Agency; provided, that if any Obligation or Related Obligation being provided for is then rated by Moody's or S&P, the obligations deposited must be rated by each Rating Agency having a rating in effect on such Obligation or Related Obligation in a rating category no lower than that in effect on such Obligation or Related Obligation; (5) obligations described in Section 103(a)(1) or (2) of the Code, provision for the payment of the principal of, and premium, if any, and interest on which shall have been made by the irrevocable deposit with a bank or trust company acting as a trustee or escrow agent for holders of such obligations of securities described in clauses (1) or (2) the maturing principal of and interest on which, when due and payable, will provide sufficient moneys to pay when due the principal of, and premium, if any, and interest on such obligations, and which securities described in clauses (1) or (2) are not available to satisfy any other claim, including any claim of the trustee or escrow agent or of any person claiming through the trustee or escrow agent or to whom the trustee or escrow agent may be obligated, including in the event of the insolvency of the trustee or escrow agent or proceedings arising out of such insolvency; (6) interest bearing demand or time deposits (including certificates of deposit) in banks (including the Master Trustee) and savings and loan associations, secured at all times, in the manner and to the extent provided by law, by collateral security (of the type described in clauses (1) or (2) of this definition) of a market value (valued at least quarterly) of no less than the amount of moneys so invested; (7) repurchase agreements fully secured by collateral security of the type described in clauses (1) or (2) of this definition, which collateral (a) is held by the Master Trustee or third party agent for the Master Trustee during the term of such repurchase agreement, (b) is not subject to liens or claims of third parties and (c) has a market value (determined at least once every fourteen days) at least equal to the amount so invested; and (8) certificates of deposit or time deposits which are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

“Rating Agency” means S&P and Moody's.

“Rating Category” means one of the general rating categories of either Rating Agency without regard to any refinement or graduation of such rating category by numerical modifier or otherwise.

“Redemption Fund” means the fund by that name established pursuant to the Bond Indenture.

“Redemption Price” means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Bond Indenture.

“Related Obligations” means the revenue bonds, notes, other evidences of indebtedness or any other obligations issued or incurred by a Governmental Issuer, pursuant to a single Related Obligation Indenture, the proceeds of which are loaned or otherwise made available to (i) a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such Governmental Issuer, or (ii) any Person other than a Member of the Obligated Group in consideration of the issuance to such Governmental Issuer (A) by such Person of any indebtedness or other obligation of such Person, and (B) by a Member of the Obligated Group of a Guaranty issued under the Master Indenture in respect of such indebtedness or other obligation.

“Related Obligation Indenture” means any indenture, trust agreement, bond resolution or other comparable instrument pursuant to which a series of Related Obligations are issued or incurred.

“Related Obligation Issuer” means the Governmental Issuer of any Related Obligations.

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

“Related Supplement” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

“Reserve Account Funding Event” means the Members of the Obligated Group fail to maintain at least 80 Days Cash on Hand as of the last day of any Fiscal Year.

“Reserve Account Requirement” means, as of any date of calculation, an amount equal to the Maximum Annual Bond Service on all Bonds Outstanding as of such date.

“Revenue Fund” means the fund by that name established pursuant to the Bond Indenture.

“Revenues” means all amounts received by the Authority or the Bond Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 10, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and whether paid from any source), redemptions, 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 Bond Indenture, but not including any Additional Payments or Administrative Fees and Expenses or any money required to be deposited in the Rebate Fund.

“S&P” means Standard & Poor’s, 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 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 Authority and the Bond Trustee.

“Short-Term Indebtedness” means all Indebtedness other than Long-Term Indebtedness, including all Guaranties of Short-Term Indebtedness.

“Special Redemption Account” means the account by that name in the Redemption Fund established pursuant to the Bond Indenture.

“Subordinated Indebtedness” means Indebtedness incurred or issued under the Master Indenture which shall be subject to the following conditions:

(1) No payment on account of principal of and premium, if any, or interest on such Subordinated Indebtedness shall be made in any year, nor shall any Property be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness, unless full payment of amounts due and payable in such year for principal of and premium, if any, and interest on all other Indebtedness incurred or issued under the Master Indenture (“Superior Indebtedness”) has been made or duly provided for in accordance with the terms of such Superior Indebtedness. Notwithstanding the foregoing, no payment on account of principal of and premium, if any, or interest on such Subordinated Indebtedness shall be made, nor shall any Property be applied to the purchase or other acquisition or retirement of such Subordinated Indebtedness if, at the time of such payment or application or immediately after giving effect thereof, (i) there shall exist a default in the payment of principal of and premium, if any, or interest on or with respect to any Superior Indebtedness, or (ii) there shall have occurred an Event of Default with respect to any Superior Indebtedness, as defined in the Master Indenture or in the instrument under which the same is Outstanding, permitting the holders thereof to accelerate the maturity thereof and such Event of Default shall not have been cured or waived or shall not have ceased to exist; and (2) upon (i) any acceleration of maturity of the principal amount due on such Subordinated Indebtedness or (ii) any payment or distribution of any kind or character, whether in cash, property or securities, or upon any dissolution or winding-up or total or partial liquidation, reorganization or arrangement of any Member of the Obligated Group, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all principal of and premium, if any, and interest due or to become due upon all Superior Indebtedness shall first be paid in full, or payment thereof provided for in accordance with the terms of such Superior Indebtedness, before any payment is made on account of the Subordinated Indebtedness.

“Supplement No. 10” means that certain supplemental master indenture, dated as of June 1, 2006, between the Corporation and the Master Trustee.

“Supplemental Bond Indenture” means any indenture hereafter duly authorized and entered into between the Authority and the Bond Trustee, supplementing, modifying or amending the Bond Indenture; but only if and to the extent that such Supplemental Bond Indenture is specifically authorized under the Bond Indenture.

“Tax Certificate and Agreement” means the Tax Certificate and Agreement delivered by the Authority and the Corporation at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

“Total Adjusted Operating Revenues” means, as to any period, the aggregate of Adjusted Operating Revenues of each Member of the Obligated Group for such period, determined in such a manner that no portion of Net Operating Revenues of any Member is included more than once.

“Total Net Revenues” means, as to any period, the aggregate of Net Revenues of each Member of the Obligated Group for such period, determined in such a manner that no portion of Net Revenues of any Member is included more than once.

“Unencumbered Property” means Property which is not subject to any Lien.

“United States Government Obligations” means direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America, and “CATS” and “TIGRS”) or obligations the payment of principal of and interest on which are unconditionally guaranteed by the United States of America.

“Unsecured,” when used in connection with any Indebtedness, means not secured by a Lien or, if secured by a Lien, that proportion of such Indebtedness equal to the same proportion of such Indebtedness by which, at that date on which the Lien was granted, the amount of such Indebtedness exceeded the Value of the Property securing such Indebtedness as determined in good faith by the Corporation. For the purpose of this definition general obligation Indebtedness shall be considered Unsecured Indebtedness.

“Unsecured Debt Ratio” means as of any date of calculation, the ratio determined by dividing the Value of all Unencumbered Property of the Members of the Obligated Group by the aggregate principal amount (or in the case of original issue discount Indebtedness, amounts other than amounts classified as a direct deduction from the face amount of such Indebtedness determined in accordance with generally accepted accounting principles) of all Unsecured Long-Term Indebtedness of the Members of the Obligated Group then Outstanding.

“Value” when used in connection with any Property of any Member of the Obligated Group, means either (a) Book Value, or (b) at the election of the Corporation evidenced by an Officer’s Certificate delivered to the Master Trustee, the aggregate fair market value of such Property, 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 three years prior to the date as of which value is to be calculated) (i) increased or decreased by the cost of any Property acquired, or the fair market value of any Property disposed of (determined by reference to the most recent appraisal or based on cost if such Property was acquired subsequent to the last appraisal), since the date of such report and (ii) 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 value is to be calculated.

MASTER INDENTURE

The Master Indenture authorizes the issuance of Obligations by the Obligated Group, which shall be secured by the Gross Revenues of each Obligated Group Member. The following are summaries of certain provisions of the Master Indenture. Other provisions are summarized in this Official Statement under the caption “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Authorization, Issuance and Terms of Obligations

The Corporation or any other Member of the Obligated Group designated by the Corporation has the power to issue or incur Obligations under the Master Indenture, subject to the requirements of the Master Indenture or any Related Supplement, on which all Members of the Obligated Group will be jointly and severally obligated. The number of Obligations that may be created under the Master Indenture is not limited. The aggregate

principal amount of each Obligation that may be issued or incurred, authenticated and delivered under the Master Indenture is not limited except as limited by the provisions of the Master Indenture or of the Related Supplement. The Corporation may authorize the issuance of an Obligation or a series of Obligations by entering into a Related Supplement. The Obligation or Obligations of any such series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Membership in and Withdrawal from the Obligated Group

Conditions for Membership. A Person may become a Member of the Obligated Group only on the following conditions:

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

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

(c) The Master Trustee shall have received an Opinion of Counsel to the effect that (i) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied; (ii) the instrument described in subparagraph (a) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to and limited by the then existing law relating to bankruptcy and insolvency; and (iii) under then existing law such Person becoming a Member of the Obligated Group will not subject any Obligation to the registration provisions of the Securities Act of 1933, as amended (or that such Obligation has been so registered if registration is required);

(d) If all amounts due or to become due on any Outstanding Related Obligation which bears interest that is not includable in gross income under the Code has not been paid to the holder thereof, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Person becoming a Member of the Obligated Group would not adversely affect the validity of such Related Obligation or cause the interest payable on such Related Obligation to become includable in gross income under the Code;

(e) There is delivered to the Master Trustee an Officer's Certificate (which certificate shall treat the Net Revenues and Indebtedness of such Person as if such Person were a Member of the Obligated Group), certifying that:

(i) the ratio determined by dividing Total Net Revenues for the most recent Fiscal Year by Maximum Annual Debt Service determined as of the date such Person becomes a Member is not less than 1.30; or

(ii) (A) the Historical Debt Service Coverage Ratio for the Fiscal Year immediately preceding the date of admission of such Person was not less than 1.10, and (B) the Projected Debt Service Coverage Ratio for each of the two Fiscal Years succeeding the date of admission of such Person is not less than 1.20 or is greater than it is projected to be without the admission of such Person; or

(iii) immediately following the admission of such Person, all Indebtedness Outstanding shall not exceed 60% of Capitalization;

The requirements of subsections (ii)(A) and (B) will be deemed satisfied if (i) a Consultant's report filed with the Master Trustee contains an opinion of such Consultant that applicable laws or regulations or modifications to public or private third-party reimbursement programs have prevented or will prevent the achievement of such debt service coverage ratios, (ii) the Members of the Obligated Group have generated the maximum amount of Total Net Revenues which in the opinion of such Consultant could reasonably have been generated given such laws and regulations and programs during the period affected or to be affected thereby, and (iii) the Historical and Projected Debt Service Coverage Ratios for each of the three Fiscal Years for which a determination was made pursuant to subsection (e)(ii) is at least 1.00.

(f) Immediately after the admission of such Person, the Unsecured Debt Ratio is at least 1.25 or, if less than 1.25, is not less than it was immediately prior to admission.

(g) The Master Trustee shall have received an Officer's Certificate to the effect that, immediately after the admission of such Person to the Obligated Group, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed under the Master Indenture.

(h) The revenues and cash flow of the Obligated Group are projected to be sufficient to meet the proposed operating expenses of the Obligated Group (including debt service with respect to all Outstanding Indebtedness) during each of the two Fiscal Years succeeding the date of admission of such Person, as certified by an Officer's Certificate.

Withdrawal from the Obligated Group. The Corporation may not withdraw from the Obligated Group and no other Member may withdraw from the Obligated Group unless:

(a) the Corporation consents to such withdrawal;

(b) all amounts due on any Outstanding Related Obligation which bears interest that is not includable in gross income under the Code have not been paid to the holder thereof, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group would not adversely affect the validity of such Related Obligation or cause the interest payable on such Related Obligation to become includable in gross income under the Code and that all conditions in the Master Indenture pertaining to withdrawal of a Member from the Obligated Group have been satisfied;

(c) the Master Trustee shall have received an Officer's Certificate, accompanied in the case of reliance on clause (ii) or (iii) below by a Pro Forma Statement, to the effect that either:

(i) the Projected Debt Service Coverage Ratio of the Obligated Group for each of the two Fiscal Years immediately following withdrawal of such Member from the Obligated Group is projected to be at least 2.00; or

(ii) the Projected Debt Service Coverage Ratio of the Obligated Group for each of the two Fiscal Years immediately following withdrawal of such Member from the Obligated Group is projected to be less than 2.00 but at least 1.50, and withdrawal of such Member from the Obligated Group will not reduce the Projected Debt Service Coverage Ratio in such two Fiscal Years by more than 10%; or

(iii) the Projected Debt Service Coverage Ratio of the Obligated Group for the two Fiscal Years immediately following withdrawal of such Member from the Obligated Group is projected to be less than 1.50, but withdrawal of such Member from the Obligated Group will increase the Projected Debt Service Coverage Ratio in such two Fiscal Years; or

(iv) all Indebtedness Outstanding shall not exceed 60% of Capitalization immediately following withdrawal of such Member from the Obligated Group;

(d) the Master Trustee shall have received an Officer's Certificate to the effect that, immediately after the withdrawal of such Member from the Obligated Group, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Master Indenture;

(e) Immediately after the withdrawal of such Member, the Unsecured Debt Ratio is at least 1.25 or, if less than 1.25, is not less than it was immediately prior to withdrawal; and

(f) The revenues and cash flow of the Obligated Group are projected to be sufficient to meet the proposed operating expenses of the Obligated Group (including debt service with respect to all Outstanding Indebtedness) during each of the two Fiscal Years succeeding the date of withdrawal of such Member as certified by an Officer's Certificate accompanied, if the ratio certified in subsection (c)(i) or (ii) above is less than 1.75, by a Pro Forma Statement prepared by a Consultant.

General Covenants of Each Member of the Obligated Group

Payment of Principal and Interest. Each Member jointly and severally covenants promptly to pay or cause to be paid the principal of, premium, if any, and interest on Obligations issued or incurred under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in the Related Supplement and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Gross Revenues

Each Member covenants and agrees that, so long as any of the Obligations remain Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a deposit account or securities account designated as the "Gross Revenue Fund" which the Members shall establish and maintain, subject to the provisions described in this section, at such banking institution or securities intermediary as the Members shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)") and which has entered into an Account Control Agreement with the Members and the Master Trustee. The Master Trustee acknowledges that one or more accounts can constitute the Gross Revenue Fund. As security for the performance by each of the Members of its obligations under the Master Indenture, each Member hereby pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to the Gross Revenues and the Gross Revenue Fund and the proceeds thereof (collectively, the "Collateral"). Each of the Members shall cause to be filed Uniform Commercial Code financing statements, and shall execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest to the extent a security interest in the Gross Revenues and the Gross Revenue Fund can be perfected under the Uniform Commercial Code. Each Member irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral, including, without limitation, financing statements that describe the collateral as being of an equal or lesser scope, or with greater or lesser detail, than as set forth in the definition of Collateral. Each Member represents and warrants that it is a nonprofit corporation organized solely under the laws of the State of California or other duly formed and organized entity under the laws of the state in which such entity was formed and organized and that its complete legal name is as set forth on the signature page of the Master Indenture or Related Supplement, as applicable, executed by such Member. Each Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

Gross Revenues and amounts in the Gross Revenue Fund may be used and withdrawn by any Member at any time for any lawful purpose, except as provided in the Supplement. In the event that any Member is delinquent for more than one business day in the payment of any required payment with respect to any Obligation issued pursuant to a Related Supplement, the Master Trustee, upon notice from any Member or actual knowledge of such delinquency, shall notify the Corporation and the Depository Bank(s) of such delinquency, and exclusive

control over the Gross Revenue Fund shall be exercised by the Master Trustee and as provided in the Account Control Agreement. All Gross Revenues shall continue to be deposited in the Gross Revenue Fund as provided in this Section and the Master Trustee shall continue to exercise exclusive control over the Gross Revenue Fund until the amounts on deposit in said account are sufficient to pay in full (or have been used to pay in full) all required payments in default and until all other then-existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the appropriate Member. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, the Master Trustee shall use and withdraw from time to time amounts in said fund, to make required payments 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 required payments on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Master Trustee, no Member shall be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members shall be entitled to withdraw amounts not constituting Gross Revenues from the Gross Revenue Fund and may submit requests to the Master Trustee as to which expenses to pay out of Gross Revenues and in which order. Each Member agrees to execute and deliver all instruments as may be required to implement the Gross Revenues section of the Supplement. Each Member further agrees that a failure to comply with the terms of the Gross Revenues section of the Supplement shall cause irreparable harm to the Master Trustee from time to time of the Obligations, and shall entitle the Master Trustee, with or without notice to the Members, to take immediate action to compel the specific performance of the obligations of each of the Members as provided in the Gross Revenues section of the Supplement.

Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit all Gross Revenues in the Gross Revenue Fund and not in any other fund or account (other than accounts that are subject to instructions requiring that all moneys therein shall on each Business Day be swept into the Gross Revenue Fund); (ii) that the Gross Revenue Fund shall at all times be subject to an Account Control Agreement with the Depository Bank; and (iii) that the Gross Revenue Fund will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent shall not be unreasonably withheld.

Covenants as to Corporate Existence; Maintenance of Properties. Each Member covenants:

(a) Except as otherwise provided in the Master Indenture, to preserve its corporate or other separate legal existence and to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs required such qualifications.

(b) At all times to cause its Property to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made.

(c) To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property.

(d) Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property.

(e) At all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness.

(f) To procure and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Memorial Hospitals or

other applicable recognized accrediting body, when and as available, and its status as a provider of health care services eligible for payment under the Medicare, Medi-Cal, and comparable programs, including future governmental programs; provided, however, that it need not comply with this Section if and to the extent that its Governing Body shall have determined in good faith, evidenced by an Officer's Certificate, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

Limitation on Creation of Liens. Each Member agrees that it will not create or suffer to be created or exist any Lien upon any Property including, without limitation, all proceeds thereof, whether cash or non-cash, now owned or hereafter acquired by it, other than Permitted Liens.

Debt Service Coverage Ratios. The Members agree to maintain the Historical Debt Service Coverage Ratio at least equal to 1.10 in each Fiscal Year. If the Historical Debt Service Coverage Ratio, as calculated at the end of any Fiscal Year, is below 1.10, the Corporation covenants to retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Corporation shall retain a Consultant and each Member of the Obligated Group shall follow such Consultant's recommendations to the extent permitted by law, this Section shall be deemed to have been complied with for such Fiscal Year even if such ratio for any subsequent Fiscal Year is below the level required. If in any Fiscal Year the Historical Debt Service Coverage Ratio is below 1.10, the Corporation will not be required to retain a Consultant to make such recommendations if an Officer's Certificate is filed with the Trustee not more than 180 days after the beginning of such Fiscal Year which contains an opinion of such officer that (i) applicable laws or regulations have prevented the maintenance of the 1.10 ratio, (ii) the Members of the Obligated Group have generated the highest Historical Debt Service Coverage Ratio which, in the opinion of such officer, could practicably have been obtained given such laws and regulations during the period affected thereby.

Sale, Lease or Other Disposition of Property. Each Member agrees that it will not sell, lease or otherwise dispose of any Property, except in connection with a "sale and lease back" transaction that, in the Opinion of Counsel, should be treated as a true sale and lease back under the Code and except for transfers of Property: (a) to another Member; (b) to any Person if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that in the judgment of the signer such Property has become, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; (c) to any Person if Property transferred pursuant to this Section in the then-current Fiscal Year by all Members of the Obligated Group does not exceed 5% of the Value of all Property of the Obligated Group; (d) to any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate, accompanied in the case of reliance on clause (ii)(B) or (C) below by a Pro Forma Statement, to the effect that (i) immediately following such disposition all indebtedness Outstanding shall not exceed 60% of Capitalization; or (ii) (A) the Projected Debt Service Coverage Ratio of the Obligated Group for each of the two Fiscal Years immediately following such disposition and assuming such disposition is projected to be at least 2.00; or (B) the Projected Debt Service Coverage Ratio of the Obligated Group for each of the two Fiscal Years immediately following such disposition is projected to be less than 2.00 but at least 1.50, and such disposition will not reduce the Projected Debt Service Coverage Ratio of the Obligated Group in such two Fiscal Years by more than 10%; or (C) the Projected Debt Service Coverage Ratio of the Obligated Group for the two Fiscal Years immediately following such disposition and assuming such disposition is projected to be less than 1.50, and such disposition will increase the Projected Debt Service Coverage Ratio in such two Fiscal Years; (e) As part of a merger, consolidation, sale or conveyance permitted by the Master Indenture; (f) In the ordinary course of business; (g) To any Person in connection with an operating lease of Property to such Person; (h) Upon fair and reasonable terms no less favorable than would be obtained in a comparable arms-length transaction, if following such transfer the proceeds received by the transferor are applied to acquire additional Property, Plant and Equipment or are applied to repay the principal of Indebtedness of any Member; (i) In the case of dispositions of cash or cash equivalents, as a loan to any Person provided that in the case of any loan the principal amount of which exceeds \$500,000, the Master Trustee shall have received an Officer's Certificate certifying that (A) such loan has been evidenced in writing, (B) such loan bears interest at a

reasonable interest rate and (C) there is a reasonable expectation that such loan will be repaid in accordance with its terms; or (j) In connection with a “lease and leaseback,” “sale-sale,” “sale and leaseback” or similar arrangement that would be treated as and constitute a true sale and leaseback under the Code or entered into by any Member with a Related Obligation Issuer in connection with the issuance or incurrence of a series of Related Obligations.

No such sale, lease or disposition described in paragraphs (c), (d), (e), (h) and (j) above shall be permitted unless the Unsecured Debt Ratio would be at least 1.25 following such sale, lease or disposition or, if less than 1.25, not less than it was immediately prior to such sale, lease or disposition.

Consolidation, Merger, Sale or Conveyance. (a) Each Member covenants that it will not merge or consolidate with any other Person that is not a Member or sell or convey all or substantially all of its assets to any Person that is not a Member unless:

(i) Either it will be the surviving corporation, or the successor corporation (if other than a Member of the Obligated Group) shall be a Person organized and existing under the laws of the United States of America or a state thereof and such Person shall become a Member and expressly assume the due and punctual payment of the principal of, premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a Related Supplement satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such Person;

(ii) If all amounts due or to become due on any Outstanding Related Obligation which bears interest that is not includable in gross income under the Code have not been fully paid to the holder thereof, the Master Trustee shall have received an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Obligation, would not cause the interest payable on such Related Obligations to become includable in gross income under the Code or adversely affect the validity of such Related Obligation;

(iii) the Master Trustee shall have received an Officer’s Certificate to the effect that (1) immediately after such merger, consolidation or sale, all Indebtedness Outstanding shall not exceed 60% of Capitalization, or (2) the Total Net Revenues for the most recent Fiscal Year divided by the Maximum Annual Debt Service Requirement (both computed as if the proposed transaction had occurred at the beginning of such Fiscal Year) is not less than 1.30, or (3) the Historical Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year computed as if the proposed transaction had occurred at the beginning of such Fiscal Year was not less than 1.10 and the Projected Debt Service Coverage Ratio for each of the two Fiscal Years succeeding the date of such transaction, giving effect to such transaction, is not less than 1.20 or if such Projected Debt Service Coverage Ratio is less than 1.20, the Projected Debt Service Coverage Ratio is greater than it is projected to be assuming the transaction is not completed;

(iv) Immediately after such consolidation, merger, sale or conveyance, the Unsecured Debt Ratio is at least 1.25 or, if less than 1.25, not less than it was immediately prior to such consolidation, merger, sale or conveyance;

(v) The Master Trustee shall have received an Officer’s Certificate to the effect that immediately following such transaction the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed under the Master Indenture; and

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

Filing of Financial Statements, Certificate of No Default, Other Information. The Corporation and each Member covenants that it will:

(a) As soon as practicable but in no event later than 5 months after the end of each Fiscal Year, file, or cause to be filed, with the Master Trustee (i) a combined or consolidated revenue and expense statement of the Corporation and each other Member, along with combining entries eliminating material inter-company balances and transactions, for such Fiscal Year and (ii) a combined or consolidated balance sheet presented on the basis described in (i) above as of the end of such Fiscal Year, each accompanied by the certificate or opinion of an Accountant.

(b) As soon as practicable but in no event later than 5 months after the end of each Fiscal Year, file with the Master Trustee, and with each Obligation Holder who may have so requested or in whose behalf the Master Trustee may have so requested, an Officer's Certificate and a report of an Accountant stating the Historical Debt Service Coverage Ratio for such Fiscal Year and stating whether or not to the best knowledge of the signers such Member is in default in the performance of any covenant contained in the Master Indenture, and, if so, specifying each such default of which the signers may have knowledge.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated group of companies of which it is a member) as the Master Trustee may reasonably request, excluding specifically donor records, patient records and personnel records and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request.

(d) Within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

Insurance

Required Insurance Coverage. Each Member agrees that it will maintain, or cause to be maintained, insurance covering such risks and in such amounts as, in its reasonable judgment, is adequate to protect it and its Property and operations, including (to the extent that such Member is a health care institution) professional liability or medical malpractice insurance. The insurance required to be maintained pursuant hereto shall be subject to the review of an Insurance Consultant who shall prepare and file with the Master Trustee a report on the adequacy of such insurance once every two years. Each Member agrees that it will follow any recommendations of the Insurance Consultant.

Self-Insurance. In lieu of maintaining the insurance policies as required above, Members may self-insure any of the required coverages (or a portion thereof), provided the Master Trustee receives a report of an Insurance Consultant to the effect that such self-insurance is consistent with proper management and insurance practices. If Members elect to self-insure in lieu of maintaining medical liability and malpractice insurance, a report of an Insurance Consultant shall be filed with the Master Trustee annually stating that such Insurance Consultant had reviewed the self-insurance program and that the program is actuarially sound.

Disposition of Insurance and Condemnation Proceeds. If any insured Property is damaged or condemned and the proceeds of an insurance or condemnation award (excluding proceeds or awards derived from Property subject to a Permitted Lien which requires payment on a priority basis) do not exceed 10% of the Value of the Obligated Group's Property, Plant and Equipment (as shown or derived from the most recent financial statements), the proceeds of insurance will be paid directly to the Member sustaining the loss, which will promptly proceed with the repair of such Property; provided, however, that the Obligated Group may apply the insurance proceeds for any lawful corporate purpose, and will not be required to repair or replace the damaged property, if there is filed with the Master Trustee an Officer's Certificate stating that such application will not adversely affect Net Operating Revenues. If such Proceeds (excluding proceeds derived from Property subject to a Permitted Lien which requires payment on a priority basis) exceed 10% of the Value of the Obligated Group's Property, Plant and Equipment (as shown or derived from the most recent audited financial statements of the Obligated Group),

proceeds not subject to the prior Lien will be paid to the Master Trustee and the Obligated Group may elect to have such proceeds applied (i) to the repair, reconstruction, restoration or replacement of the damaged or condemned Property, (ii) as a partial prepayment of Obligations, equally and ratably, or (iii) to the acquisition, construction or improvement of additional Property, Plant and Equipment.

Limitations on Incurrence of Additional Indebtedness

Short-Term Indebtedness. Each Member agrees that it will not incur any Additional Indebtedness constituting Short-Term Indebtedness (other than Balloon Indebtedness) unless (a) immediately after the incurrence of such Short-Term Indebtedness, the principal amount of all such Short-Term Indebtedness Outstanding does not exceed 15% of the Total Adjusted Operating Revenues for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available, and (b) (1) during the 13 months immediately preceding the incurrence of such Short-Term Indebtedness there has been a period of at least 30 consecutive days in which the principal amount of Outstanding Short-Term Indebtedness did not exceed 3% of Total Adjusted Operating Revenues; provided, however, that failure to so reduce the principal amount of Outstanding Short-Term Indebtedness shall not constitute an Event of Default if the Member incurring such Indebtedness files with the Master Trustee a Consultant's report to the effect that applicable laws or regulations, modifications to public or private third-party reimbursement programs or delays in payments by third-party payors have prevented or will prevent the achievement of such debt service coverage ratios and the Members of the Obligated Group have generated the maximum reduction in Short-Term Indebtedness which in the opinion of such Consultant could reasonably have been generated given such laws and regulations and programs during the period affected thereby, or (2) any such Short-Term Indebtedness could be incurred pursuant to Master Indenture treating such Short-Term Indebtedness as Long-Term Indebtedness.

Long-Term Indebtedness. Each Member agrees that it will not incur any Additional Indebtedness constituting Long-Term Indebtedness, including, without limitation, Indebtedness with a variable interest rate, unless all Indebtedness Outstanding shall not exceed 60% of Capitalization or such Additional Indebtedness consists of one or more of the following:

(a) Long-Term Indebtedness if prior to the incurrence thereof there is delivered to the Master Trustee an Officer's Certificate, accompanied in the case of reliance on clause (ii) (B) by a Consultant's report and a Pro Forma Statement, to the effect that:

(i) the ratio determined by dividing Total Net Revenues of the most recent Fiscal Year for which audited financial statements of the Obligated Group are available by Maximum Annual Debt Service on all Long-Term Indebtedness to be Outstanding after the incurrence of such Additional Indebtedness is not less than 1.30; or

(ii) (A) the Historical Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available was not less than 1.10, and (B) (1) the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, (x) in the case of Additional Indebtedness (other than a Guaranty) to finance capital improvements, for each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation, or (y) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, for each of the two Fiscal Years succeeding the date on which the Indebtedness or Guaranty is incurred, is not less than 1.20 and (2) the revenues and cash flow of the Obligated Group are projected to be sufficient to meet the proposed operating expenses of the Obligated Group (including debt service with respect to all Outstanding Indebtedness) during such two Fiscal Years, as shown by a Pro Forma Statement prepared by a Consultant delivered to the Master Trustee along with the Officer's Certificate; or

(iii) the aggregate principal amount of Long-Term Indebtedness incurred and Outstanding pursuant to this subsection including such Additional Indebtedness does not exceed 15% of Total Adjusted Operating Revenues for the most recent Fiscal Year for which the audited financial statements of the Obligated Group are available.

Debt issued under one clause of subsection (a) above may be reclassified to another clause of such subsection provided that the Corporation delivers to the Master Trustee an Officer's Certificate showing compliance with the provisions of such clause calculated as if such Indebtedness was incurred on the date of such Officer's Certificate for the purpose of refinancing such Indebtedness.

The requirements of (a)(ii)(A) and (B)(1) above will be deemed satisfied if (i) a Consultant's report filed with the Master Trustee contains an opinion of such Consultant that applicable laws or regulations have prevented or will prevent the achievement of such debt service coverage ratios, (ii) the members of the Obligated Group have generated the maximum amount of Total Net Revenues which in the opinion of such Consultant could reasonably have been generated given such laws and regulations during the period affected thereby, and (iii) both the Historical and Projected Debt Service Coverage Ratios calculated under subsection (ii) above were at least 1.00.

(b) Completion Indebtedness.

(c) Long-Term Indebtedness which is incurred solely for the purpose of funding a debt service reserve fund to secure Outstanding Indebtedness.

(d) Long-Term Indebtedness incurred for the purpose of refunding any Long-Term Indebtedness if prior to incurrence thereof an Officer's Certificate is delivered to the Master Trustee stating that, taking the proposed Long-Term Indebtedness and the refunding of the existing Long-Term Indebtedness into account, Maximum Annual Debt Service will not be increased by more than 10% or total debt service on the new debt will not be greater than 110% of the debt so refunded.

(e) Subordinated Indebtedness or Non-Recourse Indebtedness.

(f) Liabilities incurred pursuant to reimbursement agreements relating to letters or lines of credit or similar credit facilities used to secure Indebtedness.

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 unless the principal amount of such Guaranty is a sum certain and such Guaranty could then be incurred as Indebtedness under the Master Indenture, so long as any such Guaranty is a contingent liability under generally accepted accounting principles, 20% of the annual debt service on the indebtedness being guaranteed (determined in a manner as nearly as practicable to the determination of Debt Service Requirement under the Master Indenture) shall be added to the computation of Debt Service Requirement and 20% of the principal amount of the indebtedness being guaranteed shall be considered Outstanding Indebtedness of the Obligated Group. If any such Guaranty becomes a noncontingent liability, during the period such Guaranty is a noncontingent liability and for two years after such Guaranty again becomes a contingent liability, 100% of the annual debt service on the indebtedness being guaranteed shall be added to the computation of Debt Service Requirement and 100% of the principal amount of the indebtedness being guaranteed shall be considered Outstanding Indebtedness of the Obligated Group.

Debt Service on Balloon Indebtedness. For purposes of covenants and computations required or permitted pursuant to the Master Indenture, Balloon Indebtedness shall be assumed to be Long-Term Indebtedness, the Outstanding principal amount of which is payable over a term of 25 years from the date of calculation thereof, bearing interest at the Prevailing Rate (or, if greater, at the actual interest rate payable on such Balloon Indebtedness) and payable in equal annual installments of principal and interest until 18 months prior to the maturity or due date with respect to such Balloon Indebtedness at which time such Balloon Indebtedness shall be assumed to be payable in accordance with its terms unless there shall have been obtained a binding commitment on commercially reasonable terms of a responsible financial institution acceptable to the Master Trustee to refinance the portion of such Indebtedness coming due within such 18 month period, including, without limitation, a letter of credit or a line of credit.

Default and Remedies

Events of Default. The term “Event of Default,” as used in the Master Indenture, shall mean any of the following events:

(a) The failure to make any payment of principal of, premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture or on any Related Obligations within 5 business day of when and as the same becomes due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms of the Master Indenture, any Related Supplement or any Related Obligation Indenture;

(b) The failure of any Member to duly observe or perform any covenant or agreement under the Master Indenture or any Related Supplement for a period of 60 days (or such longer period as permitted in writing by the Master Trustee) after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group by the Master Trustee, or to the Members of the Obligated Group and the Master Trustee by the holders of at least 25% in aggregate principal amount of Obligations then Outstanding; provided, however, that if the failure shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if such failure is not the result of financial inability to comply, if such failure can be corrected, and if corrective action is instituted within such period and diligently pursued until the failure is corrected (as to which efforts the Master Trustee shall be advised from time to time) or until 60 days after such default can be corrected;

(c) A default by any Member in the payment of any Indebtedness for borrowed moneys (other than Obligations issued and Outstanding under the Master Indenture, Indebtedness incurred under a Related Obligation Indenture or loan agreement relating thereto or Outstanding Non-Recourse Indebtedness) in an aggregate principal amount in excess of 1.0% of Total Adjusted Operating Revenues of the Obligated Group, (as shown on combined financial statements of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available), whether such Indebtedness now exists or shall hereafter be created, and after any grace period with respect thereto shall have expired, or the occurrence of an event of default as defined in any mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if payment of such Indebtedness has not been accelerated under the terms of payment of such Indebtedness or if within 30 days, or within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the Indebtedness, any Member in good faith commences proceedings to contest the obligation to pay or the existence or payment of such Indebtedness;

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Member a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the Federal Bankruptcy Code or any other applicable federal or state laws or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days;

(e) The institution of proceedings by any Member to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due; and

(f) The breach of any representation or warranty made in, or in connection with, any Related Supplement;

Provided, however, that an event with respect to a single Member described in paragraphs (d) and (e) above shall not be an Event of Default if there should be compliance by the remaining Members of the Obligated Group with the general covenants, insurance covenants, and limitations on incurrence of additional indebtedness contained in the Master Indenture, and an Officer's Certificate of the Corporation as to such compliance is delivered to the Master Trustee within 60 days of the Master Trustee's receipt of notice of the existence of such an event.

Acceleration; Annulment of Acceleration. (a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, (i) the Master Trustee may, by notice to the Members, declare all Obligations Outstanding immediately due and payable; (ii) if the holders of not less than 25% in aggregate principal amount of any series of Outstanding Obligations, shall deliver a written request to the Master Trustee, the Master Trustee shall, by notice to the Members, declare all Outstanding Obligations of such series immediately due and payable; or (iii) in the case of an Event of Default set forth in subsection (a) of "Default and Remedies" above or an Event of Default due to the breach of any covenant relating to the tax-exempt status or validity of any Related Obligations, if any holder of an Obligation which, by the terms of the Related Supplement has been given the right to cause the acceleration of such Obligation (such Obligation being herein referred to as an "Accelerable Obligation" and such Event of Default being an "Acceleration Event"), shall deliver a written request to the Master Trustee, the Master Trustee shall, by notice to the Members, declare the Accelerable Obligation immediately due and payable.

(b) At any time after an Obligation has been declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by its terms upon satisfaction of the conditions contained in the Master Indenture.

Additional Remedies and Enforcement of Remedies. (a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the holders of not less than 25% in aggregate principal amount of all Obligations Outstanding or, upon the occurrence and continuance of an Acceleration Event, upon the request of the holder of an Accelerable Obligation, together with (in either event) indemnification of the Master Trustee to its satisfaction therefor, shall, proceed forthwith to protect and enforce its rights and the rights of Obligations Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the holders of not less than 25% in aggregate principal amount of Obligations then Outstanding, shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Obligations Holders not making such request.

Application of Revenues and Other Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances, incurred or made by the Master Trustee with respect thereto shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable: first, to the payment of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available is not 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, without any discrimination or preference; and second, to the payment of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the

payment thereof ratably, according to the amounts of principal installments due on such date, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or interest over principal, or of any installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without discrimination or preference.

Moneys to be applied by the Master Trustee during continuance of an Event of Default under the Master Indenture are to be applied at such times as the Master Trustee determines, having due regard for the amount available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee applies such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee will give such notice as it may deem appropriate of the deposit with it of such moneys and of the filing of any such date.

Remedies Vested in the Master Trustee. All rights of action under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto.

Obligation Holders Control. If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the holders of at least a majority in aggregate principal amount of Obligations then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture 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 Obligation Holders not joining in such direction and provided further that nothing in this Section shall impair the right of the Master Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by Obligation Holders.

Waiver of Event of Default. The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture. Upon the written request of the holders of at least a majority in aggregate principal amount of Obligations then Outstanding, the Master Trustee shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in subparagraph (b) of "Acceleration; Annulment of Acceleration" above, a default in the payment of the principal of, premium, if any, or interest on any Obligations, when the same shall become due or upon call for redemption, may not be waived without the written consent of the holders of all Obligations at the time Outstanding.

Related Supplements and Amendments

Related Supplements Not Requiring Consent of Obligation Holders. The Corporation, on behalf of each Member of the Obligated Group, and the Master Trustee may, without consent of or notice to any of the Holders, enter into one or more supplements for one or more of the following purposes: (a) to cure any ambiguity or formal defect or omission in the Master Indenture; (b) to correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, 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 that may lawfully be granted or conferred upon them subject to the provisions of "Related Supplements Requiring Consent of Obligation Holders"; (d) to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect; (e)

to create and provide for the issuance of Obligations as permitted under the Master Indenture; or (f) to obligate a successor to the Corporation or other Member of the Obligated Group as provided for in the Master Indenture.

Related Supplements Requiring Consent of Obligation Holders. The Obligation Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, to consent to and approve the execution by the Corporation and the Master Trustee of such Related Supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, this shall not permit or be construed as permitting a Related Supplement which would: (a) 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 payable on any Obligation without the consent of the Holder of such Obligation; (b) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture which would materially and adversely affect the interests of Obligation Holders or any of them without the consent of the holders of all Obligations then Outstanding; or (c) 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.

Satisfaction and Discharge

Satisfaction and Discharge of Master Indenture. If all Members deliver to the Master Trustee for cancellation all Outstanding Obligations, or all Obligations shall have become due and payable and paid, or the Members deposit with the Master Trustee as trust funds the entire amount of moneys or Qualified Investments, or both, together with earnings thereon, sufficient to pay at maturity or upon redemption all Outstanding Obligations including principal of, premium, if any, and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in either case the Members of the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members of the Obligated Group, then the Master Indenture shall cease to be of further effect.

SUPPLEMENTAL MASTER INDENTURE

General

The Supplemental Master Indenture (“Supplement No. 10”) provides for the issuance of Obligation No. 10, pursuant to the Master Indenture, and provides the terms and form thereof.

The following is a summary of certain provisions of Supplement No. 10 relating to Obligation No. 10. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of Supplement No. 10.

Payments on Obligation No. 10; Credits

Principal of and interest and any applicable redemption premium on Obligation No. 10 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts.

The Corporation shall receive credit for payment on Obligation No. 10, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) On installments of interest on Obligation No. 10 in an amount equal to moneys deposited in the Interest Account created under the Bond Indenture to the extent such amounts have not previously been credited against payments on Obligation No. 10 or any other Obligation;

(ii) On installments of principal of Obligation No. 10 in an amount equal to moneys deposited in the Principal Account created under the Bond Indenture to the extent such amounts have not previously been credited against payments on Obligation No. 10 or any other Obligation;

(iii) On installments of principal of and interest on Obligation No. 10 in an amount equal to, respectively, the principal amount of Bonds for the redemption or payment of which sufficient amounts in cash or United States Government Obligations are on deposit as provided in the section of the Bond Indenture regarding deposit of money or securities to the extent such amounts have not been previously credited against payments on Obligation No. 10 or any other Obligation, and the interest on such Bonds payable from such cash or United States Government Obligations and from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest on Obligation No. 10 that would have been used, but for such payment or redemption, to pay principal of and interest on such Bonds when due at maturity or upon mandatory redemption; and

(iv) On installments of principal of and interest on Obligation No. 10 in an amount equal to, respectively, the principal amount of Bonds delivered to the Bond Trustee for cancellation or purchased by the Bond Trustee and canceled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 10 which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due and with respect to Bonds called for mandatory redemption, against principal installments that would have been used to pay Bonds of the same maturity.

Prepayment of Obligation No. 10

So long as all amounts that have become due under Obligation No. 10 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 10; provided that in no event shall Obligation No. 10 be prepaid unless a corresponding amount of Bonds are also redeemed. Prepayments may be made by payments of cash or surrender of the Bonds, as contemplated by the preceding section.

Proposed Amendments to Master Indenture

Supplement No. 10 provides that the Holder of Obligation No. 10 (the Bond Trustee), by acceptance of Obligation No. 10, agrees that it will, at the request of the Corporation, consent to all or any portion of certain amendments to the Master Indenture (the “Proposed Amendments”) in substantially the form set forth in Supplement No. 10 (or similar amendments to the Master Indenture necessary to effectuate the intent of the Proposed Amendments). The Proposed Amendments are:

1. Proposed Amendments to take interest rate swaps and other financial products into account in certain calculations under the Master Indenture:

(a) The following definitions would be added to the Master Indenture:

“Financial Products Agreement” means an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Trustee in an Officer’s Certificate as having been entered into by a Member of the Obligated Group with a Qualified Provider (a) for investment purposes or (b) with respect to Indebtedness for the purpose of (1) reducing or otherwise managing the Member of the Obligated Group’s risk of interest rate changes or (2) effectively converting the Member of the Obligated Group’s interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

“Financial Product Payments” means regularly scheduled payments required to be paid to a counterparty by a Member of the Obligated Group pursuant to a Financial Products Agreement.

“Financial Product Receipts” means regularly scheduled payments required to be paid to a Member of the Obligated Group by a counterparty pursuant to a Financial Products Agreement.

“Financial Product Extraordinary Payments” means payments required to be paid to a counterparty by a Member of the Obligated Group pursuant to a Financial Products Agreement in connection with the termination thereof and any other payments or indemnification obligations to be paid to a counterparty by a Member of the Obligated Group under a Financial Products Agreement, which payments are not Financial Product Payments.

“Qualified Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees or otherwise assures the performance of such financial institution or insurance company under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor or assuring parent or subsidiary), in the case of Financial Products Agreements rated in one of the three highest rating categories of a national rating agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

(b) The definition of “Debt Service Requirements” would be amended by adding the following to the end of the existing definition:

provided that if a Financial Products Agreement has been entered into by any Member of the Obligated Group with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service.

2. Proposed Amendments to Permit Obligations to be issued under the Master Indenture to secure interest rate swaps and other contractual obligations that do not constitute “Indebtedness.”

(a) A new definition of “Required Payment” would be added to read as follows:

“Required Payment” means any payment, whether at maturity, by acceleration, upon proceeding for redemption or otherwise, including without limitation, Financial Product Payments, Financial Product Extraordinary Payments, and the purchase price of Related Obligations tendered or deemed tendered for purchase pursuant to the terms of a Related Obligation Indenture, required to be made by any Obligated Group Member under this Master Indenture, any Related Supplement or any Obligation.

(b) The definition of “Obligation” would be amended to read as follows:

“Obligation” means any obligation of the Obligated Group issued pursuant to Article II hereof, as a joint and several obligation of each Member of the Obligated Group, which may be in any form set forth in a Related Supplement, including, but not limited to, bonds, notes, obligations, debentures, reimbursement agreements, loan agreements, Financial Products Agreements or leases.

(c) The definition of “Additional Indebtedness” would be amended to read as follows:

“Additional Indebtedness” shall mean any Indebtedness incurred by any Member of the Obligated Group, subsequent to its becoming a Member of the Obligated Group.

(d) The provision of the Master Indenture relating to the form of Supplemental Master Indenture authorizing the issuance of an Obligation would be amended to add the following:

Each Related Supplement authorizing the issuance of a Obligation shall specify and determine the principal, notional or reference amount of such Obligation (which, if such Obligation does not evidence or secure Indebtedness, shall be equal to (i) in the case of an Obligation securing or evidencing a Financial Products Agreement, the Financial Product Extraordinary Payment payable by a Member of the Obligated Group upon termination thereof, and (ii) in the case of any other Obligation not evidencing or securing Indebtedness, the amount payable by the Members of the Obligated Group periodically or in the aggregate pursuant to such Obligation).

(e) The provisions of the Master Indenture relating to the conditions to issuing an Obligation would be revised to provide that the Master Indenture provisions restricting the issuance of Additional Indebtedness need be satisfied only if the Obligation evidences or secures Indebtedness.

(f) The Events of Default under the Master Indenture would be amended by replacing the Event of Default described above under “Master Indenture - Default and Remedies - Events of Default with the following:

(a) Failure on the part of the Obligated Group Members to make due and punctual payment of the principal of, redemption premium, if any, interest on or any other Required Payment on any Obligation.

(g) The provisions of the Master Indenture described above under “Master Indenture – Default and Remedies - Application of Revenues and Other Moneys After Default” would be replaced with the following:

During the continuance of an Event of Default, all moneys received by the Trustee pursuant to any right given or action taken under the provisions of this Article (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of this Article):

First: To the payment of all installments of interest then due on the Obligations, including Financial Product Payments, in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments and Financial Product Payments due on the same date, then to the payment thereof ratably, according to the amounts of interest and Financial Product Payments due on such date, without any discrimination or preference; and

Second: To the payment of all installments of principal then due on the Obligations (whether at maturity or by call for redemption) and Financial Product Extraordinary Payments in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments and Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of principal due and Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of this Article), to the payment of the principal and interest and other payments (including Financial Product Payments and Financial Product Extraordinary Payments) then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest

over principal, of any installment or payment over any other installment or payment or of any Obligation over any other Obligation, according to the amounts due respectively, without any discrimination or preference.

Such moneys shall be applied at such times as the Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation (and all unmatured interest coupons, if any) is presented to the Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Members of the Obligated Group or such Person as a court of competent jurisdiction may direct.

3. Amendments to permit Obligations not evidencing or securing Indebtedness to be secured by liens on Property.

(a) The definition of “Unsecured” would be amended to read as follows:

“Unsecured,” when used in connection with any Indebtedness or Obligation, shall mean not secured by a Lien or, if secured by a Lien, that proportion of such Indebtedness or Obligation equal to the same proportion of such Indebtedness or Obligation by which, at that date on which the Lien was granted, the amount of such Indebtedness or Obligation exceeded the Value of the Property securing such Indebtedness or Obligation as determined in good faith by the Corporation. For the purpose of this definition general obligation Indebtedness shall be considered Unsecured Indebtedness.

(b) The definition of “Unsecured Debt Ratio” would be amended to read as follows:

“Unsecured Debt Ratio” shall mean as of any date of calculation, the ratio determined by dividing the Value of all Unencumbered Property of the Members of the Obligated Group by the aggregate principal amount (or in the case of original issue discount Indebtedness, amounts other than amounts classified as a direct deduction from the face amount of such Indebtedness determined in accordance with generally accepted accounting principles) of all Unsecured Long Term Indebtedness and Obligations of the Members of the Obligated Group then Outstanding.

(c) Clause (xii) of the definition of “Permitted Liens” would be amended to read as follows:

(xii) Any Liens on Property securing Indebtedness or Obligations, provided that the Unsecured Debt Ratio will be at least 1.25 immediately following the incurrence of such Lien;

4. Amendments to Revise the Definition of “Net Revenues.”

The definition of “Net Revenues” would be amended to read as follows:

“Net Revenues” shall mean, with respect to any period of time, excess of revenues over expenses, or, in the case of for profit entities, net income after tax, as determined in accordance with generally accepted accounting principles, to which shall be added depreciation, amortization, and interest expense on Long Term Indebtedness, and from which shall be excluded any revenues or expenses of any person which is not a Member of the Obligated Group; provided that no such determination shall include (1) any gain or loss resulting from (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) any discontinued operations or (d) adjustments to

the value of assets or liabilities resulting from changes in generally accepted accounting principles, (2) unrealized gains on marketable securities held by a Member of the Obligated Group as of the last date of such period of time, (3) unrealized losses on marketable securities held by a Member of the Obligated Group as of the last date of such period of time or (4) any nonrecurring items which do not involve the receipt, expenditure or transfer of assets.

5. Amendments to Provisions Relating to Amendment of Master Indenture.

Clause (b) in the paragraph described under “Master Indenture - Related Supplements Requiring Consent of Obligation Holders” would be deleted.

BOND INDENTURE

General

The Bond Indenture sets forth the terms of the Bonds authorized thereunder, the application of such Bond proceeds, the nature and extent of the security for the Bonds, various rights of the Bondholders, rights, duties and immunities of the Bond Trustee and the rights and obligations of the Authority. Certain provisions of the Bond Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions “THE BONDS” and “SECURITY AND SOURCE OF PAYMENT FOR THE BONDS.” This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Bond Indenture.

Pledge and Assignment; Revenue Fund

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture, there are pledged to secure the payment of the principal (and Redemption Price) of and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture (other than the Rebate Fund). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged and all of the right, title and interest of the Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, (ii) any rights of the Authority to indemnification, (iii) the obligation of the Corporation to make deposits pursuant to the Tax Certificate and (iv) as otherwise expressly set forth in the Loan Agreement) and Obligation No. 10. The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee. The Bond Trustee shall also be entitled to and, subject to the provisions in the Bond Indenture, shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement and all of the obligations of the Members under Obligation No. 10 other than for those rights retained by the Authority.

Allocation of Revenues

On or before the Business Day next preceding each Interest Payment Date or Principal Payment Date, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee shall establish and maintain within the Revenue Fund), the following amounts, in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

First: to the Interest Account, the aggregate amount of interest becoming due and payable the next Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said aggregate amount of interest; and

Second: to the Principal Account, the aggregate amount of principal becoming due and payable on the next Principal Payment Date on the Outstanding Serial Bonds plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into each Sinking Account for Outstanding Term Bonds on the next Principal Payment Date, until the balance in said Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments; and

Third: if funding of the Reserve Account is then required pursuant to the Bond Indenture, (i) one-twelfth of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn), provided that no deposit need be made into the Reserve Account if the balance in said account is at least equal to the Reserve Account Requirement, and (ii) in the event the balance in said account shall be less than the Reserve Account Requirement due to valuation of the Investment Securities deposited therein in accordance with the Bond Indenture, the amount necessary to increase the balance in said account to an amount at least equal to the Reserve Account Requirement (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount).

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to the Corporation as an overpayment of Loan Repayments.

Application of Interest Account

All amounts in the Interest Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

Application of Principal Account

All amounts in the Principal Account shall be used and withdrawn by the Bond Trustee solely for the purpose of paying the principal of the Bonds when due and payable, except that all amounts in a Sinking Account shall be used and withdrawn by the Bond Trustee to purchase or redeem or pay at maturity Term Bonds, as provided in the Bond Indenture.

The Bond Trustee shall establish and maintain within the Principal Account separate subaccounts for each maturity of Term Bonds designated as the “_____ Sinking Account.” With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Bond Trustee shall transfer the amount deposited in the Principal Account pursuant to the Bond Indenture for the purpose of making a Mandatory Sinking Account Payment from the Principal Account to the applicable Sinking Account. On each Mandatory Sinking Account Payment date, the Bond Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds of the maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Bond Indenture; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee shall apply such moneys to the purchase of Bonds of such maturity 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 Account) as the Corporation may direct, in writing, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds of the maturity for which such Sinking Account was established with moneys in the Sinking Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of such maturity with the Bond Trustee, or Bonds of such maturity were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited as described in this section shall be delivered to the Bond Trustee and cancelled. Any amounts remaining in the Sinking Account when all of the Bonds of the maturity for which such Sinking Account was established are no longer Outstanding shall be withdrawn by the Bond Trustee and transferred to the Revenue Fund. All Bonds purchased from the Sinking Account or deposited by the Corporation with the Bond Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then to the remaining Mandatory Sinking Account Payments as the Corporation directs.

Application of Redemption Fund

The Bond Trustee shall establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account and shall accept all moneys deposited for redemption and shall deposit such moneys into said accounts, as applicable. All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon written direction of the Corporation, apply such amounts to the purchase of Bonds 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 Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds (or, if such Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation.

Application of Reserve Account

The Reserve Account shall not be initially funded. Within thirty (30) days of the occurrence of a Reserve Account Funding Event, the Corporation shall, pursuant to the Loan Agreement, deposit in the Reserve Account an amount equal to the Reserve Account Requirement. All amounts in the Reserve Account shall be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account or (together with any other money available therefor) for the redemption of all Bonds then Outstanding. Amounts on deposit in the Reserve Account shall be valued by the Bond Trustee at their market value annually, and the Bond Trustee shall notify the Corporation of the results of such valuation. If the amount on deposit in the Reserve Account on any day following such valuation is less than the Reserve Account Requirement, the Corporation shall make the deposits to the Reserve Account required by the Bond Indenture.

Investment of Moneys in Funds and Accounts

All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested and reinvested by the Bond Trustee upon the written direction of the Corporation solely in Investment Securities. The Bond Trustee shall acquire such Investment Securities upon written direction of the Corporation at such prices and on such terms as directed by the Corporation. The Bond Trustee shall be entitled to rely upon any investment direction provided to it under the Bond Indenture as a certification to the Bond Trustee that such investment constitutes an Investment Security. In the absence of written investment directions from the Corporation, the Bond Trustee shall invest solely in Investment Securities set forth in the Bond Indenture. All

Investment Securities shall be acquired subject to the limitations set forth in the tax covenants section of the Bond Indenture, the section in the Bond Indenture on limitations as to maturities and the section regarding investment of moneys in funds and accounts, and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation.

Moneys in the Reserve Account shall be invested in Investment Securities with a maturity of not to exceed the final maturity date of the Bonds. Moneys in all other funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Bond Indenture. Investment Securities purchased under a repurchase agreement or constituting an investment contract may be deemed to mature on the date or dates on which the Bond Trustee may deliver such Investment Securities for repurchase under such agreement. Investment Securities that are registrable securities shall be registered in the name of the Bond Trustee or its nominee.

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Bond Indenture shall be deposited when received in the Revenue Fund. An amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Events of Default

Events of Default under the Bond Indenture include: (A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable; (B) default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable; (C) default in any material respect by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Bond Indenture or in the Bonds, if such default shall have continued for a period of 60 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Bond Trustee, or the Holders of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; or (D) a Loan Default Event.

Acceleration of Maturities

Whenever any Event of Default referred to in the Events of Default section of the Bond Indenture shall have happened and be continuing, the Bond Trustee may take the following remedial steps:

(A) In the case of an Event of Default of the type described in clauses (A) or (B) under “Events of Default” above, the Bond Trustee may, and upon the written direction of Holders of not less than a majority in aggregate principal amount then Outstanding, shall notify the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 10 and request the Master Trustee in writing to give notice to the Members pursuant to the “Acceleration; Annulment of Acceleration” section of the Master Indenture declaring the principal of all Obligations issued under the Master Indenture then Outstanding to be due and immediately payable. Upon such declaration by the Master Trustee, the Bond Trustee, shall declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 10;

(B) In the case of an Event of Default of the type described in clause (C) under “Events of Default” above, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Bond Indenture; and

(C) In the case of an Event of Default described in clause (D) under “Events of Default” above, the Bond Trustee may take whatever action the Authority would be entitled to take, and shall take whatever

action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Notwithstanding any other provision of the Bond Indenture or any right, power or remedy existing at law or in equity or by statute, the Bond Trustee shall not under any circumstance in which an Event of Default has occurred declare the entire unpaid aggregate principal amount of the Bonds Outstanding to be immediately due and payable except in the event that the Master Trustee shall have declared the principal amount of Obligation No. 10 and all interest due thereon immediately due and payable in accordance with the Master Indenture.

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, the Authority or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal or Redemption Price of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 10 has been annulled pursuant to the Master Indenture and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall effect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Bondholders' Direction of Proceedings

Anything in the Bond Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method of conducting all remedial proceedings taken by the Bond Trustee under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction that in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond 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 Bond Indenture, the Loan Agreement, Obligation No. 10, or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have tendered to the Bond Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of 30 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

Modification or Amendment of the Bond Indenture

The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into with the written consent of the Corporation when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the rate of interest thereon, or change the method of determining the rate of interest thereon, or extend the time of payment of

interest thereon or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds 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 Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Bond Trustee of any Supplemental Bond Indenture pursuant to the Bond Indenture, the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Bond Indenture, which the Authority and the Bond Trustee may enter into, but without the consent of any Bondholders, but with the written consent of the Corporation, but only to the extent permitted by law and only for any one or more of the following purposes: (1) to add to the covenants and agreements of the Authority in the Bond Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds; (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 Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Authority, the Corporation or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds; (3) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification hereof 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 shall not materially adversely affect the interests of the Holders of the Bonds; (4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of the interest on the Bonds, including the amendment of any Tax Certificate and Agreement; or (5) to make any other changes which will not materially adversely affect the interests of the Holders of the Bonds.

Discharge of Bond Indenture

The Bonds may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways: (a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable; (b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the section of the Bond Indenture regarding deposit of money or securities with Bond Trustee) to pay when due or redeem all Bonds then Outstanding; or (c) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

Deposit of Money or Securities with Bond Trustee

The money or securities to be deposited or held to pay or redeem Bonds may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice,

the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(b) United States Government Obligations (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Bond Indenture or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice;

provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bond, and provided further, that with respect to the deposit of United States Government Obligations pursuant to subsection (b) above, the Bond Trustee shall have received (i) a verification report from a firm of independent accountants addressed to the Authority and the Bond Trustee acceptable in form and substance to the Bond Trustee to the effect that the amount deposited is sufficient to make the payments specified therein, (ii) an escrow deposit agreement in form and substance acceptable to the Bond Trustee, and (iii) an opinion of nationally recognized bond counsel addressed to the Authority and the Bond Trustee acceptable in form and substance to the Bond Trustee to the effect that the Bonds are no longer Outstanding under the Bond Indenture.

LOAN AGREEMENT

General

The Loan Agreement is an agreement between the Authority and the Corporation, whereby the Authority agrees to lend the proceeds of the Bonds to the Corporation and the Corporation agrees to make payments to the Bond Trustee sufficient to pay debt service on such Bonds. Such payments will be made pursuant to Obligation No. 10.

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.

Payments

Payments of Principal, Premium and Interest. In consideration of the loan of proceeds of the Bonds to the Corporation, the Corporation agrees that, on or before second Business Day next preceding each Interest Payment Date and Principal Payment Date and as long as any of the Bonds remain Outstanding, it shall pay to the Bond Trustee for deposit in the Revenue Fund such amount as is required by the Bond Trustee to make the transfers and deposits required under the Bond Indenture. Notwithstanding the foregoing, if on any Interest Payment Date or Principal Payment Date, the aggregate amount in the Revenue Fund (other than the Reserve Account) is for any reason insufficient or unavailable to make the required payments of principal of or interest on the Bonds then becoming due (whether by maturity, redemption, or acceleration), the Corporation shall forthwith pay the amount of any such deficiency to the Bond Trustee. Each payment by the Corporation to the Bond Trustee under the Loan Agreement (the "Loan Repayments") shall be in lawful money of the United States of America and paid to the Bond Trustee at the Corporate Trust Office and held, invested, disbursed and applied as provided in the Bond Indenture.

The Corporation further covenants and agrees that, as soon as practicable and no later than five months after the end of each Fiscal Year, it shall calculate Days Cash on Hand for such Fiscal Year based on the audited financial statements of the Members for such Fiscal Year and deliver a Certificate of the Corporation setting forth such calculations to the Bond Trustee. If such calculations demonstrate that a Reserve Account Funding Event has occurred, the Corporation, within thirty (30) days of the date of delivery of the Certificate of the Corporation to

the Bond Trustee, shall transfer, or cause the Members to transfer, an amount equal to the Reserve Account Requirement to the Bond Trustee for deposit in the Reserve Account.

Additional Payments. In addition to the Loan Repayments, the Corporation shall also pay to the Authority or the Bond Trustee, as the case may be, “Additional Payments,” as follows:

(a) all taxes and assessments of any type or character charged to the Authority or to the Bond Trustee affecting the amount available to the Authority or the Bond Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated hereby (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 Bond Trustee and taxes based upon or measured by the net income of the Bond Trustee; provided, however, that the Corporation shall have the right to protest any such taxes or assessments and to require the Authority or the Bond Trustee, at the Corporation’s expense, to protest and contest any such taxes or assessments levied upon them 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 Authority or the Bond Trustee;

(b) all reasonable fees and expenses of the Bond Trustee for services rendered under the Bond Indenture, as and when the same become due and payable;

(c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Bond Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Loan Agreement, Obligation No. 10 or the Bond Indenture;

(d) the annual fee of the Authority specified in the Loan Agreement and the reasonable fees and expenses of the Authority in connection with the Loan Agreement, Obligation No. 10, the Supplement, the Master Indenture, the Bonds or the Bond Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation which may at any time be instituted involving the Loan Agreement, Obligation No. 10, the Supplement, the Master Indenture, the Bonds or the Bond Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the Corporation, its properties, assets or operations or otherwise in connection with the administration of the Loan Agreement, the Supplement, the Master Indenture or Obligation No. 10.

Obligations Unconditional

The obligations of the Corporation under the Loan Agreement are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, the Supplement, Obligation No. 10, the Master Indenture or the Bond Indenture.

Continuing Disclosure

The Corporation covenants and agrees that it will enter into, comply with and carry out all of the provisions of a disclosure agreement with respect to the Bonds that complies with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission (as amended from time to time, the “Rule”), in form and substance satisfactory to the Participating Underwriters (as defined in the Continuing Disclosure Agreement). Notwithstanding any other provision of the Loan Agreement or the Bond Indenture, failure of the Corporation to enter into and comply with such a disclosure agreement shall not be considered a Loan Default Event or an Event of Default; however, the Bond Trustee may and, at the request of any Participating Underwriter, or the Holders of at least 25% in aggregate principal amount of Outstanding Bonds, shall or any Bondholder or Beneficial Owner may, take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its obligations under the continuing disclosure section of the Loan Agreement.

Events of Default

Each of the following events shall constitute and be referred to as a “Loan Default Event”:

- (a) Failure by the Corporation to pay in full any Loan Repayment on or before the day which such Loan Repayment is due and payable under the Loan Agreement;
- (b) Failure of the Corporation to pay any other payment required under the Loan Agreement when due and payable;
- (c) If any material representation or warranty made by the Corporation in the Loan Agreement or made by the Corporation in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of Obligation No. 10 or the Bonds shall at any time prove to have been incorrect in any respect as of the time made.
- (d) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in sections (a) - (c), or shall breach any warranty by the Corporation contained in the Bond Indenture, for a period of 60-days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Corporation by the Authority or the Bond Trustee; except that, if such failure or breach can be remedied but not within such 60-day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 day period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Bond Trustee.
- (e) Any Event of Default as defined in and under the Bond Indenture; or
- (f) Any Event of Default in and under the Master Indenture.

Remedies in General

Upon the occurrence and during the continuance of any Loan Default Event, the Bond Trustee on behalf of the Authority, at the Bond Trustee’s option, but subject to the limitations in the Bond Indenture as to the enforcement of remedies, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same.

Amendments to Loan Agreement

The Loan Agreement may be amended, changed or modified only as provided in the Bond Indenture.

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APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by John Muir Health (the "Corporation") and The Bank of New York Trust Company, N.A., in its capacity as dissemination agent hereunder (the "Dissemination Agent"), in connection with the issuance of \$200,000,000 California Statewide Communities Development Authority Revenue Bonds (John Muir Health), Series 2006A (the "Bonds"). The Bonds are being issued pursuant to the Bond Indenture, dated as of June 1, 2006 (the "Indenture"), between the California Statewide Communities Development Authority (the "Issuer") and The Bank of New York Trust Company, N.A. (the "Bond Trustee"). The proceeds of the Bonds are being loaned by the Issuer to the Corporation pursuant to a loan agreement, dated as of June 1, 2006 (the "Loan Agreement"), between the Issuer and the Corporation. The obligations of the Corporation under the Loan Agreement are secured by payments made by the Corporation on Obligation No. 10 issued under the Master Trust Indenture, dated as of November 1, 1985, as amended (the "Master Indenture"), among the Corporation and U.S. Bank National Association, as master trustee (the "Master Trustee") and pursuant to the Supplemental Master Indenture for Obligation No. 10 ("Supplement No. 10"). The Corporation and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Purchaser (defined below) in complying with the Rule (defined below). The Corporation and the Dissemination Agent acknowledge that the Issuer 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 Bonds, with respect to the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section or elsewhere herein, 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, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any Person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including Persons holding Bonds through nominees, depositories or other intermediaries).

"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 Bond Trustee a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5 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 Securities and Exchange Commission are listed at "<http://www.sec.gov/info/municipal/nrmsir.htm>".

"Purchaser" shall mean the original purchaser of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Repository" shall mean each National Repository and the State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

“Transmission Agent” shall mean any central filing office, conduit or similar entity which undertakes responsibility for accepting filings under the Rule for submission to each Repository. The current Transmission Agent is listed on Exhibit B attached hereto.

SECTION 3. Provision of Quarterly and Annual Reports.

(a) The Corporation shall, or shall cause the Dissemination Agent to, not later than five months after the end of the Corporation’s fiscal year, commencing with the fiscal year ending December 31, 2006, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements 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 they are not available by that date. If the Corporation’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) 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 Bond Trustee (if the Bond Trustee is not the Dissemination Agent). If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation to determine if the Corporation is in compliance with subsection (a).

(c) In addition to the Annual Report required to be filed pursuant to subsection (a), the Corporation shall, or shall cause the Dissemination Agent to, provide to the Repositories not later than 45 days after the end of each quarter of the Corporation’s fiscal year, beginning with the fiscal quarter ending June 30, 2006, unaudited financial information for the Corporation for such fiscal quarter, including a balance sheet and a statement of operations.

(d) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A.

(e) The Dissemination Agent shall:

(1) determine each year, within five (5) Business Days of the date for providing the Annual Report, the name and address of each National Repository and the State Repository, if any (insofar as determinations regarding National Repositories are concerned, the Dissemination Agent or the Corporation, as applicable, may rely conclusively on the list of National Repositories maintained by the Securities and Exchange Commission); and

(2) file a report with the Corporation, the Issuer and the Bond Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

Neither the Dissemination Agent nor the Bond Trustee shall have any duty or obligation to review such Annual Report.

SECTION 4. Content of Annual Reports. The Corporation's Annual Report shall contain or include by reference the following:

1. The audited consolidated financial statements of the Corporation and subsidiaries for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Financial Accounting Standards Board. If the Corporation's 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 financial statements contained in the final Official Statement, and the audited consolidated financial statements shall be filed in the same manner as the Annual Report when they become available.

2. An update of the following information contained in APPENDIX A to the Official Statement, dated May __, 2006, relating to the Bonds, to the extent not included in the financial statements (including notes thereto) described in the immediately preceding paragraph:

- (a) The list of current Members of the Obligated Group (as defined in the Master Indenture) as of the end of the most recently completed fiscal year;
- (b) The list of the major health facilities owned or operated by the Corporation, including the total number of licensed beds and staffed beds at each facility for the most recently completed fiscal year;
- (c) The information contained in Appendix A to the Official Statement under the caption "Affiliated Nonprofit Corporations" summarizing the numbers of physicians under contract for the most recently completed fiscal year;
- (d) The information contained in Appendix A to the Official Statement under the caption "Joint Ventures" summarizing those joint ventures in which the Corporation has a 50% or greater economic interest;
- (e) The information contained in Appendix A to the Official Statement under the caption "Historical Utilization" for the major health facilities owned or operated by the Corporation for the most recently completed fiscal year;
- (f) The summary of sources of patient service revenue of the Corporation for the most recently completed fiscal year;
- (g) The calculation of historical debt service coverage ratio for the Corporation, including any future Member of the Obligated Group, for the most recently completed fiscal year;
- (h) The calculation of capitalization of the Corporation, including any future Member of the Obligated Group, for the most recently completed fiscal year;
- (i) With respect to any major health facility owned or operated by the Corporation, an update on the number of Medical Staff members for the most recently completed fiscal year; and
- (j) The number of full-time equivalent employees of the Corporation for the most recently completed fiscal year.

Any or all of the items listed in Section 4(2)(a)-(j) 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 defined by the Rule), which have been filed with each of the Repositories or the Securities and Exchange Commission. 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. Neither the Bond Trustee nor the Dissemination Agent need verify the content or correctness of the Annual Report or quarterly financials.

SECTION 5. Reporting of Significant Events.

The Corporation shall give, or cause to be given, to each Repository notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. nonpayment related defaults;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity provider or its failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. modifications to rights of Bondholders;
8. optional, contingent or unscheduled bond calls;
9. defeasances;
10. release, substitution or sale of property securing repayment of the Bonds; and
11. rating changes.

SECTION 6. Alternative Methods for Reporting. The Corporation may satisfy its obligation to make a filing with each Repository hereunder by transmitting the same to a Transmission Agent if and to the extent such Transmission Agent has received an interpretive advice from the Securities and Exchange Commission, which has not been withdrawn, to the effect that an undertaking to transmit a filing to such Transmission Agent for submission to each Repository is an undertaking described in the Rule.

SECTION 7. Termination of Reporting Obligation. The Corporation's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Bond Trustee of an opinion of counsel expert in federal securities laws selected by the Corporation and acceptable to the Bond Trustee to the effect that compliance with this Disclosure Agreement is not required by the Rule. If the Corporation's obligations under this Disclosure 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 Corporation shall have no further responsibility hereunder. If such termination or substitution occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination or substitution in the same manner as for a Listed Event under Section 5.

SECTION 8. 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. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Corporation pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty (30) days written notice to the Corporation and the Bond Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Corporation in a timely manner and in a form suitable for filing. If at any time there is not any other designated Dissemination Agent, the Bond Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Bond Trustee.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Corporation) 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, it 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 Bonds or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, 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 Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of counsel expert in federal securities laws selected by the Corporation and acceptable to the Trustee, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

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, 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 10. 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 11. Default. In the event of a failure of the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Bond Trustee may (and, at the request of any Purchaser or the Holders of at least twenty-five percent (25%) aggregate principal amount of Bonds shall, but only to the extent funds in an amount satisfactory to the Bond Trustee have been provided to it or it has otherwise been indemnified to its satisfaction from any cost, liability, expense or additional charges of the Bond Trustee, including attorney's fees), or any Holder or Beneficial Owner of the Bonds 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 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 Indenture, the Loan Agreement or the Master Indenture and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Bond Trustee and Dissemination Agent. Article VIII of the Bond Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture and the Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Bond Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Corporation

agrees to indemnify and save the Dissemination Agent and its respective 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 own negligence or willful misconduct. The Dissemination Agent shall be paid reasonable compensation for its services provided hereunder, and reimbursement for its expenses. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Corporation: John Muir Health
1400 Treat Boulevard
Walnut Creek, CA 94597
Attention: Chief Financial Officer
Telephone: (925) 947-5332
FAX: (925) 947-5214

To the Dissemination Agent: The Bank of New York Trust Company, N.A.
550 Kearny Street, Suite 600
San Francisco, CA 94108-2527
Attention: Corporate Trust
Telephone: (415) 263-2416
FAX: (415) 399-1647

Any Person may, by written notice to the other Persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Corporation, the Dissemination Agent, the Purchaser, the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. 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.

Dated: June __, 2006.

JOHN MUIR HEALTH

By: _____
Authorized Officer

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Dissemination Agent

By: _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: California Statewide Communities Development Authority
Name of Bond Issue: California Statewide Communities Development Authority Refunding Revenue Bonds (John Muir Health), Series 2006A
Name of the Borrower: John Muir Health
Date of Issuance: June __, 2006

NOTICE IS HEREBY GIVEN that the Corporation has not provided an Annual Report with respect to the above-named Bonds as required by Section 6.11 of the Bond Indenture, dated as of June 1, 2006, between the Issuer and The Bank of New York Trust Company, N.A., by Section 5.6 of the Loan Agreement, dated as of June 1, 2006, between the Issuer and the Corporation and by Section 18 of the Supplemental Master Indenture for Obligation No. 10 dated as of June 1, 2006, between the Corporation and U.S. Bank National Association, as master trustee. [The Corporation anticipates that the Annual Report will be filed by _____.]

Dated:

THE BANK OF NEW YORK TRUST COMPANY, N.A.,
as Dissemination Agent

cc: John Muir Health

EXHIBIT B

TRANSMISSION AGENT

[www. DisclosureUSA.org](http://www.DisclosureUSA.org)

Disclosure USA
P.O. Box 684667
Austin, Texas 78768-4667

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

[CLOSING DATE]

California Statewide Communities
Development Authority
Sacramento, California

California Statewide Communities Development Authority
Revenue Bonds (John Muir Health), Series 2006A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the "Authority") in connection with issuance of \$200,000,000 aggregate principal amount of California Statewide Communities Development Authority Revenue Bonds (John Muir Health), Series 2006A (the "Bonds"), issued pursuant to the provisions of the Joint Exercise of Powers Act, comprising Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code (the "Act") and a bond indenture, dated as of June 1, 2006 (the "Bond Indenture"), between the Authority and The Bank of New York Trust Company, N.A., as trustee (the "Bond Trustee"). The Bond Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to John Muir Health (the "Corporation") pursuant to a loan agreement, dated as of June 1, 2006 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Authority and the Corporation, the opinion of counsel to the Corporation, certificates of the Authority, the Bond Trustee, the Corporation and others, 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 Latham & Watkins 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 the 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 Bonds 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 bond-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 interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Bond Indenture, the Loan Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) 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 any Bond or the interest thereon 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. Our engagement with respect to the Bonds has concluded with their issuance, 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 Authority. 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 in the Bond Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture, the Loan Agreement and the Tax Certificate 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, and to the exercise of judicial discretion in appropriate cases. 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 assets described in or as subject to the lien of the Bond Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds 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 Bonds constitute the valid and binding limited obligations of the Authority.
2. The Bond Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Bond Trustee in any fund or account established pursuant to the Bond Indenture (other than the Rebate Fund), subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture.
3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.
4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the faith and credit nor the taxing power of the State of California or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California, and said State is not liable for the payment thereof.

5. Interest on the Bonds 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. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it 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, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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APPENDIX F

INFORMATION REGARDING BOOK-ENTRY ONLY SYSTEM

The information in this Appendix F has been provided by The Depository Trust Company (“DTC”), New York, New York. No representation is made by the Authority, the Corporation, the Bond Trustee or the Underwriter as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the securities (the “Bonds”). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for the Bonds, in the aggregate principal amount of such issue, 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 instrument 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 and www.dtc.org.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners; in the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Bonds 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 such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal of and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on 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 its nominee), the Bond Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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