NEW ISSUE – Book-Entry-Only **RATINGS: See "RATINGS" herein**

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. 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 EXEMPTION" herein.

$341,590,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

$50,000,000 Revenue Bonds Children's Hospital Issue Series N-1 (2010)	$75,000,000 Revenue Bonds Children's Hospital Issue Series N-2 (2010)	$65,000,000 Revenue Bonds Children's Hospital Issue Series N-3 (2010)	$151,590,000 Revenue Bonds Children's Hospital Issue Series N-4 (2010)

Price: 100% **Initial Interest Rate Mode: As shown on inside cover**

Dated: Date of delivery **Due:** October 1, as shown on the inside cover

The Massachusetts Health and Educational Facilities Authority's $50,000,000 Revenue Bonds, Children's Hospital Issue, Series N-1 (2010) (the "Series N-1 Bonds"), $75,000,000 Revenue Bonds, Children's Hospital Issue, Series N-2 (2010) (the "Series N-2 Bonds"), $65,000,000 Revenue Bonds, Children's Hospital Issue, Series N-3 (2010) (the "Series N-3 Bonds") and $151,590,000 Revenue Bonds, Children's Hospital Issue, Series N-4 (2010) (the "Series N-4 Bonds," and together with the Series N-1 Bonds, the Series N-2 Bonds and the Series N-3 Bonds, the "Bonds") will be issued only as fully-registered bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds while in the Daily Mode and the Weekly Mode will be made in book-entry form in denominations of $100,000 and multiples of $5,000 in excess thereof. Purchasers will not receive certificates representing their interests in the Bonds purchased. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

The principal, Purchase Price and redemption price of and interest on the Bonds will be paid by U.S. Bank National Association, as trustee for the applicable series as further described herein (the "Trustee"). So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to such Bondowner, as more fully described herein. Interest on the Bonds will accrue from their date of delivery and while in the Daily Mode or Weekly Mode will be payable on the first Business Day of each month, commencing June 1, 2010, in each case until maturity or prior redemption or conversion to a different Mode. The initial interest rate for each series of Bonds will be communicated by the Underwriter of such Bonds to the prospective purchasers of such Bonds.

The Bonds in the Daily Mode and Weekly Mode are subject to redemption and optional and mandatory tender for purchase prior to maturity in certain circumstances, as set forth in this Official Statement. Bonds tendered for purchase will be subject to remarketing by the respective remarketing agents for such Bonds as set forth on the inside cover.

The Bonds shall be special obligations of the Massachusetts Health and Educational Facilities Authority (the "Authority") payable solely from the Revenues, as defined herein, of the Authority, including payments to the Trustee for the account of the Authority by The Children's Hospital Corporation (the "Hospital") in accordance with the provisions of the applicable Agreement (as defined herein) and payments by The Children's Medical Center Corporation (the "Guarantor") in accordance with the provisions of the Guaranty (as defined herein). Reference is made to this Official Statement for pertinent security provisions of the Bonds.

The Bonds in the Daily Mode and Weekly Mode are secured by respective irrevocable direct pay Letters of Credit (each, a "Letter of Credit," and collectively, the "Letters of Credit") issued by TD Bank, National Association in the case of the Series N-1 Bonds and the Series N-2 Bonds and by JPMorgan Chase Bank, National Association in the case of the Series N-3 Bonds and Series N-4 Bonds

TD Bank J.P.Morgan

(each, a "Bank" and together, the "Banks") to be held by the Trustee. The Letters of Credit issued by TD Bank, National Association will permit the Trustee to draw an amount sufficient to pay, as due, the principal of and up to 50 days' interest on the applicable Bonds at the maximum rate of 12% and the Purchase Price of the applicable Bonds tendered for purchase and not remarketed. The Letters of Credit issued by JPMorgan Chase Bank, National Association will permit the Trustee to draw an amount sufficient to pay, as due, the principal of and up to 45 days' interest on the applicable Bonds at the maximum rate of 12% and the Purchase Price of the applicable Bonds tendered for purchase and not remarketed. The Letters of Credit will expire on the dates set forth on the inside cover unless sooner terminated or extended. Each Letter of Credit may be replaced by an Alternate Credit Facility, as described herein.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY SUCH POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE APPLICABLE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. THE ACT DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS TO PAY DEBT SERVICE IN THE EVENT OF DEFAULT BY THE HOSPITAL. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to prior sale, to withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Hospital and the Guarantor by their counsel, Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed upon for the Underwriters by their counsel, Greenberg Traurig, LLP, Boston, Massachusetts, and for the Banks by their counsel described under "Legal Matters" herein. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York or its custodial agent on or about May 13, 2010.

Goldman, Sachs & Co.* **BofA Merrill Lynch**** **J.P. Morgan*****

May 7, 2010

* Underwriter with respect to the Series N-1 Bonds and Series N-4 Bonds only.
** Underwriter with respect to the Series N-2 Bonds only.
*** Underwriter with respect to the Series N-3 Bonds only.

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
Revenue Bonds, Children's Hospital Issue, Series N-1 (2010), Series N-2 (2010), Series N-3 (2010) and Series N-4 (2010)

Subseries	Series N-1 (2010)	Series N-2 (2010)	Series N-3 (2010)	Series N-4 (2010)
Principal Amount	$50,000,000	$75,000,000	$65,000,000	$151,590,000
Maturity Date	October 1, 2029	October 1, 2042	October 1, 2038	October 1, 2049
Initial Interest Rate Mode	Weekly Mode	Weekly Mode	Weekly Mode	Daily Mode
Bank	TD Bank, National Association	TD Bank, National Association	JPMorgan Chase Bank, National Association	JPMorgan Chase Bank, National Association
Letter of Credit Expiration Date	May 13, 2015†	May 13, 2015†	May 13, 2013†	May 13, 2013†
Remarketing Agent	Goldman, Sachs & Co.	Merrill Lynch, Pierce, Fenner & Smith Incorporated	J.P. Morgan Securities Inc.	Goldman, Sachs & Co.
Short-Term Ratings* Moody's/S&P	VMIG 1/A-1+	VMIG 1/A-1+	VMIG 1/A-1+	VMIG 1/A-1+
Long-Term Ratings* Moody's/S&P	Aaa/AAA	Aaa/AAA	Aaa/AAA	Aaa/AAA
CUSIP No.‡	57586E UH2	57586E UK5	57586E UL3	57586E UJ8

* Short-term ratings based solely on applicable Letter of Credit. Long-term ratings based on the Hospital and the applicable Bank. See "RATINGS" herein.

† In the event such date is not a Business Day, the next succeeding Business Day.

‡ The CUSIP numbers have been assigned by an independent company not affiliated with the Authority and are included solely for the convenience of the holders of the Bonds. None of the Authority, the Hospital, the Guarantor, the Underwriters or the Trustee is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific series is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain series of the Bonds.

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

No dealer, broker, salesperson or other person has been authorized by the Authority, the Hospital, the Guarantor, the Banks or the Underwriters to give information or to make representations with respect to 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 the foregoing. This Official Statement does not constitute an offer by any person to sell or the solicitation by any person of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information contained herein has been obtained from the Hospital, the Guarantor, the Banks, The Depository Trust Company and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the Authority or the Underwriters. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

Notwithstanding the foregoing paragraph, the Hospital and the Guarantor have agreed to enter into a Continuing Disclosure Agreement pursuant to which the Hospital and the Guarantor will provide certain continuing disclosure as required by law. The purpose of the Continuing Disclosure Agreement is to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission. See "CONTINUING DISCLOSURE" herein.

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

The CUSIP numbers on the inside cover page hereof have been assigned by an independent company not affiliated with the Authority, the Hospital or the Guarantor and are included solely for the convenience of the holders of the Bonds. None of the Authority, the Hospital, the Guarantor, the Underwriters, the Banks or the Trustee is responsible for the selection or uses of the CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY
99 SUMMER STREET, BOSTON, MASSACHUSETTS 02110

OFFICIAL STATEMENT

Relating to

$341,590,000
MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

$50,000,000	**$75,000,000**	**$65,000,000**	**$151,590,000**
Revenue Bonds	**Revenue Bonds**	**Revenue Bonds**	**Revenue Bonds**
Children's Hospital Issue	**Children's Hospital Issue**	**Children's Hospital Issue**	**Children's Hospital Issue**
Series N-1 (2010)	**Series N-2 (2010)**	**Series N-3 (2010)**	**Series N-4 (2010)**

INTRODUCTION

Purpose of this Official Statement

The purpose of this Official Statement is to set forth certain information concerning the Massachusetts Health and Educational Facilities Authority (the "Authority"), The Children's Hospital Corporation (the "Hospital"), The Children's Medical Center Corporation (the "Guarantor") and the Authority's $50,000,000 Revenue Bonds, Children's Hospital Issue, Series N-1 (2010) (the "Series N-1 Bonds"), $75,000,000 Revenue Bonds, Children's Hospital Issue, Series N-2 (2010) (the "Series N-2 Bonds"), $65,000,000 Revenue Bonds, Children's Hospital Issue, Series N-3 (2010) (the "Series N-3 Bonds") and $151,590,000 Revenue Bonds, Children's Hospital Issue, Series N-4 (2010) (the "Series N-4 Bonds," and together with the Series N-1 Bonds, the Series N-2 Bonds and the Series N-3 Bonds, the "Bonds"). The Series N-1 Bonds and the Series N-2 Bonds are to be issued under a Loan and Trust Agreement dated as of May 1, 2010 (the "Series N-1/2 Agreement") by and among the Authority, the Hospital and U.S. Bank National Association, as trustee (in such capacity, the "Series N-1/2 Trustee"). The Series N-3 Bonds and the Series N-4 Bonds are to be issued under a Loan and Trust Agreement dated as of May 1, 2010 (the "Series N-3/4 Agreement" and together with the Series N-1/2 Agreement, the "Agreements") by and among the Authority, the Hospital and U.S. Bank National Association, as trustee (in such capacity, the "Series N-3/4 Trustee," with the Series N-1/2 Trustee, as appropriate, referred to herein as the "Trustee"). The Bonds are to be issued in accordance with the provisions of Chapter 614 of the Massachusetts Acts of 1968, as amended from time to time (the "Act") and the applicable Agreement. The information contained in this Official Statement is provided for use in connection with the initial sale of the Bonds. The definitions of certain terms used and not otherwise defined herein are contained in Appendix C-1 – "DEFINITIONS OF CERTAIN TERMS."

Use of Proceeds

The proceeds from the sale of the Bonds will be used: (a) together with other available funds of the Hospital, to currently refund the Authority's Revenue Bonds, Children's Hospital Issue, Series G, Periodic Auction Reset Securities (PARS[SM]), the Authority's Revenue Bonds, Children's Hospital Issue, Series H, Periodic Auction Reset Securities (PARS[SM]), the Authority's Revenue Bonds, Children's Hospital Issue, Series I, Periodic Auction Reset Securities (PARS[SM]), the Authority's Revenue Bonds, Children's Hospital Issue, Series J, Periodic Auction Reset Securities (PARS[SM]) and the Authority's Revenue Bonds, Children's Hospital Issue, Series K, Periodic Auction Reset Securities (PARS[SM]) (collectively, the "Refunded Bonds"), (b) to pay the initial fees for the Letters of Credit to the Banks (as defined herein) and (c) to pay costs of issuing the Bonds.

A more detailed description of the use of the proceeds from the sale of the Bonds, including approximate amounts and purposes, is included herein under "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

The Authority, the Hospital and the Trustee shall execute the Agreements, which provide that to the extent permitted by law, each is a general obligation of the Hospital and that the full faith and credit of the Hospital is pledged to its performance. Each Agreement also provides, among other things, that the Hospital is obligated to make payments to the Trustee in an amount equal to principal payments or sinking fund installments of the applicable Bonds, as the case may be, interest on the applicable Bonds, and certain other payments required by such Agreement. Each Agreement shall remain in full force and effect until such time as all of the applicable Bonds and the interest thereon have been fully paid or until adequate provision for such payments has been made.

Under each Agreement, the Authority assigns and pledges to the Trustee in trust for the benefit of the applicable Bondowners and the applicable Bank upon the terms of the applicable Agreement (i) all Revenues to be received from the Hospital or derived from any security provided thereunder, and (ii) all rights to receive such Revenues and the proceeds of such rights. Under the Act, to the extent authorized or permitted by law, the pledge of Revenues is valid and binding from the time when such pledge is made and the Revenues and all income and receipts earned on funds held by the Trustee for the account of the Authority shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority irrespective of whether such parties have notice thereof.

The assignment and pledge by the Authority does not include (i) the rights of the Authority pursuant to provisions in the applicable Agreement for consent, concurrence, approval or other action by the Authority, notice to the Authority or the filing of reports, certificates or other documents with the Authority, or (ii) the powers of the Authority as stated in the applicable Agreement to enforce the provisions thereof. As additional security for the obligations of the Hospital to make payments to the Debt Service Funds and the Redemption Funds established under each Agreement, and for its other payment obligations under the each Agreement, the Hospital grants to the Trustee a security interest, for the benefit of the applicable Bondowners and the applicable Bank, in its interest in the moneys and other investments and any proceeds thereof held from time to time in the Funds established under the applicable Agreement.

The Bonds issued under each Agreement are special obligations of the Authority, equally and ratably secured by and payable from a pledge of and lien on, to the extent provided by the applicable Agreement, the moneys received with respect to the applicable Bonds by the Trustee for the account of

the Authority pursuant to the applicable Agreement, whether such moneys are received as Revenues paid or caused to be paid by the Hospital pursuant to the applicable Agreement.

The Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds are secured by Obligation Nos. 19, 20, 21 and 22, respectively (collectively, the "Notes"), registered in the name of the Trustee and issued under the Amended and Restated Master Trust Indenture dated as of April 10, 2001, as amended and supplemented (the "Master Trust Indenture"), between the Hospital and U.S. Bank National Association, as Master Trustee (the "Master Trustee") (successor to State Street Bank and Trust Company) and a Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 dated as of May 13, 2010 (the "Supplemental Master Indenture") between the Hospital and the Master Trustee executed in accordance with the Master Trust Indenture. Each of the Notes is subject to the same payment and prepayment terms as the obligations of the Hospital under the applicable Agreement. Each of the Notes and the Supplemental Master Indenture pursuant to which they are issued provide that the Hospital shall receive credit, to the extent, in the manner and with the effect provided in the Supplemental Master Indenture, for payments of principal, and sinking fund installments of, and premium, if any, and interest required on each Note in amounts equal to (i) amounts paid under the applicable Agreement for the payment of principal of, and premium, if any, and interest on the applicable Bonds, and (ii) applicable Bonds purchased and delivered to the Trustee for cancellation. The Master Trust Indenture provides that Obligations issued thereunder, such as the Notes and the Letter of Credit Notes (as hereafter defined), are joint and several obligations of each Member of the Obligated Group. **Currently, the Hospital is the only Member of the Obligated Group.**

There are a number of Outstanding Obligations under the Master Trust Indenture. These include Obligations to secure the Refunded Bonds, the Hospital's obligations with respect to interest rate swap transactions with Goldman Sachs Mitsui Marine Derivative Products, L.P., the Hospital's obligations with respect to an interest rate swap transaction with Bank of America, N.A. and the Authority's Revenue Bonds, Children's Hospital Issue, Series M (2009). The Hospital's indebtedness also includes the Authority's Revenue Bonds, Children's Hospital Issue, Series L-1 (2004), Variable Rate Demand Obligations (the "Series L-1 Bonds") and the Authority's Revenue Bonds, Children's Hospital Issue, Series L-2 (2006), Variable Rate Demand Obligations (the "Series L-2 Bonds"), which the Hospital purchased with the proceeds of a bridge loan from Bank of America, N.A. (the "Bridge Loan").

The Master Trust Indenture contains provisions permitting the addition, withdrawal or consolidation of Members under certain conditions. See Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Conditions for Membership," "Withdrawal From the Obligated Group" and "Consolidation, Merger, Sale or Conveyance," respectively. The Master Trust Indenture contains provisions permitting the issuance of additional Obligations on a parity with, or in certain cases, senior to, the Notes and the Letter of Credit Notes by the Hospital and future Members admitted to the Obligated Group, if any. See "ADDITIONAL INDEBTEDNESS" herein and Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the headings "Power to Incur Indebtedness on Behalf of Other Members of the Obligated Group" and "Limitations on Incurrence of Additional Indebtedness."

The Bonds are not secured by a debt service reserve fund, or by a mortgage lien or security interest in any real or tangible personal property or any other property of any Member of the Obligated Group. The Master Trust Indenture contains restrictions on the creation of certain liens and encumbrances with respect to property of the Hospital and of any additional future Members of the Obligated Group with certain exceptions. See Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Limitations on Creation of Liens." The Master Trust Indenture also contains provisions permitting transfers of assets to be made upon compliance with certain tests. See Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Sale, Lease or Other Disposition of Property."

As described in Appendix C-3 – "SUMMARY OF THE SUPPLEMENTAL MASTER INDENTURE," there are two amendments to the Master Trust Indenture that will take effect on the final redemption date of the Refunded Bonds.

The Guarantor shall execute and deliver to the Master Trustee its Guaranty of Obligation Nos. 19, 20, 21 and 22 dated as of May 13, 2010 (the "Guaranty"). The Guaranty provides an unconditional and absolute guaranty by the Guarantor of the full and punctual payment of all amounts payable pursuant to the Notes, including principal, premium, if any, and interest, whether due at maturity, by proceedings for prepayment, upon acceleration or otherwise.

On the date of delivery of the Bonds, the Hospital will cause to be delivered to the Series N-1/2 Trustee separate irrevocable direct-pay letters of credit for the Series N-1 Bonds (the "TD N-1 Letter of Credit") and the Series N-2 Bonds (the "TD N-2 Letter of Credit," and collectively with the TD N-1 Letter of Credit, the "TD Letters of Credit" or individually, the "applicable TD Letter of Credit") issued by TD Bank, National Association ("TD Bank") and to the Series N-3/4 Trustee separate irrevocable direct-pay letters of credit for the Series N-3 Bonds (the "JPM N-3 Letter of Credit") and the Series N-4 Bonds (the "JPM N-4 Letter of Credit," and collectively with the JPM N-3 Letter of Credit, the "JPM Letters of Credit" or individually, the "applicable JPM Letter of Credit") issued by JPMorgan Chase Bank, National Association ("JPMorgan" and together with TD Bank, the "Banks"). The "TD Letters of Credit" and the "JPM Letters of Credit" are collectively referred to herein as the "Letters of Credit." Under each TD Letter of Credit, TD Bank will be obligated to pay the Series N-1/2 Trustee for so long as the applicable Bonds bear interest at the Weekly Rate or Daily Rate, (a) the principal of and up to 50 days of interest on the applicable Bonds at the Maximum Rate, when due; and (b) the Purchase Price of the applicable Bonds tendered for purchase by the registered owners thereof and not remarketed. Under each JPM Letter of Credit, JPMorgan will be obligated to pay the Series N-3/4 Trustee for so long as the applicable Bonds bear interest at the Weekly Rate or Daily Rate, (a) the principal of and up to 45 days of interest on the applicable Bonds at the Maximum Rate, when due; and (b) the Purchase Price of the applicable Bonds tendered for purchase by the registered owners thereof and not remarketed. The TD Letters of Credit will expire on May 13, 2015 (or, in the event such date is not a Business Day, the next succeeding Business Day) unless earlier terminated or extended. The JPM Letters of Credit will expire on May 13, 2013 (or, in the event such date is not a Business Day, the next succeeding Business Day) unless earlier terminated or extended. Upon the occurrence of an Event of Default under the Letter of Credit and Reimbursement Agreement dated as of May 1, 2010 (the "TD Reimbursement Agreement") between the Hospital and TD Bank with respect to the Series N-1 Bonds and the Series N-2 Bonds, TD Bank may direct the Series N-1/2 Trustee to accelerate the principal of the Series N-1 Bonds and the Series N-2 Bonds and to draw on the TD Letters of Credit to pay principal of and interest on such Bonds. Upon the occurrence of an Event of Default under the Letter of Credit and Reimbursement Agreement dated as of May 1, 2010 (the "JPM Reimbursement Agreement" and together with the TD Reimbursement Agreement, the "Reimbursement Agreements") between the Hospital and JPMorgan with respect to the Series N-3 Bonds and the Series N-4 Bonds, JPMorgan may direct the Series N-3/4 Trustee to accelerate the principal of the Series N-3 Bonds and the Series N-4 Bonds and to draw on the JPM Letters of Credit to pay principal of and interest on such Bonds. The applicable Bonds will be subject to mandatory tender on the fifth Business Day prior to the expiration or termination of the applicable Letter of Credit. Each Letter of Credit may be replaced by an Alternate Credit Facility, as described in the Agreements, and the applicable Bonds are subject to mandatory tender on the Substitution Date.

The Hospital's obligations under the TD Reimbursement Agreement with respect to the TD N-1 Letter of Credit and the TD N-2 Letter of Credit will be secured by Obligation Nos. 23 and 24, respectively (together, the "TD Notes"). The TD Notes will be registered in the name of TD Bank and issued under the Master Trust Indenture and a Supplemental Master Indenture for Obligation Nos. 23 and 24, dated as of May 13, 2010 (the "TD Supplemental Master Indenture") between the Hospital and the Master Trustee, to be executed in accordance with the Master Trust Indenture. The Hospital's obligations under the JPM Reimbursement Agreement with respect to the JPM N-3 Letter of Credit and the JPM N-4 Letter of Credit will be secured by Obligation Nos. 25 and 26, respectively (together, the "JPM Notes" and, collectively with

the TD Notes, the "Letter of Credit Notes"). The JPM Notes will be registered in the name of JPMorgan and issued under the Master Trust Indenture and a Supplemental Master Indenture for Obligation Nos. 25 and 26, dated as of May 13, 2010 (the "JPM Supplemental Master Indenture" and together with the TD Supplemental Master Indenture, the "Letter of Credit Supplemental Master Indentures") between the Hospital and the Master Trustee, to be executed in accordance with the Master Trust Indenture.

The Guarantor shall execute and deliver to the Master Trustee its Guaranty of Obligation Nos. 23 and 24 and its Guaranty of Obligation Nos. 25 and 26, each dated as of May 13, 2010 (collectively, the "Letter of Credit Guaranties"). The Letter of Credit Guaranties each provide an unconditional and absolute guaranty by the Guarantor of the full and punctual payment of all amounts payable pursuant to the applicable Letter of Credit Notes, including principal, premium, if any, and interest.

THE BONDS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FAITH AND CREDIT OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY SUCH POLITICAL SUBDIVISION THEREOF, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES PROVIDED UNDER THE APPLICABLE AGREEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. THE ACT DOES NOT IN ANY WAY CREATE A SO-CALLED MORAL OBLIGATION OF THE COMMONWEALTH OF MASSACHUSETTS TO PAY DEBT SERVICE IN THE EVENT OF DEFAULT BY THE HOSPITAL. THE AUTHORITY DOES NOT HAVE ANY TAXING POWER.

THE AUTHORITY

The Authority is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") organized and existing under and by virtue of the Act. The purpose of the Authority, as stated in the Act, is essentially to provide assistance for public and private nonprofit institutions for higher education, private nonprofit schools for the handicapped, nonprofit hospitals and their nonprofit affiliates, nonprofit nursing homes, and nonprofit cultural institutions in the construction, financing, and refinancing of projects to be undertaken in relation to programs for such institutions.

Authority Membership and Organization

The Act provides that the Authority shall consist of nine members who shall be appointed by the Governor and shall be residents of the Commonwealth. At least two members shall be associated with institutions for higher education, at least two shall be associated with hospitals, at least one shall be knowledgeable in the field of state and municipal finance (by virtue of business or other association) and at least one shall be knowledgeable in the field of building construction. All Authority members serve without compensation, but are entitled to reimbursement for necessary expenses incurred in the performance of their duties as members of the Authority. The Authority shall elect annually one of its members to serve as Chair and one to serve as Vice Chair.

The members of the Authority are as follows:

CHRISTINE C. SCHUSTER, RN; Chair: term as Member expires July 1, 2013.

Ms. Schuster, a resident of Sudbury, is President and Chief Executive Officer of Emerson Health System located in Concord, Massachusetts. Ms. Schuster has over twenty years of experience in the healthcare industry. Prior to joining Emerson Hospital, Ms. Schuster held the position of President and Chief Executive Officer of Quincy Medical Center and previously Athol Memorial Hospital. She also served as the Chief Operating Officer of the Extended Care Division of Tenet Saint Vincent Healthcare System, Director of Critical Care Services at the New England Deaconess Hospital; and five years as a healthcare management consultant with Coopers & Lybrand. Ms. Schuster serves on the Board of Directors of the VHA Northeast, the Massachusetts Council of Community Hospitals, Trustee and Secretary of PowerOptions, Inc., and the Concord Chamber of Commerce and Secretary to the Concord Economic Council. Ms. Schuster was elected to the American Hospital Association (AHA) Council of Metropolitan Hospitals and also served on the American Hospital Regional Policy Board. She has served on the Board of the Massachusetts Hospital Association (MHA) where she was Chair of the Clinical Issues Advisory Council (CIAC) and was a member of the Finance Committee, and is currently a member of the CIAC and the Leadership Education Committee. Ms. Schuster is also an Honorary Commander of Hanscom Air Force Base in Bedford, Massachusetts. Ms. Schuster was recognized by *Modern Healthcare* magazine and Witt Kieffer Associates as one of the Year 2000 "Up and Comers Award" recipients. She is a frequent speaker both locally and nationally on a wide variety of healthcare topics. Ms. Schuster received an M.B.A. with Honors from the University of Chicago Graduate School of Business and a B.S. in Nursing from Boston University.

MARK P. BILOTTA; Vice Chair: term as Member expires July 1, 2013.

Mr. Bilotta, a resident of Worcester, is the Chief Executive Officer of the Colleges of Worcester Consortium in Worcester, Massachusetts, a non-profit association of twelve central Massachusetts-based colleges and universities providing academic and member services, higher education access services and promoting community and economic development partnerships. From 1999 to 2006, Mr. Bilotta was the Executive Assistant to the President of Assumption College in Worcester, Massachusetts. He held the position of Associate Director of Admissions for Enrollment and Marketing at Worcester State College from 1996 to 1998. From 1990 to 1991 he was a Graduate Assistant at Clark University. During the period of 1984 to 1989 he held the positions of Admissions Counselor, Assistant Director of Admissions, and Associate Director of Admissions at the College of the Holy Cross in Worcester, Massachusetts. Mr. Bilotta has been actively engaged in several non-profit, charitable and civic activities. He presently serves as Chairman of the Board of Directors for the United Way of Central Massachusetts, Board of Directors to the Worcester Regional Research Bureau, Destination Worcester, Board of Trustees to Spectrum Health Systems, Inc., and Corporator, Webster Five Cents Savings Bank. Mr. Bilotta holds a B.A. from College of the Holy Cross, Worcester, and an M.B.A. from Clark University.

TIMOTHY O'CONNOR; Secretary: term as Member expired July 1, 2009. Mr. O'Connor will continue to serve until he is reappointed or his successor takes office.

Mr. O'Connor, a resident of Salem, is Executive Vice President, Chief Financial Officer and Treasurer of Lahey Clinic Foundation, Inc.; Lahey Clinic Hospital, Inc.; Lahey Clinic, Inc.; Lahey Clinic Affiliated Services, Inc. and Lahey Clinic Canadian Foundation. In addition Mr. O'Connor is also President, Chief Financial Officer and Treasurer of Lahey Clinic Insurance Company Limited. His memberships and affiliations include the American Medical Group Association, the Healthcare Financial Management Association, the Healthcare Information and Management Systems Society and the Massachusetts Hospital Association's Committee on Finance.

DARRELL C. BYERS; term as Member expires July 1, 2016.

Mr. Byers, a resident of West Roxbury, is Vice Chancellor of University Advancement at the University of Massachusetts Boston, Boston, Massachusetts since 2005. Previously he served as Director of Business Development at WGBH; Senior Major Gifts Office and Planned Giving Director at the Harvard Graduate School of Education; Director of Corporate and Foundation Relations at Georgetown University Medical Center which included Georgetown University Hospital, Georgetown School of Medicine, Georgetown School of Nursing and Health Sciences and Lombardi Comprehensive Cancer Center; and also served as Vice President of Development at Caritas Norwood Hospital. Mr. Byers serves on the Board of Overseers at Children's Hospital Boston, the WGBH Corporate Executive Council, the Association of Fundraising Professionals of Massachusetts where he co-founded the Advancement Institute at UMass Boston, and the City Mission Society of Boston. In 2009 Mr. Byers was the recipient of the CASE District 1 New England and Eastern Canada *Eleanor Collier Award* which is presented to a current member of CASE District 1 whose contribution to their organization and or to the professions encompassed by the membership reflect honor on CASE, education and those fields of professional expertise. Mr. Byers holds a B.A. from College of the Holy Cross, Worcester.

JACQUELINE J. CONRAD; term as Member expires July 1, 2010.

Ms. Conrad, a resident of Milton, is Principal of delaCruz Communications in Boston, Massachusetts, a multicultural consulting firm that specializes in cause-related health awareness and strategic marketing campaigns for ethnic audiences, such as the African American and Latino communities. In addition, she is the Executive Director of the Latino Professional Network, one of Boston's premier networking associations that creates career, educational and social opportunities for Latino professionals. Ms. Conrad is a sought after speaker at business roundtables and leadership seminars, on subjects ranging from Hispanic marketing and urban entrepreneurship, to home-ownership and property investments. Her present affiliations and memberships include Advisory Board Member to the Latino After School Initiative, and Vice President of the Christian Economic Development Association, Inc. Ms. Conrad has served as Advisory Board Member to the Women of Ethnic Diversity Initiative, Advisory Committee Member to Senator John Kerry's Committee on Child Care and Small Business, Board of Directors of the Simmons Club, and Member of the Hispanic American Chamber of Commerce. Ms. Conrad holds a B.A. degree in Sociology from Suffolk University and an M.A. degree from Simmons College.

GILL E. ENOS; term as Member expires July 1, 2012.

Mr. Enos, a resident of Taunton, is the Budget Director of the City of Taunton, Massachusetts. Prior to his position as Budget Director, Mr. Enos served as Assistant to the Mayor of the City of Taunton from 2004 to 2007 and from 1992 to 2000. He also held positions with State Street Bank and Trust Co. as Portfolio Accountant from 1986 to 1988, Auditor from 1988 to 1990, and Fund Group Manager from 1990 to 1992. Mr. Enos currently serves as a Member of the Taunton Retirement Board and is a past Member of the Taunton Zoning Board of Appeals and has served as a Member, Director and past Vice Chairman of the Southeastern Regional Services Group, and Member and past Vice Chairman of the Taunton Emergency Task Force. His community involvement includes coach of the Taunton Park & Recreation Basketball, Taunton West Little League, and Taunton Area Babe Ruth. Mr. Enos holds a B.S. in Management Science from Bridgewater State College.

MARVIN A. GORDON; term as Member expires July 1, 2010.

Mr. Gordon, a resident of Milton, is Chairman of the Board and Chief Executive Officer of Gordon Logistics, L.L.C. in Mansfield, Massachusetts. From 1974 to 2001, Mr. Gordon was Chief Executive Officer and Chairman of Whitehall Co. Ltd. of Norwood, Massachusetts. From 1994 to 1996, Mr. Gordon served on the Board of Directors to Techniek Development Co. of San Diego, California. He also served as Chairman of the Board of US Trust Norfolk (Milton Bank and Trust) from 1974 to 1976 and as Vice President and Member of the Executive Committee from 1971 to 1974. Mr. Gordon has been actively engaged in non-profit, charitable and civic activities. His present affiliations include Board Member and Chairman of the Audit and Compliance Committee of The Milton Hospital Foundation, Inc. and Board Member of Milton Hospital, Inc., and President of Milton Fuller Housing Corporation. Mr. Gordon has been elected to and appointed to a number of public boards including serving as a Milton Selectman from 1986 to 1993 and belongs to several civic associations. Mr. Gordon holds a degree from Harvard College and Harvard Business School.

ALLEN R. LARSON; term as Member expires July 1, 2014.

Mr. Larson, a resident of Yarmouth Port, is the founding principal of a law firm and a separate consulting firm, the Enterprise Management Group, that advise business and non-profit clients on matters of government regulation, business competition, market entry, and economic development. Prior to establishing his law firm in 1984, Mr. Larson worked as an antitrust attorney for the Federal Trade Commission in Washington, D.C. Currently, he is a director of the Cape Cod Center for Sustainability Inc., the Highlands Center, Inc., and Ecology Project International. Mr. Larson graduated from Dartmouth College earned a J.D. from Albany Law School and received an M.B.A. from the University of Minnesota.

MICHAEL P. MONAHAN; term as Member expires July 1, 2011.

Mr. Monahan, a resident of South Boston, is Business Manager of the International Brotherhood of Electrical Workers, Local 103, Boston, Massachusetts. Mr. Monahan represents the interests of more than 7,000 members; is Principal Negotiator of more than 40 Collective Bargaining Agreements, and is Trustee of Benefit Funds worth over $1 billion. From 1982 until present he has held several positions within the International Brotherhood of Electrical Workers, Local 103. From 2002 to present he has served as a Member of the Zoning Board of Appeals in the City of Boston. Mr. Monahan is a volunteer for many charitable organizations, such as WiFi, City of Boston; Habitat for Humanity; NET Day, City of Boston; Rosie's Place, Homeless Shelter for Women; Long Island Shelter and Family Inn, Brookline; Strive, Codman Square, Dorchester.

Staff and Advisors

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

EDWARDS ANGELL PALMER & DODGE LLP, attorneys of Boston, Massachusetts, are serving as Bond Counsel to the Authority and will submit their approving opinion with regard to the legality of the Bonds in substantially the form attached hereto as Appendix D.

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

Powers of the Authority

Under the Act, the Authority is authorized and empowered, among other things, directly or by and through a participating institution for higher education, a participating school for the handicapped, a participating hospital or hospital affiliate, a participating nursing home or a participating cultural institution as its agent, to acquire real and personal property and to take title thereto in its own name or in the name of one or more participants as its agent; to construct, reconstruct, remodel, maintain, manage, enlarge, alter, add to, repair, operate, lease, as lessee or lessor, and regulate any project; to enter into contracts for any or all of such purposes, or for the management and operation of a project; to issue bonds, bond anticipation notes and other obligations, and to fund or refund the same; to fix and revise from time to time and charge and collect rates, rents, fees and charges for the use of and for the services furnished or to be furnished by a project or any portion thereof and to enter into contracts in respect thereof; to establish rules and regulations for the use of a project or any portion thereof; to receive and accept from any public agency loans or grants for or in the aid of the construction of a project or any portion thereof; to mortgage any project and the site thereof for the benefit of the holders of revenue bonds issued to finance such projects; to make loans to any participant for the cost of a project or to refund outstanding obligations, mortgages or advances issued, made or given by such participant for the cost of a project; to charge participants its administrative costs and expenses incurred; to acquire any federally guaranteed security and to pledge or use such security to secure or provide for the repayment of its bonds; and to do all things necessary or convenient to carry out the purposes of the Act. Additionally, the Authority may undertake a joint project or projects for two or more participants.

The Authority has heretofore authorized and issued certain series of its revenue bonds for public and private colleges and universities, and private hospitals and their affiliates, community providers, cultural institutions, schools for the handicapped and nursing homes in the Commonwealth. Each series of revenue bonds has been a special obligation of the Authority.

The Authority expects to enter into separate agreements with eligible institutions in the Commonwealth for the purpose of financing projects for such institutions. Each series of bonds issued by the Authority constitutes a separate obligation of the borrowing institutions for such series, and the general funds of the Authority are not pledged to any bonds or notes.

PLAN OF FINANCE

The Hospital is issuing the Bonds (i) to currently refund on various dates not later than June 7, 2010 the Authority's Revenue Bonds, Children's Hospital Issue, Series G, Periodic Auction Reset Securities (PARS[SM]) currently outstanding in the principal amount of $105,250,000, the Authority's Revenue Bonds, Children's Hospital Issue, Series H, Periodic Auction Reset Securities (PARS[SM]) currently outstanding in the principal amount of $80,000,000, the Authority's Revenue Bonds, Children's Hospital Issue, Series I, Periodic Auction Reset Securities (PARS[SM]) currently outstanding in the principal amount of $49,075,000, the Authority's Revenue Bonds, Children's Hospital Issue, Series J, Periodic Auction Reset Securities (PARS[SM]) currently outstanding in the principal amount of $74,200,000 and the Authority's Revenue Bonds, Children's Hospital Issue, Series K, Periodic Auction Reset Securities (PARS[SM]) currently outstanding in the principal amount of $30,800,000, (ii) to pay the initial fees for the Letters of Credit, and (iii) to pay costs of issuing the Bonds.

THE BONDS

General

The Bonds will be issued in the aggregate principal amount of $341,590,000, comprised of four series, in the principal amounts set forth on the cover page hereof, and will be dated the date of initial delivery. The Series N-1 Bonds, the Series N-2 Bonds and the Series N-3 Bonds will be issued initially in the Weekly Mode. The Series N-4 Bonds will be issued initially in the Daily Mode. At the option of the Hospital and upon certain conditions provided for in the applicable Agreement, all or a portion of any series of the Bonds may be (a) converted or reconverted to or from the Daily Mode, Weekly Mode, Flexible Mode, Adjusted Index Term Mode or Term Rate Mode (collectively, the "Variable Rate Modes"), in which Modes the Interest Period is, respectively, one day, seven days, between one and 360 days, 180 days or any period in excess thereof or 180 days or any period in excess thereof, (b) converted or reconverted to a PARS Rate Period, or (c) converted to the Fixed Rate Mode. See "Conversion of the Bonds to Other Modes" herein. The Bonds will mature as set forth on the inside cover page hereof.

This Official Statement describes the provisions of the Bonds only when the Bonds are in the Daily or Weekly Mode. There are significant changes in the terms of the Bonds not described in this Official Statement when the Bonds bear interest in any Mode other than the Daily Mode or the Weekly Mode and this Official Statement should not be relied upon if the Bonds bear interest in any other Mode. In the event the Hospital elects to convert all or a portion of the Bonds to a Mode other than the Daily or Weekly Mode, it expects to circulate, or cause to be circulated, a revised disclosure document relating thereto.

The Bonds will be issued initially in authorized denominations of $100,000 and any multiple of $5,000 in excess thereof. Bonds in the Daily or Weekly Mode shall bear interest at the Daily or Weekly Rate, as applicable, and will be payable on the first Business Day of each calendar month, with the first Interest Payment Date being June 1, 2010, and at maturity, on redemption dates or on any Mode Change Date. While the Bonds bear interest in the Daily or Weekly Mode, interest shall be computed on the basis of a 365- or 366-day year, as appropriate, and actual days elapsed.

While the Bonds bear interest at a Daily or Weekly Rate, principal of and premium, if any, on the Bonds shall be payable when due by check or draft in immediately available funds or, if requested in writing by a Registered Owner of $1,000,000 or more principal amount of Outstanding Bonds under the applicable Agreement, by wire or bank transfer within the continental United States of immediately available funds to the Registered Owner, but in each case only upon presentation and surrender of the Bond at the principal office of the Trustee. Interest on Bonds is payable by check or draft in immediately available funds or, if requested in writing by a Registered Owner of $1,000,000 or more principal amount of Outstanding Bonds under the applicable Agreement, by wire or bank transfer within the continental United States of immediately available funds from the Trustee to the Registered Owner, determined as of the close of business on the applicable record date, at its address as shown on the registration books maintained by the Trustee. The record date for payment of interest while the Bonds are in the Daily Mode or the Weekly Mode is the Business Day preceding the date on which interest is to be paid.

Daily and Weekly Rate

The interest rate for the Bonds in the Daily Mode or Weekly Mode will be the rate of interest per annum determined by the applicable Remarketing Agent on and as of the applicable Rate Determination Date, as the minimum rate of interest which, in the opinion of the applicable Remarketing Agent under then-existing market conditions, would result in the sale of the Bonds in the Daily Rate Period or Weekly Rate Period, as applicable, at a price equal to the principal amount thereof, plus interest, if any, accrued

through the Rate Determination Date during the then current Interest Accrual Period; provided, however, that the initial rate for Bonds being converted to the Weekly Rate shall be determined not later than the Business Day prior to the Mode Change Date. The Rate Determination Date is (a) in the case of the Daily Mode, each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode and (b) in the case of the Weekly Mode, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday. The Interest Accrual Period for Bonds in the Weekly Mode or Daily Mode is approximately one month.

During the Daily Mode, the applicable Remarketing Agent shall establish the Daily Rate by 10:00 A.M., New York City time, on each Rate Determination Date. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Rate Determination Date. The applicable Remarketing Agent shall make the Daily Rate available after 10:30 A.M., New York City time, on each Rate Determination Date by telephone or Electronic Means to any Beneficial Owner or Notice Party requesting such rate.

During the Weekly Mode, the applicable Remarketing Agent shall establish the Weekly Rate by 4:00 P.M., New York City time, on each Rate Determination Date. The Weekly Rate shall be in effect during the applicable Weekly Rate Period. The applicable Remarketing Agent shall make the Weekly Rate available after 4:30 P.M., New York City time, on the Rate Determination Date by telephone or Electronic Means to the Trustee and any Beneficial Owner or Notice Party requesting such rate.

In no event will the Daily or Weekly Rate exceed 12% per annum, unless the Hospital has increased the applicable Maximum Rate pursuant to the applicable Agreement and the amount of the applicable Letter of Credit has been increased accordingly.

While the Bonds are in the Daily or Weekly Mode and in the event (i) the applicable Remarketing Agent fails or is unable to determine the interest rate or the Hospital fails to determine the Interest Period for the Bonds, (ii) the method by which the applicable Remarketing Agent determines the interest rate or Interest Period with respect to the Bonds shall be held to be unenforceable by a court of law of competent jurisdiction or (iii) if the respective Remarketing Agent suspends its remarketing effort in accordance with the applicable Remarketing Agreement or if the Bonds are not purchased when required to be by the terms of the applicable Agreement, the Bonds shall bear interest during each subsequent Interest Period at a rate per annum equal to (a) 110% of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and is issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day (the "SIFMA Rate") as of the date of determination, or (b) if such index is no longer available, or if the SIFMA Rate is no longer published, the S&P Weekly High Grade Index, or if neither the SIFMA Rate nor the S&P Weekly High Grade Index is published, the index will be equal to 68% of one-month LIBOR.

The Trustee shall make the determinations required by the foregoing, upon notification from the Authority, if there is no Remarketing Agent, if the applicable Remarketing Agent fails to make any such determination or if the respective Remarketing Agent has suspended its remarketing efforts in accordance with the applicable Remarketing Agreement. These provisions shall continue to apply until such time as the applicable Remarketing Agent (or the Hospital if applicable) again makes such interest rate determinations; provided, however, in the case of clause (ii) above, the applicable Remarketing Agent (or the Hospital, if applicable) shall again make such determination at such time as there is delivered to the applicable Remarketing Agent and the Authority a Favorable Opinion of Bond Counsel to the effect that there are no longer any legal prohibitions against such determinations.

In the absence of manifest error, the determination of interest rates (including any determination of rates in connection with a New Mode) and interest periods by the applicable Remarketing Agent and the record of interest rates maintained by the Trustee shall be conclusive and binding upon the applicable Remarketing Agent, the Trustee, the Authority, the Hospital, the Owners and the Beneficial Owners.

Conversion of the Bonds to and from Other Modes

While the Bonds are in a Daily or Weekly Mode, the Hospital may convert or reconvert all or a portion of a series of the Bonds to or from the Daily Mode, Weekly Mode, Flexible Mode, Adjusted Index Term Mode, Term Rate Mode or PARS Rate Period, or may convert all or a portion of a series of the Bonds to the Fixed Rate Mode upon the exercise by the Hospital of its right to convert and upon compliance by the Hospital with the provisions of the applicable Agreement and the applicable Reimbursement Agreement.

Conversion to and from Daily and Weekly Mode; Conversion to Flexible, Adjusted Index Term, PARS Rate Period or Term Rate Mode. While the Bonds are in the Daily or Weekly Mode, conversions to any other Mode may take place on any Business Day, upon not less than fifteen (15) days' prior written notice from the Trustee to the Bondowner. Such notice shall state: (1) the Mode to which the conversion will be made and the Mode Change Date; (2) that the Bonds of such series will be subject to mandatory tender for purchase on the Mode Change Date and the Purchase Price of such Bonds; and (3) if the Book-Entry System is no longer in effect, information with respect to required delivery of Bond certificates and payment of Purchase Price. In the case of a change to a Flexible, Adjusted Index Term or Term Rate Mode, such notice shall also include a statement as to whether there will be a Liquidity Facility and/or Credit Facility in effect with respect to the Bonds following such change and the identity of any provider of such Liquidity Facility and/or Credit Facility.

The interest rate on the Bonds of a series shall not be converted to another Mode unless there shall have been delivered to the Trustee, the Credit Provider, the applicable Liquidity Provider, if any, and the applicable Remarketing Agent, on or prior to the Mode Change Date (i) if there is to be an Alternate Liquidity Facility or Alternate Credit Facility delivered in connection with such change, compliance with the requirements of the applicable Agreement with respect to providing an Alternate Liquidity Facility or Alternate Credit Facility; and (ii) except in the case of Bonds converting between the Daily and Weekly Modes, a Rating Confirmation Notice or a notice from the Rating Agencies of the rating(s) to be assigned the Bonds on such Mode Change Date.

In the case of conversion between the Daily and Weekly Modes, the applicable Remarketing Agent shall determine the Daily or Weekly Rate (i) not later than 10:00 A.M., New York City time, on the date of the conversion of the Bonds from the Weekly Mode to the Daily Mode, or (ii) not later than 4:00 P.M., New York City time, one Business Day prior to the date of the proposed conversion of the Bonds from the Daily Mode to the Weekly Mode. In the case of conversion from the Daily or Weekly Mode to the Flexible Mode or the Term Mode, the applicable Remarketing Agent shall determine the interest rate in accordance with the applicable Agreement.

Conversion to Fixed Rate Mode. Not later than the 15th day next preceding the Mode Change Date, the Trustee shall mail, in the name of the Hospital, a notice of such proposed change to the Owners of the Bonds stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Owner is required to tender such Owner's Bonds for purchase on such proposed Mode Change Date.

The change to the Fixed Rate Mode shall not occur unless there shall have been delivered to the Authority, the Hospital, the Trustee, and the applicable Remarketing Agent on or prior to the Mode

Change Date (i) an opinion of Bond Counsel stating that the conversion is permitted by the applicable Agreement and that such conversion will not adversely affect the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes; (ii) if there is to be a Credit Facility delivered in connection with such change, compliance with the requirements of the applicable Agreement with respect to providing an Alternate Credit Facility; and (iii) notice from the Rating Agencies of the rating(s) to be assigned the applicable Bonds on such Mode Change Date.

The Fixed Rate (or rates in the case of Serial Bonds) for the Bonds to be converted to the Fixed Rate Mode shall be established by the applicable Remarketing Agent in accordance with the respective Agreement. Such rate shall remain in effect until the Maturity Date of the Bonds.

Failure to Satisfy Conditions Precedent to a Mode Change. In the event the conditions to conversion to another Mode have not been satisfied by the applicable Mode Change Date, then the new Mode shall not take effect although any mandatory tender shall be made on such date if notice has been sent to the Owners stating that such Bonds would be subject to mandatory purchase on such date. If the failed change in Mode was from the Daily Mode, the Bonds shall remain in the Daily Mode, and if the failed change in Mode was from the Weekly Mode, the Bonds shall remain in the Weekly Mode, with interest rates established on and as of the failed Mode Change Date. In no event shall the failure of the Bonds to be converted to another Mode be deemed to be a default or an Event of Default as long as the Purchase Price is made available if the Bonds to have been converted are required to be purchased.

Rescission of Election. The Hospital may rescind any election by it to change a Mode prior to the Mode Change Date by giving written notice thereof to the Authority, the Trustee, the applicable Remarketing Agent, and the applicable Credit Provider prior to such Mode Change Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Owners of the Bonds, then such notice of change in Mode shall be of no force and effect. If the Trustee receives notice from the Hospital of rescission of a Mode change after the Trustee has given notice thereof to the Owners of the Bonds, then if the proposed Mode Change Date would have been a Mandatory Purchase Date, such date shall continue to be a Mandatory Purchase Date. If the proposed change in Mode was from the Daily Mode, the Bonds shall remain in the Daily Mode, and if the proposed change in Mode was from the Weekly Mode, the Bonds shall remain in the Weekly Mode, with interest rates established on and as of the proposed Mode Change Date.

Optional Tender

While the Bonds are in the Daily Mode or the Weekly Mode (except for Corporation Bonds or Bank Bonds), a Registered Owner shall have the right to tender the Bonds (or portions thereof) for purchase in the amount of $100,000 and any integral multiple of $5,000 in excess thereof (as long as it shall not result in any portion of a Bond not tendered being below the minimum authorized denomination of $100,000) at a price equal to 100% of the principal amount thereof, plus accrued interest, if any, to the Purchase Date (the "Purchase Price"), upon compliance with the conditions described below. In order to exercise the right to tender, the registered owners must deliver to the Trustee a written irrevocable notice of tender satisfactory to the Trustee. If the Bonds are in the Daily Mode, in order to exercise the right to tender, a Registered Owner must give notice ("Tender Notice") to the Trustee not later than 11:00 A.M., New York City time, on any Business Day stating that such owner irrevocably elects to tender the Bond (or specified portion thereof) and stating the name, address and taxpayer identification number of such owner, the number of the Bond and the principal amount being tendered, payment instructions and the date on which the Bond is to be purchased which shall be the date of such notice. If the Bonds are in the Weekly Mode, they will be purchased on the Business Day specified in such Tender Notice, provided such date is at least seven calendar days after receipt by the Trustee of such notice.

If the registered owner of a Bond has elected to require purchase as provided above, a Registered Owner shall be deemed, by such election, to have agreed irrevocably to sell such Bond to any purchaser determined in accordance with the provisions of the applicable Agreement on the date fixed for purchase at the Purchase Price. The Purchase Price of the Bonds shall be paid to the registered owners by the Trustee on the Purchase Date or any subsequent Business Day on which such Bonds are delivered to the Trustee. The Purchase Price of the Bonds shall be paid only upon surrender of the Bonds to the Trustee. From and after the Purchase Date, no further interest on the Bonds shall be payable to the registered owners who gave notice of tender for purchase, provided that there are sufficient funds available on the Purchase Date to pay the Purchase Price. Tender of the Bonds will not be effective and the Bonds will not be purchased if at the time fixed for purchase an acceleration of the maturity of the Bonds shall have occurred and not have been annulled in accordance with the applicable Agreement. Notice of tender of the Bonds is irrevocable. All notices of tender of Bonds shall be made to the Trustee. All deliveries of tendered Bonds, including deliveries of Bonds subject to mandatory tender, shall be made to the Trustee.

If the Bonds are held in registered form with DTC, they shall be tendered in accordance with the rules and procedures established by DTC (see the caption "BOOK-ENTRY-ONLY SYSTEM").

Mandatory Tender

The Bonds in the Daily or Weekly Mode (except for Corporation Bonds or Bank Bonds) are subject to mandatory tender for purchase at a price of par plus accrued interest, if any, to the Purchase Date on (i) any Mode Change Date, (ii) any date upon which an Alternate Credit Facility or Alternate Liquidity Facility is substituted for the Credit Facility or Liquidity Facility then in effect, (iii) on the fifth Business Day prior to the Expiration Date of the applicable Letter of Credit (other than as a result of an Automatic Termination Event with respect to a Liquidity Facility), and (iv) on the date of receipt by the Trustee of a written notice from the applicable Credit Provider following the occurrence of an event of default (other than as a result of an Automatic Termination Event with respect to a Liquidity Facility) under the applicable Reimbursement Agreement (upon which date interest on the Bonds shall cease to accrue).

Notice of mandatory tender shall be given or caused to be given by the Trustee in writing to the Bondowner (a) no less than fifteen (15) days prior to the Mandatory Purchase Date in the case of a mandatory purchase on a Substitution Date; (b) no less than fifteen (15) days prior to the Mandatory Purchase Date in the case of a mandatory purchase on a Mode Change Date; (c) immediately upon, but not later than one (1) Business Day thereafter, receipt by the Trustee of notice from the Credit Provider or Liquidity Provider, as applicable, of an event of default due to non-reinstatement under the applicable Letter of Credit or any other event of default under the applicable Reimbursement Agreement then in effect; which notice directs a mandatory tender of the applicable Bonds, and (d) at least three (3) Business Days prior to the Mandatory Purchase Date immediately preceding any Expiration Date.

Remarketing of the Bonds

Each Remarketing Agent shall use its best efforts to offer for sale at par:

(i) all Bonds or portions thereof as to which notice of optional tender has been given; and

(ii) all Bonds required to be purchased on (A) a Mode Change Date or (B) a Substitution Date (for any Bonds that are secured by a Credit Facility or the purchase of which is provided for by a Liquidity Facility); and

(iii) any Bank Bonds or Liquidity Provider Bonds (A) that are purchased on a Purchase Date described in clause (i) or (ii) above, (B) with respect to which the Credit Provider or Liquidity Provider, as applicable, has provided notice to the Trustee and the applicable Remarketing Agent that has reinstated the Available Amount, (C) with respect to which an Alternate Liquidity Facility and Alternate Credit Facility is in effect (if such Bonds were secured by a Credit Facility prior to becoming Bank Bonds or Liquidity Provider Bonds which Credit Facility is no longer in effect), or (D) which are being marketed as Fixed Rate Bonds; and

(iv) any Corporation Bonds;

provided that in no event will the Remarketing Agent remarket any Bonds to the Hospital, the Authority or any Affiliate of either while a Credit Facility is in effect with respect to such Bonds.

On each date on which a Bond is to be purchased, if the applicable Remarketing Agent has given notice to the Trustee pursuant to the applicable Agreement that it has been unable to remarket any of the Bonds by 10:30 A.M., New York City time (11:30 A.M., New York City time, with respect to Bonds in the Daily Mode), then the Trustee shall draw on the Credit Facility or Liquidity Facility, as applicable (or, if there is no Credit Facility or Liquidity Facility or the Credit Facility or Liquidity Facility is unavailable to honor such draw, to request funds from the Hospital) in accordance with the terms thereof so as to receive thereunder by 2:00 P.M. on such date an amount equal to the Purchase Price of all such Bonds that have not been successfully remarketed and tendered Bonds for which remarketing proceeds have not been received by the Trustee prior to the draw deadline under the Credit Facility or Liquidity Facility, as applicable. In the absence of receipt of such notice from the Remarketing Agent, the Trustee shall make such draw based on the amount of remarketing proceeds on deposit in the Purchase Fund, if any.

If the Credit Facility or Liquidity Facility does not provide sufficient funds, together with all other amounts (including remarketing proceeds) received by the Trustee to pay the Purchase Price of tendered Bonds, such Trustee shall before 2:30 P.M., New York City, time on the Purchase Date notify the Hospital and the applicable Remarketing Agent of such deficiency. The Hospital may, or if no Credit Enhancement or Liquidity Facility exists, shall, by 2:45 P.M., New York City time, on the Purchase Date pay the Trustee an amount equal to the deficiency. In no such case, however, is the Hospital obligated to make such payment.

By 3:00 P.M., New York City, time on the date on which a Bond is to be purchased, the Trustee shall use such funds to purchase tendered Bonds from the tendering Owners at the applicable Purchase Price by wire transfer in immediately available funds. Funds for the payment of such Purchase Price shall be derived solely from the following sources in the order of priority indicated and neither the Trustee nor the applicable Remarketing Agent shall be obligated to provide funds from any other source:

(i) immediately available funds on deposit in the applicable Remarketing Proceeds Account;

(ii) immediately available funds on deposit in the applicable Liquidity Facility Purchase Account; and

(iii) immediately available funds on deposit in the Corporation Purchase Account; provided that for Bonds the purchase of which is provided for by a Liquidity Facility or Credit Facility, such application of funds in the Corporation Purchase Account shall be at the sole discretion of the Hospital.

Any funds remaining in a Liquidity Facility Purchase Account following the payment by the Trustee of the Purchase Price of all tendered Bonds covered by the respective Liquidity Facility shall be reimbursed immediately by the Trustee to the Liquidity Provider.

On each date on which a Bond is to be purchased, such Bond shall be delivered as follows:

(a) Bonds sold by a Remarketing Agent and described in clause (i) above shall be registered and made available to the applicable Remarketing Agent by 1:30 P.M., New York City time;

(b) Bonds purchased by the Trustee with moneys described in clause (ii) above (excluding amounts to be reimbursed to the Bank from amounts remaining in a Liquidity Facility Purchase Account as set forth above) shall be registered on or before 3:00 P.M., New York City time, to the applicable Bank, or its designee, as owner or pledgee, as directed by the Credit Provider or Liquidity Provider, as applicable, and held by the Trustee (whether or not such Bonds are delivered by the tendering Bondowner) as security for the reimbursement of such Bank for moneys draw under the Liquidity Facility or Credit Facility and shall be "Bank Bonds;" and

(c) Bonds purchased by the Hospital with moneys described in clause (iii) above shall be registered immediately in the name of the Hospital or its nominee on or before 2:30 P.M., New York City time. Bonds so owned by the Hospital shall continue to be Outstanding under the terms of the applicable Agreement and be subject to all of the terms and conditions of such Agreement and shall be subject to remarketing by the applicable Remarketing Agent.

Anything in the respective Agreement to the contrary notwithstanding, if there shall have occurred and be continuing either a Credit Facility Failure or a Liquidity Facility Failure, the applicable Remarketing Agent shall not remarket any Bonds covered by the Credit Facility or Liquidity Facility, as applicable. All other provisions of the applicable Agreement, including without limitation, those relating to the setting of interest rates and Interest Periods and mandatory and optional purchases, shall remain in full force and effect during the continuance of such Event of Default.

Redemption Prior to Maturity

While the Bonds are in the Daily or Weekly Mode, the Bonds are subject to redemption prior to their stated maturity, as described below:

Optional Redemption. The Bonds will be subject to redemption at the direction of the Hospital, in whole or in part in Authorized Denominations, on any date, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the Redemption Date.

Mandatory Sinking Fund Redemption. The Series N-1 Bonds are subject to redemption from mandatory sinking fund payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the redemption date in the amounts and on October 1 in the years set forth below:

Year	Principal Amount	Year	Principal Amount
2022	$5,230,000	2026	$6,935,000
2023	5,620,000	2027	7,410,000
2024	6,035,000	2028	7,920,000
2025	6,475,000	2029*	4,375,000

*Final Maturity.

The Series N-2 Bonds are subject to redemption from mandatory sinking fund payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the redemption date in the amounts and on October 1 in the years set forth below:

Year	Principal Amount	Year	Principal Amount
2038	$9,860,000	2041	$18,455,000
2039	14,375,000	2042*	17,430,000
2040	14,880,000		

*Final Maturity.

The Series N-3 Bonds are subject to redemption from mandatory sinking fund payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the redemption date in the amounts and on October 1 in the years set forth below:

Year	Principal Amount	Year	Principal Amount
2029	$4,025,000	2034	$1,000,000
2030	8,750,000	2035	1,000,000
2031	9,285,000	2036	12,585,000
2032	9,880,000	2037	13,435,000
2033	1,000,000	2038*	4,040,000

*Final Maturity.

The Series N-4 Bonds are subject to redemption from mandatory sinking fund payments, at a redemption price equal to the principal amount of the Bonds to be redeemed, without premium, plus accrued interest to the redemption date in the amounts and on October 1 in the years set forth below:

Year	Principal Amount	Year	Principal Amount
2042	$1,575,000	2046	$21,395,000
2043	19,580,000	2047	22,035,000
2044	20,165,000	2048	22,695,000
2045	20,770,000	2049*	23,375,000

*Final Maturity.

While any Bond is a Bank Bond or Liquidity Provider Bond it may also be subject to mandatory redemption prior to maturity as set forth in the applicable Agreement and in the applicable Reimbursement Agreement, then in effect.

Purchase of Bonds. The Hospital may purchase Bonds and credit them against sinking fund installments applicable to the Bonds so purchased at the principal amount or applicable redemption price, as the case may be, by delivering them to the Trustee for cancellation at least sixty (60) days before the principal payment date or mandatory sinking fund installment date against which such purchased Bonds are to be applied.

Notice of Redemption

When Bonds are to be redeemed, the Trustee shall give notice in the name of the Authority, which notice shall identify the Bonds to be redeemed and state that such Bonds will be redeemed at the corporate trust office of the Trustee. The notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, together with interest accrued to the Redemption Date, and that moneys therefor having been deposited with the Trustee, from and after such date, interest thereon shall cease to accrue. While the Bonds are in the Daily or Weekly Mode the Trustee shall mail the redemption notice no fewer than 15 days prior to the redemption date, to the applicable Credit Provider and the registered owners of any Bonds which are to be redeemed, at their addresses shown on the registration books maintained by the Trustee. Failure to mail notice to a particular Bondowner, or any defect in the notice to such Bondowner, shall not affect the redemption of any other Bond.

A notice of optional redemption may state (i) that it is conditioned upon the deposit of moneys in an amount equal to the amount necessary to effect the redemption not later than the redemption date, or (ii) that the Hospital may rescind such notice at any time prior to the scheduled redemption date if the Hospital delivers a notice thereof to the Bondowners. The redemption notice shall be of no effect if such moneys are not so deposited or if the notice is rescinded, and the failure of the Hospital to make funds available in whole or in part on or before the redemption date shall not then constitute a default under the applicable Agreement.

Effect of Redemption

Notice of redemption having been duly mailed, the Bonds so called for redemption will become due and payable on the Redemption Date at the Redemption Price specified in such notice, and, moneys for the redemption having been deposited with the Trustee, from and after the date fixed for redemption, interest on the Bonds (or such portions) will no longer accrue.

Partial Redemptions

If less than all of the Bonds of a series are to be redeemed, the Bonds to be redeemed shall be selected by the Trustee by lot or in any customary manner of selection as determined by such Trustee, provided that the Trustee shall redeem, prior to any other Bonds of such series (i) Bonds that are Bank Bonds or Liquidity Provider Bonds at the time of selection for redemption and (ii) after the redemption of such Bank Bonds or Liquidity Provider Bonds, Bonds that are Corporation Bonds at the time of selection for redemption. Subject to the preceding sentence, if less than all of the Bonds of a series are to be redeemed, the Trustee shall select Bonds for optional redemption in the order of maturity as directed by the Hospital, and if such redemption includes the redemption of Bonds subject to sinking fund redemption, the Trustee shall credit such redemption to particular sinking fund installments as directed by the Hospital; provided, however, that so long as the Bonds are held in the book-entry only system, such selection shall be made by DTC in such manner as DTC may determine (See "BOOK-ENTRY-ONLY SYSTEM").

Purchase in Lieu of Redemption

When Bonds are called for redemption as described above, the Hospital may purchase some or all of the Bonds called for redemption if it gives written notice to the Trustee and the Authority not later than two Business Days before the Redemption Date that it wishes to purchase the principal amount of Bonds specified in the notice, at a Purchase Price equal to the Redemption Price. Any such purchase of Bonds

by the Hospital shall not be deemed to be a payment or redemption of the Bonds or any portion thereof and such purchase shall not extinguish or discharge the indebtedness evidenced by such Bonds.

CERTAIN CONSIDERATIONS RELATING TO THE REMARKETING OF THE BONDS

The Remarketing Agents are Paid by the Hospital. The Remarketing Agents' responsibilities include determining the interest rate from time to time and remarketing the applicable Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the applicable Remarketing Agreement), all as further described in this Official Statement. Each Remarketing Agent is appointed by the Hospital and is paid by the Hospital for its services. As a result, the interests of each Remarketing Agent may differ from those of existing holders and potential purchasers of Bonds.

The Remarketing Agents Routinely Purchase Bonds for its Own Account. Each Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of the obligations (i.e., because there are otherwise not enough buyers to purchase the obligations) or for other reasons. Each Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, if it does so, it may cease doing so at any time without notice. The Remarketing Agents may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agents are not required to make a market in the Bonds. Each Remarketing Agent may also sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by a Remarketing Agent may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to each Remarketing Agreement, the respective Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the applicable Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Rate Determination Date. The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the applicable Remarketing Agent is willing to purchase Bonds for its own account). There may or may not be Bonds tendered and remarketed on a Rate Determination Date, the applicable Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the applicable Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The applicable Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. In the event a Remarketing Agent owns any Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer such Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Bonds other than through Tender Process May Be Limited. Each Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to sell their Bonds to instead tender them through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, a Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances a Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the applicable Remarketing Agreement.

DEBT SERVICE REQUIREMENTS

The following table sets forth, for each year ending October 1, the amounts required to be made available in such year by the Hospital for payment of the principal of, sinking fund installments and estimated interest on its outstanding indebtedness after the issuance of the Bonds (rounded to the nearest dollar).

For purposes of the following debt service table, the interest rate for hedged variable rate debt has been calculated using various assumptions permitted by the Master Trust Indenture, more specifically, by using the fixed rate payable by the Hospital under the allocable hedges, plus amounts payable by the Hospital on the allocable hedged variable rate debt, less amounts received by the Hospital under the applicable hedge. Specifically, the Hospital is currently a counterparty to seven separate interest rate swaps with an aggregate notional amount of $535.125 million that will be used, in part, to hedge a portion of the interest exposure with respect to the Bonds. Because the notional amount of the swaps reallocated by the Hospital to the Bonds is less than the amount of the Bonds and because the swaps will amortize more rapidly than the Bonds, a portion of the interest expense on the Bonds will not be hedged. Accordingly, the interest rate on the unhedged Bonds is assumed to be 3% per annum. This table excludes debt service on the Refunded Bonds. This table also excludes the Series L-1 Bonds and the Series L-2 Bonds, which were purchased by the Hospital with the proceeds of the $200 million Bridge Loan. As permitted by the terms of the Master Trust Indenture for Balloon Indebtedness, the Bridge Loan is amortized over 25 years and interest is calculated based on the allocable hedges using the same methodology described above for hedged variable rate debt. Accordingly, $80 million of the Bridge Loan is assumed to bear interest based on a 4.80% per annum rate and $120 million is assumed to bear interest based on a 4.65% per annum rate. These rates are assumed through maturity.

Year Ending October 1	Principal and Sinking Fund Installments on the Bonds	Interest on the Bonds	Total Debt Service on other long-term Indebtedness	Total Debt Service on long-term Indebtedness
2010	$ 0	$5,569,043	$8,985,551	$14,554,594
2011	0	14,527,938	20,318,148	34,846,086
2012	0	14,527,938	20,318,959	34,846,896
2013	0	14,527,938	20,320,064	34,848,002
2014	0	14,527,938	20,321,013	34,848,951
2015	0	14,527,938	20,316,355	34,844,292
2016	0	14,527,938	20,320,862	34,848,800
2017	0	14,527,938	20,318,633	34,846,571
2018	0	14,527,938	20,319,443	34,847,380
2019	0	14,527,938	20,317,612	34,845,550
2020	0	14,527,938	20,317,692	34,845,629
2021	0	14,527,938	20,319,003	34,846,941
2022	5,230,000	14,527,938	20,320,870	40,078,808
2023	5,620,000	14,138,575	20,317,615	40,076,190
2024	6,035,000	13,723,238	20,318,787	40,077,024
2025	6,475,000	13,285,905	20,318,482	40,079,387
2026	6,935,000	12,824,968	20,316,024	40,075,992
2027	7,410,000	12,346,065	20,320,736	40,076,801
2028	7,920,000	11,841,964	20,316,490	40,078,453
2029	8,400,000	11,362,485	20,317,833	40,080,318
2030	8,750,000	11,008,825	20,318,637	40,077,462
2031	9,285,000	10,475,425	20,318,000	40,078,425
2032	9,880,000	9,880,478	20,320,018	40,080,496
2033	1,000,000	9,252,818	33,082,876	43,335,694
2034	1,000,000	8,876,013	33,248,634	43,124,647
2035	1,000,000	8,483,413	19,484,938	28,968,350
2036	12,585,000	8,073,293	19,417,725	40,076,018
2037	13,435,000	7,382,575	19,260,956	40,078,531
2038	13,900,000	6,965,275	19,211,238	40,076,513
2039	14,375,000	6,533,431	19,171,475	40,079,906
2040	14,880,000	6,086,744	19,108,619	40,075,363
2041	18,455,000	5,624,250	0	24,079,250
2042	19,005,000	5,070,600	0	24,075,600
2043	19,580,000	4,500,450	0	24,080,450
2044	20,165,000	3,913,050	0	24,078,050
2045	20,770,000	3,308,100	0	24,078,100
2046	21,395,000	2,685,000	0	24,080,000
2047	22,035,000	2,043,150	0	24,078,150
2048	22,695,000	1,382,100	0	24,077,100
2049	23,375,000	701,250	0	24,076,250
Total	$341,590,000	$391,673,729	$637,983,288	$1,371,247,017

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of the Bonds each in the aggregate principal amount of such series, 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has 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 the 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 (a "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, but Beneficial Owners are 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 the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor 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 the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

If the Authority decides to discontinue the use of the system of book-entry transfers of a series of Bonds issued by it through DTC (or a successor securities depository), the Authority shall make such request of DTC (or a successor securities depository). Upon receipt of any such withdrawal request, (i) DTC will issue a notice notifying its Direct Participants of the receipt of a withdrawal request from the Authority reminding Direct Participants that they may utilize DTC's withdrawal procedures if they wish to withdraw their securities from DTC, and (ii) DTC will process withdrawal requests submitted by Direct Participants in the ordinary course of business, but will not effectuate withdrawals based upon a request from the Authority.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE

RELIABLE, BUT NONE OF THE AUTHORITY, THE HOSPITAL, THE GUARANTOR OR THE UNDERWRITERS TAKES ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

No Responsibility of the Authority, Hospital, Guarantor and Trustee. NONE OF THE AUTHORITY, THE HOSPITAL, THE GUARANTOR OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

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

Certificated Bonds. DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Trustee. In addition, the Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor securities depository) is not in the best interests of the Beneficial Owners of the Bonds. If for either reason the book-entry-only system is discontinued, Bond certificates will be delivered as described in the applicable Agreement and the Beneficial Owner, upon registration of certificates held in the Beneficial Owner's name, will become the Bondowner. Thereafter, Bonds may be exchanged for an equal aggregate principal amount of Bonds in other authorized denominations, of the same series, upon surrender thereof at the principal corporate trust office of the Trustee. The transfer of any Bond may be registered on the books maintained by the Trustee for such purpose only upon the assignment in the form satisfactory to the Trustee. For every exchange or registration of transfer of Bonds, the Authority and the Trustee may make a charge sufficient to reimburse them for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge may be made to the Bondowner for any exchange or registration of transfer of the Bonds. The Trustee will not be required to transfer or exchange any Bond during the notice period preceding any redemption if such Bond (or any part thereof) is eligible to be selected or has been selected for redemption.

ADDITIONAL INDEBTEDNESS

The Master Trust Indenture permits each Member of the Obligated Group, including the Hospital, to incur Obligations on parity with or, in certain cases, senior to, the Notes and the Letter of Credit Notes given as security for the Bonds. The incurrence of additional parity Obligations or senior indebtedness is subject to certain conditions, including compliance with the Master Trust Indenture's limits on Long-Term and Short-Term Indebtedness. For additional information concerning the incurrence of parity Obligations see Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Limitations on Incurrence of Additional Indebtedness."

The Guaranty and the Letter of Credit Guaranties set forth the conditions under which the Guarantor may incur certain additional indebtedness in the future. See Appendix C-4 – "SUMMARY OF THE GUARANTY" under the heading "Covenants of the Guarantor - Additional Indebtedness."

DEBT SERVICE COVERAGE RATIOS

In the Master Trust Indenture, the Obligated Group agrees to use its best efforts to maintain a particular Historical Debt Service Coverage Ratio of the Obligated Group and to take certain actions to the extent that ratio is not maintained. Currently, the Hospital is the only Member of the Obligated Group. For

a more complete description, see Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE" under the heading "Debt Service Coverage Ratios."

In the Guaranty and the Letter of Credit Guaranties, the Guarantor agrees to use its best efforts to maintain a ratio of its Unconsolidated Income Available for Debt Service to its Direct Debt Service Requirement at least equal to 1.10 in each fiscal year. If such ratio, as calculated at the end of any fiscal year, is less than 1.10, the Guarantor covenants to retain a Consultant. For a more complete description, see Appendix C-4 – "SUMMARY OF THE GUARANTY" under the heading "Covenants of the Guarantor – Debt Service Coverage Ratio."

CERTAIN FINANCIAL INFORMATION

The following tables set forth the historical and pro forma capitalization, days cash on hand and historical and pro forma debt service coverage for the Guarantor and its subsidiaries.[1] For detailed operating and financial information about the Hospital and the Guarantor, see Appendices A, B-1 and B-2 to this Official Statement.

Historical and Pro Forma Capitalization

The table below was prepared by the Hospital's management and represents the capitalization of the Guarantor and its subsidiaries as of September 30, 2009, December 31, 2009 and on a pro forma basis as of December 31, 2009. The table was prepared from audited consolidated financial statements of the Guarantor and its subsidiaries which are included in Appendix B-1 and unaudited consolidated financial statements of the Guarantor and its subsidiaries which are included in Appendix B-2. The pro forma column assumes that the Bonds have been issued and that the Refunded Bonds are no longer outstanding.

The Children's Medical Center Corporation and Subsidiaries
Consolidated Capitalization[1, 3]
(in thousands)

	September 30, 2009	December 31, 2009	Pro Forma December 31, 2009
Long Term Debt			
Series G Bonds	$105,250	$105,250	$ -
Series H Bonds	80,000	80,000	-
Series I Bonds	49,075	49,075	-
Series J Bonds	74,200	74,200	-
Series K Bonds	30,800	30,800	-
Bridge Loan	200,000	200,000	200,000
Immune Disease Institute Debt	4,203	3,924	3,924
Mortgage Debt	42,807	70,518	70,518
Series M Bonds (net of original issue discount)	-	124,330	124,330
Series N Bonds	-	-	341,590
Total Long-Term Debt[2]	$586,335	$738,097	$740,362
Unrestricted Net Assets	$1,878,370	$1,975,508	$1,975,508
Total Capitalization	$2,464,705	$2,713,605	$2,715,870
Total Long-Term Debt as a percentage of Total Capitalization	23.8%	27.2%	27.3%

(1) The Hospital and the Guarantor are the only corporations currently liable for payment of the debt service on the Bonds. The assets and earnings of the other subsidiaries of the Guarantor, which management believes are immaterial, are not available for payment of the debt service on the Bonds. In 2009, the subsidiaries not obligated with respect to the Bonds accounted for 6.61% of the total assets and 3.86% of the total revenues of the consolidated assets and revenues of the Guarantor and subsidiaries.
(2) Excludes Series L-1 Bonds and Series L-2 Bonds, see "DEBT SERVICE REQUIREMENTS."
(3) Based on the financial statements set forth in Appendix B-1 and Appendix B-2, which incorporate Immune Disease Institute, Inc. ("IDI") for both periods presented (9/30 and 12/31).

Days Cash on Hand

A calculation of the days cash on hand of the Guarantor and subsidiaries[1] as of September 30, 2009 and December 31, 2009 is set forth below.

The Children's Medical Center Corporation and Subsidiaries
Calculation of Days Cash on Hand[1, 2]

	September 30, 2009	December 31, 2009
Total Unrestricted Cash Position (in thousands)[3]	$2,048,770	$2,176,012
Average Daily Expenses (in thousands)[4]	3,218	3,193
Days Cash on Hand	636.6	681.4

(1) The Hospital and the Guarantor are the only corporations liable for payment of the debt service on the Bonds. The assets and earnings of the other subsidiaries of the Guarantor, which management believes are immaterial, are not available for payment of the debt service on the Bonds. In 2009, the subsidiaries not obligated with respect to the Bonds accounted for 6.61% of the total assets and 3.86% of the total revenues of the consolidated assets and revenues of the Guarantor and subsidiaries.
(2) Based on the financial statements set forth in Appendix B-1 and Appendix B-2, which incorporate IDI for both periods presented (9/30 and 12/31).
(3) Cash and cash equivalents, investments unrestricted as to use and assets whose use is limited by Board designation.
(4) Total operating expenses less extraordinary items, infrequently occurring items or unusual items and the cumulative effect of changes in accounting principles, depreciation and amortization or other non-cash charges divided by 365.

Historical and Pro Forma Coverage of Debt Service

The following table sets forth, for the fiscal year ended September 30, 2009, the income of the Hospital available to pay its debt service and the extent to which such income covered maximum annual debt service requirements on the actual long-term indebtedness of the Hospital outstanding during the period. The table also indicates the extent to which such historical income available for debt service would provide coverage of pro forma maximum annual debt service requirements of long-term indebtedness after giving effect to the issuance of the Bonds. There can be no assurance that the Hospital will generate income available for debt service in future years comparable to historical performance.

The Children's Hospital Corporation
Actual and Pro Forma Debt Service Coverage
(in thousands)

	September 30, 2009
Revenues Available for Debt Service[1]	$232,763
Historical Maximum Annual Debt Service[2]	$61,698
Historical Maximum Annual Debt Service Coverage Ratio	3.8x
Pro Forma Maximum Annual Debt Service[2, 3]	$43,336
Pro Forma Maximum Annual Debt Service Coverage Ratio	5.4x

(1) Excess of revenues over expenses plus depreciation and amortization plus interest expense plus adjustment of interest rate swap to fair market value
(2) Principal and interest on variable rate bonds have been calculated in accordance with the requirements of the Master Trust Indenture. See discussion under "DEBT SERVICE REQUIREMENTS."
(3) Giving effect to the issuance of the Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds, together with certain other available moneys, are expected to be applied as follows (rounded to the nearest dollar):

Sources of Funds	
Principal amount of the Series N-1 Bonds	$50,000,000
Principal amount of the Series N-2 Bonds	75,000,000
Principal amount of the Series N-3 Bonds	65,000,000
Principal amount of the Series N-4 Bonds	151,590,000
Total Sources of Funds	$341,590,000
Uses of Funds	
Refunding of Refunded Bonds	$339,564,138
Deposit to Expense Fund[†]	2,025,862
Total Uses of Funds	$341,590,000

[†] Includes Underwriters' discount, legal, consulting and printing fees and other associated bond issuance costs related to the Bonds.

THE BANKS AND THE LETTERS OF CREDIT

The Banks

See APPENDICES G-1 and G-2 for a summary description and certain financial information of the Banks.

The Letters of Credit

TD Letters of Credit. Concurrently with the issuance of the Series N-1 Bonds and the Series N-2 Bonds, the TD Letters of Credit will be issued by TD Bank pursuant to the TD Reimbursement Agreement. The TD N-1 Letter of Credit and the TD N-2 Letter of Credit irrevocably authorize draws in accordance with their terms in aggregate amounts not exceeding $50,821,918 and $76,232,877, respectively (as reduced and reinstated from time to time in accordance with the provisions of the applicable TD Letter of Credit, the "applicable TD Available Amount") of which amounts not exceeding $50,000,000 and $75,000,000, respectively, may be drawn upon with respect to payment of the unpaid principal amount or the portion of the Purchase Price corresponding to principal of the Series N-1 Bonds and Series N-2 Bonds, and amounts not exceeding $821,918 and $1,232,877, respectively, may be drawn upon with respect to payment of up to 50 days' accrued interest on such Bonds, or the portion of the Purchase Price corresponding to interest on such Bonds, computed at the maximum annual rate of interest of twelve percent (12%) on the basis of a 365- or 366-day year. Subject to the provisions contained in the immediately following paragraph, each drawing under the TD Letters of Credit shall reduce the respective TD Available Amount by the amount of such drawing.

After a drawing for the Purchase Price of the Series N-1 Bonds or the Series N-2 Bonds upon an optional or mandatory tender, the applicable TD Available Amount under the applicable TD Letter of Credit will be reinstated only upon reimbursement to TD Bank for amounts drawn under the applicable TD Letter of Credit, so long as, prior to receipt of such reimbursement TD Bank has not notified the Series N-1/2 Trustee of the occurrence of an event of default under the TD Reimbursement Agreement, and which notice directs the Series N-1/2 Trustee to either accelerate payment of the Series N-1 Bonds or the Series N-2 Bonds, as applicable, or cause a mandatory tender of all of the Series N-1 Bonds or the Series N-2 Bonds, as applicable. With respect to a drawing for interest payable on an Interest Payment Date as a scheduled periodic payment of interest on the applicable Bonds, the applicable TD Available Amount will automatically be reinstated effective the opening of business on the eleventh (11th) calendar day from the date such drawing is honored if the Series N-1/2 Trustee has not received on or before 5:00 P.M. (Boston, Massachusetts time) on the tenth (10th) calendar day from the date such drawing is honored notice from TD Bank that there is an event of default under the TD Reimbursement Agreement and directing the Series N-1/2 Trustee to accelerate the applicable Bonds. The applicable TD Available Amount shall not be reinstated for any drawing made with respect to a redemption.

The TD Letters of Credit will terminate upon the earliest of TD Bank's close of business on: (i) May 13, 2015 (or, in the event such date is not a Business Day, the next succeeding Business Day), unless extended; (ii) on the fifth (5th) day following the day that the Series N-1 Bonds or the Series N-2 Bonds, as applicable, have been converted to bear interest at a rate other than the Daily Rate or Weekly Rate; (iii) on the date of receipt of a written certificate from the Series N-1/2 Trustee accompanied by the applicable TD Letter of Credit stating that no Series N-1 Bonds or Series N-2 Bonds, as applicable, remain outstanding and unpaid, or that the Series N-1/2 Trustee has received an Alternate Credit Facility with respect to such Bonds; (iv) the date which is eighteen (18) days following receipt by the Series N-1/2 Trustee of a written notice from TD Bank notifying the Series N-1/2 Trustee of the occurrence of an event of default under the TD Reimbursement Agreement; and (v) the date on which TD Bank honors an

acceleration drawing equal to the principal amount of the Series N-1 Bonds or the Series N-2 Bonds outstanding covered by the applicable TD Letter of Credit, plus interest to the acceleration date.

Payment of the Purchase Price of the Series N-1 Bonds and the Series N-2 Bonds upon mandatory or optional tender for purchase as described in the Series N-1/2 Agreement is secured by the amounts available pursuant to the applicable TD Letter of Credit, subject to the terms and conditions of the applicable TD Letter of Credit and the TD Reimbursement Agreement.

JPM Letters of Credit. Concurrently with the issuance of the Series N-3 Bonds and the Series N-4 Bonds, the JPM Letters of Credit will be issued by JPMorgan pursuant to the JPM Reimbursement Agreement. The JPM N-3 Letter of Credit and JPM N-4 Letter of Credit irrevocably authorize draws in accordance with their terms in aggregate amounts not exceeding $65,961,644 and $153,832,702, respectively (as reduced and reinstated from time to time in accordance with the provisions of the applicable JPM Letter of Credit, the "applicable JPM Available Amount") of which amounts not exceeding $65,000,000 and $151,590,000, respectively, may be drawn upon with respect to payment of the unpaid principal amount or the portion of the Purchase Price corresponding to principal of the Series N-3 Bonds and the Series N-4 Bonds, and amounts not exceeding $961,644 and $2,242,702, respectively, may be drawn upon with respect to payment of up to 45 days' accrued interest on such Bonds, or the portion of the Purchase Price corresponding to interest on such Bonds, computed at the maximum annual rate of interest of twelve percent (12%) on the basis of a 365-day year. Subject to the provisions contained in the immediately following paragraph, each drawing under the applicable JPM Letter of Credit shall reduce the applicable JPM Available Amount by the amount of such drawing.

After a drawing for the Purchase Price of the Series N-3 Bonds or the Series N-4 Bonds upon an optional or mandatory tender, the applicable JPM Available Amount under the applicable JPM Letter of Credit will be reinstated only upon reimbursement to JPMorgan for amounts drawn under the applicable JPM Letter of Credit. With respect to a drawing for interest payable on an Interest Payment Date as a scheduled periodic payment of interest on the applicable Bonds, the applicable JPM Available Amount will automatically be reinstated effective at the open of business on the fifth (5th) calendar day after such drawing is honored if the Series N-3/4 Trustee has not received on or before 5:00 P.M., New York time, on the fourth (4th) calendar day from the date such drawing is honored written notice from JPMorgan that JPMorgan has not been reimbursed in full for any such drawing or any other Event of Default has occurred and as a consequence thereof the applicable JPM Letter of Credit will not be reinstated and directing the Series N-3/4 Trustee to either accelerate payment of the Series N-3 Bond or the Series N-4 Bonds, as applicable, or cause a mandatory tender of all of the Series N-3 Bonds or the Series N-4 Bonds, as applicable. The applicable JPM Available Amount shall not be reinstated for any drawing made with respect to a redemption.

The JPM Letters of Credit will terminate upon the earliest of JPMorgan's close of business on: (i) May 13, 2013, (or, in the event such date is not a Business Day, the next succeeding Business Day) unless extended; (ii) on the date of receipt of a written certificate from the Series N-3/4 Trustee accompanied by the applicable JPM Letter of Credit stating that no Series N-3 Bonds or Series N-4 Bonds, as applicable, remain outstanding and unpaid, or that the Series N-3/4 Trustee has received an Alternate Credit Facility with respect to such Bonds; (iii) on the fifth day following the day that the Series N-3 Bonds or the Series N-4 Bonds, as applicable, have been converted to bear interest at a rate other than the Daily Rate or Weekly Rate; (iv) the date on which JPMorgan receives an acceleration drawing equal to the principal amount of Bonds outstanding on such JPM Letter of Credit, plus interest to the acceleration date; and (v) the date which is eighteen days following receipt by the Series N-3/4 Trustee of a written notice from JPMorgan notifying the Series N-3/4 Trustee of the occurrence of an event of default under the JPM Reimbursement Agreement.

Payment of the Purchase Price of the Series N-3 Bonds and the Series N-4 Bonds upon mandatory or optional tender for purchase as described in the Series N-3/4 Agreement is secured by the amounts available pursuant to the applicable JPM Letter of Credit, subject to the terms and conditions of the applicable JPM Letter of Credit and the JPM Reimbursement Agreement.

Alternate Credit Facility

If at any time there shall have been delivered to the Trustee (i) an Alternate Credit Facility in substitution for any Letter of Credit, (ii) a Favorable Opinion of Bond Counsel, (iii) a written Opinion of Counsel for the provider of the Alternate Credit Facility to the effect that such Alternate Credit Facility is a valid, legal and binding obligation of the provider thereof (subject to customary exceptions) and (iv) unless waived by such entity, written evidence satisfactory to the applicable Credit Provider of the provision for purchase from such Credit Provider of all Bank Bonds, at a price equal to the principal amount thereof plus accrued and unpaid interest at the rate provided for in the applicable Reimbursement Agreement, and payment of all amounts due to the applicable Credit Provider under the applicable Reimbursement Agreement on or before the effective date of such Alternate Credit Facility, then the Trustee shall accept such Alternate Credit Facility on the Substitution Date and shall surrender the Credit Facility then in effect to the provider thereof on the Substitution Date so long as the applicable Credit Provider has honored any necessary draws on the Credit Facility then in effect prior to such surrender. The Hospital shall give the Notice Parties and the Rating Agencies written notice of the proposed substitution of an Alternate Credit Facility no less than twenty (20) days prior to the proposed Substitution Date. The Trustee shall give notice of such proposed substitution by mail to the Owners of the Bonds no less than fifteen (15) days prior to the proposed Substitution Date.

The provisions of any Alternate Credit Facility may be different from the provisions in the initial Letters of Credit.

The Reimbursement Agreements

The respective Bank will issue each Letter of Credit pursuant to the terms of the respective Reimbursement Agreement. Reference is made to each Reimbursement Agreement for complete details of the terms thereof. See APPENDIX F-1 – "SUMMARY OF CERTAIN PROVISIONS OF THE JPMORGAN CHASE BANK, NATIONAL ASSOCIATION REIMBURSEMENT AGREEMENT" and APPENDIX F-2 – "SUMMARY OF CERTAIN PROVISIONS OF THE TD BANK, NATIONAL ASSOCIATION REIMBURSEMENT AGREEMENT" for summaries of certain provisions of the Reimbursement Agreements.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information. The Hospital, the Guarantor and the Dissemination Agent (as defined in the Continuing Disclosure Agreement described below) have undertaken all responsibilities for any continuing disclosure to Bondowners as described below, and the Authority shall have no liability to the Bondowners or any other person with respect to such disclosures.

Each of the Hospital and the Guarantor has covenanted for the benefit of the Bondowners to provide certain information and operating data relating to the Hospital or the Guarantor, as applicable, following the end of each of its fiscal years (the "Annual Report") and relating to the Hospital following the end of the first three quarters of each fiscal year (the "Quarterly Statements"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed on behalf of each of the Hospital

and the Guarantor within 180 days after each fiscal year end, and the Quarterly Statements will be filed by the Hospital within 75 days after each of the first three fiscal quarters, with the Municipal Securities Rulemaking Board ("MSRB") in an electronic form specified by the MSRB. The notices of material events will be filed on behalf of the Hospital and the Guarantor with the MSRB in an electronic form specified by the MSRB. The specific nature of the information to be contained in the Annual Report and Quarterly Statements or the notices of material events is summarized in Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission. The Hospital and the Guarantor have complied with their previous continuing disclosure obligations. Failure to comply with these covenants is not an event of default under the Master Trust Indenture or the Agreements.

BONDOWNERS' RISKS

Purchase of the Bonds involves a degree of risk. In order to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement, including the Appendices hereto, in order to make a judgment as to whether the Bonds are an appropriate investment. Certain risks associated with the purchase of the Bonds are described below and in Appendix A under the heading "Bondowners' Risks and Matters Affecting the Healthcare Industry." Such lists of possible factors, while not setting forth all the factors which must be considered, contain some of the factors which should be considered prior to purchasing the Bonds. The discussion of risk factors is not, and is not intended to be, comprehensive or exhaustive. Prospective purchasers of the Bonds should give careful consideration to the matters referred to in the following summary. Such summary should not be considered exhaustive, but rather informational only.

General

The principal of and interest on the Bonds are payable solely from the revenues and assets pledged for the payment of the Bonds as described herein. No representation or assurance can be made that revenues will be realized by the Hospital or Guarantor in the amounts necessary to make payments at the times and in the amounts sufficient to pay the debt service on the Bonds.

The future financial condition of the Hospital could be adversely affected by, among other things, legislation (including recently enacted national health reform), regulatory actions, increased competition from other health care providers, demand for health care services, technological developments and demographic changes, confidence of physicians and the public in the Hospital, the ability of the Hospital to provide the services required by patients, management capabilities, the success of the strategic plans of the Hospital, economic trends and events, physicians' relationships with the Hospital, the Hospital's ability to control expenses, maintenance of the Hospital's relationships with managed care organizations ("MCOs") and other payors, competition, rates, costs, third-party payments, legislation, and governmental regulation, malpractice claims and other litigation, changes in the rates, timing and methods of payment for the services of health care providers as well as increased costs and changes in governmental regulations, including Internal Revenue Service ("IRS") policy regarding tax exemption. Such factors may also consequently affect payment of principal and interest on the Bonds by the Hospital. Third-party payment and charge control statutes and regulations are likely to change, and unanticipated events and circumstances may occur which cause variations from the Hospital's expectations, and the variations may be material. There can be no assurance that the financial condition of the Hospital or utilization of its facilities will not be adversely affected in the future.

Creditworthiness of the Banks

Payments of the principal amount of, interest on and purchase price of the Bonds is supported by the respective Letters of Credit. Payment under the Letters of Credit depends on the creditworthiness of the respective Bank issuing such Letters of Credit. There can be no assurance that either of the Banks will

maintain its present financial condition or that an adverse change in such condition will not adversely affect its ability to honor future drawings under the Letters of Credit issued by such Bank.

If the long-term or short-term credit rating of a Bank is downgraded, the same will likely result in a downgrading of the rating of the Bonds supported by a Letter of Credit issued by such Bank. If such were to occur, it is possible that all of the applicable Bonds would be optionally tendered for purchase. No assurance can be given as to whether or not Bonds tendered under these circumstances could be remarketed. Each Agreement does permit the Hospital, under certain circumstances to deliver an Alternate Credit Facility; however such substitution must be in accordance with the terms and conditions set forth in the applicable Agreement. The Bonds are subject to mandatory tender for purchase at the Purchase Price in the event of delivery of an Alternate Credit Facility. No assurance can be given that an Alternate Credit Facility could be provided should the Hospital voluntarily wish to do so or wish to do so in connection with a downgrade of the credit rating of the Banks. See "THE BONDS - Mandatory Tender" herein.

Default under Reimbursement Agreements; Acceleration of Bonds

In the Reimbursement Agreements, the Hospital makes certain representations, warranties and covenants for the benefit of the respective Banks. A failure by the institution to comply with any of these representations, warranties and covenants may result in an Event of Default under the respective Reimbursement Agreements. Although an Event of Default under a Reimbursement Agreement constitutes an Event of Default under the applicable Agreement, the Trustee may not declare the applicable Bonds automatically due and payable in an Event of Default under a Reimbursement Agreement without prior written direction of the applicable Bank. If a Bank directs the Trustee to accelerate the applicable Bonds, the Trustee is required to declare an acceleration of all the applicable Bonds.

The terms of the Reimbursement Agreements may be modified, amended or supplemented by the respective Banks and the Hospital from time to time without giving notice to or obtaining the consent of the Bondowners. Any amendment, modification or supplement to the Reimbursement Agreements may contain amendments or modifications to the covenants of the Hospital or additional covenants of the Hospital and these amended or modified covenants may be more or less restrictive than those in effect at the date of issuance of the Bonds.

Enforceability of Master Trust Indenture and Agreement

It is possible that the joint and several obligation of a Member to make payments due under the Notes in respect of moneys used by another Member may not be valid and enforceable and could be declared void in an action brought by third-party creditors, or by a trustee in bankruptcy in the event of the bankruptcy of the Member from which payment is requested, or by the Massachusetts Attorney General. Currently, the Hospital is the only Member of the Obligated Group.

To be enforceable under Massachusetts law, a guarantee of the debts of another (or a pledge of the assets by a Member to secure the debts of another) must be in furtherance of the Member's corporate purposes. Further, some or all of the assets of a Member may be subject to restrictions on use imposed by a donor or 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, particularly if the Member has insufficient assets remaining to carry out its own charitable functions, or if such obligations were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the Member was organized.

The validity of master trust indentures has been challenged in jurisdictions outside of Massachusetts. In one case the Connecticut Attorney General obtained an injunction against a Connecticut convalescent home making any payments pursuant to a proposed master trust indenture with an out-of-state

affiliate. The convalescent home was not going to receive any proceeds of the proposed bond issue. In the absence of clear legal precedent in Massachusetts, there can be no assurance as to the validity and enforceability of the agreement of any Member to make payments due under the Notes or other Obligations to the extent issued for the benefit of another Member.

In addition, any obligation of a Member of the Obligated Group may be voided under the federal Bankruptcy Code or under the Massachusetts fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligor is insolvent or the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute.

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

Enforceability of the Guaranty

The payment when due of the principal of, premium, if any, and interest on the Notes securing the Bonds is guaranteed by the Guarantor under the Guaranty. The Guarantor is the sole corporate member of the Hospital. Under Massachusetts law, a nonprofit corporation may guarantee the obligations of another corporation only if such guaranty is in furtherance of the corporate purposes of the guarantor nonprofit corporation. In addition, the assets of a Massachusetts not-for-profit corporation may be held by a court to be subject to a charitable trust which prohibits payment in respect of obligations incurred by or for the benefit of others if a guarantor has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such guarantor were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which the guarantor was organized. Due to the absence of clear legal precedent in this area, the extent to which the assets of any guarantor can be used to pay obligations issued by others cannot be determined at this time. Moreover, it is possible that the obligation of the Guarantor to make payments due under the Guaranty may be declared void in an action brought by third-party creditors pursuant to the Massachusetts fraudulent conveyance statute or may be avoided by the Guarantor or a trustee in bankruptcy in the event of the bankruptcy of the Guarantor. An obligation may be voided under the federal Bankruptcy Code or under the Massachusetts fraudulent conveyance statute, if (a) the obligation was incurred without receipt by the obligor of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the obligor "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. The Guarantor's obligation to make all payments thereunder, including payments relating to the Bonds, may be held to be a "transfer" which makes the Guarantor "insolvent" in the sense that the total amount due under the Guaranty could be considered as causing its liabilities to exceed its assets. Also, the Guarantor may be deemed to have received less than "fair consideration" for its obligations under the Guaranty because only a portion of the proceeds of the Bonds are to be used to finance facilities occupied or used by such Guarantor. While the Guarantor may benefit generally from the facilities financed from the proceeds of the Bonds, the actual cash value of this benefit may be less than its obligations under the Guaranty.

Effect of Bankruptcy

If any Obligated Group Member files for protection under the federal Bankruptcy Code, its revenues may not be subject to the security interests created under the Master Trust Indenture. Property acquired after the date of filing of the bankruptcy, including newly created accounts receivable, will not be subject to the security interests created under the Master Trust Indenture. The Member's property, including accounts receivable and cash collateral, also could be used for the benefit of the Member despite the security interest of the Trustee if the Bankruptcy Court finds that "adequate protection" of the security interest in the property exists or is given.

The commencement of a case under the federal Bankruptcy Code operates as automatic stay of any act or proceeding to enforce a lien upon property of the affected Member. A patient care ombudsman could be appointed as an advocate for the welfare of patients. The Trustee may not be able to obtain relief from the automatic stay to realize upon security interests created under the Master Trust Indenture as a result of concern for patient welfare or otherwise. Delay in the Trustee's ability to exercise remedies against collateral could impair recovery from the collateral securing the applicable Bonds.

The commencement of a proceeding under the Bankruptcy Code can also adversely affect the business of the affected Member, including by increasing costs and by deterring recipients of health care services from using such Obligated Group Member for such services. In addition, if the affected Member were to become insolvent or if reorganization under the Bankruptcy Code were to be perceived as being in doubt, accounts receivable could become more difficult or impossible to collect.

In a proceeding under the Bankruptcy Code, payments made in respect of the Bonds or other transfers of property, including the payment of debt or the transfer of any collateral, within 90 days prior to the date of a bankruptcy case could be avoided as preferential transfers absent the presence of one of the Bankruptcy Code defenses to avoidance. To the extend avoided, the value of such payments or transfers could be recovered from the Trustee of from subsequent transferees and claims in respect of the Notes could be disallowed pending recovery of the value of such payments or transfers.

In a Chapter 11 case, an Obligated Group Member could file a plan of reorganization that would adjust its debts and modify the rights of creditors generally, or any class of creditors, secured or unsecured. The plan, if confirmed by the court, binds all creditors and discharges all claims held by creditors who had notice or knowledge of the bankruptcy except as set forth in the plan. No plan may be confirmed unless, among numerous other conditions, the plan is determined to be in the best interest of creditors, is feasible and either has been accepted by each class of claims impaired thereunder, or the court has found sufficient grounds to confirm the plan over the objections of a dissenting class. To accept the plan, at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that vote with respect to the plan must accept the plan. Even if the plan is not so accepted, it may still be confirmed if the court finds that the plan does not discriminate unfairly in favor of junior creditors and is "fair and equitable" with respect to each class of non-accepting creditors impaired thereunder. In addition, the court could allow for a sale of assets of the affected Member to which creditors claim a security interest if the court makes certain findings under Section 363(f) of the Bankruptcy Code. With respect to secured claims of holders of the Notes, if certain legal requirements were satisfied, a plan could alter substantive rights such as the maturity date and interest rate of the Notes.

In 2005, Congress amended the Bankruptcy Code to limit the ability of a charitable corporation to transfer assets to a for profit entity. Specifically, Section 541(f) requires the charitable entity to comply with state laws. This change is a departure from prior law and may have an impact on the ability of a secured creditor to maximize its value.

Extension of Preference Period to One Year

Under certain circumstances, payments and transfers made by the Hospital to the Trustee during a specified period of time known as a "preference period" may be subject to avoidance as preferential transfers by a trustee in bankruptcy. Due to the guaranty of the debt service by the Guarantor (an insider of the Hospital), the preference period applicable during a bankruptcy proceeding of the Hospital would be extended from 90 days to one year.

Enforceability of Remedies Generally

The remedies granted to the Trustee or the applicable Bondowners upon an event of default under the respective Agreement or the Master Trust Indenture may be dependent upon judicial actions which are often subject to discretion and delay. Under existing law, the remedies specified in the applicable Agreement, the Guaranty or the Master Trust Indenture may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the provisions of the applicable Agreement, the Guaranty and the Master Trust Indenture by limitations imposed by state and federal laws, rulings and decisions affecting equitable remedies regardless of whether enforceability is sought in a proceeding at law or in equity and by bankruptcy, reorganization, insolvency, receivership or other similar laws affecting the rights of creditors generally.

Tax-Exempt Status of the Bonds

The tax-exempt status of the Bonds is based on the continued compliance with certain provisions of the Internal Revenue Code of 1986, as amended. These covenants relate generally to arbitrage limitations, rebate of certain excess investment earnings to the federal government, restrictions on the amount of issuance costs financed with proceeds of the Bonds, the tax-exempt status of the Hospital, and other use, expenditure and investment restrictions. Failure to comply with any of these provisions may result in the treatment of interest on the Bonds as federally taxable retroactive to the date of issuance. See "TAX EXEMPTION" herein.

In the event the interest on the Bonds is determined to be includable in the gross income of the recipients thereof for federal income tax purposes, there is no provision requiring redemption of the Bonds or a higher interest rate on the Bonds.

Risk of Audit by Internal Revenue Service

The IRS has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the IRS, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the IRS will commence an audit of the Bonds or the outcome of any such audit.

For a discussion of additional Bondowners' risks, including risks affecting the health care industry generally, see Appendix A – "LETTER FROM THE CHILDREN'S HOSPITAL CORPORATION AND THE CHILDREN'S MEDICAL CENTER CORPORATION" under the headings "Sources of Patient Service Revenue" and "Bondowners' Risks and Matters Affecting the Healthcare Industry."

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, 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"). Interest on the Bonds is not a specific preference item for purposes of the federal

individual or corporate alternative minimum taxes; however, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Other than as expressly stated herein, Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements 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 Authority and the Hospital have covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds and any profit on the sale of the Bonds are exempt from Massachusetts personal income taxes and that the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondowners should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix D hereto.

Prospective Bondowners should be aware that certain requirements and procedures contained or referred to in the applicable Agreement, 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 has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective Bondowners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

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 Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Bondowner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondowner or the Bondowner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and Bondowners should consult with their own tax advisors with respect to such consequences.

LEGALITY OF THE BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the Bonds are securities in which all public officers and public bodies of the Commonwealth and its political subdivisions, all Massachusetts insurance companies, trust companies, savings banks, cooperative banks, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in

their control or belonging to them. The Bonds, under the Act, are securities which may properly and legally be deposited with and received by any Commonwealth or municipal officer of any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or obligations of the Commonwealth is now or may hereafter be authorized by law.

COMMONWEALTH NOT LIABLE ON THE BONDS

The Bonds shall not be deemed to constitute a debt or liability of the Commonwealth or any political subdivision thereof, or a pledge of the faith and credit of the Commonwealth or any such political subdivision, but shall be payable solely from the Revenues derived by the Authority under the applicable Agreement. Neither the faith and credit nor the taxing power of the Commonwealth or of any political subdivision thereof is pledged to the payment of the principal of or the interest on the Bonds. The Act does not in any way create a so-called moral obligation of the Commonwealth or of any political subdivision thereof to pay any debt service on the Bonds in the event of default by the Hospital under the applicable Agreement. The Authority does not have any taxing power.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York has assigned a short-term rating of "VMIG 1" to the Series N-1 Bonds and the Series N-2 Bonds based upon the ratings of TD Bank and a short-term rating of "VMIG 1" to the Series N-3 Bonds and the Series N-4 Bonds based upon the ratings of JPMorgan. Standard & Poor's Ratings Group, a division of McGraw-Hill, Inc. ("Standard & Poor's"), 55 Water Street, New York, New York has assigned a short-term rating of "A-1+" to the Series N-1 Bonds and the Series N-2 Bonds based upon the ratings of TD Bank and a short-term rating of "A-1+" to the Series N-3 Bonds and the Series N-4 Bonds based upon the ratings of JPMorgan. The short-term ratings with respect to a series of Bonds will be changed whenever the respective Bank's short-term rating is changed.

Moody's has assigned a long-term rating of "Aaa" to the Bonds and Standard & Poor's has assigned a long-term rating of "AAA" to the Bonds. These long-term ratings are based upon the ratings of the Hospital and the respective Bank and the "correlation level" between the two.

The ratings reflect only the views of the rating agencies and any desired explanation of the significance of the ratings may be obtained from the respective rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. The above ratings are not recommendations to buy, sell or own the Bonds, and there is no assurance such ratings will continue for any period of time or that such ratings will not be revised or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Series N-1 Bonds and the Series N-4 Bonds are being purchased for reoffering by Goldman Sachs & Co. ("Goldman") pursuant to a purchase contract among the Authority, the Hospital, the Guarantor and Goldman. Goldman has agreed to purchase the Series N-1 Bonds and the Series N-4 Bonds at an aggregate discount of $670,486.44 from the public offering prices of the Series N-1 Bonds and the Series N-4 Bonds. The Series N-2 Bonds are being purchased for reoffering by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("BofA Merrill Lynch") pursuant to a purchase contract among the Authority, the Hospital, the Guarantor and BofA Merrill Lynch. BofA Merrill Lynch has agreed to

purchase the Series N-2 Bonds at an aggregate discount of $204,000.00 from the public offering prices of the Series N-2 Bonds. The Series N-3 Bonds are being purchased for reoffering by J.P. Morgan Securities Inc. ("J.P. Morgan Securities") pursuant to a purchase contract among the Authority, the Hospital, the Guarantor and J.P. Morgan Securities. J.P. Morgan Securities has agreed to purchase the Series N-3 Bonds at an aggregate discount of $167,728.56 from the public offering prices of the Series N-3 Bonds. The obligations of each of the underwriting firms are subject to certain terms and conditions contained in the applicable purchase contract. The applicable underwriting firm will be obligated to purchase all of the applicable Bonds if any of the applicable Bonds are so purchased. The Hospital has agreed to indemnify the applicable underwriting firms and the Authority against certain liabilities, including certain liabilities arising under federal and state securities laws. The applicable underwriting firm may offer and sell the applicable Bonds to certain dealers (including dealers depositing applicable Bonds into investment trusts, certain of which may be sponsored or managed by such underwriting firm) and others at prices lower than the initial price stated on the cover page hereof. The public offering price set forth on the cover page of this Official Statement may be changed from time to time by the applicable underwriting firm.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the Hospital for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds by the Authority are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel, whose opinion approving the validity and tax exempt status of the Bonds will be delivered with the Bonds. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters will be passed on for the Hospital and the Guarantor by their counsel, Ropes & Gray LLP, Boston, Massachusetts. Certain legal matters will be passed on for the Underwriters by their counsel, Greenberg Traurig, LLP, Boston, Massachusetts. Certain legal matters will be passed on for TD Bank, National Association by its counsel, Hinckley Allen & Snyder, LLP, Concord, New Hampshire, and will be passed on for JPMorgan Chase Bank, National Association by its counsel, Winston & Strawn LLP, Chicago, Illinois.

There is not now pending any litigation restraining or enjoining the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices is being contested. See Appendix A with respect to any material litigation affecting the Hospital or the Guarantor.

FINANCIAL STATEMENTS

Appendix B-1 contains two sets of financial statements. One set is the financial statements of the Hospital for the fiscal years ended September 30, 2009 and 2008, and the other set is the consolidated financial statements of the Guarantor and its subsidiaries, including but not limited to the Hospital, for the fiscal years ended September 30, 2009 and 2008. Both sets of financial statements have been audited by Ernst and Young LLP, independent auditors, as stated in their reports appearing in Appendix B-1.

Appendix B-2 contains the unaudited financial statements of the Guarantor and its subsidiaries, including but not limited to the Hospital, for the three-month period ended December 31, 2009. The Hospital and the Guarantor are the only corporations whose assets and earnings are available for payment on the Bonds other than the Banks. For a description of such financial statements, see Appendix A under the heading "Financial Information – Introduction," Appendix B-1 and Appendix B-2.

REMARKETING AGENT

The initial Remarketing Agent for the Series N-1 Bonds and the Series N-4 Bonds will be Goldman, Sachs & Co. The initial Remarketing Agent for the Series N-2 Bonds will be Merrill Lynch, Pierce, Fenner & Smith Incorporated. The initial Remarketing Agent for the Series N-3 Bonds will be J.P. Morgan Securities Inc. The Remarketing Agents will set the interest rate on the respective series of Bonds and perform the other duties and remarket Bonds as provided for in the Agreement, subject to the provisions of the applicable Remarketing Agreement. Each Remarketing Agent may for its own account or as broker or agent for others deal in respective Bonds and may do anything any other Bondowner may do to the same extent as if such Remarketing Agent were not serving as such. Each Remarketing Agreement provides that the Hospital will indemnify the applicable Remarketing Agent against certain liabilities, including certain liabilities under securities laws.

MISCELLANEOUS

The references to the Act, the Agreements, the Master Trust Indenture, the Notes, the Supplemental Master Indenture, the Guaranty, the Letters of Credit, the Reimbursement Agreements, the Letter of Credit Notes, the Letter of Credit Guaranties, the Letter of Credit Supplemental Master Indentures and the Continuing Disclosure Agreement are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and reference is made to the Act, the Agreements, the Master Trust Indenture, the Notes, the Supplemental Master Indenture, the Guaranty, the Letters of Credit, the Reimbursement Agreements, the Letter of Credit Notes, the Letter of Credit Guaranties, the Letter of Credit Supplemental Master Indentures and the Continuing Disclosure Agreement for full and complete statements of such provisions. The agreement of the Authority with the Bondowners is fully set forth in the applicable Agreement, and neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the Bondowners. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. Copies of the documents mentioned in this paragraph are on file at the offices of the Authority and of the Trustee.

Information relating to DTC and the book-entry system described herein under the heading "BOOK-ENTRY-ONLY SYSTEM" is based on information provided by DTC and is believed to be reliable, but none of the Authority, the Underwriters, the Hospital or the Guarantor make any representations or warranties whatsoever with respect to such information.

Appendix A contains a letter from the Hospital and the Guarantor to the Authority which contains certain information relating to the Hospital and the Guarantor. Appendix B-1 contains audited financial statements of the Hospital and audited consolidated financial statements of the Guarantor and its subsidiaries, including but not limited to the Hospital. Appendix B-2 contains unaudited financial statements of the Guarantor and its subsidiaries, including but not limited to the Hospital. While the information contained therein is believed to be reliable, the Authority and the Underwriters make no representations or warranties whatsoever with respect to the information contained therein.

The Authority and the Underwriters have relied on the information contained in Appendix A and the financial statements contained in Appendix B-1 and Appendix B-2.

Appendix C-1 – "DEFINITIONS OF CERTAIN TERMS," Appendix C-2 – "SUMMARY OF THE MASTER TRUST INDENTURE," APPENDIX C-3 – "SUMMARY OF THE SUPPLEMENTAL

MASTER INDENTURE," Appendix C-4 – "SUMMARY OF THE GUARANTY," Appendix C-5 – "SUMMARY OF THE LOAN AND TRUST AGREEMENTS" and Appendix E – "FORM OF CONTINUING DISCLOSURE AGREEMENT" have been prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Authority. The proposed form of legal opinion contained in Appendix D has been prepared by Edwards Angell Palmer & Dodge LLP, Bond Counsel. APPENDIX F-1 – "SUMMARY OF CERTAIN PROVISIONS OF THE JPM REIMBURSEMENT AGREEMENT" has been prepared by Winston & Strawn LLP, counsel to JPMorgan. APPENDIX F-2 – "SUMMARY OF CERTAIN PROVISIONS OF THE TD REIMBURSEMENT AGREEMENT" has been prepared by Hinckley, Allen & Snyder LLP, counsel to TD Bank. APPENDIX G-1 – "INFORMATION CONCERNING JPMORGAN CHASE BANK, NATIONAL ASSOCIATION" has been prepared by JPMorgan. APPENDIX G-2 – "INFORMATION CONCERNING TD BANK, NATIONAL ASSOCIATION" has been prepared by TD Bank.

All appendices are incorporated as an integral part of this Official Statement.

The Hospital and the Guarantor have reviewed the portions of this Official Statement describing the Hospital, the Guarantor, the Plan of Finance, Certain Financial Information, Estimated Sources and Uses of Funds, Continuing Disclosure (as it relates to the Hospital and the Guarantor) and Bondowners' Risks, and have furnished Appendix A, Appendix B-1 and Appendix B-2 to this Official Statement, and have approved all such information for use with this Official Statement. At the closing, the Hospital and the Guarantor will certify that such portions of this Official Statement, except for any projections and opinions contained in such portions, do not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they are made, not misleading, and the aforesaid projections and opinions are believed to be reasonable in light of the officers of the Hospital and the Guarantor and facts known to them on the date of this Official Statement and the delivery date of the Bonds.

The execution and delivery of this Official Statement by its Executive Director has been duly authorized by the Authority.

MASSACHUSETTS HEALTH AND EDUCATIONAL FACILITIES AUTHORITY

By: /s/ Benson T. Caswell
Executive Director

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Appendix A

Children's Hospital
300 Longwood Avenue
Boston, MA 02115
617-355-6000

Children's Hospital

May 7, 2010

Massachusetts Health and Educational Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110-1240

Dear Members of the Authority:

In connection with the issuance by the Massachusetts Health and Educational Facilities Authority of its Revenue Bonds, Children's Hospital Issue, Series N-1 (2010), Series N-2 (2010), Series N-3 (2010) and Series N-4 (2010) (the "Bonds"), we are pleased to submit the following information pertaining to The Children's Hospital Corporation ("Children's Hospital," "Children's Hospital Boston," "Children's" or the "Hospital") and its parent corporation, The Children's Medical Center Corporation ("Children's Medical Center" or the "Medical Center"), as guarantor, for inclusion in this Official Statement. Unless otherwise indicated, all references to financial and statistical data refer to the fiscal year ended September 30.

CHILDREN'S HOSPITAL – INTRODUCTION

Children's Hospital is a private, not-for-profit corporation located in Boston, Massachusetts that provides comprehensive pediatric health care services. Originally established in 1869 as a 20-bed hospital in a three-story, red brick house in Boston's South End, today Children's is a 396-bed hospital located in Boston's Longwood Medical Area that provides sophisticated pediatric care to patients from around the world. Children's Hospital serves as the primary pediatric teaching hospital of the Harvard Medical School, where substantially all members of the active medical staff hold faculty appointments.

Children's Hospital is a pediatric referral center that strives to be a leading source of pediatric research, seeking new approaches to the prevention, diagnosis and treatment of childhood diseases, as well as educating the next generation of leaders in pediatric health care. Children's is a tertiary referral center for complex pediatric cases from Massachusetts,

New England, the United States and many foreign countries. In 2009, Children's was one of only two hospitals in the nation to rank in the top five in all ten pediatric specialties according to a survey by U.S. News & World Report.

Children's supports one of the world's largest programs of research devoted primarily to pediatric medicine and has a long history of discoveries and clinical advances that have emanated from that program. In 2009, Children's was the largest recipient of research funding from the National Institutes of Health ("NIH") among children's hospitals and the fifth largest recipient among independent hospitals. As the primary pediatric teaching hospital of the Harvard Medical School, Children's operates one of the largest pediatric training programs in the nation, offering residency programs in 34 specialties and subspecialties. Children's also remains firmly committed to serving those for whom it was originally established – the children and families of Boston's neighborhoods. To this end, the Hospital also serves as a community pediatric hospital for certain communities within its immediate service area.

The Hospital's current licensed complement of 396 beds includes 276 medical/surgical, 24 neonatal intensive care, 26 cardiac intensive care, 29 medical surgical intensive care, 12 medical intensive care, 16 psychiatric and 13 stem cell/bone marrow transplant beds.

CORPORATE STRUCTURE

The Medical Center is a private, not-for-profit Massachusetts corporation that is the sole corporate member of Children's Hospital and several other corporations. The Medical Center holds and manages investments and conducts fund-raising activities for the benefit of the Hospital and, to a lesser extent, for other affiliates. The following are summary descriptions of the general activities of the other non-hospital corporations controlled, directly or indirectly, by the Medical Center:

- Longwood Corporation is a tax-exempt, not-for-profit corporation which owns real property for the benefit of the Medical Center. Specifically, by virtue of its partnership interest in 333 Limited Partnership (a Massachusetts for-profit partnership), Longwood Corporation owns a 49% interest in an approximately 90,000 square foot office/retail property with garage that is fully leased. An affiliate of the Hospital, CHB Properties, Inc. ("CHB Properties") purchased the remaining equity ownership in the building in November 2009. Approximately 58,000 square feet is used by the Hospital for clinical, administrative, and research services. There is a mortgage on the property with an outstanding balance of approximately $27.8 million.

- CHB Properties is a not-for-profit subsidiary of the Medical Center, which owns an approximately 400,000 gross square foot medical/office building in Waltham, Massachusetts. The property is situated on 11 acres of land and approximately 269,000 square feet of the existing building is leased to and operated by the Hospital for clinical and related purposes (see "Existing Facilities"). The balance of the Waltham property is rented to unrelated tenants, although Children's may ultimately use such space to meet future expansion needs if volume demand warrants such use. CHB Properties also owns an approximately 365,000 gross square foot office/manufacturing/warehouse/medical

building in Peabody, Massachusetts. The property is situated on 26 acres of land, and approximately 18,400 square feet of the existing building, and 20,000 square feet of new space will be leased to and operated by the Hospital for clinical and related purposes (see "Construction Projects in Progress"). The balance of the Peabody property is rented to unrelated tenants, although Children's may ultimately use such space to meet future expansion needs if volume demand warrants such use. As previously mentioned, CHB Properties, by virtue of its partnership interest in 333 Limited Partnership also owns the remaining equity interest of an approximately 90,000 square foot office/retail property with garage that is fully leased.

- Fenmore Realty Corporation is a tax-exempt, not-for-profit corporation which owns real property for the benefit of the Medical Center. Specifically, it owns a 100,000 square foot medical office building and two smaller adjacent properties in Brookline, Massachusetts.

- Longwood Research Institute, Inc. is a tax-exempt, not-for-profit corporation which owns real property for the future benefit of the Hospital's research mission. Specifically, it owns the land and development rights for a 440,000 square foot research building adjacent to the Hospital's campus.

- Immune Disease Institute, Inc. ("IDI") is a tax-exempt, not-for-profit research and educational institution affiliated with the Harvard Medical School. IDI became a subsidiary of the Medical Center in February, 2009. The Hospital has had a long standing collaborative relationship with IDI, which has seventeen principal investigators, including three National Academy of Science members. In its most recent audited fiscal year ending June 30, 2009, IDI had $32 million of sponsored research, of which 82% is from NIH.

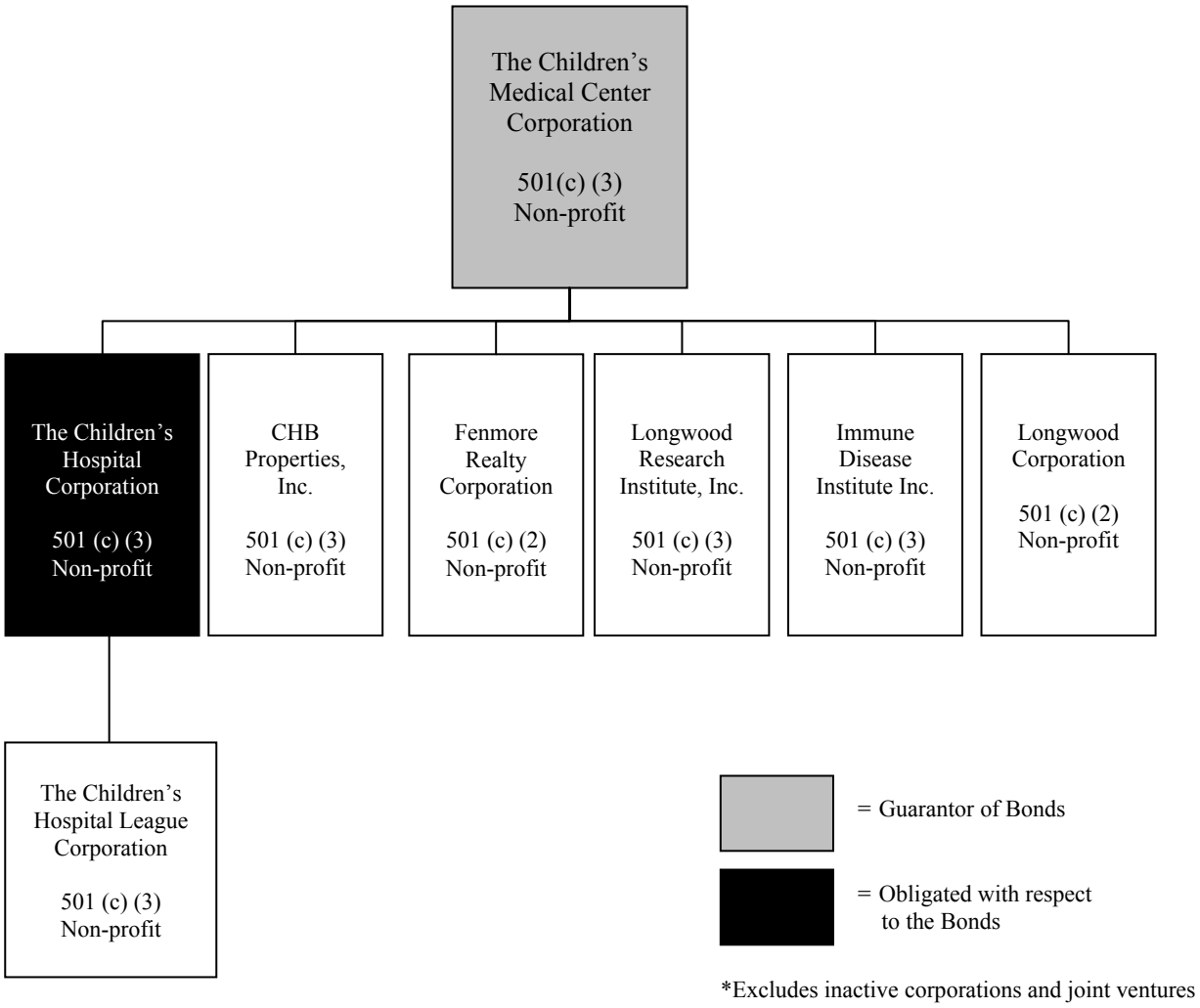
- The Children's Hospital League Corporation is a tax-exempt, not-for-profit corporation controlled by the Hospital. It plans and conducts, on a volunteer basis, various fund-raising events for the benefit of the Hospital.

In addition, the Medical Center is the sole member or sole shareholder of three other inactive entities.

Children's Hospital is currently the only Member of the Obligated Group, as defined in the forepart of this Official Statement. The Medical Center is the guarantor of the Hospital's payment obligations with respect to the Bonds being issued. Other than the banks providing the letters of credit securing the Bonds, the Hospital and the Medical Center are the only corporations whose assets and revenues are available for payment of the debt service on the Bonds, and none of the assets or revenues of any of the other affiliates are available to make payments with respect to the Bonds.

Appendix A

Organizational Chart*
Children's Medical Center Corporation



*Excludes inactive corporations and joint ventures

GOVERNANCE AND MANAGEMENT

Board of Trustees and Officers: Children's Medical Center

Children's Medical Center is governed by a Board of Trustees (the "Board" or the "Trustees"). Trustees, other than certain designated physician officers and ex officio trustees, are elected to staggered three-year terms by the Trustees then holding office. The Board consists of the Chief Executive Officer and President and Chief Operating Officer of the Medical Center, ex officio, as voting members, and a maximum of eighteen other individuals. No member of the Board except the Chair, Vice Chairs, Secretary, Treasurer, Chief Executive Officer, President and Chief Operating Officer and certain designated physician officers may serve for more than an aggregate of nine years. The Board meets approximately ten times each year.

Standing committees of the Medical Center's Board of Trustees include the Audit and Compliance, Compensation, Finance, Investment, and Nominating committees.

Current Trustees of the Medical Center and their respective principal business or civic affiliations and years of appointment to the Board are as follows:

Appendix A

Children's Medical Center

Board of Trustees

Name	Business or Civic Affiliation	Year of Appointment
Stephen R. Karp, Chairman	Chairman and Chief Executive Officer, New England Development Corporation	1989
William L. Boyan, Vice Chair	Former President, John Hancock Mutual Life Insurance Company	1983
George W. Phillips, Vice Chair	Former President and Chief Executive Officer, Warren Bancorp, Inc.	1991
Douglas Berthiaume	Chairman and Chief Executive Officer, Waters Corporation	2003
Sandra L. Fenwick,* ex officio	President and Chief Operating Officer, Children's Medical Center and Children's Hospital	1999
Steven Fishman, M.D.*	Surgery, Children's Hospital	2002
Gary Fleisher, M.D.*	Pediatrician-in-Chief, Children's Hospital	2002
Paul Hickey, M.D.*	Chair, Physicians' Organization; Anesthesiologist-in-Chief, Children's Hospital	2008
James Kasser, M.D.*	Surgeon-in-Chief, Orthopedist-in-Chief, Children's Hospital	2008
Harvey Lodish, Ph.D.	Member, Whitehead Institute for Biomedical Research; Professor, Massachusetts Institute of Technology	2006
James Mandell, M.D.,* ex officio	Chief Executive Officer, Children's Medical Center and Children's Hospital	2000
Ralph Martin	Partner, Bingham, McCutchen, LLP; Former District Attorney, Suffolk County	2009
Eileen Sporing,* ex officio	Senior Vice President, Patient Care Operations, Children's Hospital	2007
Robert A. Smith	Former President and Co-Chief Operating Officer, Harcourt General	2000
Robert Smyth	Former President and Chief Financial Officer, Citizens Bank of Massachusetts	2004
Alison Taunton-Rigby, Ph.D.	President, Forester Biotech	2002
Ann M. Thornburg	Former Partner, PricewaterhouseCoopers	2007
Marc B. Wolpow	Co-Chief Executive Officer, Audax Group	2001
Gregory Young, M.D.	Pediatrician, Private Practice	2007

* Salaried employee of the Hospital or a Children's group practice foundation.

Officers of the Medical Center are elected annually. All officers hold office for one year and until their successors are chosen and qualified.

Board of Trustees, Member, Overseers and Officers: Children's Hospital

The By-laws of the Hospital provide that its Board of Trustees shall consist of those persons who serve from time to time as Trustees of the Medical Center. In addition, the Medical Center serves as the sole member of the Hospital. A chief executive officer and president and chief operating officer of the Hospital are elected annually by the Medical Center in its capacity as member, and other officers, including a treasurer and secretary, are elected annually by the Trustees of the Hospital with the approval of the Medical Center. Currently, the officers of the Medical Center also serve in the same officer capacities for the Hospital. The Hospital's Board of Trustees meets approximately 10 times per year.

Standing Committees of the Hospital's Board of Trustees include the Audit and Compliance, Compensation, Finance, Patient Care Assessment, Community Service, Marketing and Communication, and Research committees.

The Children's Hospital Board of Overseers currently consists of 93 individuals who are committed to active involvement in the Hospital. They have no voting power with respect to operations of the Hospital, but they are invited to participate in continuing education opportunities related to the Hospital through special education and research presentations and to serve on committees of the Children's Hospital Trust, the Hospital and/or one of the Children's Hospital Trust's Philanthropic Leadership Councils (see "Philanthropy").

Each of the Hospital and the Medical Center has a conflict of interest policy which requires disclosure by Trustees of any conflicts of interest and abstention from voting on matters related thereto.

Management of Children's Hospital

Following are biographies of the Chief Executive Officer, President and Chief Operating Officer and Senior Management personnel. Ages listed are as of May 1, 2010:

James Mandell, M.D., age 65, became Chief Executive Officer of Children's Hospital and Children's Medical Center on October 1, 2000, and serves on each entity's Board of Trustees. From October 1, 2000 until September 30, 2008, Dr. Mandell also served as President of Children's Hospital and Children's Medical Center. He is also a Professor of Surgery at Harvard Medical School. Prior to joining Children's, he served as Dean of Albany Medical College and Professor of Surgery and Pediatrics. Dr. Mandell was promoted from Chief of Urology to Dean of Albany Medical College in l996. He also served as Executive Vice President for Health Affairs at Albany Medical Center and Executive Medical Director of Albany Medical Center Hospital. Prior to his tenure at Albany Medical College, he was a member of the medical staff at Children's Hospital for nine years, advancing to an associate in Surgery with an associate professor appointment at Harvard Medical School. In addition to a medical degree from the University of Florida College of Medicine, Dr. Mandell holds a Master's in Health Systems Management from Union College, New York.

Dr. Mandell serves on the Boards of Trustees of the following organizations: Risk Management Foundation/CRICO, National Association of Children's Hospitals and Related Institutions, Child Health Corporation of America, the Association for American Medical Colleges' College of Teaching Hospitals' Board of Directors, Greater Boston Chamber of Commerce, Dana-Farber/Children's Hospital Cancer Care, Inc. and is the Chair of the Council of Boston Teaching Hospitals.

Sandra L. Fenwick, age 59, has been the Chief Operating Officer of Children's Hospital since November 1999 and in October 2008 was made President. She serves on both the Children's Hospital and Medical Center's Board of Trustees. Ms. Fenwick joined Children's in June 1999 as Senior Vice President for Strategy, Business Development and Ambulatory Care Services. Prior to the 1996 merger of Beth Israel Hospital and New England Deaconess Hospital (CareGroup), where she served as Senior Vice President, System Development, Ms. Fenwick served Beth Israel as Vice President, Network Development and earlier as Vice President, Clinical and Support Services. Ms. Fenwick worked at Beth Israel for twenty years. She received a BS degree from Simmons College, Boston, Massachusetts and a Master of Public Health degree from the University of Texas, Houston, Texas. She currently serves on the Board of Directors of Acusphere, Inc., the Massachusetts Taxpayers Foundation, the Medical, Academic and Scientific Community Organization, Inc., A Better City, Inc., and the Belmont Hill School. She is the Dean's Appointee to the Harvard Medical School Faculty Council, a member of the Simmons College Corporation and served on the Romney-Healey Transition Team. Ms. Fenwick is also a member of the Massachusetts Women's Forum and Women Corporate Directors/Boston.

David A. Kirshner, age 53, has been Senior Vice President and Chief Financial Officer since he joined Children's in 1997. He also serves as the Medical Center's Treasurer. For five years prior to joining Children's, Mr. Kirshner was the Treasurer and Chief Financial Officer of Winchester Healthcare Management, the parent of Winchester Hospital in Winchester, Massachusetts. Before that, he was Vice President of Finance at Anna Jaques Hospital in Newburyport, Massachusetts. Early in his career, Mr. Kirshner spent nearly four years in public accounting at Ernst & Whinney and left to serve three years as Treasurer and co-Chief Financial Officer at Sturdy Memorial Hospital in Attleboro, Massachusetts. He is a Certified Public Accountant and holds an MBA in health care management from Boston University and a BA in English writing and chemistry from the University of Pittsburgh, where he graduated summa cum laude. Among his licensure and professional affiliations are the Massachusetts Board of Public Accountancy, Healthcare Financial Management Association, Treasurer's Club of Boston and Massachusetts Hospital Association Committee on Finance and Financial Executives Institute. He is the current Finance Committee Chairman of the Medical Academic and Scientific Community Organization and former Treasurer and member of the board of directors of the Child Health Corporation of America and the Brookline Education Foundation as well as a former member of the board of directors at Garnett Health Systems and Tufts Associated Health Plans. He has also served as Treasurer of the Merrimack Valley Health Systems. Mr. Kirshner has been a guest lecturer and adjunct assistant professor at Boston University.

Eileen M. Sporing, R.N., age 61, is Senior Vice President for Patient Care Operations at Children's and has been a member of Children's Executive Management since 1989. She

holds a B.S. degree in Nursing from Trenton State College (New Jersey) and an M.S. degree in Nursing from the University of Pennsylvania. She has received a traineeship by the Public Health Service, Division of Nursing. Prior to coming to Children's, Ms. Sporing was the Associate Director of Nursing Services for Children at the James Whitcomb Riley Hospital of Indiana University Hospitals for four years. She was also a Clinical Assistant Professor at the Indiana University School of Nursing. Prior to that, Ms. Sporing spent 11 years at the Children's Hospital of Philadelphia, where she was the Assistant Director of Clinical Nursing from 1980 to 1985. She is a member of the Massachusetts Organization of Nurse Executives and the American Organization of Nurse Executives. Ms. Sporing has been given the honor of Visiting Scholar at Boston College School of Nursing since 1994 and has been awarded the honor of Distinguished Lecturer by Sigma Theta Tau International.

Janet B. Cady, age 60, is President of Children's Hospital Trust. She has led Children's Hospital's philanthropy and fund development organization since April 1997, founding the Children's Hospital Trust in 1998 and advancing gift support for the Hospital over the past 9 years. She previously served for ten years as Executive Vice President of Children's Hospital Foundation at Children's Hospital of Wisconsin in Milwaukee. Her career has also included President, Lansing Health Foundation, Lansing Michigan, healthcare development consultant, and non-profit executive director. Ms. Cady currently serves as board chair of Children's Circle of Care, a donor society for 22 leading North American children's hospitals. A frequent speaker in the field of philanthropy, she has taught numerous courses at national and regional conferences, and leads pro bono workshops for non-profit boards on development and philanthropy. An active member of professional organizations, she was founding national chair of the Association for Healthcare Philanthropy's Children's Hospitals Development Institute and served as Vice President, Palm Beach County National Society of Fund Raising Executives (NSFRE). She was the 1996 recipient of the Scott Cutlip Award presented by the Milwaukee chapter of the NSFRE for distinguished service to the fund-raising profession. Currently a member of the Boston Club, Ms. Cady's civic involvement includes former positions as the first woman president of the Board of Directors of the Milwaukee Athletic Club, secretary of TEMPO (an executive women's leadership organization) in Milwaukee, board member of the YWCA in Milwaukee, West Palm Beach, Florida and Lansing Michigan, and advisory board member of Milwaukee Florentine Opera Company.

Stuart J. Novick, age 60, is Senior Vice President and General Counsel of the Hospital and Secretary of the Medical Center. Mr. Novick is a magna cum laude graduate of the University of Massachusetts at Amherst (BA 1972; MA 1973), and Temple University School of Law (JD 1976), where he was a law review editor. Prior to joining Children's Hospital as Associate Counsel in l984, Mr. Novick served as a law clerk to the Pennsylvania Supreme Court and was in private practice in Pennsylvania and Maine. In l986, Mr. Novick was appointed General Counsel. He is responsible for all of the institution's legal affairs, internal audit and risk management. He is a member of the Massachusetts Bar and the Boston Bar Association.

Appendix A

MEDICAL AND PROFESSIONAL STAFF

As of September 2009, Children's Hospital medical and professional staff numbered 3,046, comprised of an active staff of 1,077 physicians and dentists, 181 other physicians with courtesy or consulting status, 389 associated scientific staff members holding Ph.D.s and other non-medical degrees, nine members on the affiliate staff, 410 adjunct staff members and 980 interns, residents and fellows. Substantially all members of the active medical staff hold faculty appointments at the Harvard Medical School.

The active medical staff is organized into the following departments with the corresponding number of active staff as of September 2009.

Active Medical Staff

Department	Number of Active Staff
Anesthesiology, Perioperative and Pain Medicine	93
Cardiology	67
Cardiovascular Surgery	7
Dentistry	17
Laboratory Medicine	9
Medicine	
Adolescent Medicine	21
Community Medicine	64
Critical Care Program	13
Immunology/Dermatology	8
Developmental Medicine	14
Emergency Medicine	79
Endocrinology	33
General Pediatrics	85
Genetics	18
Gastroenterology/Nutrition	42
Hematology/Oncology	68
Immunology/Rheum/Aller	27
Infectious Diseases	20
Nephrology	11
Newborn Medicine	62
Pulmonary Medicine	22
Radiation Oncology	5
Unassigned	1
Neurology	51
Neurosurgery	18
Ophthalmology	16
Orthopedic Surgery	38
Otolaryngology	20
Pathology	14

Department	Number of Active Staff
Plastic and Oral Surgery	21
Psychiatry	33
Radiology	42
Surgery	27
Urology	11
Total	**1,077**

Source: Hospital Records

The members of the Departments of Anesthesia, Cardiology, Cardiovascular Surgery, Medicine, Neurology, Neurosurgery, Ophthalmology, Orthopedic Surgery, Otolaryngology, Pathology, Plastic and Oral Surgery, Radiology, Surgery and Urology belong to independent, not-for-profit group practices (the "Foundations"), which perform their own billing for professional services and pay salaries and fringe benefits to their members. The Foundations are not obligated with respect to the Bonds, and no assets of the Foundations have been pledged to payment of the Bonds. The Foundations have contracts with the Hospital whereby they perform the functions of academic departments. The Hospital makes payments to the Foundations for administrative, supervisory and training activities provided by their members to the Hospital. In addition, the Departments of Laboratory Medicine, Psychiatry and Dentistry are medical department service funds of the Hospital. Assets and liabilities attributable to services provided by their members are accounted for as separate service funds of the Hospital and Medical Center and are classified as "funds held for others" on the balance sheet included in the audited financial statements presented in Appendix B-1 and the unaudited financial statements presented in Appendix B-2.

Physicians' Organization

The Physicians' Organization at Children's Hospital (the "PO") is a not-for-profit Massachusetts corporation formed in 1995 to support the Foundations and other entities affiliated with Children's Hospital in developing an integrated pediatric health care delivery system and providing cost-effective, comprehensive pediatric care to the communities served by the Hospital and its Foundations. To support the development of such health care services, the PO identifies, evaluates, negotiates and enters into agreements with insurers, payors, managed care plans and fringe benefit plans on behalf of its members and their affiliated physicians and employees.

The PO is funded by contributions from its members in the form of dues support, assessed annually pursuant to an annual dues formula. Current membership consists of the fourteen tax-exempt physician-controlled Foundations and three Hospital medical department service funds. In 2000, the PO completed a corporate reorganization whereby the Medical Center became the class A member of the PO and the PO became the class C member of the Foundations with certain defined rights. The purpose of the reorganization was to more closely align the Hospital and the Foundations.

Appendix A

Chiefs of Service

The Hospital has seventeen major services, each with a Chief who is certified by his or her respective specialty board. Each Chief also has an appointment at the Harvard Medical School.

Training Programs

In conjunction with Children's serving as the primary pediatric teaching hospital of the Harvard Medical School, substantially all members of the active medical staff have teaching appointments at the Harvard Medical School. As of October 2009, a total of 980 interns, residents and clinical fellows and research fellows from Children's participate in research and patient care. The following is a list of the accredited training programs at Children's:

Adolescent Medicine	Pediatric Dentistry
Allergy/Immunology	Pediatric Emergency Medicine
Child/Adolescent Psychiatry	Pediatric Endocrinology
Child Neurology	Pediatric Gastroenterology
Clinical Neurophysiology	Pediatric Hematology/Oncology
Developmental-Behavioral Pediatrics	Pediatric Infectious Diseases
Medical Biochemical Genetics	Pediatric Nephrology
Medical Genetics	Pediatric Orthopedics
Medical Toxicology	Pediatric Pulmonology
Neonatal-Perinatal Medicine	Pediatric Radiology
Neurodevelopmental Disabilities	Pediatric Rheumatology
Neurological Surgery	Pediatric Sleep Medicine
Orthopedic Sports Medicine	Pediatric Sports Medicine
Pain Medicine	Pediatric Surgery
Pediatric Anesthesiology	Pediatric Urology
Pediatric Cardiology	Pediatrics
Pediatric Critical Care Medicine	Surgical Critical Care

Physician Admission and Discharge Statistics

During 2009, 535 physicians discharged 18,231 patients from Children's Hospital. As a group, the ten physicians who individually discharged the largest number of patients from the Hospital in 2009 accounted for 2,059, or approximately 11%, of the Hospital's total discharges. The average age of these physicians was 46 years as of January 1, 2010. A summary of the top ten admitting physicians by specialty for 2010 follows:

Top Ten Admitting Physicians by Specialty

Physician's Service	Number of Discharges	Percent of Total Discharges	Age as of January 1, 2010
General Pediatrics	296	1.62%	70
General Pediatrics	235	1.29%	67
General Pediatrics	222	1.22%	32
Cardiology	207	1.14%	45
Cardiovascular Surgery	204	1.12%	55
General Pediatrics	192	1.05%	32
General Surgery	183	1.00%	42
General Pediatrics	177	0.97%	32
General Pediatrics	173	0.95%	43
General Pediatrics	170	0.93%	39

Source: Hospital Records

As a group, the twenty-five physicians who individually discharged the largest number of patients from the Hospital in 2009 accounted for 4,325, or approximately 24%, of the Hospital's total discharges. The average age of these physicians as of January 1, 2010 was 46 years. A summary of inpatient discharges by specialty for 2009 follows:

Inpatient Discharges by Specialty

Specialty	Number of Discharges	% of Total Discharges
Medicine – General Pediatrics	4,707	26%
Medicine – Other Specialized Pediatrics	3,377	18%
Surgery	2,965	16%
Cardiology/Cardiosurgery	1,740	10%
Orthopedics	1,298	7%
Medicine - Hematology/Oncology	1,295	7%
Neurology	1,032	6%
Neurosurgery	723	4%
Otolaryngology	401	2%
Psychiatry	212	1%
Other	481	3%
Total Discharges	18,231	100%

Source: Hospital Records

EMPLOYEES

As of September 30, 2009, Children's Hospital employed 7,655 full-time equivalent (FTE) workers, including 1,482 FTE registered nurses. For 2009, annual turnover for full-time employees is approximately 10%, and annual turnover specifically for FTE registered nurses was approximately 6%. The vacancy rate for nurses is approximately 6%.

The Department of Nursing achieved Magnet™ designation by the American Nurses Credentialing Center in January 2008. The Magnet Recognition Program® was developed by the American Nurses Credentialing Center (ANCC) to recognize health care organizations that provide nursing excellence. The Nursing/Patient Services Department is organized according to a decentralized specialty model. Care is managed across the continuum to include ambulatory services. As of October 2009, 89% of leadership and advanced practice nursing staff hold advanced degrees. Of the direct care nursing staff, over 79% hold a bachelor's degree in nursing and 8.3% hold a master's or doctoral degree as of October 2009. During the academic year 2008-09, Children's Hospital Boston maintained affiliations with 31 schools of nursing resulting in 603 total nursing student placements at Children's. In addition, Physical Therapy, Pharmacy and Social Work departments have accredited residency and/or training programs.

Children's offers salaries and benefits that management believes are competitive with those of other area providers. Fringe benefits include tuition reimbursement, health and dental insurance, life insurance, disability insurance, paid time-off programs, pension plans, reimbursement accounts, on-site childcare and tax-sheltered annuities.

The Hospital maintains two non-contributory defined benefit plans for its employees. As of September 30, 2009, the plans were underfunded by $60.7 million (see footnote 12 to the audited financial statements included as Appendix B-1). The Hospital anticipates making an approximately $42 million contribution to the plans in fiscal year 2010.

Children's has a labor contract with a trade union, the International Union of Operating Engineers, Local 877, AFL-CIO and the Area Trades Council, with a membership of 62 employees. The contract expires September 30, 2012. Children's also has a labor contract with the same trade union for its facility in Waltham that expires on September 30, 2010 and relates to approximately seven employees. Management is not aware of any organizing activities being conducted at the present time, and the Hospital has no history of work stoppages due to labor relations issues.

PATIENT CARE ACTIVITIES

Tertiary/Quaternary Care Services

Children's Hospital has a long history of expanding the frontiers of pediatric medicine. Children's provides pediatric inpatient medical/surgical care, intensive care and neonatal intensive care, as well as emergency services and more than 150 ambulatory programs and clinics. The full range of specialized pediatric services offered by Children's is provided only by a small number of comparable pediatric institutions in North America, including those located in Philadelphia, Houston, Atlanta, Los Angeles, Cincinnati, Chicago, Pittsburgh and Toronto. Among its wide range of services, Children's Hospital Boston serves as:

- an international referral center for cardiovascular surgery, neuroscience and the repair of craniofacial anomalies in children (in 2009, revenues from international health services in total accounted for 2.3% of the Hospital's gross patient service revenue);
- a member of the Boston consortia which act as referral centers for liver, heart, lung and pancreas transplants;
- a regional pediatric center for bone marrow and stem cell transplantation;
- a regional center for kidney transplantation, with a dialysis unit to treat children awaiting transplants;
- one of the world's largest centers for cystic fibrosis research and treatment;
- a regional poison information center receiving calls from other hospitals, pediatricians and citizens requesting information on the treatment and prevention of ingestion of poisonous substances; and
- a comprehensive fetal care center for fetal diagnosis, prenatal counseling, innovative therapeutic strategies and long term follow-up and support for mother and child.

In order to provide care for infants, children and adolescents with the most complex or critical conditions, Children's currently maintains specialized inpatient facilities that include the following:

- a 26-bed Cardiac Intensive Care Unit, dedicated to treating critically ill children with congenital and acquired heart disease;

- a 29-bed Medical-Surgical Intensive Care Unit, with facilities for treatment of critically ill or injured patients, including equipment and staff for their emergency transport;

- a 12-bed Medical Intensive Care Unit, with facilities for treatment of critically ill or injured patients, including equipment and staff for their emergency transport;

- a 16-bed Psychiatric Care Unit, dedicated to treating children with severe psychiatric illness;

- a 24-bed Neonatal Intensive Care Unit for treatment of critically ill and premature newborns, and equipment and staff for their rapid transport; and

- a 13-bed Bone Marrow and Stem Cell Transplant Unit.

The Hospital's remaining 276 medical/surgical beds for infants, toddlers, school-age children, and adolescents include specialized units for solid organ transplant, tumor therapy, orthopedics and neuroscience. Most patient rooms include accommodations for a parent to stay overnight, and all floors have lounges and activity areas for patients and families.

As a result of offering this broad range of tertiary services and facilities, Children's serves as a regional, national and international referral center (see "Service Area").

Ambulatory Services

With more than 150 outpatient programs and clinics, Children's provides specialized medical services to deal with a wide variety of patients' needs. During 2009, more than 274,000 patient visits were made to the emergency department and various outpatient clinic programs and an additional 312,000 ambulatory visits were provided by the Foundations, such as:

- a multidisciplinary developmental evaluation clinic that evaluates children with developmental disorders, mental retardation or multiple handicaps, and identifies appropriate services for them and their families;

- a growth and nutrition clinic that assesses and treats children with organic and non-organic growth deficiencies;

- a sports medicine clinic that focuses on the prevention and treatment of pediatric athletic injuries;

- a communication enhancement clinic that has pioneered the use of computers and other devices that enable non-speaking children to communicate; and

- a Level I Trauma Center for pediatric emergency cases that is open 24 hours per day, 7 days per week. This is the largest pediatric service of its kind in New England, with more than 61,000 visits made to Children's Emergency Room during 2009.

Community Services

In addition to serving as a national and international referral center, Children's remains committed to its local community, providing primary and preventive care, as well as inpatient care for complex illnesses, to many of the children living in Boston's urban core. Children's is the single largest provider of health care to low-income children in Massachusetts. It is the second largest non-state provider of health care to low-income residents.

To help children lead healthy, safe, and actives lives, Children's addresses the issues of asthma, obesity, injury prevention and mental health through coordinated hospital and community-based initiatives. By partnering with the community to merge a medical model with a public health model of care, the Hospital is able to provide and support a range of services. The Hospital has focused on Boston where it has affiliations with health centers and community partnerships. This model aims to achieve long-term outcomes, coordination within the systems of care, the ability to treat "the whole child" and the ability to track and measure improvements in child health.

Children's coordinates and supports numerous programs and initiatives, including the following:

- asthma programs that provide prevention, evaluation, treatment, parental support, case management, training and education, and policy advocacy.

- mental health services are provided in community health centers, and prevention and wellness initiatives are provided in health centers, schools and other community organizations.

- injury prevention efforts that include home safety education to reduce the risk of unintentional injuries; car seat and sports helmet safety programs; and hospital-based efforts to reduce the prevalence of intentional injuries through clinical assessment services, a 24-hour consultation service and an advocacy program for battered women and their children.

- fitness and nutrition programs are provided onsite and in the community and include treatment, prevention and access to fitness and nutrition education.

Through the Martha Eliot Health Center, the Hospital's community health center in Jamaica Plain, and the hospital-based Children's Hospital Primary Care Center (CHPCC) and the Adolescent/Young Adult Medicine Program, the Hospital provides a number of avenues for

access to primary care services, which are a cornerstone of Children's community health efforts. In total, in 2009, these programs provided approximately 115,000 visits for traditional primary care as well as a wide range of services to address the health and social welfare needs of the patients and families. Programs range from optometry, nutrition, and substance abuse, to home visiting services, HIV education counseling and testing, and a youth street outreach program.

During 2009, the Hospital provided charity care and uncompensated care in an aggregate amount of $32.7 million (see "Sources of Patient Service Revenue").

Affiliations

The Hospital participates in a number of joint programs and services with neighboring and regional institutions. Examples of these institutions and affiliations include:

- *Children's Hospital Boston at Lexington* - In 1992, Children's and Beth Israel Hospital (now Beth Israel Deaconess Medical Center) signed an agreement to jointly own and operate an ambulatory center in Lexington, Massachusetts, approximately 12 miles northwest of the Hospital's main campus. The Lexington center opened in October 1993 and offers patients and families west and north of Boston access to Children's and Beth Israel Deaconess Medical Center's healthcare providers at one location. Each hospital maintains a separate license at the site and bills separately for services rendered at the site. In 2009, the Children's volume at the Lexington facility represented over 26,000 pediatric patient visits across 26 outpatient specialty programs.

- *Children's Hospital Boston at Peabody* - As a further extension of its network, Children's operates outpatient specialty clinics in the Lahey Clinic ("Lahey") building in Peabody, Massachusetts, which provides convenient access to Children's specialists for patients residing in northeast Massachusetts and, to a lesser extent, New Hampshire and Southern Maine. In 2009, Children's volume at the Peabody location grew to over 16,000 visits. Due to space constraints and the expiration of the lease with Lahey at the end of 2010, the Hospital will be relocating this service to a building located in Peabody, Massachusetts to be leased from its affiliate, CHB Properties (see "Construction Projects in Progress ").

- *Children's Hospital Boston at Waltham* - In June 2005, Children's Hospital opened a new ambulatory center in Waltham, Massachusetts that now totals 269,000 square feet of leased space in a building owned by the Hospital's affiliate, CHB Properties (see "Existing Facilities"). This site currently offers more than 20 subspecialty programs in the Massachusetts MetroWest area. In 2009, volume at the Waltham facility consisted of 75,098 pediatric patient visits and 3,728 surgical cases. CHB Properties also leases space in the building to unrelated tenants.

- *Children's Hospital Network* - Children's physicians offer inpatient and/or outpatient specialty care, including emergency services, neonatology and specialty clinics at several hospital locations throughout Eastern Massachusetts through an initiative known as Children's Hospital Network, including:

- Beverly Hospital (Beverly)
- Caritas Christi Health Care System affiliates, including:
  - Caritas Norwood Hospital (Norwood)
  - Caritas Good Samaritan Medical Center (Brockton)
  - St. Elizabeth's Medical Center (Boston)
  - Caritas Holy Family (Methuen)
- South Shore Hospital (Weymouth)
- Winchester Hospital (Winchester)

While revenues from these professional service sites are property of the Foundations and not the Hospital, management of the Hospital believes these extended locations are important to the Hospital's overall network strategy.

- *Dana-Farber/Children's Hospital Cancer Care* - A contractual affiliation between Children's and the Dana-Farber Cancer Institute to provide integrated care for pediatric oncology across the two campuses.

- *Solid Organ Transplant Consortia* - In association with various other Boston teaching hospitals, Children's is a member of the Boston Center for Heart Transplantation, the Boston Center for Liver Transplantation, the Boston Center for Lung Transplantation and the Boston Center for Pancreas Transplantation.

- *Boston Combined Residency Program* - Children's and Boston Medical Center conduct a joint residency program with specialty and primary care tracks.

- *The Binney Radiation Oncology Foundation* - A centrally managed, multi-institutional program of radiotherapy comprised of Children's, Brigham and Women's Hospital and the Dana-Farber Cancer Institute.

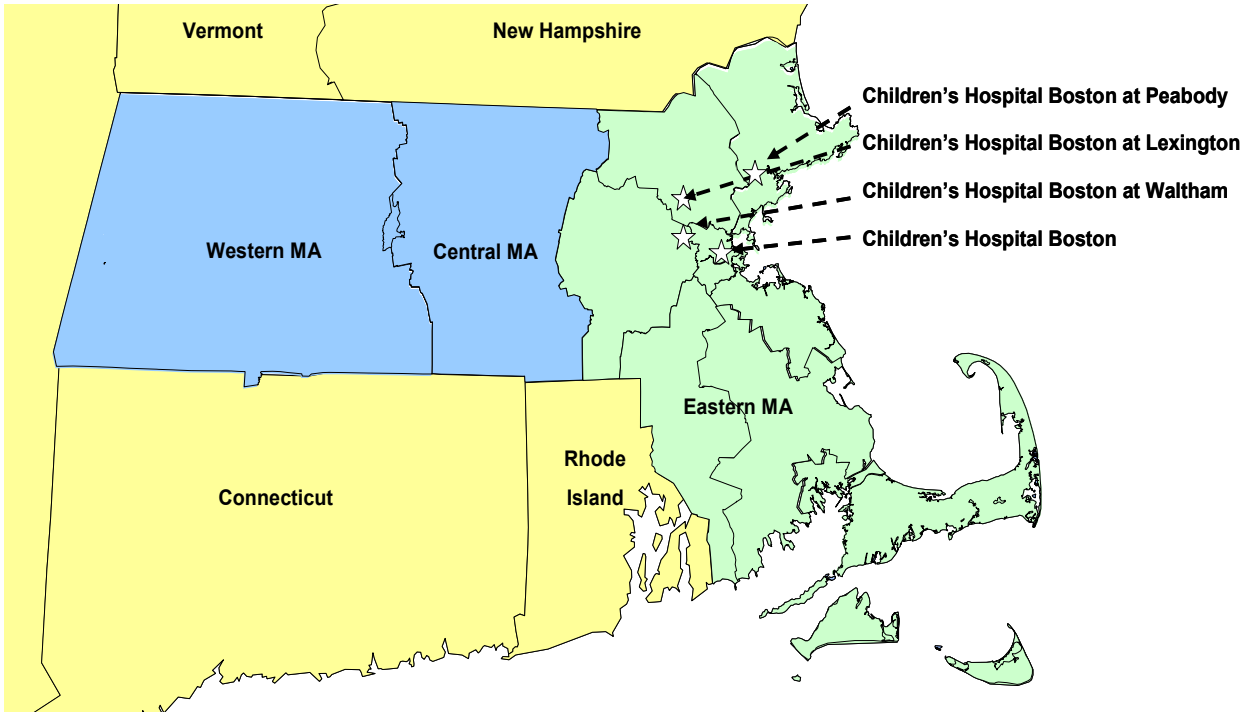
- *The Joint Program in Nuclear Medicine* - A Harvard Medical School affiliated joint program with teaching and research resources among the following institutions: Children's, Beth Israel Deaconess Medical Center, Brigham and Women's Hospital, Dana-Farber Cancer Institute, Massachusetts General Hospital and the West Roxbury/Jamaica Plain Veteran's Medical Center.

Regional Outreach

Management believes that several factors support Children's position as a regional referral center. The Hospital has formal transfer agreements for pediatric referrals with more than 30 hospitals throughout Eastern Massachusetts. In addition, in recognition of the importance of managing a regional referral network, the Hospital has established a Physician Relations liaison to support physician outreach activities. The members of the Hospital's medical staff are active on a number of editorial boards, make frequent media appearances and conduct "grand rounds" at area hospitals and other continuing medical education events. Finally, the large number of Children's-trained physicians practicing both inside and outside the region is an additional source of ongoing support for Children's activities.

Service Area

Children's Hospital serves as a regional, national and international referral center. The Hospital also fills a role as a community pediatric hospital for certain nearby communities. In 2008, approximately 27.6% of Children's discharges were from outside of the Hospital's primary service area (defined as the more than 250 towns comprising Eastern Massachusetts and located roughly east of Route 495 together with Cape Cod and Islands areas). The primary service area is shown on the following map in the area marked "Eastern MA."



Geographic Origin of Children's Patients by Discharge*			
	2006	2007	2008
Region	% Cases	% Cases	% Cases
Eastern Massachusetts	72.0%	73.0%	72.4%
Other Massachusetts	7.0%	6.9%	6.9%
Other New England	13.1%	12.5%	13.0%
Outside New England	7.9%	7.6%	7.7%
Total	100.0%	100.0%	100.0%

*Excludes patients age 18 and older, obstetrics and neonates (DRGs 370-391).

Source: WebMD Health Services

Market Share

WebMD Health Services compiles market share data based on the diagnostic related group ("DRG") classifications specified by the Medicare Program. Management has excluded DRGs 370-391 from the following data because those DRGs generally relate to obstetric and newborn care provided by hospitals that offer maternity services, which Children's does not provide. Thus, management believes inclusion of these DRGs would not provide an accurate comparison of market share for the services that both Children's and its competitors provide. Similarly, market share data for patients over the age of 18 years has been excluded as Children's does not generally provide services to that age group, other than follow-on care to adults with congenital disorders and chronic illnesses with pediatric onset. Based on data from WebMD Health Services, Children's inpatient market share for pediatric patients (ages 0-17, excluding DRGs 370-391) residing in the Eastern Massachusetts region increased from 38.6% of the 27,336 regional discharges in 2006 to 39.9% of the 28,212 regional discharges in 2008 (the most recent year for which data is available).

The slight increase in Eastern Massachusetts market share since 2006 can be attributed to the following:

- the termination by Massachusetts General Hospital of its pediatric heart surgery program, and by Boston Medical Center of its pediatric surgery program;

- increased physician recruitment efforts in the past few years. Hiring additional staff has enabled Children's to alleviate wait times and open up access to appointments and surgeries; and

- an increased presence in the Eastern Massachusetts community in recent years. Children's opened a satellite hospital in Waltham in 2005 and a satellite in Peabody in 1995, and has continued to maintain strong relationships with several community hospitals where Children's physicians see patients.

Children's top competitors continue to be Massachusetts General Hospital ("MGH"), Tufts Medical Center and Boston Medical Center, all located in Boston, Massachusetts. While other hospitals in the market offer pediatric services, only these hospitals and two other

Appendix A

Massachusetts hospitals located in central or western Massachusetts (UMass Memorial Medical Center ("UMass Memorial") in Worcester, Massachusetts and Baystate Medical Center in Springfield, Massachusetts) offer tertiary services similar to those that Children's provides.

Management views MGH's MassGeneral Hospital for Children, a hospital within a hospital established around MGH's Department of Pediatrics, as a particularly significant competitor. MGH has continued to invest in the expansion of this service through recruitment of additional physician specialists and staff, improved facilities and systems, extensive advertising and development of satellite programs at other Partners HealthCare System sites, particularly North Shore Children's Hospital and Newton-Wellesley Hospital.

Pediatric Inpatient Market Share*
Eastern Massachusetts
Fiscal Year Ended September 30
(excluding observation cases)

Hospital	2006	2007	2008
Children's Hospital Boston	38.6%	39.0%	39.9%
Partners HealthCare System	13.5%	13.4%	13.1%
Massachusetts General Hospital	*7.2%*	*7.1%*	*7.0%*
North Shore Medical Center	*4.0%*	*3.8%*	*3.9%*
Newton-Wellesley Hospital	*1.9%*	*2.1%*	*1.9%*
Tufts Medical Center	6.6%	6.1%	5.7%
Boston Medical Center	5.9%	6.2%	5.6%
Other Hospitals	35.5%	35.3%	35.7%

*Excludes patients age 18 and older, and obstetrics and neonates (DRGs 370-391).

Source: Hospital Records

Children's and Select Competing Hospitals in Massachusetts Total Pediatric Discharges* 2005 - 2008						
	Pediatric Discharges			Pediatric Days		
Hospital	**2006**	**2007**	**2008**	**2006**	**2007**	**2008**
Children's Hospital Boston	14,652	15,138	15,548	81,659	86,812	89,656
Partners HealthCare System	4,257	4,387	4,236	21,045	21,360	20,808
Massachusetts General Hospital	*2,444*	*2,513*	*2,439*	*12,891*	*12,852*	*12,373*
North Shore Medical Center	*1,113*	*1,110*	*1,123*	*6,309*	*6,216*	*6,476*
Newton-Wellesley Hospital	*553*	*623*	*580*	*1,349*	*1,425*	*1,362*
Tufts Medical Center	2,122	1,958	1,890	11,354	11,700	10,575
Boston Medical Center	1,680	1,837	1,625	6,116	6,574	5,625
UMass Memorial	2,584	2,724	2,668	9,165	9,663	8,938
Baystate Medical Center	2,621	2,596	2,663	9,835	9,753	10,008
All Other Hospitals	12,294	12,715	12,570	56,084	59,187	56,561
Total	**40,210**	**41,355**	**41,200**	**195,258**	**205,049**	**202,171**

*Excludes patients age 18 and older, and obstetrics and neonates (DRGs 370-391).

Source: Hospital Records

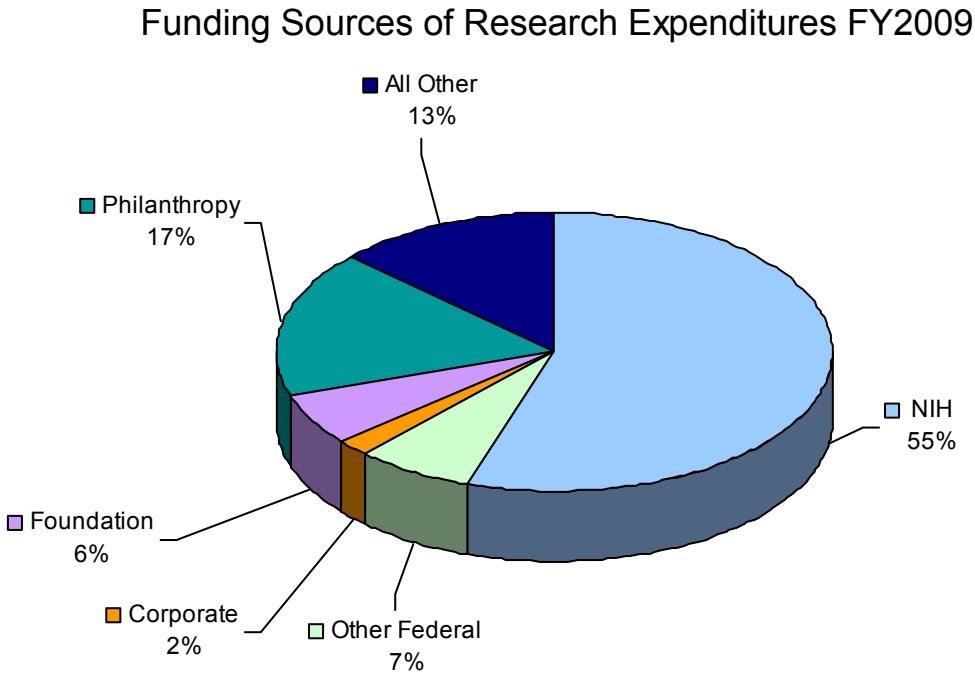
RESEARCH PROGRAMS AND FUNDING

Research is a major component of Children's activities. In October 2003, the Hospital completed construction of a 12-story research building consisting of approximately 321,000 square feet (see "Existing Facilities"). This project complements the Hospital's prior research tower of 389,000 square feet, known as the John Enders Laboratories for Pediatric Research. That building is named for the Children's researcher who was awarded the Nobel Prize for his work in culturing the polio virus. In June 2008, the Hospital took occupancy of 100,000 square feet of leased research space in three floors of the Center for Life Science Boston ("CLSB"), a new research tower adjacent to its main campus. In December 2009, the Hospital took occupancy of 15,000 square feet of research space that it is sub-leasing from an affiliate, IDI, and in May 2010, the Hospital is scheduled to begin occupying an additional 50,000 square feet of leased research space in CLSB.

In February 2009, IDI, an independent nonprofit research and educational institution affiliated with the Harvard Medical School became a wholly owned subsidiary of Children's Medical Center. The Hospital has had a long standing collaborative relationship with IDI, which has seventeen principal investigators, including three National Academy of Science members.

Funded research expenditures in 2009 were approximately $209.8 million, an increase of 7.7% from $194.8 million in 2008. The U.S. Government, primarily through NIH, sponsored approximately $116.4 million of Children's research funding in 2009. Major medical research foundations, such as the National American Heart Association, International

Juvenile Diabetes Foundation, National Multiple Sclerosis Society, Cystic Fibrosis Foundation and the March of Dimes, also have provided significant support to Children's research funding. In 2009, this category of funding sources accounted for 7% of research funding. Other sources provide additional funding. The following chart illustrates the diversity of research funding sources:



In addition, for 2009, the Hospital has received approximately $22.7 million from the American Recovery and Reinvestment Act of 2009 (the "Stimulus Act"). In addition, approximately $5 million was received in 2010.

Children's mission includes translating the advances and discoveries of its research efforts into improvements in clinical care for patients. These studies are critical for the translation of basic research discoveries "at the bench" to the application in the clinic for the benefit of sick children "at the bed side." In addition, within the past decade, the Hospital has developed an active program of technology transfer through which Children's collaborates with private industry in the development and licensing of specific technologies.

Additional major research efforts are currently in progress in a number of areas, including immunology, hematology, neuroscience, cardiology, orthopedics, surgery, stem cell research, angiogenesis, endocrinology, gastroenterology and cystic fibrosis.

A number of investigators have received national recognition from their peers. Children's is now home to seven members of the National Academy of Sciences, one of the highest honors that can be accorded American scientists, along with nine members of the Institute of Medicine and ten members of the Howard Hughes Medical Institute.

Since its founding in 1869, Children's has played a significant role in the advancement of pediatric medicine, whether through the introduction of new surgical or clinical techniques, the investigation of disease processes and development of appropriate treatments, or the development and application of new technologies. The following chronology presents some of the major advances which have occurred at Children's:

1900	Children's Radiology Department, the first in the country devoted exclusively to children, was established at the Hospital.
1922	The first research laboratory at the Hospital was established. This laboratory contributed to the development of effective intravenous feeding methods.
1938	The world's first surgical correction of a congenital heart defect was performed at Children's, marking the beginning of the field of pediatric cardiovascular surgery.
1947	Sidney Farber, M.D., then Pathologist-in-Chief at Children's, discovered the effectiveness of a drug in bringing about a remission of leukemia. Soon thereafter, he achieved the first successful remission in the treatment of acute leukemia. Subsequently, successful treatment of Wilm's tumor, a form of kidney cancer in children, was achieved.
1949	John Enders, M.D., then chief of the Division of Infectious Diseases, and his colleagues, became the first to successfully culture the polio virus. Their work, for which they were awarded the Nobel Prize in 1954, made possible the development of the Salk and Sabin vaccines. In 1954, Dr. Enders succeeded in culturing the measles virus.
1969	The New England Regional Infant Cardiac Program was established with Children's as its headquarters. The program was designed to ensure that infants with critical congenital heart disease would have access to rapid diagnosis and referral to an appropriate medical center for treatment.
1983	A team of Children's physicians reported the first surgical correction of hypoplastic left heart syndrome ("HLHS"), a defect in which an infant is born without a left ventricle. The surgical procedure was the first to successfully treat what previously had been a fatal condition.
1986	Scientists at Children's identified the gene that causes Duchenne muscular dystrophy, a severe, degenerative muscle disease. Clinical application of the discovery now allows identification of carriers of the disease and prenatal diagnosis of the condition. Today, Children's researchers are using muscle stem cells to deliver normal copies of the gene and help restore dystrophin to diseased muscles.

1992	A surgical team at Children's performed New England's first liver transplant from a living, related donor. The procedure creates an expanded donor pool, provides the opportunity to plan the surgery in advance and allows surgeons to intervene before an illness reaches the critical stage.
1996	The CardioSEAL device, invented by a Children's physician, was introduced in clinical trials. The small double-umbrella device is inserted by cardiac catheter to close holes in the heart without invasive surgery. Within three years, the Food and Drug Administration ("FDA") approved the use of CardioSEAL to repair holes in the hearts of seriously ill heart patients. Also in 1996, Children's physicians developed another cardiac catheter, known as the Wester-Jenkins basket catheter, which provides rapid diagnostic information in mapping multiple sites of cardiac arrhythmias.
1997	Endostatin, a potent inhibitor of angiogenesis, was discovered by Children's researchers. In mice, endostatin was able to halt tumor growth without side effects or inducing drug resistance—two drawbacks to conventional cancer treatments. In addition, when endostatin was used in combination with angiostatin, another inhibitor of angiogenesis discovered at Children's, it was able to eradicate tumors in mice. This discovery stemmed from 30 years of seminal, groundbreaking laboratory work at Children's that forged the field of angiogenesis.
1998	A Children's neuroscientist cloned the first neural stem cells from the human central nervous system, providing a critical step toward the goal of developing cell replacement and gene therapies for patients with neurodegenerative disease, neural injury or paralysis.
2001	A team of cardiologists from Children's and an obstetrical team from Brigham and Women's Hospital performed the first successful fetal cardiac catheterization procedure in the country, correcting HLHS. Since then, they have performed more than 50 fetal cardiac interventions to address HLHS and other life-threatening congenital heart defects.
2004	The first angiogenesis inhibitor to treat cancer was approved by the FDA, representing a turning point in cancer therapy and a landmark development in more than 30 years of angiogenesis research. The data on this drug, which was based on work done at Children's, validate the theory—long espoused by Children's researchers—that cutting off a tumor's blood supply can control its growth and prolong survival. Today, five biomarkers (angiogenic factors released by tumors) are being validated as diagnostic or prognostic indicators of cancer in clinical trials at 35 hospitals and the National Cancer Institute.

2007	Researchers in Children's Stem Cell Program converted adult skin cells into cells that look and act like embryonic stem cells. The resulting induced pluripotent stem cells (iPS) can form any cell type in the body and allow scientists to model a variety of human diseases. In 2008, the program produced 10 iPS cell lines carrying the genes or genetic components for 10 different diseases, including Parkinson's Disease, Type I diabetes, Huntington's Disease, Down Syndrome, combined immunodeficiency and Muscular Dystrophy, among others, allowing researchers to study the basis for these diseases *in vitro*.

FACILITIES

Existing Facilities

The Hospital's main campus is located in Boston's Longwood Medical Area. The main campus is adjacent to the Harvard Medical School and has direct physical connections to the Brigham and Women's Hospital and the Dana-Farber Cancer Institute. The Beth Israel Deaconess Medical Center and the Joslin Diabetes Center are located within two blocks of the Hospital's main campus. The Hospital added a Waltham campus in 2005 and a Peabody campus in 1995.

In 2003, the Hospital completed construction of a 12-story biomedical research and laboratory building (the "Research Building"), including five levels of below-grade parking to accommodate approximately 300 cars.

Between 2005 and 2007, the Hospital made various improvements to its Waltham Campus, including the renovation of a 22,500 square foot medical/surgical specialty clinic, the renovation of more than 200,000 square feet of the facility for the expansion of clinical programs, the addition of six operating rooms, the expansion of radiology services and the opening of an 11-bed short stay surgical unit.

In 2005, the Hospital completed construction on an 11-story building (the "Clinical Expansion Building") to house imaging, surgical, intensive care and other patient care and related facilities. In 2008, the Hospital renovated the eleventh floor of the building and added 22 additional beds.

The Children's main campus covers nearly 12 acres and Children's owns or rents approximately 3.2 million gross square feet of space at its various facilities. The main campus consists of 15 buildings owned by the Hospital, built or substantially renovated between 1914 and 2009. Over the course of its history, the Hospital's physical plant has continued to evolve and grow to meet the changing needs of patient care and research. Children's commitment to its physical plant is demonstrated in the following summary of capital expenditures from 2007 through 2009, derived from Hospital records:

Appendix A

Summary of Capital Expenditures

2007	2008	2009
$122,726,000	$132,339,000	$73,831,000

A summary of the Hospital's physical plant is presented below:

Children's Hospital Boston
Summary of Existing Hospital Facilities

Building	Year Constructed or Acquired (Year of Additions or Major Renovations)	Approximate Gross Square Footage	Primary Current Use
Hunnewell	1914	123,000	Ambulatory care services, administration
William W. Wolbach	1914 (1976)	38,000	Administration
Ida C. Smith	1930	3,000	Ancillary services
Bader West	1930 (1945)	31,000	Ancillary services
Bader East	1930 (1950)	56,000	Ancillary services, 16 beds
Farley	1956	169,000	Ancillary services
Fegan	1967	188,000	Ambulatory clinics
Enders	1971 (1990)	389,000	Research laboratories
Pavilion	1974 (1979)	92,000	Ancillary services
Main	1988	370,000	273 beds, ancillary services
Library	1994	6,000	Library
Blackfan Garage	1995	248,000	Parking for 652 vehicles
Martha Eliot Health Center	leased	25,000	Ambulatory care services
21 Autumn Street	2001	30,000	Administration, day care center
One Autumn Street	2003	85,000	Administration
Children's Hospital at Lexington	joint facility ownership	25,000	Ambulatory care services
Karp Family Research Center	2003	321,000	Research Laboratories
Research Expansion Underground Garage	2003	119,000	Parking for 300 vehicles
Clinical Building Expansion	2005	235,000	96 beds, ancillary services
Children's Hospital at Waltham	leased	269,000	11 beds, Ambulatory care services
Center for Life Science Boston	leased	100,000	Research laboratories
Emmanuel Garage	joint venture	86,000	Parking for 200 vehicles
241 Kent Street	2009	12,000	Patient family housing
Children's Hospital at Peabody	leased	37,250	Ambulatory care services
Various	leased	172,750	Administration, support services, etc.
Total		3,230,000	

Source: Hospital Records

Construction Projects in Progress

Children's is in the process of acquiring, renovating, and equipping a 37,250 gross square foot portion of a mixed use (office/manufacturing/warehouse/medical) building in Peabody, Massachusetts to serve as an ambulatory care center in the suburban North Shore area, approximately twenty miles from the Hospital's main campus. This 365,000 square foot site is owned by the Hospital's affiliate, CHB Properties (see "Corporate Structure"), which leases out the remaining space in the building to other unrelated tenants. Management believes this renovation in Peabody provides expanded access to Children's specialists for patients and families residing in the North Shore suburban market and supports management's strategy (see "Strategies") of developing certain suburban locations for specialty ambulatory care to better serve the local and regional pediatric market. The project is expected to be substantially completed by January, 2011 at a cost of $25 million, which is being financed from the proceeds of the Authority's Revenue Bonds, Children's Hospital Issue, Series M (2009) ("Series M Bonds") issued on November 18, 2009.

Planning is underway to begin construction in the summer of 2010 of a 10-story, 121,000 square foot addition to the Hospital's main clinical building ("Main Building"). The added space will accommodate 36 licensed beds and 20 short stay beds while relieving existing double occupancy rooms at the Main Building. The project will include expanded facilities for Pharmacy, Surgery, Neuro-imaging and the Emergency Department. The expected completion date is summer of 2013 at an estimated project cost of approximately $169 million. The planning costs are being financed from the proceeds of the Series M Bonds and the remaining costs will primarily be funded from equity although the Hospital may decide (depending upon market conditions) to borrow for a portion of such costs.

Future Capital Needs

Children's has a three year capital plan for 2010 through 2012 of approximately $628 million in capital expenditures. Approximately $50 million in capital expenditures has been spent thus far. Management believes the scale of these projects is necessary to reduce Children's average plant age. As of 2009, the Hospital's average age of plant was 9.2 years (as calculated by dividing accumulated depreciation by annual depreciation expense) as compared to 9.4 years in 2006. The capital plan also incorporates the addition of a significant amount of space for research purposes.

The Hospital's ability to undertake these capital expenditures will depend on many factors, including the success of the Hospital's financial and operational improvement plan (see "Management's Discussion and Analysis of Recent Financial Performance"), industry pressures, investment performance and general economic conditions. Management may consider additional borrowing of a portion of the future routine capital budget as well as borrowing to finance the construction costs associated with the new inpatient tower addition, but completing that or any other additional borrowing will depend on many factors including those listed above.

PHILANTHROPY

In 1997, the Medical Center established a fund-raising division, known as the Children's Hospital Trust ("CH Trust"). CH Trust's mission is to promote philanthropy in support of the Hospital's missions of patient care, research, education and community service. CH Trust now has a 125 person staff operating six primary fund-raising programs: Major Gifts, Planned Giving, Annual Giving, Foundations and Corporate Development and Special Events. An active voluntary board of trustees composed of thirty-eight local business leaders and philanthropists provides oversight to CH Trust.

For the last three years (2007-2009), the Hospital's average annual revenue generated from philanthropy has grown to $94 million from an average of $62.5 million for the previous three-year period (2004-2006). The following summary of philanthropy includes pledges made, in accordance with generally accepted accounting principles. The Hospital is not aware of any significant uncollectible pledges.

Summary of Philanthropic Revenue
(including pledges)
2007-2010
(in thousands of dollars)

Purpose of Donation/Pledge	2007	2008	2009	Total	Three Months Ended Dec. 31, 2008	Three Months Ended Dec. 31, 2009
Unrestricted	$18,546	$16,117	$16,808	$51,471	$5,069	$4,420
Restricted	70,319	111,372	49,147	230,838	16,618	30,078
Total	$88,865	$127,489 *	$65,955	$282,309	$21,687	$34,498

* Includes a single gift of $33.3 million made possible through a program to encourage gifts from physician foundations.

Source: Medical Center Records

The sources of donations demonstrate the broad base of support for the Hospital's mission for 2007-2009 and the three months ended December 31, 2008 and December 31, 2009, shown in the following comparative summaries:

Sources of Donations
(including pledges)
2007-2010
(in thousands of dollars)

	2007		2008		2009		Three Months Ended December 31, 2008		Three Months Ended December 31, 2009	
Category	Number of Donations	Amount	Number of Donations	Amount	Number of Donations	Amount	Number of Donations	Amount	Number of Donations	Amount
Individuals	92,971	$17,546	93,115	$22,189	86,337	$18,956	18,569	$4,066	18,273	$ 2,263
Corporations	3,704	8,395	3,442	8,355	2,728	6,493	626	2,334	575	1,353
Foundations	975	56,032	919	87,525	1,049	30,956	363	11,064	341	29,682
Associations	680	2,311	788	3,005	703	2,097	121	321	139	611
Estates & Trusts	87	4,581	82	6,415	74	7,453	22	3,902	19	589
Total	98,417	$88,865	98,346	$127,489	90,891	$65,955	19,701	$21,687	19,376	$ 34,498

Source: Medical Center Records

UTILIZATION

The following is a summary of certain significant utilization data for the Hospital for each of the three years ended September 30, 2007, 2008 and 2009, and for the three months ended December 31, 2008 and December 31, 2009:

Utilization Statistics for 2007-2009

	2007	2008	2009	Three Months Ended December 31, 2008	Three Months Ended December 31, 2009
Inpatient Statistics					
Number of Licensed Beds	377	396	396	396	396
Discharges	17,267	17,811	18,248	4,383	4,678
Inpatient Days	99,934	102,621	104,602	25,005	27,207
Observation and Extended Recovery Days	6,137	6,912	7,948	1,837	1,987
Average Length of Stay (days)	4.69	4.61	4.50	4.51	4.58
Percent Occupancy of Beds in Operation	81.8	79.8	79.2	74.5	80.8
Outpatient Visits					
Hospital Clinic Visits	207,794	211,846	212,396	53,398	52,968
Foundation Clinic Visits*	263,847	280,852	312,384	72,931	85,592
Total Clinic Visits	471,641	492,698	524,780	126,329	138,560
Outpatient Clinic Visits by Location					
Longwood Campus	307,019	310,167	325,054	78,781	87,311
Martha Eliot Health Center	54,435	55,662	59,319	14,633	14,837
Lexington	29,310	28,426	26,047	6,447	6,178
Peabody	12,173	14,866	16,023	3,829	4,150
Waltham	46,869	61,214	75,098	17,329	19,821
All Other Locations	21,835	22,363	23,239	5,310	6,263
Total Clinic Visits	471,641	492,698	524,780	126,329	138,560
Emergency Room Visits	55,858	58,329	61,631	14,227	15,812

* The members of the Departments of Anesthesia, Cardiology, Cardiovascular Surgery, Medicine, Neurology, Neurosurgery, Ophthalmology, Orthopedic Surgery, Otolaryngology, Pathology, Plastic and Oral Surgery, Radiology, Surgery and Urology belong to the Foundations. As the Foundations are not Members of the Obligated Group, revenues attributable to these visits are not included in the financial statistics of the Hospital, nor are they available to pay debt service on the Bonds.

Source: Hospital Records

Highlights of utilization trends follow:

- Combined Hospital and Foundation outpatient clinic visits increased by 53,139, or 11.3%, from 2007 to 2009, resulting primarily from the recruitment of additional physicians and additional operating room capacity at the Hospital's main campus and its suburban locations. The Hospital has intentionally grown the outpatient clinical visits in connection with the Hospital's overall strategy to "decant" patient volumes from overcrowded Hospital facilities. As noted above, the Foundations are not liable on the Bonds. However, management believes that spreading volume across the Hospital and Foundation practitioners is in the best interest of quality of care and ultimately benefits the Hospital by eliminating bottlenecks and enhancing timeliness of care delivery across the system.

- Discharges increased by 5.7% from 2007 to 2009 due primarily to the utilization of a new 22 bed inpatient unit, which opened in March 2008, in the Clinical Expansion Building (see "Existing Facilities").

- For the three months ended December 31, 2009, inpatient care volume increased by 6.7%, and there was a higher utilization of outpatient services as compared to the same period in the prior year.

For further discussion of the financial effect of utilization from 2007-2009 and the three months of 2010, see "Management's Discussion and Analysis of Recent Financial Performance."

FINANCIAL INFORMATION

Introduction

The Children's Medical Center is the sole corporate member of the Hospital and certain other subsidiary organizations. Substantially all patient care and research activities are conducted by the Hospital. The Hospital is the only member of the Obligated Group, as defined in the forepart of this Official Statement. The Medical Center, which is the guarantor of the Hospital's payment obligations with respect to the Bonds, holds and manages substantially all of the investments for the benefit of the Hospital and its affiliates. These investments are described more fully under the section entitled "Investments."

Appendix B-1 contains two sets of audited financial statements. One set is a presentation of the Hospital only, and the other is a consolidated presentation of the Medical Center and its subsidiaries, including the Hospital. The Hospital and the Medical Center are the only corporations liable for payment of the debt service on the Bonds. In the fiscal year ended September 30, 2009 subsidiaries not obligated with respect to the Bonds accounted for 6.61% of the total assets and 3.86% of the total revenues of the consolidated assets and revenues of the Medical Center and subsidiaries. In February 2009, IDI merged with and into the Hospital. Information for all years and periods have been restated to incorporate the IDI results which have been

accounted for under the pooling of interests method. Appendix B-2 contains unaudited financial information for the period ended December 31, 2009.

Summary Consolidated Financial Statements

The summary of consolidated statements of Revenues and Expenses (the "Summary") presented below has been derived from the audited financial statements of the Medical Center and subsidiaries (including the Hospital) for fiscal years 2007 through 2009 (see Appendix B-1) and from the most recently available internal financial statements of the Hospital and Medical Center for the three months ended December 31, 2008 and December 31, 2009 (see Appendix B-2). Amounts have been restated to include the revenues, expenses and nonoperating gains (losses) of the Immune Disease Institute, Inc. which became a wholly-owned subsidiary of the Medical Center in February 2009. This business combination was accounted for under the pooling of interests method which requires the restatement of previously issued financial statements to reflect the aggregate financial information of the combining organizations. The Medical Center restated its 2008 audited financial statements (Appendix B-1) upon the issuance of its 2009 audited financial statements. The Summary for the three-month periods ending December 31, 2008 and December 31, 2009, which were not audited, reflects, in the opinion of management, all adjustments (which include normal recurring adjustments) necessary to summarize fairly the results for such periods. The results for the three months ended December 31, 2008 and December 31, 2009 should not be considered indicative of the results for the full fiscal years. This Summary should be read in conjunction with the audited financial statements for the years ended September 30, 2008 and 2009 for Children's Medical Center and Children's Hospital and the Notes thereto which are presented in Appendix B-1 and the unaudited financial information presented in Appendix B-2 of this Official Statement and are hereby incorporated by reference.

Appendix A

Children's Medical Center Corporation and Subsidiaries
Summary Consolidated Statements of Revenues and Expenses*
(in thousands of dollars)

	Year Ended September 30			Three Months Ended December 31	
	2007	2008	2009	2008	2009
Revenues:	Restated	Restated			
Net patient services revenue	$ 801,145	$ 926,339	$ 1,029,481	$ 240,270	$ 249,169
Research grants and contracts	137,986	141,007	146,431	35,051	40,553
Recovery of indirect costs on grants and contracts	55,870	54,190	56,978	14,603	16,522
Other operating revenue	48,102	61,384	68,827	16,370	16,715
Unrestricted contributions, net of fund-raising expenses **	13,016	9,972	7,690	2,367	2,314
Net assets released from restriction used for operations	29,543	34,849	32,874	8,862	14,487
Total revenues	1,085,662	1,227,741	1,342,281	317,523	339,760
Expenses:					
Salaries and benefits	455,175	511,927	549,792	134,947	141,190
Supplies and other expenses	312,124	374,962	425,230	90,871	101,102
Direct research expenses of grants	137,986	141,007	146,431	35,051	40,553
Provision for uncollectible accounts	23,177	24,025	20,572	4,052	1,945
Uncompensated care pool assessment	9,617	10,980	12,201	3,209	2,783
Depreciation and amortization	84,044	87,534	94,041	23,361	24,352
Interest	22,440	25,988	20,381	4,941	6,218
Total expenses	1,044,563	1,176,423	1,268,648	296,432	318,143
Gain from current operations	41,099	51,318	73,633	21,093	21,617
Adjustments to prior year estimates for contractuals and uncollectible accounts	13,039	14,154	9,031	560	3,353
Gain from operations	54,138	65,472	82,664	21,653	24,970
Non-operating gains (losses):					
Income from investments	20,213	23,631	5,849	1,571	1,312
Net realized gain (loss) on investment transactions	71,038	55,144	8,485	(2,907)	8,090
Increase (decrease) in value of alternative investments	89,188	(59,119)	74,011	(44,953)	23,314
Recognition of unrealized losses on investments	(6,001)	(59,313)	(44,944)	(30,662)	(546)
Net gain realized from drug royalty sale	96,266	-	-	-	-
Loss on extinguishment of debt	-	(4,940)	-	-	-
Adjustment of interest rate swaps to fair market value	2,883	(28,396)	(35,183)	(114,922)	27,162
Fund-raising expenses on restricted contributions	(12,896)	(14,585)	(13,001)	(3,370)	(3,513)
Other non-operating gains (losses)	5,287	(1,974)	(4,726)	(1,148)	(1,163)
Total non-operating gains (losses)	265,978	(89,552)	(9,509)	(196,391)	54,656
Excess (deficit) of revenues over expenses	$ 320,116	$ (24,080)	$ 73,155	$ (174,738)	$ 79,626

* Includes certain subsidiaries not obligated with respect to the Bonds, see "Financial Information-Introduction."
** Fund-raising expenses netted against unrestricted contributions are as follows: $5,527,000 in 2007, $6,251,000 in 2008 and $8,495,000 in 2009.

Source: Medical Center Records

Management's Discussion and Analysis of Recent Financial Performance

Review of Financial Trends

In 2007 through 2009, the consolidated excess (deficiency) of revenues over expenses for Children's Medical Center was $320.1 million in 2007, ($24.1) million in 2008 and $73.2 million in 2009. For the same three years, the gain from operations was $54.1 million, $65.5 million and $82.7 million, respectively. For the three-month period ending December 31, 2009, the excess of revenues over expenses was $79.6 million (compared to a deficit of $174.7 million for the comparable prior year period) and the gain from operations was $25.0 million (compared to $21.7 million for the comparable prior year period).

The general budgetary philosophy of the Medical Center Board is to achieve a gain sufficient to support the capital investments necessary to maintain a modern and technologically-advanced facility and to remain a leader in pediatric care. Operating losses in the late 1990s led to significant restructuring of the activities of the Hospital, which activities in turn contributed to a gain from current operations of $73.6 million in 2009 and $51.3 million in 2008. Those restructuring efforts are continuing as the Hospital seeks to counter significant industry pressures (see "Current Challenges").

2007

Children's Medical Center and subsidiaries generated a 2007 operating gain of $54.1 million, a 20% improvement over the prior year's gain of $45.2 million. Non-operating gains in 2007 of $266.0 million increased by $164.3 million driven primarily by the sale of a drug royalty stream. As a result of these increases, total excess of revenues over expenses rose to $320.1 million as compared to $146.8 million in 2006.

Total revenues in 2007 of $1,085.7 million increased by $66.5 million due principally to an increase in net patient service revenue of $54.1 million, or 7%. Net patient service revenue growth was driven by historically high inpatient discharges and patient days enabled by the opening of 23 new inpatient beds during the year to meet growing regional demand for pediatric specialty care. Other operating revenue also increased during the year by $7.4 million attributable partly to higher rental income and an increase in outside lab services revenue. Net assets released from restriction grew by 15%, or $3.9 million, as a result of the greater use of philanthropic funds for research. This increase was offset by a decline in total government sponsored research grants and contracts of $1.0 million due in part to the slowdown in federal research grant funding.

Total expenses increased by $54.6 million, or 6%, due to an increase in salaries and benefits, depreciation, and interest, offset by a decline in supplies and other expenses, and direct research expenses. The increase in salaries and benefits reflected the hiring and training of additional clinical technicians and registered nursing employees to support volume associated with the opening of the new beds on the main campus in Boston and the Hospital's suburban satellite in Waltham, MA. Depreciation expense increased by $6.4 million as a consequence of the greater investment in Hospital facilities and information technology. Interest costs rose due to higher short-term variable rates as compared to the prior year, and a full year of

interest expense associated with the issuance of a $120 million bond issue in May, 2006. The decline in supplies and other expenses was due mainly to the reversal of a liability that was established during the fourth quarter of the prior year, as a result of a successful resolution of a lease commitment. The decrease in direct research expenses of grants is attributable to the research grant revenue decline as described above.

In 2007, non-operating gains increased by $164.3 million, due primarily to the sale of a drug royalty stream in January, 2007, resulting in a gain of $96.3 million. The net proceeds from the sale were deposited into the Endowment Fund to support the Hospital's research mission. Also contributing to the increase was a $41.5 million increase in the value of alternative investments due to the favorable performance of the underlying investments in those funds, and a $32.7 million increase in a net realized gain on investment transactions due to asset allocation changes made during the year triggering the recognition of accumulated gains, and investment security sales, the timing of which is at the discretion of the Medical Center's investment managers.

2008

Children's Medical Center and subsidiaries generated a 2008 operating gain of $65.5 million, a 21% improvement over the prior year's gain of $54.1 million. Non-operating losses in 2008 of $(89.6) million, versus gains of $266.0 million in 2007, were reflective of deteriorating equity and credit markets during the year, primarily the fourth quarter, which negatively affected the total investment portfolio, and the absence of a drug royalty sale in 2008 as compared to 2007, which had led to a $96.3 million gain.

Total revenues in 2008 of $1,227.7 million increased by $142.0 million, or 13%, due primarily to an increase in net patient service revenue of $125.2 million. Net patient service revenue growth was driven primarily by increased inpatient discharges made possible by a new 22 bed inpatient unit which opened in March 2008, higher ambulatory surgical volume at the Hospital's main campus as well as in its suburban locations, and rate improvements in payor contracts as compared to last year. Other operating revenue increased year over year by 16%, or $7.6 million, attributable primarily to royalties on intellectual property, higher rental income, and an increase in the provision of outside laboratory services. Net assets released from restriction grew by $5.3 million, or 18%, due to the greater use of philanthropic funds for scientific research to supplement a flattening of National Institute of Health-sponsored research grants and contracts during the year. However, total direct research grants and contracts from all sources increased by 2%, or $3.0 million, as compared to the prior year.

Total expenses increased by $131.9 million, or 13%, due to an increase in supplies and other expenses, salaries and benefits, direct research expenses, depreciation, and interest. The $62.8 million growth in supplies and other expenses was due primarily to increased inpatient and outpatient utilization as mentioned above, and the incurring of certain one-time strategic expenditures related primarily to recruitment of highly specialized physicians in key clinical programs, support of scientific leaders in major research areas, and community programs. The 12% increase in salaries and benefits resulted partly from the staffing of nurses and clinical technicians required to operate the new 22 bed unit, and higher compensation costs

designed to respond to an increasing labor shortage for pediatric clinical workers. The increase in direct research expenses of grants relates to the research grant revenue increase as described above. Depreciation expense increased by $3.5 million as a consequence of the greater investment in expanded Hospital facilities and information technology. Interest costs rose by 16%, or $3.5 million, due primarily to higher short-term variable rates caused by the bond market's reaction to the credit rating downgrade of an insurer that insures approximately 80% of Children's Hospital's outstanding $539.3 million of tax-exempt debt.

In 2008, non-operating losses totaled $89.6 million, as compared to $266.0 million of gains compared to the prior year. This loss is primarily attributable to a $59.1 million loss in the value of alternative investments and a $59.3 million recognition of other than temporary losses on investments due to unfavorable capital markets during the year, as well as the absence of a drug royalty sale in 2008 as compared to 2007 described above. Also contributing to the total non-operating loss was a $28.4 million unfavorable swing of the adjustment to market value of the Hospital's interest rate swap agreements. The cumulative market adjustment to the Hospital's interest rate swap agreements resulted in a liability of $53.5 million as of September 30, 2008, which is reported in other liabilities in the accompanying balance sheet. Offsetting these losses was a $55.1 million net realized gain on investment transactions due to asset allocation changes made during the year triggering the recognition of accumulated gains, and investment security sales, the timing of which is at the discretion of the Medical Center's investment managers.

2009

In 2009, Children's Medical Center and subsidiaries generated an operating gain of $82.7 million, a 26% improvement over the prior year's gain of $65.5 million. Non-operating performance improved by $80.0 million due primarily to more favorable investment returns as compared to the prior year. In total, the Medical Center gained $73.2 million in 2009 versus a deficit of $24.1 million for the prior year.

Total operating revenues of $1.3 billion increased 9%, or $114.5 million, due mainly to net patient service revenue growth of $103.1 million, or 11%. That growth was driven by ambulatory surgical case volume, higher utilization of imaging and procedural services, implementation of operational improvement initiatives, increased inpatient volume, and rate improvements in payor contracts as compared to the prior year. Total research grants and contracts, including the recovery of indirect costs, grew by 4% due to continued efforts to increase the Hospital's research base as expanded laboratory space becomes fully occupied. Supplemental support of the Hospital's scientific research mission was reflected in an increased commitment of endowment income in the amount of $10 million in 2009.

Total expenses increased by $92.2 million, or 8%, due to an increase in supplies and other expenses, salaries and benefits, depreciation, and direct research expenses, offset by a decline in interest expense and the provision of uncollectible accounts. The $50.3 million growth in supplies and other expenses was due mainly to increased inpatient and outpatient utilization as mentioned above, and the incurring of certain one-time strategic expenditures related primarily to recruitment of highly specialized physicians in key clinical programs, support of scientific leaders in major research areas, and community programs. The 7% increase in

salaries and benefits was due to higher wage costs, a modest growth in staffing to support higher inpatient and outpatient utilization, and an increase in fringe benefit expense, most notably in the cost of pension and health insurance. Depreciation expense increased by $6.5 million as a consequence of the greater investment in expanded Hospital facilities and information technology. The increase in direct research expenses of grants parallels the research grant revenue increase as described above. Offsetting these increases were a decline in interest costs of $5.6 million due to more benign credit conditions as compared to last year and a decline of $3.5 million in the provision of uncollectible accounts reflecting continued strength in patient care cash collections and improvements in accounts receivable aging.

In 2009, non-operating losses totaled $9.5 million, as compared to a loss of $89.6 million for the prior year. The $80.1 million improvement resulted primarily from the following: a $133.1 million increase in the fair value of alternative investments due to higher performance returns of the underlying investments, a $14.4 million positive swing in the recognition of losses on investments due to better investment returns, offset by a $46.7 million decrease in net realized gains on investment transactions, the timing of which is dependent on asset allocation changes made during the year and individual security sales, and a $17.8 million decrease in investment income resulting from lower interest rates and allocating $10.3 million more of investment income to endowment support for mission related activities.

Three Months Ended December 31, 2009

Children's Medical Center generated a surplus from operations of $25.0 million for the first quarter of 2010, a $3.3 million increase over the $21.7 million gain for the comparable quarter in 2009. Non-operating gains for the quarter were $54.7 million as compared to a loss of $196.4 million for the same period in the prior year, reflective of interest rate movements that had a positive effect on the fair market value of the Hospital's interest rate swaps as well as strong investment performance compared to the first three months of the prior year.

Total quarterly operating revenues of $339.8 million increased by $22.2 million, or 7%, due to an increase in net patient service revenue, research grants and contracts, and net assets released from restriction. Net patient service revenue growth of $8.9 million, or 4%, was driven primarily by increased inpatient volume and higher utilization of outpatient services as compared to the same period in the prior year. Total research grants and contracts, including the recovery of indirect costs, grew by 15% due in part to the added grants received from the federal government's stimulus program as well as continued efforts to increase the Hospital's research base as expanded laboratory space becomes fully occupied. Also, first quarter net assets released from restriction grew by $5.6 million from the comparable quarter in the prior year due to the greater use of philanthropic funds to support faculty for clinical and scientific research.

Total quarterly expenses of $318.1 million increased by $21.7 million, or 7%, attributable to an increase in supplies and other expenses, salaries and benefits, direct research expenses and interest expense, offset by a decline in the provision of uncollectible accounts. The $10.2 million growth in supplies and other expenses was due to increased patient care volume, and expenses related to the associated increase in net assets released from restriction as mentioned above. The $6.2 million increase in salaries and benefits was mainly due to an

increase in fringe benefit expense most notably in the cost of health insurance and pension obligations. The $5.5 million increase in direct research expenses of grants parallels the research grant revenue increase as described above. Interest expense increased by $1.3 million as a result of the issuance of the Series M Bonds in November 2009 and higher interest rates as compared to the same period in the prior year. Offsetting these increases was a decline of $2.1 million in the provision of uncollectible accounts during the quarter, reflecting continued strength in patient care cash collections and accounts receivable aging.

Non-operating gains for the quarter increased by $251.0 million due to the following: a $142.1 million favorable change of the adjustment to market value of the Hospital's interest rate swap agreements, a $68.3 million increase in the fair value of alternative investments resulting from higher performance returns of the underlying investments, and a $30.1 million positive change in the recognition of losses on investments due to better investment returns. The adjustment to market value of the Hospital's interest rate swap agreements will fluctuate depending on interest rate conditions during the quarter. Generally, in a period of increasing long-term rates, such as the quarter ending December 31, 2009, a gain will be reported, while in a period of decreasing long-term rates, a loss will be recorded. The cumulative market adjustment to the Hospital's interest rate swap agreements has resulted in a liability of $61.5 million as of December 31, 2009, which is reported in other liabilities in the accompanying balance sheet.

Strategies

The mission of Children's Hospital is to be the worldwide leader in improving children's health. The leadership of Children's Hospital has continued to reaffirm a strategy of institutional independence as the best means of pursuing that mission.

Children's strategic plan has been developed in the context of a challenging health care environment and is designed to help Children's achieve its mission while remaining independent. The plan was affirmed by the Board of Trustees of the Hospital in 2007 but is constantly evolving to address the various challenges that have arisen within the last several years in the health care environment. The plan's priorities are:

- Make patient care, safety and satisfaction the number one institutional priority. The Hospital has devoted, and management expects to continue to devote, substantial time and resources to ensuring the safety and quality of care provided to all patients. The Board of Trustees has endorsed a reprioritization of the Hospital's strategic initiatives to place clinical quality and patient safety as the Hospital's first priority, and substantially all capital expenditures and operational plans are measured against that priority.

- Maintain the Hospital's financial strength in service of its mission to retain its independence as a children's-only hospital and to invest in the future of pediatric care and research. This requires reducing the cost of pediatric patient care services and adapting to the new financial environment by executing the following operational efficiency initiatives to achieve justifiable costs: optimize Hospital bed utilization, optimize operating room utilization, and reduce controllable costs.

- Expand the frontiers of knowledge by conducting innovative and interdisciplinary basic and clinical research that leads to the prevention, better management and cure of childhood illness and diseases.

- Train the top pediatric clinicians of tomorrow to be leaders in their fields and in delivering patient and family centered care.

- Enhance the health care experience of patients and their families by greatly expanding and fully integrating the pediatric care network to deliver care in the most convenient, timely, welcoming and attractive manner and setting.

- Measurably improve children's health in the surrounding communities by working to prevent, treat and manage illness and disease.

- Be the workplace of choice and a destination for talent.

- Create state-of-the-art work and patient care environments to support the evolution and practice of the world's most advanced pediatric care, research and training.

- Develop strategic relationships within a regional Children's Hospital Network of community hospitals and affiliated pediatricians, invest in growth strategies both nationally and internationally, and lead the field of innovation and discovery in pediatrics, all within the context of stable financial performance.

Current Challenges

The Hospital recognizes that the cost of the current national healthcare delivery system is unsustainable, and believes that universal coverage, access and coordination of care is an essential prerequisite to improving the health of the nation's children. National health reform passed in March 2010 is intended to address these issues over the next ten years of implementation, although management cannot predict the ultimate impact of the complex and wide-ranging changes required under that legislation. See "Bondowners' Risks and Matters Affecting the Healthcare Industry – National Health Reform." The Hospital is committed to reducing the cost of pediatric patient care services while increasing the effectiveness and efficacy of the care delivered. Toward that end, in November 2009 the Hospital entered into a partnership with the state's major health plans and the Massachusetts Medicaid program to develop a common approach and standards toward improving care and reducing costs.

The Hospital also plans to continue to seek relief at the legislative and regulatory level for equitable treatment in the Commonwealth's method of funding for pediatric patients, including Medicaid patients and uninsured patients whose care may be paid for in part by the Health Safety Net Fund (see "Sources of Patient Service Revenue – Free Care and Uncompensated Care" for a discussion).

Another major challenge is the recruitment of pediatric specialists to service the Hospital's growing volume of pediatric care. One reason for this is that there are an insufficient number

of trainees in pediatric training programs at the Hospital and across the country to meet the demand of pediatric specialists. The national health reform bill establishes a loan repayment program for pediatric subspecialists ($30 million for each of years 2010-2014) and providers of mental and behavioral health services to children and adolescents ($20 million for each of years 2010-2013) to help address this problem.

Investments

Children's Medical Center, under the direction of the Investment Committee, maintains and oversees the management of the investment portfolio for the benefit of Children's Hospital and its affiliates. The Medical Center recently hired a Chief Investment Officer, who was formerly with the Massachusetts Institute of Technology in a similar capacity for the last seventeen years, to assist the Investment Committee with this oversight. As of September 30, 2009, total investments of the Medical Center was $2.441 billion on a market value basis.

The three-year trend of the Medical Center's investments, valued at market, investment is presented in the following table:

Investments
2007-2009
(in thousands of dollars)

As of September 30	Board-designated and Unrestricted	Donor Restricted	Total
2007	$2,014,485	$398,907	$2,413,392
2008	1,855,905	415,365	2,271,270
2009	2,000,966	439,852	2,440,818

Source: Medical Center Records

According to Medical Center records, as of December 31, 2009, the market value of investments was estimated to be $2.6 billion. The estimate is unaudited and determined in accordance with the Medical Center's internal valuation conventions, which rely in part on periodic valuations provided by outside fund sponsors for investments in certain illiquid asset classes. This estimate does not reflect updated valuations for certain investments for which valuations are only infrequently provided. The estimate is further subject to the continuing effects of volatility, limited liquidity and pricing issues in certain markets.

Board-designated and unrestricted investments are available for purposes determined by the Medical Center's Board of Trustees. Donor restricted investments consist of permanently restricted funds and temporarily restricted funds. As directed by the donors, the principal of permanently restricted funds must not be expended. Income from these funds may be unrestricted or restricted for specific operating or capital purposes. Both the principal and interest of temporarily restricted funds may be expended in accordance with the donors' intentions.

For a chart showing days cash on hand and other selected statistics, see the forepart of this Official Statement under the heading "Certain Financial Information."

The Medical Center currently retains thirty investment managers for its portfolio. The allocation range, which represents general guidelines, along with the specific composition of the investments as of December 31, 2009, valued at market, according to Medical Center records, is shown on the following chart:

Asset Class	Percent of Market Value at December 31, 2009 ($2.6 billion)	Allocation Range
U.S. Equity	20 %	15-65 %
Global excluding U.S. Equity	11	15-35
Equity Hedge Funds	18	15-50
Absolute Return Funds	20	8-16
Fixed Income	19	10-20
Private Equity	4	0-5
Private Real Estate	8	0-12

Approximately 65% of the Medical Center's Investment could be liquidated within 90 days. Management estimates that the Medical Center's future commitments on alternative investments such as private equity are currently less than $50 million.

In addition, the Medical Center is negotiating with a third party to acquire an interest in a portfolio of private equity fund limited partner interests owned by such third party. The interests to be acquired by the Medical Center would represent approximately $100 million of capital commitments, of which approximately 90% are unfunded. No binding agreement has been reached with respect to the proposed transaction, and there is no assurance that a binding agreement will be executed by the parties. If the transaction is consummated as currently structured, the Medical Center would become liable for satisfying future capital calls with respect to the purchased portfolio of private equity interests over an expected time period of approximately three to nine years.

Performance returns and asset allocation of the investment portfolio are reported to the Investment Committee on a monthly basis and formally reviewed by the Committee at quarterly meetings relative to established policy portfolio targets. The Committee has the right to set the allocation of a particular asset class below or above the established range. A summary of the portfolio's performance for each of the previous three years and for the three months ended December 31, 2009 follows:

Investment Portfolio
Performance Summary
2007-2009

	2007	2008	2009	Three Year Compound Annual Return	Three Months Ended December 31, 2009
Medical Center Investment Portfolio	21.7%	(11.9)%	5.9%	4.3%	3.8%
Investment Committee Designated Benchmark: 60% S&P 500/ 40% Lehman Aggregate	11.9	(12.3)%	0.6%	(0.4)%	3.7%

Source: Medical Center Records

Long-Term Debt

For a description of the Hospital's long-term debt and its existing swap agreements, see footnote 9 to the Audited Financial Statements included as Appendix B-1. The Hospital has not posted collateral with respect to any of its swap agreements. However, in the event the Hospital's credit ratings were downgraded below a specified level, the counter-party to such swap agreements could elect to terminate the swap (which could require the Hospital to make a material termination payment to the counter-party) or negotiate collateral terms with the Hospital.

In 2008, the Hospital purchased approximately $200 million of its variable rate demand bonds with the proceeds of a commercial loan and is the current holder of such bonds. The Hospital is considering the possible refinancing or other restructuring of those bonds, but no specific plan has been approved.

On November 18, 2009, the Hospital issued the Series M Bonds in the principal amount of $126.1 million. The proceeds were used to fund certain capital additions, renovations, and equipment expenditures. The Series M Bonds, with a final maturity in December 2039, were issued at a net discount in the amount of $1.8 million to bear interest at fixed yields for each maturity, ranging from 5.3% to 5.4%.

The Hospital monitors its debt portfolio on an ongoing basis. It considers potential refunding and repurchases as appropriate. On February 5, 2010, the Hospital purchased $122.1 million

of the outstanding Authority's Revenue Bonds, Children's Hospital Issue, Periodic Auction Reset Securities ("PARS") Series G, H, I, J and K (collectively, the "PARS Bonds") at a discount. At the time of the transaction, the Hospital announced that it would redeem the remaining outstanding $227.2 million of the PARS Bonds within the next few months at 100% of the principal amount. See "Plan of Finance" in the forepart of this Official Statement.

SOURCES OF PATIENT SERVICE REVENUE

Children's maintains participating provider agreements with private insurers and managed care programs, the state Medicaid program administered by the Executive Office of Health and Human Services for the Commonwealth ("EOHHS"), and the federal Medicare program administered by Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("DHHS"). These agreements, together with applicable federal and state law, govern payments to Children's for services rendered to patients covered by these programs.

The following table shows the percentage distribution of gross patient service revenue by payor for the three most recent fiscal years:

Payor Mix as a Percentage of Gross Patient Services Revenue

	FY 2007		FY 2008		FY 2009	
Private Sector						
Blue Cross	35	%	35	%	34	%
Harvard Pilgrim	10		11		10	
Tufts	7		6		7	
Commercial	3		3		2	
Other Managed Care	12		11		12	
Other	5		4		4	
Total Private Sector	**72**	%	**70**	%	**69**	%
Government Sector						
Medicaid [1]	16		17		16	
Medicaid MCOs	10		10		12	
Other Government [2]	2		3		3	
Total Government Sector	**28**	%	**30**	%	**31**	%
Total	**100**	%	**100**	%	**100**	%

1. Medicaid includes MA and out of state.
2. Includes Medicare and uncompensated care.

Source: Hospital Records

Managed Care Programs

Managed care organizations ("MCOs") are organizations that provide insurance coverage and a network of providers of medical services to members for a fixed monthly premium. To control costs, these organizations typically contract with hospitals, physicians, and other providers for discounted prices, review medical services to ensure that no unnecessary services are provided and create incentives for members to utilize providers within their network.

The Hospital has contracts with all the major MCOs in the region including, but not limited to, Blue Cross and Blue Shield of Massachusetts, Harvard Pilgrim Health Care, and Harvard Vanguard Medical Associates/HealthOne. In general, MCO agreements in Massachusetts do not involve exclusive or limited hospital networks; however, MCOs have begun to offer "tiering" products where a patient's out of pocket costs may fluctuate based on negotiated payment rates, volume and various quality or other utilization measures. MCOs pay hospitals on a "tiered" basis in order to create financial incentives for subscribers to utilize hospitals that their organizations view as preferable ("highly tiered") based on the organization's ranking of cost and quality. The subscribers would pay lower deductibles and/or co-payments, and ultimately shift volume to the highly tiered hospitals. Currently the impact of tiering on the Hospital is not significant, but may become so in the future. Payments to the Hospital for inpatient services under these contracts are based on either DRGs, negotiated per diems or discounted charges. Payments for outpatient services are on the basis of fee schedules or discounted charges. None of these contracts includes any downside risk-sharing arrangements based on costs, although some of the contracts now include quality-based incentives. The Hospital currently has no capitated arrangements; however, there can be no assurance that the Hospital will not negotiate capitated arrangements in the future.

Managed Care Contracting

In 1991, the acute care hospital industry payment system in Massachusetts was essentially deregulated by the passage of an act of the Massachusetts legislature known as Chapter 495. This legislation has resulted in significant changes and increased competition in the hospital marketplace, where all payors, other than Medicare, are free to negotiate private arrangements with separate hospitals. Management believes that competition between acute care hospitals will continue for the foreseeable future.

Services to health plan patients account for approximately 69% of all of Children's provided services in 2009. As of the fall of 2000, Children's began the process of developing a single joint contracting organization involving the PO and the Hospital. This organization is intended not only to take advantage of the synergies derived from combining the physician and hospital contracting departments, but also improve the contracting process. A second initiative, the creation of the Pediatric Physicians' Organization at Children's, has created contracting links with well-regarded primary care physicians in private practice.

Blue Cross and Blue Shield of Massachusetts, Inc.

The standard hospital contract between Children's and Blue Cross Blue Shield of Massachusetts, Inc. ("BCBSMA") generally calls for hospital inpatient payments under a DRG methodology (which involves a global payment for an inpatient stay based on the diagnosis at admission) and hospital outpatient payments on a discount from charges basis. Children's has agreements with BCBSMA for all of its product lines, including indemnity insurance, PPO and HMO products. Children's does not have any risk arrangements with BCBSMA.

Children's successfully negotiated with BCBSMA a contract through September 30, 2011.

Harvard Vanguard Medical Associates/Health One

Children's has a Preferred Provider Agreement contract with Harvard Vanguard Medical Associates/Health One ("HVMA") for all of HVMA's Blue Cross, Harvard Pilgrim Health Care, Tufts Health Plan and Neighborhood Health Plan at-risk covered lives. Under the agreement, the Hospital provides services to HVMA risk patients at a discounted rate of payment. HVMA risk patients accounted for 9% of total inpatient admissions in 2009. Children's and HVMA agreed to extend the agreement through calendar year 2010.

Harvard Pilgrim Health Care

Children's successfully negotiated a contract with Harvard Pilgrim Health Care ("HPHC") through September 30, 2012.

Other Managed Care Programs

Children's has also successfully renegotiated contracts with Tufts Health Plan through December 31, 2010, United Healthcare through September 30, 2010, and Cigna through September 30, 2012.

Medicaid

Under Title XIX of the Social Security Act ("SSA"), the Federal government provides matching funds to the Commonwealth for expenditures made under the Medical Assistance Program ("Medicaid"). EOHHS Office of Medicaid administers the Massachusetts Medicaid program, also known as MassHealth. MassHealth members ("MassHealth Members") may be enrolled in a plan administered by EOHHS or in one of five private plans or Medicaid MCOs.

Hospitals receive payments for MassHealth Members in a number of different ways. Medicaid rates for acute hospitals for MassHealth Members not enrolled in a MCO are set by non-negotiated contracts between the hospitals and EOHHS. For MassHealth Members enrolled in Medicaid MCOs, hospitals receive payments according to their contracts with MCOs or if there is no contract between a hospital and an MCO, according to the terms of the MCO contracts with EOHHS.

For services provided to MassHealth Members not enrolled in a Medicaid MCO, hospitals are generally paid a standard payment amount per inpatient discharge ("SPAD") for inpatient services and a payment amount per episode ("PAPE") for hospital outpatient services. Rates are published annually and apply to rate years beginning in October. Due to the Commonwealth's fiscal year 2009 budget, the SPAD rate to the Hospital was reduced effective December 7, 2008 by 9.18% and the PAPE was reduced by 2.42%. The Hospital received an adjustment of 12.11% to its SPAD rate for rate year 2010. EOHHS has extended rate year 2009 to October 31, 2009. The Rate Year 2010 Acute Hospital Request for Application became effective November 1, 2009 and included significant reductions to inpatient and outpatient rates and an increase in the amount associated with pay for performance initiatives that somewhat offset such reductions.

For hospital rate year 2010, MassHealth reimburses acute hospitals for inpatient admissions via a hospital-specific SPAD. This fixed rate represents payment in full for all non-physician inpatient services for the first 20 days of an admission. Each hospital's SPAD is derived from the statewide average hospital cost per admission in rate year 2005, standardized for case mix differences and area wage variation. An efficiency standard is determined by capping hospital costs, weighted by MassHealth discharges, at the 75% level of costs. The statewide average is adjusted for inflation and outliers. Costs EOHHS determines are routine outpatient costs associated with admissions from the emergency department and routine and ancillary outpatient costs resulting from admissions from observation status are included in the calculation of the statewide average hospital cost per admission. For each hospital, this statewide average is then adjusted for each hospital's wage area index and each hospital's specific case mix index. The paid claims of each hospital for patients transferred to another acute hospital (the "transfer per diem") are included in the calculation of each hospital specific case mix index.

Several categories of costs are directly passed through into the hospital's rate (that is, they are excluded from the statewide average and efficiency adjustments). Hospital-specific costs resulting from malpractice insurance and organ acquisition are treated as "passthrough." Capital payments are paid on a per-discharge basis, and are efficiency-adjusted. Costs are based on each hospital's fiscal year 2005 Massachusetts Division of Health Care Finance and Policy ("DHCFP") 403 Cost Report, updated for the hospital's case mix index and inflation to the current year. The calculation of the pass-through and capital payment amounts includes a determination of the MassHealth average length of stay ("ALOS"). The ALOS is based on data obtained by the DHCFP and includes all MassHealth inpatient days, including outlier days.

In addition to the SPAD, EOHHS pays on a per diem basis under certain circumstances. Psychiatric services delivered in Department of Mental Health-licensed psychiatric beds of acute hospitals are paid an all-inclusive statewide psychiatric per diem rate and acute hospitals are paid a rehabilitation per diem for services delivered in rehabilitation units. Services delivered to individuals who transfer among hospitals or among certain settings within a hospital, as well as inpatient outlier days, are paid per diem rates.

In fiscal year 2008, pursuant to Chapter 58 of the Acts of 2006, the MassHealth Pay-for-Performance Initiative ("Initiative") was established to improve health outcomes for MassHealth Members. Hospital were measured in the areas of maternity and newborns care, respiratory conditions, surgical care and practices to reduce racial and ethnic health disparities. Hospitals had to meet certain conditions of participation such as participation in a national patient safety initiative; submitting data that meets validation and submission requirements; and achieving quality standards and benchmarks on Pay for Performance ("P4P") measures. For rate year 2008, the State allocated a maximum of $20 million to this Initiative and paid out $14 million to qualifying hospitals, of which the Hospital received $0.5 million in P4P monies in its fiscal year 2010. For rate year 2009, the State allocated a maximum of $57.9 million to this Initiative and for rate year 2010, the State has allocated $100 million. For fiscal year 2011, the Governor has proposed to budget $75 million in P4P funds for hospitals, although he has proposed to delay the payments until rate year 2012 to allow more time to collect and analyze performance data. There can be no assurances of the level, if any, to be received by the Hospital from such funding. On a federal level, CMS has issued an initial set of recommended children's health care quality measures for voluntary use by state Medicaid program and the Children's Health Insurance Program ("CHIP"), as well as Medicaid and CHIP managed care plans and providers, as mandated by the Children's Health Insurance Reauthorization Act of 2010. The 24 measures include measures relating to the quality of prevention and health promotion services, management of acute and chronic conditions, family experience, and access to care. Although this initial set of recommended measures is voluntary, states are required to report the state-specific quality measures they use on an annual basis beginning September 30, 2010.

For MassHealth acute outpatient hospital services, the PAPE methodology establishes a hospital-specific episodic rate for most MassHealth acute outpatient hospital services. The hospital-specific PAPE is based on an outpatient standard payment adjusted for hospital-specific case mix. Certain services, including laboratory services, are carved out of the PAPE calculation and payment. Laboratory and other carve-out services are paid for in accordance with the applicable fee schedules adopted by DHCFP.

Calculation of the outpatient statewide standard is based on MassHealth payments for outpatient services in hospital rate year 2008, as adjusted by (1) including outlier payments, (2) excluding payments for laboratory services, and (3) bundling only services received on the same day. The result of this calculation is adjusted for inflation to obtain the outpatient statewide standard for hospital rate year 2010. The hospital-specific PAPE is determined by multiplying the outpatient statewide standard by each hospital's case mix index calculated by EOHHS.

Medicaid has also subcontracted for mental health services through a network contract with the Massachusetts Behavioral Health Partnership, of which Children's is a member. These contracts pay on the basis of discounted charges.

Hospitals may be reimbursed for physician services provided by hospital-based physicians. This reimbursement is the lower of the physician fee schedule established by DHCFP, the hospital's usual and customary charge, or 100% of the hospital's actual charge submitted. Under the national health reform legislation, states will be required to increase fee-for-

service and managed care payments for services provided by primary care physicians, including pediatricians, to at least 100% of the adjusted Medicare Part B rates for fiscal years 2013 and 2014.

As a pediatric hospital, Children's receives inpatient rates adjusted to take into account its unique services and is eligible for additional enhanced inpatient reimbursement (subject to legislative appropriation and other conditions). Children's is also eligible (subject to legislative appropriation and other conditions) for additional payments under the Medicaid disproportionate share program that address its provision of services to a disproportionately low-income population. In 2008, in connection with special Legislative appropriations, the Hospital received $7.1 million from the state Medicaid program in connection with the disproportionate share ("DSH") program. In 2009, the Hospital did not receive any disproportionate share payment.

Management expects that the Commonwealth will continue to modify and reduce funding for the Medicaid program. Recent changes include an elimination of disproportionate share hospital payments in 2009 and proposed elimination of direct medical education payments in 2010. Under the national health reform legislation, federal Medicaid DSH funds across all states will be cut by $18 billion over the period from 2014 through 2020. The impact on Massachusetts' program depends on how cuts are allocated to specific states, although the methodology to be adopted by the Secretary must take into account the extent to which Massachusetts uses a portion of its DSH allotment to fund the coverage expansion under the demonstration described below.

Under the national health reform legislation, federal efforts will be implemented to tie reimbursement to quality and coordination. Medicaid will not pay for inpatient hospital services related to health care-acquired conditions beginning July 1, 2011. In addition, Medicaid demonstrations will begin. Qualifying pediatric providers in participating states will be eligible to be recognized as pediatric accountable care organizations and to achieve incentive payments based on shared savings. The demonstration will run for five years, beginning on January 1, 2012. Other demonstrations include: a demonstration to bundle payments for hospitalization and physician services provided during the hospitalization beginning on January 1, 2012; a Medicaid Global Payments demonstration in up to five states from 2010 to 2012 under which a safety net hospital system could alter its provider payment system from fee-for-service to a capitated, global payment structure; and grants to establish Community-Based Collaborative Care Networks of providers to provide coordinated and comprehensive care to low-income patients. The national health reform legislation also creates a new Medicaid state plan option under which Medicaid enrollees with chronic conditions could designate a provider as their health home, including providers based at a hospital.

Also on the federal level, the newly created Medicaid and CHIP Payment Access Commission ("MACPAC") has been named and will begin to review several Medicaid policies and the impact on enrollee's access to care. The studies are expected review reimbursement rates paid to children's hospitals and pediatric specialty providers.

A portion of the Massachusetts Medicaid program operates as a demonstration program that has been granted waivers of certain federal Medicaid requirements. Originally approved in 1995, this demonstration program is currently effective through June 30, 2011. EOHHS submitted to CMS in March 2010 a further amendment to the waiver program, as described below. This program mandates that many Medicaid beneficiaries enroll in Medicaid managed care programs. EOHHS has contracted with MCOs to provide health care services to Medicaid beneficiaries who enroll in Medicaid managed care. Children's has several programs and many providers that are part of this network and also participates in other Medicaid managed care plans (such as Neighborhood Health Plan). Children's is seeking to increase its role as a participating provider in these programs. For fiscal year 2010, all MCOs will receive no inflationary increase from EOHHS.

In 2006, Massachusetts enacted a law intended to reform how the Commonwealth provides health care to uninsured and underinsured residents. Much of this law has been incorporated into the Medicaid demonstration program. The law expanded MassHealth eligibility, expanded premium subsidies through Medicaid, created new subsidized coverage called Commonwealth Care, and generally mandated insurance coverage subject to tax penalties (see "Sources of Patient Service Revenue - State Health Insurance Mandate"). In addition, the health reform law made significant changes to the Commonwealth's methodology for reimbursing hospitals for care to patients without insurance (see "Sources of Patient Service Revenue - State Health Insurance Mandate").

In March 2010, EOHHS submitted to CMS a proposed waiver amendment that, if enacted, could have an even more significant impact on reimbursement to hospitals. Consistent with the recommendations of the Massachusetts Special Commission on the Health Care Payment System and the Massachusetts Health Care Quality and Cost Council, Massachusetts would transition over five years to a system of global payments for healthcare providers. This would be accomplished through a framework of accountable care organizations ("ACOs") and an emphasis on the medical home model. All payors, both private and public (including Medicaid and Medicare), would be involved. During the implementation period, EOHHS has proposed a "Transitional Relief for Private Hospitals" ("TRPH") program meant to also assist hospitals during the economic downturn. The Commonwealth would provide $135 million in additional payments to all private hospitals for state fiscal years 2010 and 2011 through the Safety Net Care Pool, prioritizing those hospitals for which Medicaid and other state supported programs for low-income individuals represent a large share of total services delivered. At this time, it is uncertain whether and to what extent the Hospital will benefit from the TRPH program, if enacted. CMS approval and state legislation is required to enact these proposals.

Under the Stimulus Act, the Commonwealth is receiving an increased federal match for Medicaid expenditures. This increased federal match is set to expire at the end of calendar year 2012, unless current proposals to extend the enhanced funding through June 2011 as passed by Congress. The expiration of this enhanced funding could further stress the Commonwealth's fiscal situation. In addition, under the national health reform legislation, states are prohibited from reducing eligibility under their Medicaid programs until 2014, with limited exceptions for certain populations in states certifying that they are facing budget

deficits. This could further stress the Commonwealth's budget and lead to a risk of cuts to provider payments.

Also under national health reform, states must expand the Medicaid program to all individuals under 133% of poverty in 2014, and will receive enhanced federal assistance for expenditures for the newly-eligible. Massachusetts, given the coverage expansions already accomplished through state health reform, will be eligible for more limited assistance to so-called "expansion states" for populations up to 133% of poverty until 2020, at which point it will receive the same federal match percentage as other states. This could be a source of additional federal funding to the Commonwealth beginning in 2014. In the interim, however, the Commonwealth cannot reduce eligibility for its Medicaid program, which could create budget stress and cause the Commonwealth to consider other reductions, such as cuts to provider rates. Medicaid eligibility for children cannot be reduced until after 2019, which, while it could contribute to budget pressures, will also ensure continued coverage for the Hospital's patients.

As part of the Stimulus Act, the Hospital may be eligible for Medicaid incentive payments if it qualifies under CMS's regulations as a "meaningful user" of electronic health records ("EHR"). Payments may begin in fiscal year 2011, and in fiscal year 2010 in early-acting states, and providers only need to make efforts to meet eh meaningful use requirements to receive the first year of payments. Physicians and certain other professionals may also qualify for payments, although hospital-based physicians are not eligible. CMS published a proposed rule in late 2009 to define meaningful use of certified EHR technology and establish criteria for the incentives program. (see "Bondowners' Risks and Matters Affecting the Healthcare Industry – The American Recovery and Reinvestment Act of 2009" herein.)

Children's Health Insurance Program

MassHealth also includes individuals covered under CHIP. Under Title XXI of the SSA, the Commonwealth also receives matching funds from the federal government for expenditures under this program. National health reform preserves the CHIP program, provides greater federal funding assistance to states beginning in 2016, and prohibits states from reducing eligibility for children under CHIP through 2019.

Commercial Insurance

Commercial insurers negotiate contracts directly with hospitals. Under these contracts, commercial insurers make payments either directly or on behalf of self-funded employer accounts, health benefit plans or other entities, primarily on the basis of established and/or discounted charges for covered services. Patients carrying such coverage are generally responsible to the hospitals providing services for certain co-payments and deductibles.

Graduate Medical Education

In 2009, in connection with special federal appropriations, Children's Hospital received additional reimbursement in the amount of $21.3 million from the Federal Children's Hospital Graduate Medical Education Training Program established by the Health Research

and Quality Act of 1999. These additional funds are subject to appropriation and funding each year, and may not be funded in the future. In 2009, Congress provided $320 million for the Children's Hospital Graduate Medical Education Payment Program, and the President's fiscal year 2010 budget proposed $310 million, the same as the President's request in 2009. Children's estimates that it will receive approximately $18.9 million from these funds, but this funding is subject to reauthorization in fiscal year 2011. In 2009, Children's estimated a loss of approximately $3.9 million from the state Medical program due to elimination of payment for medical education. Funding for graduate medical education in future years is uncertain and has been the subject of significant differences in approach by various legislative and executive groups.

Medicare

Title XVIII of the SSA is designated "Health Insurance for the Elderly and Disabled" and is commonly known as Medicare. Medicare covers both hospital and physician services for eligible individuals who are elderly, disabled or subject to certain chronic conditions. Medicare pays acute care hospitals, such as Children's, for most general medical/surgical services provided to eligible inpatients. Because Children's is a pediatric hospital, Medicare accounts for less than 2% of patient revenue, primarily for treatment related to kidney failure and other chronic diseases, which are covered under the Medicare program.

Medicare generally pays acute care hospitals for covered services provided to eligible inpatients under a prospective payment system, whereby hospitals receive a predetermined amount for each Medicare discharge. Pediatric hospitals are exempt from the Medicare inpatient prospective payment system and continue to be reimbursed under rules established in the Tax Equity and Fiscal Responsibility Act. These rules allow for cost reimbursement, with certain exceptions, up to a hospital-specific per discharge cap. Children's allowable cost per discharge has not exceeded the cap. Children's receives reimbursement for its outpatient services based on its reasonable costs as determined by an annually filed cost report.

Over the past several years, various laws have modified Medicare payment methodologies and levels. The Balanced Budget Act of 1997 ("BBA") contains numerous provisions intended to reduce or contain Medicare expenditures for hospital services. The BBA has been generally viewed as an important factor in the adverse financial results experienced by many acute care hospitals. The Medicare, Medicaid and SCHIP Balanced Budget Retirement Act of 1999 and the Medicare, Medicaid and SCHIP Benefits Improvement and Protection Act of 2000 modified and delayed some of the reductions contained in the BBA. In December of 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. The legislation mandated substantial and wide ranging changes to the Medicare program including, 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. (See "Bondowners' Risks and Matters Affecting the

Healthcare Industry – Legislative, Regulatory and Contractual Matters Affecting Revenues"). The national health reform legislation includes significant changes to Medicare payment levels, including among other things, reductions to prospective payment system payments (which would not apply to children's hospitals) and a revised basis for payment rates to Medicare managed care plans. Of particular relevance to children's hospitals, national reform establishes a five-year 10% Medicare bonus for certain primary care services furnished by primary care physicians, including those in pediatric medicine, beginning January 1, 2011. The legislation also requires plans to be offered in a state's new health exchange, or in Massachusetts, the Health Connector, to cover all preventive services recommended with a grade of A or B by the U.S. Preventive Services Task Force without any cost sharing. (See "Bondowners' Risks and Matters Affecting the Healthcare Industry – National Health Reform"). If the all payor waiver that EOHHS has proposed is implemented, this would impact Medicare payment rates.

As part of the Stimulus Act, beginning in October 2010, the Hospital also will be eligible for Medicare incentive payments if it qualifies under CMS's regulations as a "meaningful user" of EHR. Beginning in fiscal year 2015, however, the Hospital will be penalized with reduced payment updates if it does not qualify under Medicare regulations as a meaningful EHR user. CMS published a proposed rule in late 2009 to define meaningful use of certified EHR technology and establish criteria for the incentives program. (see "Bondowners' Risks and Matters Affecting the Healthcare Industry – The American Recovery and Reinvestment Act of 2009" herein.)

State Health Insurance Mandate

During fiscal 2007, the Commonwealth of Massachusetts began enrollment by individuals in the new Commonwealth Connector Health Insurance Program product titled Commonwealth Care ("CCHIP"), which was created under Chapter 58 of the Acts of 2006, *"An Act Providing Access to Affordable, Quality, Accountable Health Care,"* or the "Massachusetts Health Care Reform Act." Individuals that do not qualify for existing federal or state programs and are within certain poverty guidelines can enroll in one of five Medicaid managed care plans offered in the Commonwealth. The Hospital has contracts with three MCOs that enroll CCHIP beneficiaries in the Hospital's service area, which pay the Hospital on a discount off charges methodology. However, included in this new legislation, are premiums, deductibles and coinsurance that CCHIP patients are required to pay but which may be uncollectible by the Hospital. The Commonwealth has recently reduced CCHIP coverage for legal immigrants, which could have an adverse impact on the Hospital's reimbursement rates with respect to its legal immigrant patient population.

On July 1, 2007, the Commonwealth also created a new Commonwealth Choice product for individuals whose income exceeds 300% of the federal poverty income guidelines. This is one of the mandates of the Massachusetts Health Care Reform Act, which penalizes individuals if they do not enroll in one of several health insurance plans. At this time, enrollment in this product has been modest but is expected to increase as the penalty for non-enrollment increases during the upcoming years. For 2007, the penalty for not having health coverage was $219, the value of an individual's personal exemption on the state income taxes. On January 1, 2008, the penalties added up one month at a time for lack of coverage.

The maximum individual penalty for 2008 was up to one-half of the cost of the Health Connector plan that is available in a person's income or age range. In 2009, the maximum individual tax penalty is $1,068. The full implication of the Massachusetts Health Care Reform Act will not be known for several years.

Free Care and Uncompensated Care

In past years, Massachusetts operated an Uncompensated Care Pool (the "Pool") to provide payments to assist hospitals in covering the costs of providing uncompensated care to low income and uninsured patients. The Pool was funded by payments from the Commonwealth (which were supported through federal matching funds), hospitals, employers and the insurance industry. Hospital payments into the Pool were based on a statewide rate applied to each hospital's private sector patient care gross revenues. Total funding for the Pool was capped and the cap varied from year to year. There was generally a shortfall in funding each year.

Effective October 1, 2007, the new Massachusetts Health Care Reform Act eliminated the Pool and replaced it with the Health Safety Net Fund (the "Fund"), located within the Office of Medicaid. Like the Pool, the purpose of the Fund is to maintain a health care safety net by reimbursing hospitals and community health centers for a portion of the cost of reimbursable services provided to low-income, uninsured or underinsured residents of the Commonwealth. Acute care hospitals must help fund the Fund with their liability to the Fund dependent on the ratio of the hospital private sector charges as compared to all hospitals' private sector charges, multiplied by the total liability established for all hospitals.

The implementation of the Massachusetts Health Care Reform Act is intended to reduce uncompensated care previously reimbursed through the Fund due to availability of health care insurance products to a substantial portion of the formerly uninsured population through CCHIP and Commonwealth Choice. Claims still eligible for Fund reimbursement are being priced based on a "Medicare like" payment methodology. During 2008, all hospitals were paid an interim payment amount for the first six months based on expected volume, and the second six months were paid on an actual claims basis. For fiscal year 2009, hospitals were reimbursed on a per discharge (inpatient) or per visit (outpatient) basis, based on actual claims submitted.

The Hospital received $0.8 million and $1.0 million in net receipts from the Fund for 2006 and 2007, respectively. For 2008 and 2009 the Hospital made a net payment of $4.3 million and $5.5 million, respectively, to the Fund. There can be no assurance of the level of such payments in the future. Adequate funding for the Fund has been an issue in the past and management expects it to continue in the future. Notwithstanding efforts to shift reliance for coverage of the poor from the Fund to other programs administered by the Commonwealth, funding for the Fund continues to be inadequate. To the extent that funding is inadequate, hospitals may be responsible for paying an increased portion of the Fund's shortfall. The Massachusetts Health Care Reform Act does, however, give discretion to the Commonwealth to move funding back to the Fund if individuals are not converting to the Commonwealth products as quickly as expected. The expansion of overall Commonwealth funding for health care reform is subject to annual appropriation as part of its budget process. The adoption by

the Commonwealth of changes in the operation and funding of the Fund, and of CCHIP programs and their effect on the Hospital cannot be predicted, but may be material.

Furthermore, as described in "Sources of Patient Service Revenue-Medicaid" above, under the health reform legislation, federal Medicaid DSH funds across all states will be cut by $18 billion over the period from 2014 through 2020. The impact on Massachusetts' program, and the resulting impact on monies available in the Fund, depends on how cuts are allocated to specific states, although the methodology to be adopted by the Secretary must take into account the extent to which Massachusetts uses a portion of its DSH allotment to fund the coverage expansion under its waiver.

Accruals for Estimated Amounts Due to Third Party Payors

There are third-party payment arrangements under which a cost report needs to be completed on an annual basis or there is an annual settlement associated with the terms of a specific contract. An annual cost report is required for both the Medicare program and for the state DHCFP and both of these cost reports are subject to an annual audit. For each of the specific payors who have annual settlement activity, reviews are performed to identify any changes in the rules and regulations of various payors, in their interpretation of such rules and regulations, and in the data used to estimate amounts due to third-parties. Based on these reviews, accruals for estimated settlements with Medicare and other third-party payors are established. The difference between the amount estimated and the actual final settlement is recorded as an adjustment to net patient service revenue; however, in the interpretation of rules and regulations changes are often retroactively effective and it is therefore difficult to predict accurately the level of net patient service revenue or third-party settlements. Children's recognizes changes in accounting estimates for net patient service revenue and third party settlements as new events occur, as more experience is acquired or as additional information is obtained. Management believes that adequate accruals for estimated settlements with third party payors have been established based on assumptions consistent with the current regulatory environment.

Accreditation and Memberships

Children's Hospital is licensed by the Massachusetts Department of Public Health ("DPH") and is accredited by The Joint Commission for a period of 39 months beginning November, 2009.

The Hospital is a member of the Massachusetts Hospital Association, American Hospital Association, The National Association of Children's Hospitals and Related Institutions, the Conference of Boston Teaching Hospitals, the Metropolitan Boston Hospital Council and the Council of Teaching Hospitals of the Association of American Medical Colleges.

The Accreditation Council programs of the American Medical Association accredit the Hospital for 36 Graduate Medical Education programs.

Insurance

The Hospital maintains a comprehensive insurance program. A summary of the major coverage is as follows:

General and Professional Liability

The Hospital and Medical Center maintain claims-made Commercial General Liability and Professional Liability (medical malpractice) coverage with Controlled Risk Insurance Company, Ltd. ("CRICO"). The Professional Liability primary coverage limits are $5 million for each claim and $10 million annual aggregate for individual medical personnel. The General Liability limits are $5 million for each claim with no annual aggregate limit. Additional coverage, which is shared by the CRICO member institutions, of $85 million is provided over commercial general liability and professional liability separately.

CRICO is a captive insurance company chartered in the Grand Cayman, British West Indies and Vermont, United States, which is jointly owned by Harvard University, ten of its affiliated medical institutions (including Children's) and the Massachusetts Institute of Technology. In addition to insuring its participating institutions, CRICO also insures nearly 11,000 physicians and dentists associated with those institutions.

Property

Comprehensive all risk coverage including business interruption coverage is maintained on all buildings and contents in the amount of $1 billion. The coverage is subject to a $100,000 deductible per occurrence for property damage, water damage, flood and earthquake.

Other Coverage

The Medical Center and its subsidiaries also maintain insurance coverage for the following: directors and officers' liability, environmental impairment liability, network security and privacy liability, fiduciary liability, crime, motor vehicle and garage-keepers liability, non-owned aircraft liability (with war coverage), bone marrow and excess workers' compensation.

LITIGATION

There is no litigation pending or threatened against the Hospital or the Medical Center (other than claims against which the Hospital and the Medical Center are fully insured) which, in the judgment of management, in the event of an adverse result, would adversely affect the Hospital's or Medical Center's ability to meet their respective obligations with respect to the Bonds.

BONDOWNERS' RISKS AND MATTERS AFFECTING THE HEALTHCARE INDUSTRY

In addition to the risks set forth in the forepart of this Official Statement, the following factors, among others, constitute risks with respect to the Bonds. The ability of the Hospital

to pay amounts due with respect to the Bonds is subject to significant risks relating to both the heath care industry generally and, more specifically, to the enforceability of the Master Trust Indenture and the Agreement against Members of the Obligated Group and the enforceability of the Guaranty against the Medical Center.

In General

Future revenues and expenses of the Hospital will be affected by events and conditions relating generally to, among other things, national health reform, demand for the services of the Hospital, the ability of the Hospital to provide the services required by patients, physicians' relationships with the Hospital, management capabilities, the correctness of the design and success of the Hospital's strategic plans, the degree of cooperation among and competition with other hospitals in the Hospital's area, changes in private philanthropy, malpractice claims and other litigation, economic developments in the Hospital's service area, the Hospital's ability to control expenses and maintain relationships with HMOs and other managed health care organizations and third-party payors, competition, rates, costs, third-party reimbursement, legislation, investment performance, and government regulation. While the Hospital reasonably expects to generate sufficient revenues in the future to cover its expenses, third-party payments, regulations, and contractual terms and provisions may change, and unanticipated events and circumstances may occur that cause variations from this expectation, and the variations may be material.

Accordingly, there can be no assurance that the financial condition of the Hospital and/or utilization of the Hospital's facilities will not be adversely affected, and there can be no guarantee that there will be sufficient revenues to make payments with respect to the Bonds. The following general factors, among others, could affect the level of revenues to the Hospital or its financial condition or otherwise result in risks for Bondowners in addition to the risks set forth in the Official Statement under "Bondowners' Risks" in the forepart hereof.

National Health Reform

On March 23, 2010, the President signed into law comprehensive health reform through the Patient Protection and Affordable Health Care Act (Pub. L. 111-148). On March 30, 2010, the President signed a budget reconciliation bill that included amendments to the prior legislation (Pub. L. 111-152). These laws in combination form the national health reform legislation. The final legislation and implementing regulations could have a material adverse effect on healthcare providers such as the Hospital and, in turn, the Hospital's ability to make payments under each Agreement. Given the many interconnected components of reform and its impact on both private and public insurance programs, it is difficult to predict whether the net impact will be positive or negative. It is further unknown how national reform will affect the significant reform efforts already undertaken at the state level. The provisions of the nation reform legislation are comprehensive and varied. They are generally directed at: implementing health insurance reforms; increasing health insurance coverage and reducing the number of uninsured; and reshaping the health care delivery system to increase quality and efficiency and reduce cost.

Some of the key coverage elements of the health reform legislation include: the development of state-based health insurance exchanges through which individuals and employers may purchase plans meeting federal requirements for affordability and benefits (in Massachusetts, the existing Health Connector will be grandfathered in); individual and employer mandates related to insurance coverage; subsidies to low-income individuals and small businesses for the purchase of health insurance coverage; mandatory expansion of the Medicaid program to all individuals under 133% of the federal poverty level (with voluntary expansion permitted in 2010) and enhanced assistance to states to finance the expansion, as well as more limited assistance to states like Massachusetts that have already undertaken such expansions; and expanded coverage in the Medicare Part D "donut hole." The ultimate provider rates under the exchange plans, the comprehensiveness of those plans, and the numbers of residual uninsured could all be of financial impact to the Hospital. Of particular significance to children's hospitals, the national health reform legislation requires exchange plans to cover all preventive services recommended with a grade of A or B by the U.S. Preventive Services Task Force without any cost sharing. Also, the insurance reforms require that individual and group health plans extend dependent care coverage to children up to 26 years of age, and prohibit exclusion based on pre-existing conditions initially for children up to age 19 beginning in 2010—provisions that may expand access to private insurance coverage for children.

The delivery system changes in the reform legislation, among other things, increasingly link provider payments to quality and coordination of care. Although not applicable to children's hospitals, hospitals will be subject to Medicare payment withholds or bonuses based on performance scores under a new value-based purchasing program, and hospitals with excess readmissions will face payment reductions. Under both Medicare and Medicaid, hospitals will not receive payments for certain hospital-acquired conditions, and hospitals with the highest rates of hospital-acquired conditions with be subject to Medicare payment penalties on all discharges. Of particular relevance to children's hospitals, national reform requires State Medicaid programs to increase fee-for-service and managed care payments for services provided by primary care physicians, including pediatricians, to at least 100% of the adjusted Medicare Part B rates for federal fiscal years 2013 and 2014. In addition, there will be opportunities to participate in pilot programs and demonstrations. Under Medicaid, qualifying pediatric providers in participating states will be eligible to be recognized as pediatric accountable care organizations and to achieve incentive payments based on shared savings. The demonstration will run for five years, beginning on January 1, 2012.

The legislation also codifies the eligibility of children's hospitals for discounts on outpatient drugs under the 340B Drug Discount Program, as was permitted by federal guidance issued in September 2009. The Hospital began participating in January 2010. However, under reform, orphan drugs are excluded from discounts and 340B-participating hospitals cannot use group purchasing arrangements to purchase those drugs, which could potentially limit the benefit to the Hospital. The Hospital could benefit if the program is ultimately expanded to inpatient pharmaceuticals, as was proposed but not ultimately enacted as part of national reform.

The national health reform legislation also implements significant changes to health care fraud and abuse laws that will intensify the risks and consequences of enforcement actions. These include expansion of the False Claims Act by: narrowing the public disclosure bar; explicitly stating that violations of the anti-kickback statute trigger false claims liability; and, applying the False Claims Act to payments under the new exchanges to the extent the payments are made with federal funds. In addition, the national health reform legislation lessens the intent requirements under the anti-kickback statute to provide that a person may violate the statue without knowledge or specific intent. The national health reform legislation also provides new funding and expanded powers to investigate fraud, including through expansion of the Medicare Recovery Audit Contractor program to Medicaid, as well as Medicare Parts C and D. The legislation creates enhanced penalties for noncompliance, including increase criminal penalties and expansion of administrative penalties under Medicare and Medicaid. Also of potential cost to the Hospital, all hospitals must establish and maintain compliance programs that satisfy certain federal requirements as a condition of enrollment in Medicare, Medicaid and CHIP.

Finally, several provisions included to fund the cost of health reform could have an adverse impact on provider payment rates. These include $18 billion in Medicaid DSH cuts from 2014 to 2020 (although it is not possible to determine the specific impact on the Hospital until CMS determines the allocation of cuts to each state and Massachusetts determines the allocation of remaining funds among providers). In addition, there will be a new Independent Payment Advisory Board that provides to Congress and the President annual recommendations on curtailing Medicare cost growth and non-binding recommendations on constraining costs and improving quality in the private sector. Reform also expanded the scope of the recently-appointed MACPAC from children to all Medicaid beneficiaries. MACPAC will begin to review several Medicaid policies and the impact on enrollee's access to care, including reimbursement rates paid to children's hospitals and pediatric specialty providers.

The impact of these wide-ranging reform initiatives and the mechanisms to finance them will be significant for the health care industry as a whole. The Hospital's management is not able to predict the effect of the health care reform legislation.

Economic Turmoil

The current economic turmoil has had and will continue to have negative repercussions upon the United States and global economies. In the last year or so, this turmoil has particularly affected the financial sector, prompting a number of banks and other financial institutions to seek additional capital, to merge, and, in some cases, to cease operating. These events collectively have led to a scarcity of credit, lack of confidence in the financial sector, volatility in the financial markets, fluctuations in interest rates, reduced economic activity, increased business failures and increased consumer and business bankruptcies.

Hospitals are required to provide emergency care without regard to a patient's ability to pay. Poor economic conditions and increased unemployment can enlarge the population that does not have health care coverage and thus cannot pay for care out-of-pocket, which in turn can increase the uncompensated care that the Hospital provides. Tax-exempt hospitals, in

particular, often treat large numbers of indigent patients who are unable to pay in full for their medical care. In addition, poor economic conditions and increased unemployment can lead patients to postpone or forego elective procedures, thereby reducing volume and revenue.

If the current economic turmoil continues and the economy further weakens, health care providers could be materially and adversely impacted in a number of ways, including reduced investment income, reduced philanthropic donations, reduced access to the credit markets, difficulties in obtaining new liquidity facilities or extensions of existing liquidity facilities, significant draws on internal liquidity due to difficulties with remarketing existing variable rate bonds and commercial paper, increase in bad debt expense and charity care write-offs, and increased borrowing costs, any of which may negatively affect the operations or financial condition of a provider.

President Obama recently signed into law economic recovery legislation that provides a temporary increase in federal Medicaid payments to the states, including Massachusetts, to enable states to maintain Medicaid benefits, as well as an increase in state DSH allotments allowing states to assist providers in continuing to care for the uninsured. The legislation also provides temporary federal subsidies to individuals who have lost their jobs to maintain their employer-based benefits through the Consolidated Omnibus Budget Reconciliation Act ("COBRA") program, which may help stem health insurance losses as a result of the economic turmoil.

Increased Competition

The Massachusetts health care industry is highly competitive, and in recent years many Massachusetts hospitals have merged, closed or affiliated with other hospitals in an effort to remain financially viable as growing health care delivery systems compete against each other and against non-hospital providers of health care services, including physician groups, specialty providers and other industry participants.

Within the acute care sector, many of the surviving hospitals have embarked on significant expansion and refurbishment projects to become more attractive to patients, to physicians who refer patients and to health plans that contract with hospitals on behalf of their enrollees. Hospitals are also expanding or reconfiguring their service lines in order to capture incremental market share, to enter potentially lucrative service lines or to reduce or limit services in service lines that generate losses. For example, the Massachusetts General Hospital developed its pediatric "hospital within a hospital" to compete with Children's in the late 1990s. In addition, a number of community hospitals have opened invasive cardiac surgery programs in the last few years that compete directly for cardiac cases formerly performed exclusively at academic medical centers.

Other forms of competition may affect the Hospital's ability to maintain or improve its market share, including increasing competition (i) with other hospitals for physician recruitment, (ii) from ambulatory care facilities, surgical centers, physician group practices, rehabilitation and therapy centers, home health agencies and other non-hospital providers of many services for which patients currently rely on the Hospital and (iii) between physicians

who generally use hospitals and non-physician practitioners such as nurse-midwives, nurse practitioners, chiropractors, physical and occupational therapists and others who may not generally use hospitals. The percentage of patients treated on an inpatient basis at hospitals has declined significantly in recent years, and as the percentage of patients treated on an outpatient basis has increased, hospitals have become subject to greater competition from providers who can offer care in less expensive settings.

Increased competition between acute care hospitals and the rise of increasingly large affiliated systems have affected the ability of hospitals to negotiate successfully with health plans. No assurance can be made that the Hospital will be able to obtain or maintain contracts with various health plans, or that if obtained, such contracts will be on financially viable or favorable terms.

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

Management believes that sustained growth in patient volume, together with firm cost controls and adequate payment rates from health plans and governmental sources, will be increasingly important as the health care environment becomes more competitive. There are many limitations on a provider's ability to increase volume, control costs, and obtain advantageous payment rates, and there can be no assurance that volume increases, expense reductions or rate increases needed to maintain the financial stability of the Hospital will occur.

Legislative, Regulatory and Contractual Matters Affecting Revenues

The Hospital is subject to a wide variety of federal and state regulatory actions and is dependent on governmental sources for a substantial portion of revenues. It is also subject to legislative and policy changes by the governmental and private agencies that administer Medicare, Medicaid, other third-party payors and governmental payors and actions by, among others, The Joint Commission, CMS, and other federal, state and local government agencies. These agencies have broad discretion to alter or eliminate programs that contribute significantly to revenues of the Hospital.

In the past, there have been frequent and significant changes in the methods and standards used by government agencies to compensate and to regulate the operations of hospitals. There is reason to believe such legislative bodies may enact legislation that imposes significant new burdens on the operations of the Hospital in the future. Legislation is periodically introduced in Congress and in the Massachusetts legislature that could result in limitations on hospital revenues, third-party payments and costs or charges, or that could require an increase in the quantity of indigent care required to maintain the Hospital members' tax-exempt status, or that could eliminate such status altogether regardless of the level of indigent care. From time to time, legislative proposals are made at the federal and state level to engage in broader reform of the health care industry, including proposals to

promote competition in the health care industry, to mandate minimum nurse to patient ratios, to contain health care costs, to provide universal health insurance and to impose additional requirements and restrictions on health care insurers, providers and other health care entities. In April 2006, the Commonwealth adopted new legislation that significantly changed the Medicaid program in Massachusetts, and a newly-proposed amendment could result in significant additional changes, if implemented (see "Sources of Patient Service Revenue"). Finally, the national health reform passed by Congress is likely to have a significant impact on the Hospital. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental agencies to promulgate regulatory changes) that adversely affect the Hospital. Further, the Hospital receives a significant amount of funding from NIH. A substantial decrease in such funding could have a material adverse effect on the Hospital.

Governmental and Other Oversight Agencies

Currently, the Commonwealth, like several other states, is experiencing financial difficulties, and has had to reduce budgeted spending despite the significant expansion of its communities under the Massachusetts Health Care Reform Act. If these factors continue or escalate in severity, the impact on health care providers could be material. Restrictive policies and budget cuts at both the state and federal level have contributed to declining revenues and operating losses for many Massachusetts hospitals. Viability of the Massachusetts health care reform legislation is dependent upon appropriations from the Massachusetts general fund and on federal financial participation (see "Sources of Patient Service Revenue").

The Hospital also is subject to regulatory and administrative actions by those governmental and private entities that administer the federal health programs and by DPH, the Commonwealth's DHCFP, the FDA, the Department of Labor, the National Labor Relations Board, The Joint Commission, and other federal, state and local government agencies and private bodies. Actions of these organizations could adversely affect future operations of the Hospital. Renewal and continuation of the Hospital's operating licenses, certifications and accreditations are based on inspections, surveys, investigations and other reviews, some of which may require or include affirmative action or response by the Hospital. These activities are conducted in the normal course of business of health facilities, both in connection with periodic renewals and in response to specific complaints, which may be made to governmental agencies, private agencies or even the media by patients, ombudsmen or employees, among others.

The Hospital has received, from time to time, subpoenas, civil investigatory demands or other formal inquiries from state and federal governmental agencies or investigators. It is often impossible to determine the specific nature of the investigation or whether the Hospital might have any potential liability under a cause of action that might subsequently be asserted by the government. Moreover, the Hospital is generally not informed when such investigations are resolved without the assertion of any claims. Management considers these investigations to be a routine part of operations in the current health care climate, and expects them to continue in the future.

The Hospital is also subject to Recovery Audit Contractor ("RAC") audits under a program originally established under section 306 of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"). RACs are private companies that contract with CMS on a contingency fee basis to conduct audits of claims and to identify and correct Medicare overpayments. RAC review is not intended to replace the level of analysis conducted by the Medicare Administrative Contractors; rather, it creates a supplemental level of review. The RAC program is intended to detect and correct improper Medicare payments by reviewing claims data received from a hospital's fiscal intermediary every 45 days. The RAC auditors are authorized to look back three years from the date the claim was paid, but in no event earlier than October 1, 2007, and to review the appropriateness of each claim by applying the same standards and guidance as would a Medicare contractor at the time. A hospital's failure to submit a requested medical record to a RAC within 45 days, absent good cause for delay, results in disallowance of a claim and demand for recoupment of any reimbursement paid. The Tax Relief and Health Care Act of 2006 has since required the expansion of the RAC program to all 50 states by 2010. CMS created a three year demonstration project, which began on July 1, 2007 in Massachusetts, to audit claims from fiscal year 2004 through 2007. The results for the Hospital's demonstration audit were less than $30,000. In addition, the national health reform legislation expands the RAC program to Medicaid (and Medicare Parts C and D) by 2011. The impact of the future audits under the RAC program on the Hospital may be significant.

General Economic Conditions; Bad Debt and Indigent Care

The financial results of hospitals are influenced by the economic health of the regions in which they are located. To the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local hospitals to increase free care. This problem is particularly acute for Children's, which derived approximately 28% of its gross patient service revenue from Medicaid in 2009. Economic downturns and lower funding of state Medicaid and other state health care programs may increase the number of patients treated by hospitals who are uninsured or otherwise unable to pay for some or all of their care. These conditions may cause increases of bad debt and indigent care utilization. At the same time, non-operating revenue from investments may be reduced or eliminated during negative economic cycles and philanthropy may decline. These factors may have a material adverse impact on hospitals. Note, however, that insurance coverage and affordability provisions in the national health reform legislation could result in a further reduction in uninsured in 2019, which could decrease bad debt and indigent care utilization.

State Budgets

Many states, including Massachusetts, face severe financial challenges that have resulted in a shortfall between revenue and spending demands. The Commonwealth faces a significant gap between expected level of tax revenues and projected expenditures for fiscal year 2010. The financial challenges facing the Commonwealth may negatively affect health care providers 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 all Medicaid programs or Massachusetts Health Safety Net Programs and reductions in such programs' payment rates.

Non-profit Health Care Environment

As a non-profit tax-exempt organization, the Hospital 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 Hospital conducts large-scale complex business transactions and is a significant employer in its geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex health care organization.

Recently, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for non-profit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service ("IRS"), labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others, congressional hearings, IRS examination of compensation practices, litigation relating to billing and collection practice and challenges to real property tax exemptions.

Congressional Hearings

Senate and House committees have conducted several nationwide investigations of hospital billing and collection practices and prices charged to uninsured patients and have considered reforms to the nonprofit sector, including proposed reform in the area of tax-exempt health care organizations as part of health care reform generally (see "Internal Revenue Service Examination of Compensation Practices and Community Benefit" below).

Bond Examinations

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. In addition, in 2007 the IRS sent approximately two hundred post-issuance compliance questionnaires to nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the nonprofit corporation's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education. In September 2008, the IRS issued an interim report analyzing the responses from the completed questionnaires. The report indicates that there are significant gaps in the implementation by nonprofit corporations of post-issuance and record retention procedures

for tax-exempt bonds. IRS representatives indicate that after analyzing responses from the first set of questionnaires, thousands more will be sent.

Revision of IRS Form 990 for Nonprofit Corporations

The IRS Form 990 is used by 501(c)(3) not-for-profit organizations (including the Hospital) to submit information required by the federal government for tax exemption. The revised Form 990 requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The revised form also requires the disclosure of a significantly greater amount of both hard data and anecdotal information on community benefit information on Schedule H to the Form, and establishes uniform standards for reporting of information relating to tax exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The redesigned Form 990 is intended to result in enhanced transparency as to the operations of exempt organizations. It is also likely to result in enhanced enforcement, as the redesigned Form 990 will make a wealth of detailed information on compliance risk areas available to the IRS and other enforcement agencies. At this time it is difficult to predict the additional burden that completion of the revised Form 990 may place on the Hospital and its operations.

Internal Revenue Service Examination of Compensation Practices and Community Benefit

In 2004, the IRS began a new compliance program to measure compliance by tax-exempt organizations with requirements that they not pay excessive compensation and benefits to their officers and other insiders. In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "IRS Final Report") that examined tax-exempt hospitals' practices and procedures with regard to compensation and benefits paid to their officers and other defined "insiders." The IRS Final Report indicates that the IRS (1) will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations; and (2) in certain circumstances, may conduct further investigations or impose fines on such organizations.

The IRS has also undertaken a community benefit initiative directed at hospitals. The most recent IRS report on this initiative determined that a lack of uniformity in definitions of community benefit used by reporting hospitals, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether any particular hospital is in compliance with current law. The revised Form 990 includes a new schedule, Schedule H, which hospitals must use to report their community benefit activities, including the cost of providing charity care and other tax-exemption related information. Proposals have also been made within Congressional committee to codify the requirements for hospitals' tax-exempt status, including requirements to conduct a regular community needs analysis and to provide minimum levels of charity care.

The national health reform legislation imposes four new requirements on non-profit hospitals in order to maintain their tax-exempt status. First, each hospital must conduct a community health needs assessment at least once every three taxable years and adopt an implementation strategy to meet the needs identified, or be subject to an excise tax penalty of $50,000. Hospitals must complete the first community health needs assessment by the end of the taxable year beginning after March 23, 2012, and disclose a summary of the assessment and implementation strategy and audited financial statements on the IRS Form 990. The Secretary of the Treasury must review the community benefit activities of each tax-exempt hospital at least once every three years. Second, each hospital must adopt, implement and publicize a policy a financial assistance policy. Third, hospitals must limit the charges for emergency or other medically necessary care provided to individuals eligible for assistance under the financial assistance policy to not more than the amounts generally billed to individuals who have insurance that covers such care. Finally, a hospital may not engage in extraordinary collection actions before making reasonable efforts to determine whether an individual is eligible for assistance under the organization's financial assistance policy.

Litigation Relating to Billing and Collection Practices

Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Many of these cases have since been dismissed by the courts but a number of cases are still pending in various courts around the country with inconsistent results. While it is not possible to make general predictions, some hospitals and health systems have entered into substantial settlements.

Challenges to Real Property Tax Exemptions

Recently, the real property tax exemptions afforded to certain non-profit health care providers by state and local taxing authorities have been challenged in other states on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. In a recent decision in Illinois, the denial of real property tax exemption for a non-profit hospital has been upheld by the state's highest court.

The American Recovery and Reinvestment Act of 2009

The Stimulus Act includes several provisions that are intended to provide financial relief to the health care sector, including $86.6 billion in federal payments to states to fund the Medicaid program and $24.7 billion to provide a 65% subsidy to the recently unemployed for health insurance premium costs. The Stimulus Act also includes: $19 billion to establish a framework for the implementation of a nationally-based health information technology ("HIT") program, including incentive payments to hospitals commencing fiscal year 2011; $10 billion for health research and construction of NIH facilities; and $1 billion for prevention and wellness programs. As a component of the federal objective of implementing EHRs for all Americans by 2014, the Health Information Technology for Economic and

Clinical Health Act ("HITECH Act") included in the Stimulus Act requires the development of regulations to establish HIT standards to which the Hospital physicians and acute care hospitals will be subject. Compliant physicians and acute care hospitals that are also "meaningful users" of EHRs will be eligible for Medicare and Medicaid incentive payments generally beginning in fiscal year 2011. However, physicians must choose between receiving payments through the Medicare or Medicare program, and hospital-based physicians are not eligible for the incentives. Hospitals and eligible physicians that do not comply will face Medicare penalties beginning in fiscal year 2015. The effect of the Stimulus Act and any future regulatory actions on the Hospital cannot be determined at this time.

In addition, the Stimulus Act provided substantial assistance to Medicaid programs through enhanced federal medical assistance percentages, which determine the federal and state share of the Medicaid program. The expiration of the enhanced Medicaid funding at the end of December 2010, unless current Congressional proposals to extend the enhancement through June 2011 are passed, could have a significant adverse affect on the Commonwealth's fiscal status.

Payment for Uncompensated Care

As discussed under "Sources of Patient Service Revenue" herein, the Commonwealth operates the Fund, (formerly known as the Uncompensated Care Pool), which is funded by payments from hospitals, insurance companies and the Commonwealth. Funding for the Fund has been an issue in the past and, to the extent that funding is inadequate in the future, this could have an adverse effect on the Hospital.

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

to increase in the hospital sector. See "Bondowners' Risks and Matters Affecting the Health Care Industry - National Health Reform" for expansion of fraud and abuse liabilities and enforcement under health reform.

Federal Fraud and Abuse Liability of Health Care Providers

Both individuals and organizations are subject to prosecution under the criminal and civil fraud and abuse statutes relating to health care providers. The sentencing of organizations for federal health care crimes is governed by the U.S. Sentencing Guidelines, which permit the imposition of substantial fines, but which permit the fine to be reduced significantly if the provider had in place at the time of the crime an effective corporate compliance program and/or accepts responsibility for its actions. Criminal conviction for an offense related to a health care provider's participation in the Medicare program results in the provider's exclusion and debarment from all government programs; exclusion may also result from other types of health care fraud convictions. Exclusion from the Medicare or other federal or state funded program would have a material adverse effect on the Hospital's financial condition.

False Claims Act

The criminal False Claims Act ("criminal FCA") makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government. Violation of the criminal FCA can result in imprisonment and/or a fine. The civil False Claims Act ("civil FCA"), one of the government's primary weapons against health care fraud, allows the United States government to recover significant damages from persons or entities that submit fraudulent claims for payment to any federal agency through actions taken by the United States Attorney's Office or the Department of Justice. The civil FCA also permits individuals to initiate actions on behalf of the government in lawsuits called *qui tam* actions. These *qui tam* plaintiffs, or "whistleblowers," can share in the damages recovered by the government.

Under the civil FCA, health care providers may be liable if they take steps to obtain improper payments from the government by submitting false claims. Civil FCA violations have been alleged solely on the existence of alleged kickback or self-referral arrangements. Even in the absence of evidence that literally false claims have been submitted, these cases argue that the improper business relationship tainted the subsequently submitted claims, thereby rendering the claims false under the civil FCA. Other civil FCA cases have proceeded on a theory that providers are liable for the submission of false claims when they are not in full compliance with applicable legal and regulatory standards. It is impossible to predict with certainty whether courts will uniformly hold that regulatory non-compliance and anti-kickback or self-referral violations are subject to prosecutions as false claims. If a provider is faced with a civil FCA prosecution based on one of these theories, however, allocation of the funds required to contest or settle the matter could have a material adverse impact on that provider and, potentially, its affiliates.

Violations of the civil FCA can result in penalties up to triple the actual damages incurred by the government and also monetary penalties. To avoid or reduce civil FCA liability, health

care providers may choose to maintain a corporate culture of compliance with all applicable legal requirements, establish systems that enable them to learn of potential problems before a *qui tam* plaintiff files suit, consider making voluntary disclosures of information to the government if they discover wrongdoing or attempt to persuade the government not to proceed by cooperating with the government's investigation.

Massachusetts, like many other states, has a state false claims act modeled on the federal statute.

Anti-Kickback Law

The federal Anti-Kickback Law is a criminal statute that prohibits anyone from knowingly or willfully soliciting, receiving, offering or paying any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, in return for a referral (or to induce a referral) for any item or service that is covered by any federal or state health care program. The Anti-Kickback Law applies to virtually every person and entity with which a hospital does business. Activities subject to the Anti-Kickback Law include almost any arrangement between a hospital and a person or entity in a position to generate business for the hospital or benefit from business from the hospital. Such arrangements may involve physicians (e.g., practice acquisitions, physician recruiting and retention programs, various forms of hospital assistance to individual physicians, medical practices or physician contracting entities, physician referral services, hospital-physician service or management contracts, and space or equipment rentals between hospitals and physicians), other providers or suppliers (e.g., referral arrangements with nursing homes or home health agencies), or vendors. In recent years, the Anti-Kickback Law has been aggressively enforced. Health care providers, their subsidiaries, affiliates and physicians all have some exposure relating to the Anti-Kickback Law.

Violation of the Anti-Kickback Law is a felony, subject to a maximum fine of $25,000 for each criminal act, imprisonment for up to five years and exclusion from the Medicare and Medicaid programs. The Office of the Inspector General ("OIG"), the enforcement arm of DHHS, can also initiate an administrative exclusion of a provider from the Medicare and Medicaid programs. In addition, civil monetary penalties of $50,000 for each act in violation of the Anti-Kickback Law or damages equal to three times the amount of prohibited remuneration may be imposed. These penalties may be applied to many cases in which hospitals and physicians conduct joint business activities including: practice acquisitions; physician recruiting and retention programs; various forms of hospital assistance to individual physicians, medical practices or physician contracting entities; physician referral services; hospital-physician service or management contracts; and space or equipment rentals between hospitals and physicians.

The outcome of any government efforts to enforce the Anti-Kickback Law against health care providers is difficult to predict due, in part, to government discretion in pursuing enforcement and the lack of significant case law. Health care providers may act to reduce their financial exposure for Anti-Kickback violations through prompt repayment of sums received as a result of inaccurate claims, prompt voluntary reporting to the government of

illegal arrangements, implementation of effective corporate compliance programs and by taking steps to require that their subsidiaries and affiliates do the same.

Stark Referral Law

The federal Stark statute prohibits the referral of Medicare and Medicaid patients for certain "designated health services" (including inpatient and outpatient hospital services, home health services, clinical laboratory services, radiology services and radiation therapy services and supplies, physical and occupational therapy, outpatient prescription drugs, and durable medical equipment and supplies) to entities with which the referring physician or an immediate family member has a financial relationship. The statute also prohibits the entity furnishing the "designated health services" from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The statute is a "strict liability" statute, which means that the government does not need to prove that the entity knew that the referral was prohibited or intended to engage in a prohibited financial relationship in order to establish a Stark violation. Most providers of "designated health services" with physician relationships have some exposure to liability under the Stark statute. A financial relationship includes both ownership or investment interests in the entities and compensation arrangements between the physician (or immediate family member) and the entities. Many ordinary business practices and economically desirable arrangements with physicians would constitute "financial relationships" within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. There are certain statutory and regulatory exceptions to the statutory prohibition, but these exceptions are narrow and an arrangement must fully comply with the exception.

Upon determination that there is a Stark violation, a Medicare carrier or intermediary must deny payment of the affected claims, and the entity providing the designated health services must refund the amounts collected from the Medicare program and any other payor or for services rendered pursuant to the prohibited referral. Further, DHHS may seek civil monetary penalties. Additionally, the entity may be liable to pay an assessment of up to three times the payment for prohibited referrals and may be excluded from the Medicare and Medicaid programs. Such enforcement actions would have a material adverse impact on the financial condition of a health care provider, including the Hospital. Providers may act to reduce their exposure for Stark violations by establishing an effective corporate compliance program that periodically reviews hospital-physician relationships for compliance with Stark, promptly returning to the government any payments received by way of illegal referrals and responding in an effective manner to complaints regarding prohibited referrals or financial arrangements that would trigger the Stark prohibitions.

EMTALA

In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"), the so-called "anti-dumping" statute. EMTALA requires hospitals with emergency rooms, including those of the Hospital, to treat or conduct an appropriate and uniform medical screening for emergency

conditions (including active labor) on all patients and to stabilize a patient's emergency medical condition before releasing, discharging or transferring the patient to another hospital. A hospital that violates EMTALA is subject to civil penalties of up to $50,000 per offense and exclusion from the Medicare and Medicaid programs. In addition, the hospital is liable for any claim by an individual who has suffered harm as a result of such violation.

Administrative Enforcement

As with civil laws, administrative regulations require a relatively low standard of proof of a violation, and thus, health care providers have a high risk of imposition of monetary penalties as a result of an administrative enforcement action.

Civil Monetary Penalty Act

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

Health care providers may be found liable under the CMPA even when they did not have actual knowledge of the impropriety of their action. Knowingly undertaking the action is sufficient. Ignorance of the Medicare regulations is no defense. The imposition of civil money penalties on a health care provider could have a material adverse impact on the provider's financial condition.

HIPAA

The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established 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, securities, premiums, credits, property, or other assets of a health care benefit program. A health care provider convicted of health care fraud would be subject to mandatory exclusion from the Medicare program.

HIPAA also required DHHS to adopt national standards for electronic health care transactions, including federal privacy standards for the protection of health information kept by health care providers, among others, that conduct certain financial and administrative transactions electronically (the "Privacy Rule") and standards relating to the security of such health information (the "Security Rule"). Compliance with the requirements of the Privacy

Rule, the Security Rule and other HIPAA requirements has required the Obligated Group to develop and use policies and procedures designed to inform patients about their privacy rights and how their protected health information may be used, to keep protected information secure, to train employees so that they understand the privacy procedures and practices of the Obligated Group and to designate a privacy officer responsible for seeing that privacy procedures are adopted and followed. HIPAA imposes civil monetary penalties and criminal penalties for knowingly obtaining or using individually identifiable health information.

On February 17, 2009, President Obama signed into law the HITECH Act, which is part of the Stimulus Act. The HITECH Act expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) extending the reach of the Privacy Rule and Security Rule to business associates, (ii) imposing a written notice obligation upon covered entities for security breaches involving "unsecured" protected health information, (iii) limiting certain uses and disclosures of protected health information, (iv) increasing individuals' rights with respect to protected health information, (v) increasing penalties for violations, and (vi) providing for enforcement of violations by State attorneys general. Many of the HITECH Act's provisions became effective on February 17, 2010, but other provisions require implementing regulations and may become effective at some point in 2011 or thereafter. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the Obligated Group.

Security Breaches and Unauthorized Releases of Personal Information

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

Exclusions from Medicare or Medicaid Participation

The Secretary of DHHS is required to exclude from governmental program participation (including Medicare and Medicaid) for not less than five years any individual or entity who has been convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against

any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The Secretary of DHHS also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, theft, embezzlement, breach of fiduciary duty or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program.

Enforcement Activity

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

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

Increased Enforcement Affecting Academic Research

In addition to increasing enforcement of laws governing payment and reimbursement, the federal government has also increased enforcement of laws and regulations governing the conduct of clinical trials at hospitals. In recent years, DHHS elevated and strengthened its Office of Human Research Protection, one of the agencies with responsibility for monitoring federally funded research. In addition, the NIH significantly increased the number of facility inspections that these agencies perform. The FDA also has authority over the conduct of clinical trials performed in hospitals when these trials are conducted on behalf of sponsors seeking FDA approval to market the drug or device that is the subject of the research. Moreover, the OIG, in its recent "Work Plans" has included several enforcement initiatives related to reimbursement for experimental drugs and devices (including kickback concerns) and has issued compliance program guidance directed at recipients of extramural research awards from the NIH and other agencies of the U.S. Public Health Service. The Hospital receives payments for health care items and services under many of these grants and is subject to complex and ambiguous coverage principles and rules governing billing for items or services it provides to patients participating in clinical trials funded by governmental agencies and private sponsors. These agencies' enforcement powers range from substantial fines and penalties to exclusion of researchers and suspension or termination of entire

research programs. Errors in billing of the Medicare program for care provided to patients enrolled in clinical trials that is not eligible for Medicare reimbursement can subject the Hospital to sanctions as well as repayment obligations.

OIG Compliance Guidelines

In 1998, the OIG published Compliance Program Guidance for the hospital industry which it supplemented in 2005 with the publication of the Supplemental Compliance Program Guidance. These issuances (collectively, the "OIG Guidances") provide recommendations to hospitals for adopting and implementing effective programs to promote compliance with applicable Federal and state law and the program requirements of Federal, state, and private health plans, and they include a discussion of significant risk areas for hospitals. Compliance with the OIG Guidances is voluntary but is nevertheless an important factor in controlling risk because the OIG will consider the existence of an effective compliance program that pre-dated any governmental investigation when addressing the appropriateness of administrative penalties. However, the presence of a compliance program is not an assurance that healthcare providers, such as the Hospital, will not be investigated by one or more Federal or state agencies that enforce healthcare fraud and abuse laws or that they will not be required to make repayments to various healthcare insurers (including the Medicare and/or Medicaid programs). The Federal Deficit Reduction Act of 2005 added specific requirements effective January 1, 2007. Those requirements include creating a Medicaid Compliance Plan, as well as educating staff, agents and contractors about state and Federal anti-fraud and abuse laws. Having a Medicaid Compliance Plan is a prerequisite to entitlement to receive Medicaid payments.

Limitations on Contractual and Other Arrangements with Physicians Imposed by the Internal Revenue Code

Third-party reimbursement methodologies create financial incentives for hospitals to recruit and retain physicians who will admit patients and utilize hospital services. The Hospital's use of these incentives is limited, however, by legal restrictions, including limitations with respect to permitted activities of tax-exempt organizations. As a tax-exempt organization, a hospital is limited with respect to its use of practice income guarantees, reduced rent on medical office space, below market-rate loans, joint venture programs and other means of recruiting and retaining physicians. The IRS has intensified its scrutiny of a broad variety of contractual relationships commonly entered into by hospitals, including the issuance of detailed hospital audit guidelines and the commencement of intensive audits of selected health care providers to determine whether the activities of these providers are consistent with their continued tax-exempt status. The IRS has also indicated that, in certain circumstances, violation of the Anti-Kickback Law could constitute grounds for revocation of a hospital's tax-exempt status.

The Hospital, like many health care providers, may have entered into arrangements, directly or through affiliates, with physicians that are of the kind that the IRS has indicated it will examine in connection with audits of tax-exempt hospitals. Any suspension, limitation or revocation of the Hospital's tax-exempt status or assessment of significant tax liability could

have a materially adverse effect on the Hospital and might lead to loss of tax exemption of interest on the Bonds.

Revocation of Tax Exemption; Private Inurement

Revocation of the tax-exempt status of the Hospital under Section 501(c)(3) of the Internal Revenue Code could subject the interest paid to Bondowners to federal income tax retroactively to the date of issuance of the Bonds. Section 501(c)(3) of the Internal Revenue Code specifically conditions the continuing exemption of all organizations described in such section upon the requirement, among others, that no part of the net earnings of the organization inure to the benefit of any private individual. Any violation of the prohibition against private inurement may cause the organization to lose its status as tax-exempt under Section 501(c)(3). The IRS has issued guidance in informal private letter rulings and general counsel memoranda on some situations that give rise to private inurement, but there is no definitive body of law, regulations or public advisory rulings that address many common arrangements between exempt hospitals and non-exempt individuals or entities.

Intermediate sanctions legislation enacted in 1996 imposes penalty excise taxes in cases where an exempt organization is found to have engaged in an "excess benefit transaction" with a "disqualified person." Such penalty excise taxes may be imposed in lieu of revocation of exemption or in addition to such revocation in cases where the magnitude or nature of the excess benefit calls into question whether the organization functions as a public charity. The tax is imposed both on the "disqualified person" receiving such excess benefit and on any officer, director, trustee or other person having similar powers or responsibilities who participated in the transaction willfully or without reasonable cause, knowing it to involve "excess benefit." "Excess benefit transactions" include transactions in which a "disqualified person" receives unreasonable compensation for services or receives other economic benefit from the organization that either exceeds fair value or is determined in sole or in part by the revenues of one or more activities of such organization. "Disqualified persons" include "insiders" such as board members, officers, and senior management.

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

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, and a requirement that the Authority file an information report with the IRS. The Hospital has covenanted in certain of the documents referred to herein that it will comply with such requirements. Future failure by the Hospital 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.

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.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, acquisition and affiliation activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is still evolving, and enforcement activity appears to be increasing. 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. The most common areas of potential liability are joint action among providers with respect to payor contracting, medical staff credentialing, merger, acquisition and affiliation activity and use of a hospital's local market power for entry into related health care businesses. From time to time, the Hospital is or may be involved with all of these types of activities. In general, it cannot be predicted when or to what extent liability, if any, may arise. Liability in any of these or other trade regulation areas may be substantial, depending upon the facts and circumstances of each case. With respect to payor contracting, the Hospital may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters which may change from time to time.

If any medical group or other provider with which the Hospital becomes affiliated is determined to have violated the antitrust laws, the Hospital also may be subject to liability as a joint actor or the value of any investment in such group or provider may be affected. Physicians who are subject to adverse peer review proceedings may file federal antitrust actions against hospitals and seek treble damages. Hospitals regularly have disputes with physicians regarding credentialing and peer review and, therefore, may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities and also may be liable with respect to such indemnity. Recent court decisions also have established private causes of action against hospitals that use their local market power to promote ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers business damage.

Nursing Shortages

The shortage of nurses that had existed for several years and was projected to intensify in the coming years due to the retirements of "baby boomers," has eased somewhat due to the economic crisis that began in September 2008. However, when the economy improves, this interruption is expected to end, and it is predicted that the health care professionals labor market will return to the critical shortage situation it has been in for many years.

Labor Relations and Collective Bargaining

Hospitals and other health care providers often are large employers with a wide diversity of employees. Increasingly, employees of hospitals and other providers are becoming unionized, and many hospitals and other providers have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to the affected members. In addition, employee strikes or other adverse labor actions may have an adverse impact on the Hospital.

During 2005, the 1199 Service Employees International Union United Healthcare Workers East ("SEIU 1199") began a heavily publicized effort to increase union representation of Massachusetts hospital workers. SEIU 1199 merged with a Massachusetts based SEIU local unit, but is controlled primarily from New York State and is reported publicly to have an annual organizing budget of $20 million. In 2009, SEIU won three elections within the Caritas Christi Health System to represent technical and other employees at St. Elizabeth's, Carney and Norwood Hospitals. Unionization of hospital workers may result in higher labor costs and is likely to result in less flexible work environments, which may in turn lead to higher expenses for hospitals with unionized work forces. Any increased unionization of the Hospital by SEIU 1199 or other collective bargaining organizations could have a material adverse effect on the Hospital.

Determination of Need Restrictions; Limits on Reduction of "Essential Services"

The Commonwealth maintains a Determination of Need ("DON") program pursuant to which health care facilities, including acute care hospitals, are required to obtain state approval before expending funds in excess of a specified dollar threshold on capital projects or offering certain innovative services or new technologies. With respect to acute care hospitals, the capital expenditure threshold for inpatient services is approximately $15.3 million, subject to annual indexing for inflation. Outpatient projects in excess of $25 million also require DON approval. Further, without DON approval, acute care hospitals generally may not offer new technologies or innovative services including, but not limited to, open heart surgery, cardiac catheterization services, magnetic resonance imaging, free standing ambulatory surgery and certain non-acute services.

The existence of the DON program has two different implications for providers such as the Hospital. First, the program may limit a provider's ability to respond on a timely basis to competitive programs offered by other providers who may not be subject to similar DON

requirements. The time required for approval of a DON application is sometimes several years and in some cases applications are denied. Further, a moratorium on the filing of new DON applications has been imposed on occasion, and in certain instances, DPH has refused to accept or consider pending applications due to the absence of need for a particular program, or delays in processing DON applications have occurred. Second, while the existence of the DON program may limit a provider's ability to expand or add services needed to compete, the program has also, in certain instances, served as a barrier to entry that prevents would-be competitors from entering or expanding operations in a particular field of service. This has been particularly important with respect to the current moratorium on freestanding multi-specialty ambulatory surgery centers.

Pursuant to legislation enacted in calendar year 2000, limits have been imposed on the ability of an acute care hospital to terminate "essential services" without prior notice to DPH, a public hearing and various remedial actions, including in certain circumstances financial payments to support or continue public access to such services through other means. This law limits the flexibility of acute care hospitals to reconfigure their service lines in pursuit of cost reduction initiatives or other goals.

Licensing, Surveys, Investigations and Audits

Health facilities, including those of the Hospital, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative activity or response by the Hospital. These activities generally are conducted in the normal course of business of health facilities. Nevertheless, an adverse result could cause a loss or reduction in the Hospital's scope of licensure, certification or accreditation, could reduce the payment received or could require repayment of amounts previously remitted to the provider.

Physician Medical Staff

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

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, provider operations or facilities and properties owned or operated by providers. The types of regulatory requirements faced by health care providers include: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the provider; and requirements for training employees in the proper handling and management of hazardous materials and wastes.

In its role as an owner and/or operator of properties or facilities, the Hospital may be subject to liability for investigating and remedying any hazardous substances that have come to be located on its property, including any such substances that may have migrated off the property. Typical health care provider operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, health care provider operations are particularly susceptible to the practical, financial and legal risks associated with the obligations imposed by applicable environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance. There can be no assurance that the Hospital will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Hospital.

Professional Liability Claims and General Liability Insurance

Professional liability and other actions alleging wrongful conduct and seeking punitive damages are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages. Litigation also arises from the corporate and business activities of the Hospital, from the 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. Certain 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 if determined or settled adversely.

The Hospital currently carries malpractice, directors' and officers' liability and general liability insurance, which management considers adequate, but no assurance can be given that the Hospital will maintain coverage amounts currently in place in the future, that the coverage will be sufficient to cover all malpractice judgments rendered against the Hospital or settlements of any such claims or that such coverage will be available at a reasonable cost in the future. For a discussion of the insurance coverage of the Hospital, including coverage by a captive insurer, see "Insurance."

Interest Rate Swap Agreements

The Hospital has entered into a series of "floating-to-fixed" interest rate swap agreements in notional amounts corresponding to the Hospital's outstanding debt. Such interest rate swap agreements may be subject to periodic "mark-to market" valuations and may have a negative value to the Hospital. The counter-parties to such agreements may be able to terminate such agreements upon certain events of default under such agreements. In addition, in the event the Hospital's credit ratings were downgraded below a specified level, the counter-parties could elect to terminate the swap (which could require the Hospital to make a material termination payment to the counter-party) or negotiate collateral terms with the Hospital.

The interest rate on the Hospital's indebtedness that corresponds to the notional amounts of the existing interest rate swap agreements was generally intended to track the SIFMA index, whereas the interest rates under the existing interest rate swap agreements is based upon a percentage of LIBOR. The percentage of LIBOR was determined in recognition of the historical trading relationship between the two indices. If the relationship between these two indices changes, the Hospital may be exposed to basis risk and the amounts received from the counter-parties under the existing interest rate swap agreements may be less than the Hospital's total interest cost on the Hospital's indebtedness that corresponded to the notional amounts of the existing interest rate swap agreements.

Other Risk Factors

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

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

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

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

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

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

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

THE CHILDREN'S HOSPITAL CORPORATION and

THE CHILDREN'S MEDICAL CENTER CORPORATION

By /s/ James Mandell
James Mandell, M.D.
Chief Executive Officer

By /s/ David A. Kirshner
David A. Kirshner
Senior Vice President and Chief Financial Officer

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AUDITED FINANCIAL STATEMENTS

Children's Hospital
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Children's Hospital

Audited Financial Statements

Years Ended September 30, 2009 and 2008

Contents

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Report of Independent Auditors

The Board of Trustees
Children's Hospital

We have audited the accompanying balance sheets of Children's Hospital (the Hospital) as of September 30, 2009 and 2008, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included 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 Hospital'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Hospital at September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 28, 2010

Children's Hospital

Balance Sheets

	September 30 2009	2008
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 372**	$ 514
Patient accounts receivable, net of allowance for uncollectible accounts of $21,746 in 2009 and $21,404 in 2008	**127,613**	113,430
Other receivables	**45,379**	40,059
Due from parent	**1,123,157**	977,742
Other current assets	**10,762**	9,019
Current portion of assets whose use is limited	**609**	921
Total current assets	**1,307,892**	1,141,685
Assets whose use is limited:		
By Board designation	**65,618**	63,612
By donor-imposed restrictions	**439,852**	415,365
By externally administered trusts	**39,167**	42,769
Other	**12,366**	11,979
	557,003	533,725
Property, plant, and equipment, net	**719,404**	733,682
Pledges receivable, net	**72,969**	73,506
Other assets	**8,219**	8,019
Total assets	**$2,665,487**	$2,490,617

	September 30 2009	2008
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 124,103**	$ 105,254
Accrued salaries and wages	**85,013**	84,153
Current portion of estimated third-party liabilities	**10,886**	13,926
Deferred revenue	**27,103**	18,555
Total current liabilities	**247,105**	221,888
Long-term liabilities:		
Long-term debt	**539,325**	539,325
Long-term portion of estimated third-party liabilities	**30,861**	32,833
Net pension liability	**60,700**	45,989
Funds held for others	**32,819**	34,592
Other liabilities	**116,338**	76,992
Total long-term liabilities	**780,043**	729,731
Commitments and contingencies		
Net assets:		
Unrestricted	**1,002,631**	951,528
Temporarily restricted	**346,173**	321,371
Permanently restricted	**289,535**	266,099
Total net assets	**1,638,339**	1,538,998
Total liabilities and net assets	**$2,665,487**	$2,490,617

See accompanying notes.

Children's Hospital

Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Revenues:		
Net patient services revenue	**$1,029,481**	$ 926,339
Research grants and contracts	**126,101**	118,399
Recovery of indirect costs on grants and contracts	**45,123**	40,853
Other operating revenue	**30,494**	35,144
Medical Center support for mission-related activities	**15,930**	5,674
Unrestricted contributions, net of fundraising expenses of $8,945 for 2009 and $6,251 for 2008	**7,690**	9,972
Net assets released from restriction used for operations	**32,446**	34,670
Total revenues	**1,287,265**	1,171,051
Expenses:		
Salaries and benefits	**544,220**	506,904
Supplies and other expenses	**403,510**	357,616
Direct research expenses of grants	**126,101**	118,399
Provision for uncollectible accounts	**20,572**	24,025
Health Safety Net assessment	**12,201**	10,980
Depreciation and amortization	**88,951**	83,058
Interest and net interest rate swap cash flows	**20,241**	25,858
Total expenses	**1,215,796**	1,126,840
Gain from current operations	**71,469**	44,211
Changes in estimates of prior year third-party settlements	**9,031**	14,154
Gain from current operations	**80,500**	58,365
Non-operating gains (losses):		
Income from investments	**5,395**	5,781
Support from Medical Center	**49,001**	52,605
Increase (decrease) in value of alternative investments	**2,388**	(2,454)
Net realized gain (loss) on investments	**751**	(570)
Recognition of unrealized losses on investments	**(1,463)**	(2,425)
Fundraising expenses on restricted contributions	**(13,001)**	(14,585)
Loss on extinguishment of debt	**–**	(4,940)
Adjustment of interest rate swaps to fair value	**(35,183)**	(28,396)
Total non-operating gains	**7,888**	5,016
Excess of revenues over expenses	**88,388**	63,381

Children's Hospital

Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Changes in unrestricted net assets:		
Excess of revenues over expenses	**$ 88,388**	$ 63,381
Net assets released from restrictions for capital asset acquisitions	**2,183**	7,965
Net transfers of funds from Medical Center	**1,357**	105,173
Net unrealized gain (loss) on investments	**1,281**	(4,908)
Depreciation on endowment funds	**(10,427)**	–
Net asset transfer related to donor-match program	**(3,203)**	(28,039)
Pension adjustment	**(28,434)**	(46,488)
Other	**(42)**	(3,189)
Increase in unrestricted net assets	**51,103**	93,895
Changes in temporarily restricted net assets:		
Contributions	**29,504**	42,541
Income and net realized gain (loss) on investments	**3,064**	(2,861)
Recognition of unrealized losses on investments	**(9,627)**	(14,763)
Increase (decrease) in value of alternative investments	**16,113**	(16,354)
Net unrealized gain (loss) on investments	**9,962**	(37,364)
Depreciation on endowment funds	**10,427**	–
Net assets released from restrictions	**(34,629)**	(42,635)
Net assets transfer related to donor-match program	**(12)**	200
Increase (decrease) in temporarily restricted net assets	**24,802**	(71,236)
Changes in permanently restricted net assets:		
Contributions	**20,221**	67,613
Net assets transfer related to donor-match program	**3,215**	27,839
Increase in permanently restricted net assets	**23,436**	95,452
Increase in net assets	**99,341**	118,111
Net assets at beginning of year	**1,538,998**	1,420,887
Net assets at end of year	**$1,638,339**	$1,538,998

See accompanying notes.

Children's Hospital

Statements of Cash Flows

	Year Ended September 30	
	2009	**2008**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 99,341**	$118,111
Non-cash activities included in change in net assets:		
Depreciation and amortization	**88,951**	83,058
Net transfers from Medical Center	**(66,288)**	(163,452)
Restricted contributions and investment income	**(49,846)**	(112,159)
Net realized and unrealized (gain) loss on investments	**(22,373)**	83,704
Loss from extinguishment of debt	**–**	4,940
Changes in operating assets and liabilities:		
Patient accounts receivable	**(14,183)**	(19,919)
Other accounts receivable	**(5,320)**	4,335
Other current assets	**(2,785)**	(1,537)
Accounts payable and accrued expenses	**19,709**	33,993
Estimated third-party liabilities	**(5,012)**	(5,039)
Other liabilities	**60,832**	80,022
Net cash provided by operating activities	**103,026**	106,057
Financing activities		
Issuance of bank term loan	**–**	200,000
Purchase of bonds	**–**	(200,000)
Payments of debt issuance costs	**–**	(375)
Net transfers from Medical Center	**66,288**	163,452
Increase in due from Medical Center	**(145,415)**	(167,602)
Decrease (increase) in pledges receivable	**537**	(7,563)
Restricted contributions and investment income	**49,846**	112,159
Net cash (used in) provided by financing activities	**(28,744)**	100,071
Investing activities		
Additions to fixed assets, net of retirements	**(73,831)**	(132,339)
Increase in assets whose use is limited	**(593)**	(74,187)
Net cash used in investing activities	**(74,424)**	(206,526)
Net decrease in cash and cash equivalents	**(142)**	(398)
Cash and cash equivalents at beginning of year	**514**	912
Cash and cash equivalents at end of year	**$ 372**	$ 514

See accompanying notes.

1. Summary of Significant Accounting Policies

Organization

Children's Hospital (the Hospital) is a voluntary, not-for-profit pediatric teaching hospital, located in Boston, Massachusetts, whose mission is pediatric patient care, research, training, and community service (mission-related activities). Since January 1, 1983, the Hospital has operated as a subsidiary of Children's Medical Center (the Medical Center). The Medical Center is the not-for-profit parent holding company which holds and manages investments, and conducts fundraising activities for the benefit of the Hospital. Waltham Medical Center LLC is a subsidiary of Children's Medical Center, which was transferred to Children's Extended Care Center Incorporated, a subsidiary of Children's Medical Center, in February 2006. This property, located in Waltham on the site of the former Waltham Hospital, provides health care-related services to the surrounding community. Approximately one-quarter of the facility is leased to non-related organizations. The balance is leased to Children's Hospital as part of the satellite strategy.

The Hospital is affiliated with 16 tax-exempt physician-controlled Foundations (the Foundations). These independent, not-for-profit group practices perform their own billing for professional services, and pay salaries and fringe benefits to their members.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In 2009 and 2008, changes in estimates of prior year third-party settlements increased the gain from operations by approximately $9,000,000 and $14,000,000, respectively (Note 11).

Reclassification

Certain amounts for the year ended September 30, 2008 have been reclassified to be consistent with the presentation of the amounts for the year ended September 30, 2009.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash equivalents include money market instruments with average maturities of less than 90 days, excluding amounts included in investments and other assets whose use is limited.

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market, and are recorded in other current assets on the balance sheet.

Assets Whose Use Is Limited or Restricted

Assets whose use is limited or restricted include amounts whose use has been designated by the Board of Trustees (the Board), donor-restricted assets, and amounts set aside for debt service and deferred compensation. Amounts invested in marketable securities are reported at fair market value determined principally from quoted market prices. Unrestricted investment income is reported as a non-operating gain. Restricted net income is reported as an addition to restricted net assets. Realized gains (losses) are computed at an average-cost basis, and are reported as non-operating gains (losses) or additions (subtractions) to restricted net assets in accordance with the donor's intent. Impairments in investment value that are determined to be other than temporary are reported as non-operating gains (losses). Unrealized gains and losses on investments are reported as a change in the appropriate net asset category; unrestricted amounts are excluded from the excess of revenues over expenses.

Alternative investments, which consist primarily of interests in limited liability partnerships and limited liability corporations, are reported using the equity method of accounting. Under the equity method, the Hospital recognizes its share of the increase or decrease in the investments' net asset value in non-operating gains (losses). Certain of the alternative investments may hold some securities without readily determinable fair values and, consequently, the general partner or investment manager may estimate fair value for such securities. These estimates, which could materially affect the Hospital's carrying value, may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Interest costs incurred during the construction period of major projects are capitalized as a component of the cost of these assets, and are depreciated over the estimated useful lives of the assets. The costs of repairs and maintenance are charged to expense as incurred.

1. Summary of Significant Accounting Policies (continued)

Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets. The estimated useful lives conform to the guidelines established by the American Hospital Association. The Hospital's policy is to fund depreciation expense in amounts not exceeding cumulative allowable depreciation expense.

Original Issue Discount and Debt Issuance Fees

Unamortized original issue discounts, and the costs associated with the issuance of debt, are amortized using the interest method over the life of the bond issue, and are recorded in other assets on the balance sheet.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivable in the year made. Pledges receivable over a period greater than one year are stated at net present value.

Net Assets

The accompanying balance sheets of the Hospital classify net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Net assets which bear no external restriction as to use or purpose are classified as unrestricted. Also included in unrestricted net assets are assets whose use is limited under debt or trust agreements. In addition, unrestricted net assets include Board-designated funds for plant replacement and expansion, and mission-related activities.

Net assets which are restricted by donors or grantors as to use or purpose are classified as either temporarily restricted or permanently restricted:

Temporarily restricted net assets are restricted by the donor or grantor, principally for the support of research, patient care, departmental support, medical education, community health services, and the acquisition of property, plant, and equipment. When a restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions.

Permanently restricted net assets represent contributions to the Hospital, the principal of which may not be expended. Income from permanently restricted net assets may be unrestricted or restricted in accordance with the donor's request. In accordance with the laws of the Commonwealth of Massachusetts, gains on permanently restricted net assets are recorded as temporarily restricted net assets until appropriated for expenditure by the Board.

1. Summary of Significant Accounting Policies (continued)

Net Patient Services Revenue

Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third-party payors. Contractual adjustments are accrued on an estimated basis in the period in which the related services are rendered. If estimated allowances are adjusted in future periods, the adjustments are recorded as changes in estimates of prior year third party settlements.

Revenues from Medicare and Medicaid, including Medicaid out-of-state programs, accounted for approximately 1.0% and 11.0%, respectively, of the Hospital's net patient service revenues for the year ended September 30, 2009 (1.2% and 10.0%, respectively, for 2008). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Research Grants and Contracts

The Hospital engages in research activities funded by grants and contracts with federal and state governments, and various private sources. Revenues associated with grants and contracts are recognized as the related costs are incurred. Research funds received in advance are reported as deferred revenue, and are recognized as earned revenue as the related research expenditures are incurred. Recoveries of indirect costs relating to certain government grants and contracts are reimbursed at predetermined rates negotiated with government agencies. Recoveries of indirect costs relating to non-government grants are reimbursed at varying rates, depending upon sponsor policies.

Contributions

Unrestricted gifts are recorded as operating income; restricted gifts are recorded as additions to restricted net asset balances. Donated securities and property are recorded at fair market value as of the date of donation.

Income Taxes

The Hospital is exempt from income taxes on related business income under Internal Revenue Code Section 501(c)(3).

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued The FASB Accounting Standards Codification (the Codification). The Codification is the single source of authoritative non-governmental U.S. GAAP, and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Hospital adopted the Codification as of September 30, 2009. The adoption of the Codification did not affect the presentation of the Hospital's financial statements.

In September 2006, the FASB issued Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (Topic 820). Topic 820 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. Topic 820 is effective for fiscal years beginning after November 15, 2007. The adoption of Topic 820 did not have a material effect on the Hospital's balance sheets as of October 1, 2008, or September 30, 2009, or on the consolidated statements of operations and changes in net assets or cash flows for the year ended September 30, 2009. See Note 14 for related fair value disclosures. In February 2009, the FASB issued Topic 820-10-55-33, which delayed the effective date of Topic 820 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Hospital will apply the provisions of Topic 820 to non-financial assets and liabilities beginning with the fiscal year ending September 30, 2010.

In March 2008, the FASB issued ASC Topic 815-10-65-1, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of* ASC Topic 815-10-50 (Topic 815-10-65-1). Topic 815-10-65-1 builds upon the existing disclosure requirements of Topic 815-10-50, *Accounting for Derivative Instruments and Hedging Activities* (Topic 815-10-50), by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Topic 815-10-50 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Hospital is required to adopt Topic 815-10-65-1 for its fiscal year ending September 30, 2010.

1. Summary of Significant Accounting Policies (continued)

In August 2008, the FASB issued ASC Topic 958-205-45-28, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (Topic 958-205-45-28). Topic 958-205-45-28 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to a state-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires additional disclosures for the endowment funds of all not-for-profit organizations. The Hospital adopted Topic 958-205-45-28 during the year ended September 30, 2009. The adoption of Topic 958-205-45-28 did not have a material effect on the Hospital's balance sheet at September 30, 2009, or on the statement of operations and changes in net assets for the year ended September 30, 2009.

In April 2009, the FASB issued ASC Topic 320-10-65-1, *Recognition and Presentation of Other-Than-Temporary Impairments* (Topic 320-10-65-1). Topic 320-10-65-1 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Topic 320-10-65-1 states that the entity should assess whether the entity (a) has the intent to sell the debt security, or (b) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the investor must recognize other-than-temporary impairment. If it is determined that the amortized cost of the debt security will not recover, the amount of the other-than-temporary impairment will be segregated into two factors; the amount representing credit loss will be recognized in non-operating gains (losses), and the amount representing other factors will be recognized through unrestricted net assets. Topic 320-10-65-1 was adopted by the Hospital as of September 30, 2009.

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events* (Topic 855). Topic 855 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of Topic 855. The Hospital adopted the provisions of Topic 855 as of September 30, 2009, and evaluated the impact of subsequent events through January 28, 2010, representing the date at which the financial statements were issued. See Note 16 for a discussion of the Hospital's material subsequent event.

2. Investments and Other Assets Whose Use Is Limited or Restricted

Investments and other assets whose use is limited or restricted consist of the following at fair value for years ended September 30 (in thousands):

	2009	2008
Pooled investments:		
Investment pool by manager type:		
Equity securities	**$191,484**	$313,106
Fixed income securities	**291,723**	149,900
Other	**22,263**	17,557
Total pooled investments	**505,470**	480,563
Non-pooled investments:		
Equity securities	**994**	1,112
Fixed income securities	**11,981**	10,202
Total non-pooled investments	**12,975**	11,314
Externally administered trusts (marketable equity and debt securities)	**39,167**	42,769
Total investments and other assets whose use is limited	**$557,612**	$534,646

Included in the pooled investments above are alternative investments, which represent 46% of the pooled investments.

These investments, and other assets whose use is limited or restricted, are presented in the accompanying balance sheets as follows for years ended September 30 (in thousands):

	2009	2008
Assets whose use is limited or restricted:		
By Board designation for mission-related activities	**$ 65,618**	$ 63,612
By donor-imposed restriction	**439,852**	415,365
Under long-term debt agreements	**609**	921
By externally administered trusts	**39,167**	42,769
Other:		
As funds held for others	**1,676**	1,586
Under deferred compensation agreements	**9,552**	9,253
Other	**1,138**	1,140
	12,366	11,979
Total investments and other assets whose use is limited	**$557,612**	$534,646

2. Investments and Other Assets Whose Use Is Limited or Restricted (continued)

The components of investment earnings include (in thousands):

	Unrestricted	Temporarily Restricted	Total
Year ended September 30, 2009			
Interest and dividend income:			
Non-operating revenue	**5,395**	**–**	**5,395**
Increase in temporarily restricted net assets	**–**	**96**	**96**
Increase in value of alternative investments	**2,388**	**16,113**	**18,501**
Realized gains	**751**	**2,968**	**3,719**
Other-than-temporary losses	**(1,463)**	**(9,627)**	**(11,090)**
Net unrealized gains	**1,281**	**9,962**	**11,243**
Total return on investments	**$8,352**	**$ 19,512**	**$ 27,864**

	Unrestricted	Temporarily Restricted	Total
Year ended September 30, 2008			
Interest and dividend income:			
Non-operating revenue	5,781	–	5,781
Increase in temporarily restricted net assets	–	2,005	2,005
Decrease in value of alternative investments	(2,454)	(16,354)	(18,808)
Realized losses	(570)	(4,866)	(5,436)
Other-than-temporary losses	(2,425)	(14,763)	(17,188)
Net unrealized losses	(4,908)	(37,364)	(42,272)
Total return on investments	$(4,576)	$(71,342)	$(75,918)

2. Investments and Other Assets Whose Use Is Limited or Restricted (continued)

Management continually reviews its investment portfolio where the market value is below cost, and in cases where the decline is considered to be other than temporary, an adjustment is recorded to realize the loss. The Hospital recorded a realized loss for other-than-temporary declines in the fair value of investments of approximately $11,090,000 and $17,188,000 for the years ended September 30, 2009 and 2008, respectively, of which $1,463,000 and $2,425,000, respectively, is included in unrestricted investment income, and $9,627,000 and $14,763,000, respectively, is included in changes in temporarily restricted net assets. Aggregate gross unrealized losses as of September 30, 2009 were $2,697,000 on investments with a fair value of $54,901,000. These investments were in a loss position for more than 12 consecutive months. Aggregate gross unrealized losses as of September 30, 2008 were $14,043,000 on investments with a fair value of $142,239,000. Included in those losses were investments in a loss position for more than 12 consecutive months, which totaled $6,921,000 with a fair value of $70,666,000. Management considers these investments core holdings, and believes that, given the modest percentage declines below cost, these investments are likely to recover the existing unrealized losses prior to sale.

3. Related Party Transactions

During the years ended September 30, 2009 and 2008, the Hospital transferred amounts equal to depreciation expense to the Medical Center to fund future capital expenditures of $88,316,000 and $82,534,000, respectively, and received funding for capital and other expenditures in the amounts of $89,673,000 and $187,707,000, respectively.

During the years ended September 30, 2009 and 2008, the Hospital received support from the Medical Center to fund patient care, teaching, and research activities in the amounts of $64,931,000 and $58,279,000, respectively. Of the amounts reported for the years ended September 30, 2009 and 2008, $49,001,000 and $52,605,000, respectively, is reported as non-operating income, and $15,930,000 and $5,674,000, respectively, is reported as operating revenue to support various mission-related activities. Amounts due from the Medical Center, as of September 30, 2009 and 2008, were $1,123,157,000 and $977,742,000, respectively. Amounts due from parent result primarily from net cash provided by the Hospital's operations and transferred to the Medical Center, the Hospital's accrued and unpaid support from the Medical Center, and other intercompany transactions.

3. Related Party Transactions (continued)

During the years ended September 30, 2009 and 2008, the Hospital made payments of $7,263,000 and $6,977,000, respectively, to the Foundations for administrative, supervisory, and training activities provided by their members to the Hospital. The Hospital also supported the Foundations through loans and restricted gifts for the recruitment and retention of physicians, and the development of strategic quality initiatives to enhance the delivery and quality of patient care services in the amount of $34,400,000 and $6,200,000 in 2009 and 2008, respectively. The Hospital bills for professional services and a limited number of clinical services, and accordingly, remunerates the Foundations for physician fees associated with these services. These physician fees and other administrative payments were $64,648,000 and $55,920,000 for the years ended September 30, 2009 and 2008, respectively.

The Hospital leases building space from Waltham Medical Center. During the year ended September 30, 2009 and 2008, the Hospital incurred $6,578,000 and $6,173,000, respectively, in rent expense related to this operating lease. The lease automatically renews each year.

4. Contributions

Contributions received and pledged to the Hospital were as follows for the years ended September 30 (in thousands):

	2009	**2008**
Gross contributions	**$65,954**	$127,490
Provision for uncollectible pledges	**(32)**	(1,063)
Accretion (discounts)	**438**	(50)
Net contributions	**$66,360**	$126,377

These contributions are reported in the accompanying financial statements in accordance with donors' restrictions as follows for years ended September 30 (in thousands):

	2009	**2008**
Unrestricted contributions	**$16,635**	$ 16,223
Temporarily restricted	**29,504**	42,541
Permanently restricted	**20,221**	67,613
Net contributions	**$66,360**	$126,377

In addition to the $65,954,000 and $127,490,000 in gross contributions raised, the Hospital raised $13,942,000 and $11,059,000 in non-governmental grant awards, to bring the total funds raised to $79,896,000 and $138,549,000 for the years ended September 30, 2009 and 2008, respectively.

4. Contributions (continued)

Contributions pledged to the Hospital are due as follows for years ended September 30 (in thousands):

	2009	2008
Due in less than one year	**$36,415**	$31,355
Due in one to five years	**45,356**	54,018
Due in more than five years	**3,245**	548
	85,016	85,921
Less discount to present value	**(7,796)**	(8,119)
Less allowance for uncollectible pledges	**(4,251)**	(4,296)
Total pledges receivable, net	**$72,969**	$73,506

5. Free Care, Health Safety Net, and Community Services

The Hospital provides care to patients who meet certain criteria under its free care policy without expectation of payment or at amounts less than its established rates. As the Hospital does not pursue collection of amounts determined to qualify as free care, they are not reported as net patient services revenue. The Hospital also supports the delivery of health care services to the indigent through payments to the Health Safety Net Trust (HST) (formerly the Uncompensated Care Pool), which is administered by the Commonwealth of Massachusetts. The amounts of net receipts to HST, provision for uncollectible accounts, and free care were as follows for years ended September 30 (in thousands):

	2009	2008
HST receipts	**$ (6,667)**	$ (6,643)
HST tax	**12,201**	10,980
Net disbursements to HST	**5,534**	4,337
Provision for uncollectible accounts	**20,572**	24,025
Total HST expense	**26,106**	28,362
Free care (deductions from revenue at standard charge)	**6,564**	6,749
Total free care and HST	**$32,670**	$35,111

5. Free Care, Health Safety Net, and Community Services (continued)

The Hospital also provides resources to support numerous initiatives aimed at contributing to the physical and psychological well-being of children, youth, and families living in the Hospital's community. The initiatives include programs at the Hospital, and in collaboration with community-based organizations, to provide comprehensive services to adolescent mothers and children, HIV outreach services, services to reduce infant mortality, assistance to the homeless, and training and other related services to individuals with developmental disabilities. The Hospital also provides medical services to the community through its emergency room, which operates 24 hours a day, and is available to all regardless of ability to pay.

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following at September 30 (in thousands):

	2009	2008
Land and improvements	**$ 6,311**	$ 6,183
Buildings and improvements	**1,052,755**	1,004,282
Equipment	**463,115**	424,274
Construction-in-progress	**32,008**	47,477
	1,554,189	1,482,216
Less accumulated depreciation and amortization	**(834,785)**	(748,534)
	$ 719,404	$ 733,682

At September 30, 2009, the Hospital had commitments of $73,792,000 to complete projects relating to capital construction and software development.

7. Asset Retirement Obligations

Conditional asset retirement obligations amounted to $16,249,000 and $16,605,000 as of September 30, 2009 and 2008, respectively. These obligations are recorded in other liabilities in the accompanying balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

During 2009 and 2008, retirement obligations incurred and settled were $1,775,000 and $3,501,000, respectively. Accretion expense of $1,418,000 and $1,332,000 was recorded during the years ended September 30, 2009 and 2008, respectively.

8. Leases

The Hospital leases buildings under operating leases which expire at various dates through 2028. The Hospital's obligations under non-cancelable leases as of September 30, 2009 are as follows (in thousands):

2010	$ 19,088
2011	20,002
2012	17,462
2013	17,310
2014	16,369
Thereafter	150,083
Total	$240,314

Rent expense under non-related party operating leases was approximately $20,351,000 and $11,512,000 for the years ended September 30, 2009 and 2008, respectively.

9. Long-Term Debt

Long-term debt at September 30 consists of the following (in thousands):

	2009	**2008**
Bank term loan	**$200,000**	$200,000
Massachusetts Health and Educational Facilities Authority (MHEFA) issues:		
Series K	**30,800**	30,800
Series J	**74,200**	74,200
Series I	**49,075**	49,075
Series H	**80,000**	80,000
Series G	**105,250**	105,250
	$539,325	$539,325

The estimated fair market value of the Hospital's long-term debt as of September 30, 2009 and 2008 approximated its carrying value.

9. Long-Term Debt (continued)

Summary information for each issue follows:

Bank Term Loan

On August 28, 2008, the Hospital entered into a term loan agreement with a bank in the amount of $200,000,000. Proceeds from the loan were used to purchase the Children's Hospital Series L-1 and L-2 MHEFA Revenue Bonds from the bank. These bonds were previously purchased by the bank during 2008 under the terms of the standby bond purchase agreement which was triggered when remarketing efforts on these bonds began to fail. The Hospital recorded a related extinguishment loss during 2008 of $4,940,000. The bank loan bears interest at a variable rate (1.4% at September 30, 2009), and was scheduled to mature on October 15, 2009. Interest payments are due monthly. The bank loan is collateralized by certain property financed by Series L-1 and L-2 Bonds. In 2009, the Hospital extended the terms of this loan through October 15, 2011.

Series L-2 Bonds

On May 9, 2006, the Hospital issued Series L-2 MHEFA Revenue Bonds in the aggregate principal amount of $120,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures.

In connection with the issuance of these variable rate demand bonds, the Hospital entered into a standby bond purchase agreement with a bank, whereby the bank agreed to purchase any tendered bond which is not otherwise purchased. During 2008, the bank purchased $120,000,000 of the Series L-2 Revenue Bonds, which were subsequently sold back to the Hospital as described under the bank term loan above.

Series L-1 Bonds

On May 5, 2004, the Hospital issued Series L-1 MHEFA Revenue Bonds in the aggregate principal amount of $80,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures.

In connection with the issuance of these variable rate demand bonds, the Hospital entered into a standby bond purchase agreement with a bank, whereby the bank agreed to purchase any tendered bond which is not otherwise purchased. During 2008, the bank purchased $80,000,000 of the Series L-1 Revenue Bonds, which were subsequently sold back to the Hospital as described under the bank term loan above.

9. Long-Term Debt (continued)

Series J and K Bonds

On July 12, 2002, the Hospital issued Series J and K MHEFA Revenue Bonds in the aggregate principal amount of $105,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures, and refund the Series E Revenue Bonds. Interest on the bonds is variable based on 14-day (Series J) and weekly auctions (Series K), and was 0.18% on both Series J and K at September 30, 2009. Interest payments are due every 14 days on Series J and weekly for Series K. The first annual principal payment on Series J and K is due in 2022. Final principal payments are due in 2025 for Series K and in 2036 for Series J. There is no put feature back to the Hospital by bondholders and, as such, no commercial bank liquidity feature is required.

Series G, H, and I Bonds

On May 31, 2001, the Hospital issued Series G, H, and I MHEFA Revenue Bonds in the aggregate principal amount of $234,325,000. Proceeds from the bonds were used to reimburse and fund certain capital renovation and equipment expenditures, refund the Series F Revenue Bonds, and fund the construction of a new 12-story research building and a 10-story clinical expansion building. Interest on the bonds is variable based on daily (Series G) and weekly auctions (Series H and I), and was 0.30%, 0.17%, and 0.30% on Series G, H, and I, respectively, at September 30, 2009. Interest payments are due monthly on Series G and weekly for Series H and I. The first annual principal payment on Series G is due in 2030 and on Series H and I in 2026. Final principal payments are due in 2035 for Series G and 2040 for Series H and I. There is no put feature back to the Hospital by bondholders and, as such, no commercial bank liquidity feature is required.

9. Long-Term Debt (continued)

Interest Rate Swap Agreements

Inception Date	Notional Amount	Fixed Interest Rate	Maturity Date
December 2007	$120,000,000	3.42%	December 2041
May 2006	119,875,000	3.57	April 2040
August 2004	70,000,000	4.00*	October 2027
November 2003	50,000,000	3.13	November 2040
December 2001	35,000,000	4.72	December 2021
December 2001	35,000,000	4.72	December 2026
May 2001	105,250,000	4.58	December 2036

*Fixed at 4.0% through October 1, 2027, if the variable-rate tax-exempt index reaches 4.5%.

The Hospital uses interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. Consequently, the fair value of the swaps (a liability of $88,642,000 and $53,459,000 at September 30, 2009 and 2008, respectively) is reported in other liabilities in the accompanying balance sheets, and the change in fair value during the year of $35,183,000 and $28,396,000 for the years September 30, 2009 and 2008, respectively, is reported as a non-operating loss in the statements of operations and changes in net assets. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

Cash flows under the swaps netted to payments of approximately $15,118,000 and $7,287,000 in 2009 and 2008, respectively, and are included in interest expense.

Guaranteed Debt

As security to the Hospital's bank term loan, and Series G, H, I, J, K, L-1, and L-2 bondholders, the Medical Center has executed unconditional and irrevocable guaranties of full and punctual payment of all obligations of the Hospital under the terms of the related loan agreements.

9. Long-Term Debt (continued)

The Hospital has also guaranteed $630,000 of the principal of $4,410,000 of revenue bonds issued by MHEFA on behalf of the Community Health Center Capital Fund. As of September 30, 2009, there have not been any requirements to honor calls under this guarantee.

In accordance with the terms of the loan agreements for Series G, Series H, Series I, Series J, and Series K, certain funds were established with independent trustees. The purpose of each fund and its respective balance at September 30 are as follows (in thousands):

	2009	2008
Bond funds – to receive debt service payments from the Hospital, and to disburse such payments to the bondholders	**$ 609**	$ 921
	609	921
Current portion	**(609)**	(921)
	$ –	$ –

Interest paid was $20,240,000 and $28,184,000 for the years ended September 30, 2009 and 2008, respectively. In 2009, there was no interest capitalized in connection with ongoing construction projects. In 2008, interest capitalized in connection with ongoing construction projects approximated $1,658,000.

10. Restricted Net Assets

Temporarily restricted net assets at September 30 are comprised of the following (in thousands):

	2009	2008
Mission-related activities	**$163,084**	$142,199
Accumulated gains on permanently restricted net assets	**183,089**	179,172
	$346,173	$321,371

10. Restricted Net Assets (continued)

Permanently restricted net assets at September 30 are restricted as follows (in thousands):

	2009	2008
Investments to be held in perpetuity, the income from which is:		
Unrestricted as to use	**$ 27,446**	$ 25,402
Restricted for patient care-related activities	**129,339**	117,601
Restricted for research	**116,240**	109,255
Restricted for medical education	**16,510**	13,841
	$289,535	$266,099

The Hospital follows the requirements of the Massachusetts UPMIFA as they relate to its permanently restricted endowments. The Hospital's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Massachusetts requires the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Hospital and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Hospital.

10. Restricted Net Assets (continued)

The components of endowment-related activities included:

	Temporarily Restricted Funds	Permanently Restricted Funds	Total Endowment Funds
Year ended September 30, 2009			
Endowment net assets at beginning of year	**$183,152**	**$263,735**	**$446,887**
Investment return:			
Investment income	**4,191**	**–**	**4,191**
Net appreciation	**21,171**	**–**	**21,171**
Total investment return	**25,362**	**–**	**25,362**
Contributions	**–**	**18,361**	**18,361**
Net asset reclassifications	**–**	**3,778**	**3,778**
Amounts appropriated for expenditure	**(19,944)**	**–**	**(19,944)**
Endowment net assets at end of year	**$188,570**	**$285,874**	**$474,444**

	Temporarily Restricted Funds	Permanently Restricted Funds	Total Endowment Funds
Year ended September 30, 2008			
Endowment net assets at beginning of year	$257,136	$170,647	$427,783
Investment return:	–	–	–
Investment income	4,472	–	4,472
Net depreciation	(63,039)	–	(63,039)
Total investment return	(58,567)	–	(58,567)
Contributions	–	63,386	63,386
Net asset reclassifications	–	29,702	29,702
Amounts appropriated for expenditure	(15,417)	–	(15,417)
Endowment net assets at end of year	$183,152	$263,735	$446,887

10. Restricted Net Assets (continued)

The Hospital's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity, and the unexpended appreciation on those funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is expected to generate a long-term rate of return of approximately 8% per annum. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

The Hospital has a policy of appropriating, for distribution each year, no more than 5% of its endowment funds' "three-year trailing average market value". In establishing this policy, the Hospital considered the long-term expected return on its endowments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Hospital to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are $10,427,000 as of September 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

The Hospital's faculty match program is a donor match program where the Hospital matches certain permanently restricted gifts from donors under a pre-defined ratio. This program has resulted in several major gifts to the Hospital in support of certain strategic purposes.

Net assets were released from donor or grantor restrictions during the year ended September 30 by incurring expenses satisfying the following restricted purposes (in thousands):

	2009	**2008**
Mission-related activities	**$32,446**	$34,670
Property, plant, and equipment	**2,183**	7,965
	$34,629	$42,635

11. Net Patient Services Revenue

The Hospital has agreements with numerous third-party payors that provide for payments at amounts different from its established charges. Medicaid payments are based on a contract with the Massachusetts Executive Office of Health and Human Services, and reimbursed for services on a standardized payment-per-encounter basis for outpatients and a standardized per-adjusted-discharge basis for inpatients. The current year payments are reflective of current year inflation adjusted for prior year diagnoses, procedures, and case mix.

Contracts with managed care providers provide for payments based on a variety of methodologies, including discounted charges, per-case, and per-diem arrangements for inpatients, and discounted charges and fee schedule arrangements for outpatients. Commercial insurers reimburse the Hospital for services on the basis of established charges. Since the Hospital is a pediatric institution, it is exempt from the Federal Prospective Payment System, which governs Medicare reimbursement; therefore, the Hospital's Medicare reimbursement is based upon Medicare's proportionate share of reasonable costs.

During 2009 and 2008, in connection with special legislative appropriations, the Hospital received $21,333,000 and $21,697,000, respectively, from the Federal Children's Hospital's GME program for reimbursement of graduate medical education expense. During 2008, the Hospital received $7,141,000 from the State Medicaid program in connection with the disproportionate share program. This funding was discontinued in 2009. In 2009, the Hospital also recognized $729,000 from Massachusetts Medicaid for pediatric cases with a case mix index greater than five. There is no guarantee that similar appropriations will occur in the future, or at what level.

Differences between estimated and final settlements are recorded as contractual adjustments in the year determined. The Hospital recorded favorable adjustments of approximately $9,031,000 and $14,154,000 in 2009 and 2008, respectively, as a result of final settlements and other adjustments to prior year estimates.

The Hospital grants credit without collateral to its patients. The concentration of credit risk by payor as measured by patient accounts receivables, net of contractual adjustments, was as follows for the years ended September 30:

	2009	**2008**
Other managed care	**35%**	36%
Blue Cross	**27**	23
Medicaid	**16**	15
Commercial	**9**	10
Self-pay	**7**	9
Neighborhood Health Plan	**4**	5
Other governmental	**2**	2
Total	**100%**	100%

12. Employees' Retirement Plans

The Hospital sponsors two non-contributory, defined benefit retirement plans (the Regular Employees' Pension Plan and the Maintenance Employees' Pension Plan), which cover substantially all employees of the Hospital. The Hospital does not provide postretirement benefits other than pension to its retirees.

The Regular Employees' Pension Plan and Maintenance Employees' Pension Plan are cash balance plans under which benefits are based on the annuitized value of a participant's account, which consists of basic credits (determined on age, years of vesting service, and compensation), plus interest credits thereon. The measurement date of these plans is September 30.

Reconciliation of Funded Status and Accumulated Benefit Obligation

A reconciliation of the changes in the Hospital's pension plans' projected benefit obligation and the fair value of assets, and the accumulated benefit obligation of the plans as of September 30, follows (in thousands):

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	**$308,303**	$303,516
Service cost	**24,508**	23,402
Interest cost	**19,759**	18,374
Amendments	**9**	–
Actuarial loss (gain)	**32,069**	(27,532)
Benefits paid	**(7,346)**	(9,457)
Benefit obligations at end of year	**377,302**	308,303
Change in plan assets		
Fair value of plan assets at beginning of year	**262,314**	304,962
Actual return on plan assets	**19,634**	(51,777)
Employer contribution	**42,000**	18,586
Benefits paid	**(7,346)**	(9,457)
Fair value of plan assets at end of year	**316,602**	262,314
Funded status	**$(60,700)**	$(45,989)
Accumulated benefit obligation	**$297,165**	$242,792

The funded status of the plans of $(60,700,000) and $(45,989,000), at September 30, 2009 and 2008, respectively, is reported in the accompanying balance sheets under long-term liabilities.

12. Employees' Retirement Plans (continued)

Net periodic pension cost includes the following components for years ended September 30 (in thousands):

	2009	2008
Components of net periodic benefit cost		
Service cost	**$ 24,508**	$ 23,402
Interest cost	**19,759**	18,374
Expected return on plan assets	**(17,549)**	(22,144)
Amortization of prior service cost	**118**	118
Recognized net actuarial loss (gain)	**1,441**	(217)
Net periodic pension cost	**$ 28,277**	$ 19,533

Included in unrestricted net assets for the years ended September 30, 2009 and 2008 are the following amounts that had not yet been recognized in net periodic pension cost: unrecognized prior service costs of $576,302 and $686,000, respectively, and unrecognized actuarial loss of $30,808,663 and $2,265,000, respectively. The prior service cost included as other changes in unrestricted net assets, and expected to be recognized in net periodic pension cost during the fiscal year ending September 30, 2010 is $118,000.

The weighted-average assumptions used to develop pension expense for the years ended September 30 are as follows:

	2009	2008
Weighted-average assumptions for pension cost		
Discount rate	**6.12%**	6.00%
Expected return on plan assets	**7.00**	7.00
Rate of compensation increase	**5.00**	5.00

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

The weighted-average assumptions used to develop the projected benefit obligation as of September 30 are as follows:

	2009	2008
Weighted-average assumptions for benefit obligation		
Discount rate	**5.95%**	6.50%
Rate of compensation increase	**5.00**	5.00

12. Employees' Retirement Plans (continued)

Plan Assets

The Plans' investment objectives are to achieve long-term growth in excess of long-term inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize risk, the plans intend to minimize the variability in yearly returns. The plans also intend to diversify their holdings among asset classes, investment managers, sectors, industries, and companies. The asset policy guidelines include total equities between 50% and 75%, total fixed income between 10% and 40%, and other strategies between 5% and 25%.

The Hospital's pension plans' weighted-average asset allocations at September 30, by asset category, are as follows:

	2009	2008
Domestic equities	**40%**	46%
International equities	**12**	19
Fixed income	**23**	9
Other	**25**	26
Total	**100%**	100%

Contributions

The Hospital expects to contribute approximately $27,819,000 to its pension plans in 2010.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

Fiscal Year	Pension Benefits
2010	$ 17,672
2011	11,542
2012	13,160
2013	12,881
2014	14,866
Years 2015 – 2019	121,718

12. Employees' Retirement Plans (continued)

Certain physicians, by virtue of their joint appointments at the Hospital and Harvard University, are eligible for participation in the Harvard Retirement Plan for Teaching Faculty (the Harvard Plan), a defined contribution plan, and do not participate in the Hospital's plans. The Hospital's pension expense related to the Harvard Plan was approximately $3,217,000 and $3,074,000 for the years ended September 30, 2009 and 2008, respectively.

13. Professional Liability

The Hospital's primary professional and general liability insurance coverage is provided by Controlled Risk Insurance Company, Ltd. (CRICO), a corporation formed and wholly owned by the Harvard-affiliated medical institutions. The Hospital owns approximately 10% of CRICO's stock. The premiums that the Hospital pays to CRICO are actuarially determined based on asserted claims, and reported but unasserted claims, and have been discounted at a rate of 5.5%. CRICO obtains excess coverage from other insurers.

The Hospital's professional liability insurance policy is on a claims-made basis. The Hospital accrues a liability for claims incurred but not reported. At September 30, 2009 and 2008, the liability was $3,338,000 and $3,044,000, respectively.

Professional liability insurance expenses, net of recoveries, are as follows for years ended September 30 (in thousands):

	2009	2008
Professional liability insurance premiums, net of recoveries	**$4,368**	$3,778
Increase in reserve for incurred but not reported professional liability claims	**294**	606
Total	**$4,662**	$4,384

14. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Hospital adopted the methods of calculating fair value defined in Topic 820 to value its financial assets and liabilities, where applicable. Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. Topic 820 applies to other accounting pronouncements that require or permit fair value measurements, and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

14. Fair Value of Financial Instruments (continued)

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers non-performance risk in its assessment of fair value. Financial instruments carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 11,740	$ –	$ –	$ 11,740
Commingled equity securities	–	80,593	–	80,593
Fixed income securities	–	96,420	–	96,420
Equity securities	53,010	–	–	53,010
Mutual funds	82,061	–	–	82,061
	$146,811	$177,013	$ –	$323,824
Liabilities				
Interest rate swap agreements	$ –	$ 88,642	$ –	$ 88,642

14. Fair Value of Financial Instruments (continued)

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

The amounts reported in the table above exclude assets invested in the Hospital's defined benefit pension plan (Note 12) and alternative investments which are reported under the equity method of accounting.

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

Accounts payable and accrued expenses: The carrying amount reported in the combined balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the combined balance sheets for estimated third-party payor settlements approximates its fair value.

The Hospital's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately $539,000,000 at September 30, 2009 and 2008. The carrying value of these obligations approximated their fair value at September 30, 2009 and 2008.

15. Functional Expenses

The Hospital is a multifaceted pediatric patient care provider dedicated to the improvement of the quality of life for children and their families. In its leadership role in pediatric medicine, the Hospital focuses its efforts in three major areas: patient care, research, and medical education. Expenses related to providing these services are estimated as follows for September 30 (in thousands):

	2009	**2008**
Patient care	**$ 910,445**	$ 853,979
Research	**253,983**	227,417
Medical education	**51,368**	45,444
Total expenses	**$1,215,796**	$1,126,840

16. Subsequent Events

On November 18, 2009, the Hospital issued Series M MHEFA Revenue Bonds in the aggregate principal amount of $126,110,000. Proceeds of the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures. The bonds, with a final maturity in December 2039, were issued at a net discount in the amount of $1,780,287 to bear interest at yields which increase from 5.30% to 5.40% as maturities lengthen. Interest payments are due semiannually. The first annual principal payment is due in 2033.

The Medical Center is negotiating with a third party to acquire an interest in a portfolio of private equity fund limited partner interests owned by such third party. The interests to be acquired by the Medical Center would represent approximately $100 million of capital commitments, of which approximately 90% are unfunded. No binding agreement has been reached with respect to the proposed transaction, and there is no assurance that a binding agreement will be executed by the parties. If the transaction is consummated as currently structured, the Medical Center would become liable for satisfying future capital calls with respect to the purchased portfolio of private equity interests over an expected time period of approximately three to nine years.

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Children's Medical Center and Subsidiaries
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Children's Medical Center and Subsidiaries

Audited Consolidated Financial Statements

Years Ended September 30, 2009 and 2008

Contents

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Report of Independent Auditors

The Board of Trustees
Children's Medical Center

We have audited the accompanying consolidated balance sheets of Children's Medical Center and Subsidiaries (the Medical Center) as of September 30, 2009 and 2008, 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 Medical Center'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Medical Center's internal control over financial reporting. Our audits included 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 Medical Center'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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Children's Medical Center and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

January 28, 2010

Children's Medical Center and Subsidiaries

Consolidated Balance Sheets

	September 30 2009	2008 *Restated*
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 47,804**	$ 32,424
Patient accounts receivable, net of allowance for uncollectible accounts of $21,746 in 2009 and $21,404 in 2008	**127,613**	113,430
Other receivables	**57,316**	49,823
Other current assets	**10,972**	9,248
Current portion of assets whose use is limited	**1,197**	1,509
Total current assets	**244,902**	206,434
Investments:		
Unrestricted as to use	**970,968**	921,969
Limited by Board designation	**1,029,998**	933,936
Restricted by donor-imposed restriction	**439,852**	415,365
	2,440,818	2,271,270
Other assets whose use is limited:		
By externally administered trusts	**39,167**	42,769
Other	**12,366**	11,979
	51,533	54,748
Property, plant, and equipment, net	**798,479**	807,755
Pledges receivable, net	**73,193**	73,706
Other assets	**8,569**	8,369
Total assets	**$3,617,494**	$3,422,282

	September 30 2009	2008 *Restated*
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 128,879**	$ 110,077
Accrued salaries and wages	**85,013**	84,153
Current portion of estimated third-party liabilities	**10,886**	13,926
Current portion of long-term debt	**1,705**	1,545
Deferred revenue	**30,242**	21,368
Total current liabilities	**256,725**	231,069
Long-term liabilities:		
Long-term debt	**541,823**	543,310
Mortgage note payable	**42,807**	43,211
Long-term portion of estimated third-party liabilities	**30,861**	32,833
Net pension liability	**60,700**	45,989
Funds held for others	**32,819**	34,592
Other liabilities	**135,580**	93,546
Total long-term liabilities	**844,590**	793,481
Commitments and contingencies		
Net assets:		
Unrestricted	**1,878,370**	1,808,160
Temporarily restricted	**346,443**	321,657
Permanently restricted	**291,366**	267,915
Total net assets	**2,516,179**	2,397,732
Total liabilities and net assets	**$3,617,494**	$3,422,282

See accompanying notes.

Children's Medical Center and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2009	**2008** ***Restated***
	(In Thousands)	
Revenues:		
Net patient services revenue	**$1,029,481**	$ 926,339
Research grants and contracts	**146,431**	141,007
Recovery of indirect costs on grants and contracts	**56,978**	54,190
Other operating revenue	**52,897**	55,710
Endowment income support for mission-related activities	**15,930**	5,674
Unrestricted contributions, net of fundraising expenses of $8,945 for 2009 and $6,251 for 2008	**7,690**	9,972
Net assets released from restriction used for operations	**32,874**	34,849
Total revenues	**1,342,281**	1,227,741
Expenses:		
Salaries and benefits	**549,792**	511,927
Supplies and other expenses	**425,230**	374,962
Direct research expenses of grants	**146,431**	141,007
Provision for uncollectible accounts	**20,572**	24,025
Health Safety Net assessment	**12,201**	10,980
Depreciation and amortization	**94,041**	87,534
Interest and net interest rate swap cash flows	**20,381**	25,988
Total expenses	**1,268,648**	1,176,423
Gain from current operations	**73,633**	51,318
Changes in estimates of prior year third-party settlements	**9,031**	14,154
Gain from current operations	**82,664**	65,472
Non-operating gains (losses):		
Income from investments	**5,849**	23,631
Net realized gain on investments	**8,485**	55,144
Increase (decrease) in value of alternative investments	**74,011**	(59,119)
Recognition of unrealized losses on investments	**(44,944)**	(59,313)
Loss on extinguishment of debt	**–**	(4,940)
Fundraising expenses on restricted contributions	**(13,001)**	(14,585)
Adjustment of interest rate swaps to fair value	**(35,183)**	(28,396)
Other non-operating losses	**(4,726)**	(1,974)
Total non-operating loss	**(9,509)**	(89,552)
Excess (deficit) of revenues over expenses	**73,155**	(24,080)

Children's Medical Center and Subsidiaries

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

	Year Ended September 30	
	2009	**2008** ***Restated***
	(In Thousands)	
Changes in unrestricted net assets:		
Excess (deficit) of revenues over expenses	**$ 73,155**	$ (24,080)
Net assets released from restrictions for capital asset acquisitions	**2,183**	7,965
Net unrealized gain (loss) on investments	**36,978**	(186,986)
Net asset transfer related to donor-match program	**(3,204)**	(28,039)
Depreciation on endowment funds	**(10,427)**	–
Pension adjustment	**(28,434)**	(46,488)
Other	**(41)**	(3,189)
Increase (decrease) in unrestricted net assets	**70,210**	(280,817)
Changes in temporarily restricted net assets:		
Contributions	**29,756**	42,878
Income and net realized gain (loss) on investments	**3,093**	(2,861)
Recognition of unrealized losses on investments	**(9,627)**	(14,763)
Increase (decrease) in value of alternative investments	**16,113**	(16,354)
Net unrealized gain (loss) on investments	**10,092**	(37,948)
Depreciation on endowment funds	**10,427**	–
Net assets released from restrictions	**(35,057)**	(42,814)
Net assets transfer related to donor-match program	**(11)**	200
Increase (decrease) in temporarily restricted net assets	**24,786**	(71,662)
Changes in permanently restricted net assets:		
Contributions	**20,236**	67,628
Net assets transfer related to donor-match program	**3,215**	27,839
Increase in permanently restricted net assets	**23,451**	95,467
Increase (decrease) in net assets	**118,447**	(257,012)
Net assets at beginning of year	**2,397,732**	2,654,744
Net assets at end of year	**$2,516,179**	$2,397,732

See accompanying notes.

Children's Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	**2008**
		Restated
	(In Thousands)	
Operating activities		
Change in net assets	**$ 118,447**	$ (257,012)
Non-cash activities included in change in net assets:		
Depreciation and amortization	**94,041**	87,534
Restricted contributions and investment income	**(50,088)**	(112,511)
Net realized and unrealized (gain) loss on investments	**(94,049)**	323,696
Loss from extinguishment of debt	**–**	4,940
Changes in operating assets and liabilities:		
Patient accounts receivable	**(14,183)**	(19,919)
Other accounts receivable	**(7,493)**	3,806
Other current assets	**(2,766)**	(1,766)
Accounts payable and accrued expenses	**19,662**	32,518
Estimated third-party liabilities	**(5,012)**	(5,039)
Other liabilities	**63,846**	84,572
Net cash provided by operating activities	**122,405**	140,819
Financing activities		
Issuance of bank term loan	**–**	200,000
Purchase of bonds	**–**	(200,000)
Issuance of mortgage note	**–**	43,250
Payments of mortgage note	**(404)**	(39)
Capital lease payments	**(1,327)**	(744)
Proceeds from other debt issuance	**–**	2,900
Decrease (increase) in pledges receivable	**513**	(7,567)
Restricted contributions and investment income	**50,088**	112,511
Net cash provided by financing activities	**48,870**	150,311
Investing activities		
Purchases of investments	**(956,466)**	(1,391,032)
Proceeds from sales of investments	**880,967**	1,228,443
Additions to fixed assets, net of retirements	**(83,923)**	(133,016)
Decrease in assets whose use is limited	**3,527**	10,046
Net cash used in investing activities	**(155,895)**	(285,559)
Net increase in cash and cash equivalents	**15,380**	5,571
Cash and cash equivalents at beginning of year	**32,424**	26,853
Cash and cash equivalents at end of year	**$ 47,804**	$ 32,424

See accompanying notes.

1. Summary of Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of Children's Medical Center Corporation (the Medical Center) and its subsidiaries, Children's Hospital (the Hospital), which engages in pediatric patient care, research, training, and community service; CHB Properties, Inc., which owns and operates real property and distributes the net income of such property to the Medical Center; Longwood Research Institute, Inc., which holds real property for the benefit of the Hospital in the furtherance of its research mission; Fenmore Realty Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center; and Longwood Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center.

Amounts for all periods presented reflect the integration of the Immune Disease Institute, Inc. which became a wholly owned subsidiary of the Medical Center in February 2009 in a business combination that was accounted for under the pooling of interests method. The pooling of interests method requires that financial statements for periods prior to the combination, presented for comparative purposes, be restated to reflect the combined financial position, operations and changes in net assets and cash flows of the combining organizations. Consequently, amounts presented herein for 2008 have been restated.

All material inter-company balances and transactions are eliminated in the consolidation.

The Medical Center is affiliated with 16 tax-exempt physician controlled Foundations (the Foundations). These independent, not-for-profit group practices perform their own billing for professional services, and pay salaries and fringe benefits to their members. During the years ended September 30, 2009 and 2008, the Hospital made payments of $7,263,000 and $6,977,000, respectively, to the Foundations for administrative, supervisory, and training activities provided by their members to the Hospital. The Hospital also supports the Foundations through loans and restricted gifts for the recruitment and retention of physicians and the development of strategic quality initiatives to enhance the delivery and quality of patient care services in the amount of $34,400,000 and $6,200,000 in 2009 and 2008, respectively. The Hospital bills for professional services and a limited number of clinical services, and accordingly, remunerates the Foundations for physician fees associated with these services. These physician fees and other administrative payments were $64,648,000 and $55,920,000 for the years ended September 30, 2009 and 2008, respectively. The Medical Center does not consolidate these Foundations because it does not control them.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In 2009 and 2008, changes in estimates of prior year third-party settlements increased the gain from operations by approximately $9,000,000 and $14,000,000, respectively (Note 11).

Reclassification

Certain amounts for the year ended September 30, 2008 have been reclassified to be consistent with the presentation of the amounts for the year ended September 30, 2009.

Cash and Cash Equivalents

Cash equivalents include money market instruments with average maturities of less than 90 days, excluding amounts included in investments and other assets whose use is limited.

Investments

The Medical Center follows the practice of pooling resources of unrestricted and restricted assets for long-term investment purposes. The investment pool is operated on the market value method whereby each participating fund is assigned a number of units based on the percentage of the pool it owns at the time of entry. Income, gains, and losses of the pool are allocated to the funds based on their respective participation in the pool.

Investments in marketable debt and equity securities are stated at fair market value determined principally from quoted market prices. Realized gains or losses on investment transactions are computed on an average-cost basis. Net realized gains or losses on unrestricted investments, and impairments in investment values that are determined to be other than temporary, are reported as non-operating gains (losses). Net unrealized gains or losses on unrestricted assets are recorded as an increase or decrease in unrestricted net assets. Net realized and unrealized gains or losses on restricted assets are recorded as an increase or decrease to the restricted net asset balance.

1. Summary of Significant Accounting Policies (continued)

Alternative investments, which consist primarily of interests in limited liability partnerships and limited liability corporations, are reported using the equity method of accounting. Under the equity method, the Medical Center recognizes its share of the increase or decrease in the investments' net asset value in non-operating gains (losses). Certain of the alternative investments may hold some securities without readily determinable fair values and, consequently, the general partner or investment manager may estimate fair value for such securities. These estimates, which could materially affect the Medical Center's carrying value, may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Unrestricted investment income is reported in non-operating gains, except for income of $15,930,000 and $5,674,000 during 2009 and 2008, respectively, which has been designated by the Board of Trustees for support of various mission-related activities, and is recorded as operating income. Restricted investment income is recorded as an increase to the restricted net asset balance.

Investments and Other Assets Whose Use Is Limited or Restricted

Investments and other assets whose use is limited or restricted include the following: Board-designated assets for plant replacement and expansion and mission-related activities; donor-restricted assets and funds held for others (all of which participate in the investment pool); externally managed trusts associated with deferred giving arrangements; assets set aside in connection with debt service; and deferred compensation (which are invested primarily in mutual funds and government obligations, and are reported at fair market value).

Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market and are recorded in other current assets on the consolidated balance sheet.

Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Interest costs incurred during the construction period of major projects are capitalized as a component of the cost of these assets, and are depreciated over the estimated useful lives of the assets. The costs of repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed on the straight-line method based on the estimated useful lives of the assets. The estimated useful lives conform to the guidelines established by the American Hospital Association. The Hospital's policy is to fund depreciation expense in amounts not exceeding cumulative, allowable depreciation expense.

1. Summary of Significant Accounting Policies (continued)

Original Issue Discount and Debt Issuance Fees

Unamortized original issue discount and the costs associated with the issuance of debt are amortized using the interest method over the life of the bond issue, and are recorded in other assets on the consolidated balance sheet.

Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivable in the year made. Pledges receivable over a period greater than one year are stated at net present value.

Net Assets

The accompanying consolidated balance sheets of the Medical Center classify net assets into three categories: unrestricted, temporarily restricted, and permanently restricted. Net assets which bear no external restriction as to use or purpose are classified as unrestricted. Also included in unrestricted net assets are assets whose use is limited under debt or trust agreements. In addition, unrestricted net assets include Board-designated funds for plant replacement and expansion, and mission-related activities.

Net assets, which are restricted by donors or grantors as to use or purpose, are classified as either temporarily restricted or permanently restricted:

Temporarily restricted net assets are restricted by the donor or grantor, principally for the support of research, patient care, departmental support, medical education, community health services, and the acquisition of property, plant, and equipment. When a restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

Permanently restricted net assets represent contributions to the Medical Center, the principal of which may not be expended. Income from permanently restricted net assets may be unrestricted or restricted in accordance with the donor's request. In accordance with the laws of the Commonwealth of Massachusetts, gains on permanently restricted net assets are recorded as temporarily restricted net assets until appropriated for expenditure by the Board of Trustees.

1. Summary of Significant Accounting Policies (continued)

Net Patient Services Revenue

Net patient services revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated contractual adjustments under reimbursement agreements with third-party payors. Contractual adjustments are accrued on an estimated basis in the period in which the related services are rendered. If estimated allowances are adjusted in future periods, the adjustments are recorded as changes in estimates of prior year third party settlements.

Revenues from Medicare and Medicaid, including Medicaid out-of-state programs, accounted for approximately 1.0% and 11.0%, respectively, of the Hospital's net patient services revenues for the year ended September 30, 2009 (1.2% and 10.0%, respectively, for 2008). Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Research Grants and Contracts

The Medical Center, through its Hospital and Immune Disease Institute, Inc. subsidiaries, engages in research activities funded by grants and contracts with federal and state governments, and various private sources. Revenues associated with grants and contracts are recognized as the related costs are incurred. Research funds received in advance are reported as deferred revenue, and are recognized as earned revenue as the related research expenditures are incurred. Recoveries of indirect costs relating to certain government grants and contracts are reimbursed at predetermined rates negotiated with government agencies. Recoveries of indirect costs relating to non-government grants are reimbursed at varying rates, depending upon sponsor policies.

Contributions

Unrestricted contributions are recorded as operating revenue; restricted contributions are recorded as additions to restricted net asset balances. Donated securities and property are recorded at fair market value as of the date of donation.

Income Taxes

The Medical Center and four of its subsidiaries, the Hospital, Children's Extended Care Center, Inc., Longwood Research Institute, Inc., and Immune Disease Institute, Inc., are exempt from income taxes on related business income pursuant to Internal Revenue Code (the Code) Section 501(c)(3). Longwood Corporation and Fenmore Realty Corporation are exempt from income taxes on related business income pursuant to Code Section 501(c)(2).

1. Summary of Significant Accounting Policies (continued)

New Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued the FASB Accounting Standards Codification (the Codification). The Codification is the single source of authoritative non-governmental U.S. GAAP, and is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Medical Center adopted the Codification as of September 30, 2009. The adoption of the Codification did not affect the presentation of the Medical Center's financial statements.

In September 2006, the FASB issued Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures* (Topic 820). Topic 820 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosure about fair value measurements. Topic 820 is effective for fiscal years beginning after November 15, 2007. The adoption of Topic 820 did not have a material effect on the Medical Center's consolidated balance sheets as of October 1, 2008, or September 30, 2009, or on the consolidated statements of operations and changes in net assets or cash flows for the year ended September 30, 2009. See Note 14 for related fair value disclosures. In February 2009, the FASB issued Topic 820-10-55-33, which delayed the effective date of Topic 820 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value on a recurring basis, until fiscal years beginning after November 15, 2008. Accordingly, the Medical Center will apply the provisions of Topic 820 to non-financial assets and liabilities beginning with the fiscal year ending September 30, 2010.

In March 2008, the FASB issued ASC Topic 815-10-65-1, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of* ASC Topic 815-10-50 (Topic 815-10-65-1). Topic 815-10-65-1 builds upon the existing disclosure requirements of Topic 815-10-50, *Accounting for Derivative Instruments and Hedging Activities* (Topic 815-10-50), by requiring enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under Topic 815-10-50 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The Medical Center is required to adopt Topic 815-10-65-1 for its fiscal year ending September 30, 2010.

1. Summary of Significant Accounting Policies (continued)

In August 2008, the FASB issued ASC Topic 958-205-45-28, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (Topic 958-205-45-28). Topic 958-205-45-28 provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations subject to a state-enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and requires additional disclosures for the endowment funds of all not-for-profit organizations. The Medical Center adopted Topic 958-205-45-28 during the year ended September 30, 2009. The adoption of Topic 958-205-45-28 did not have a material effect on the Medical Center's consolidated balance sheet at September 30, 2009, or on the consolidated statement of operations and changes in net assets for the year ended September 30, 2009.

In April 2009, the FASB issued ASC Topic 320-10-65-1, *Recognition and Presentation of Other-Than-Temporary Impairments* (Topic 320-10-65-1). Topic 320-10-65-1 amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. Topic 320-10-65-1 states that the entity should assess whether the entity (a) has the intent to sell the debt security, or (b) more likely than not will be required to sell the debt security before its anticipated recovery. If either of these conditions is met, the investor must recognize other-than-temporary impairment. If it is determined that the amortized cost of the debt security will not recover, the amount of the other-than-temporary impairment will be segregated into two factors; the amount representing credit loss will be recognized in non-operating gains (losses), and the amount representing other factors will be recognized through unrestricted net assets. Topic 320-10-65-1 was adopted by the Medical Center as of September 30, 2009.

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events* (Topic 855). Topic 855 establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date based on the requirements of Topic 855. The Medical Center adopted the provisions of Topic 855 as of September 30, 2009, and evaluated the impact of subsequent events through January 28, 2010, representing the date at which the financial statements were issued. See Note 16 for a discussion of the Medical Center's material subsequent event.

1. Summary of Significant Accounting Policies (continued)

Business Combination – Immune Disease Institute, Inc.

On February 20, 2009, the Medical Center became the sole corporate member of the Immune Disease Institute, Inc. (IDI) in a business combination accounted for as a pooling of interests. The accompanying consolidated financial statements for 2009 are presented to include the combined operating results, changes in net assets and cash flows of the Medical Center and IDI for the full fiscal year. In addition, the consolidated financial statements for 2008 have been restated to give effect to the combination. The effect of the restatement is included in the table below:

	2008 as Originally Reported	Effect of Restatement	2008 As Restated
Consolidated balance sheet			
Unrestricted net assets – October 1, 2007	$2,080,763	$ 8,215	$2,088,978
Total net assets – October 1, 2007	2,644,017	10,727	2,654,744
Total assets – September 30, 2008	3,392,191	30,091	3,422,282
Total liabilities – September 30, 2008	1,000,078	24,472	1,024,550
Unrestricted net assets – September 30, 2008	1,804,643	3,617	1,808,260
Total net assets – September 30, 2008	2,392,113	5,619	2,397,732
Consolidated statement of operations and changes in net assets			
Total revenues	$1,189,174	$38,567	$1,227,741
Gain from operations	67,826	(2,354)	65,472
Deficit of revenues over expenses	(21,686)	(2,394)	(24,080)

2. Investments and Other Assets Whose Use Is Limited or Restricted

Investments and other assets whose use is limited or restricted consist of the following at fair value for years ended September 30 (in thousands):

	2009	2008
Pooled investments:		
Investment pool by manager type:		
Equity securities	**$1,174,476**	$1,284,991
Fixed income securities	**770,913**	609,341
Other	**89,632**	71,370
Total pooled investments	**2,035,021**	1,965,702
Non-pooled investments:		
Cash equivalents	**200,156**	118,730
Equity securities	**2,790**	1,283
Fixed income securities	**18,731**	49,788
Real estate	**197,683**	149,255
Total non-pooled investments	**419,360**	319,056
Externally administered trusts (marketable debt and equity securities)	**39,167**	42,769
Total investments and other assets whose use is limited	**$2,493,548**	$2,327,527

Included in the pooled investments above are alternative investments of $941,000,000 and $760,000,000 as of September 30, 2009 and 2008, respectively.

2. Investments and Other Assets Whose Use Is Limited or Restricted (continued)

These investments and other assets whose use is limited or restricted are presented in the accompanying consolidated balance sheets as follows for years ended September 30 (in thousands):

	2009	2008
Investments, unrestricted as to use	**$ 970,968**	$ 921,969
Investments and other assets whose use is limited or restricted:		
By Board designation for plant replacement and expansion, and mission-related activities	**1,029,998**	933,936
By donor-imposed restriction	**439,852**	415,365
Under long-term debt agreements	**1,197**	1,509
By externally administered trusts	**39,167**	42,769
Other:		
As funds held for others	**1,676**	1,586
Under deferred compensation agreements	**9,552**	9,253
Other	**1,138**	1,140
	12,366	11,979
Total investments and other assets whose use is limited	**$2,493,548**	$2,327,527

The components of investment earnings include (in thousands):

	Unrestricted	Temporarily Restricted	Total
Year ended September 30, 2009			
Interest and dividend income:			
Operating revenue	**$ 15,930**	**$ –**	**$ 15,930**
Non-operating revenue	**5,849**	**–**	**5,849**
Increase in temporarily restricted net assets	**–**	**96**	**96**
Increase in value of alternative investments	**74,011**	**16,113**	**90,124**
Net realized gain	**8,485**	**2,997**	**11,482**
Other-than-temporary losses	**(44,944)**	**(9,627)**	**(54,571)**
Net unrealized gains	**36,978**	**10,092**	**47,070**
Total return on investments	**$ 96,309**	**$19,671**	**$115,980**

2. Investments and Other Assets Whose Use Is Limited or Restricted (continued)

	Unrestricted	Temporarily Restricted	Total
Year ended September 30, 2008			
Interest and dividend income:			
Operating revenue	$ 5,674	$ –	$ 5,674
Non-operating revenue	23,631	–	23,631
Increase in temporarily restricted net assets	–	2,005	2,005
Decrease in value of alternative investments	(59,119)	(16,354)	(75,473)
Net realized gain (loss)	55,144	(4,866)	50,278
Other-than-temporary losses	(59,313)	(14,763)	(74,076)
Net unrealized losses	(186,986)	(37,948)	(224,934)
Total return on investments	$(220,969)	$(71,926)	$(292,895)

Investment income is reported net of fees of $3,553,000 and $5,682,000 for the years ended September 30, 2009 and 2008, respectively.

The Medical Center retains professional investment managers for the management of all pooled investments. These managers invest in temporary cash investments, fixed income securities, and equities. In addition, as part of their investment strategy, certain managers may engage in short selling and futures and options trading. Management believes that the risk of accounting loss, associated with short selling and futures and options-trading strategies, is no greater than that associated with other investment strategies which do not involve off-balance sheet risk.

Management continually reviews its investment portfolio where the market value is below cost, and in cases where the decline is considered to be other-than-temporary, an adjustment is recorded to realize the loss. The Medical Center recorded a realized loss for other-than-temporary declines in the fair value of investments of approximately $54,571,000 and $74,076,000 for the years ended September 30, 2009 and 2008, respectively, of which $44,944,000 and $59,313,000, respectively, is included in unrestricted investment income, and $9,627,000 and $14,763,000, respectively, is included in changes in temporarily restricted net assets. Aggregate gross unrealized losses as of September 30, 2009 were $2,697,000 on investments with a fair value of $54,901,000. These investments were in a loss position for more than 12 consecutive months. Aggregate gross unrealized losses as of September 30, 2008 were $14,043,000 on investments with a fair value of $142,239,000. Included in those losses were investments in a loss position for more than 12 consecutive months, which totaled $6,921,000 with a fair value of $70,666,000. Management considers these investments core holdings, and believes that, given the modest percentage declines below cost, these investments are likely to recover the existing unrealized losses prior to sale.

3. Contributions

Contributions received and pledged to the Medical Center were as follows for the years ended September 30 (in thousands):

	2009	2008
Gross contributions	**$66,221**	$127,842
Provision for uncollectible pledges	**(32)**	(1,063)
Accretion (discounts)	**438**	(50)
Net contributions	**$66,627**	$126,729

These contributions are reported in the accompanying financial statements in accordance with donors' restrictions as follows for years ended September 30 (in thousands):

	2009	2008
Unrestricted contributions	**$16,635**	$ 16,223
Temporarily restricted	**29,756**	42,878
Permanently restricted	**20,236**	67,628
Net contributions	**$66,627**	$126,729

In addition to the $66,221,000 and $127,942,000 in gross contributions raised, the Medical Center raised $14,514,000 and $11,411,000 in non-governmental grant awards, to bring the total funds raised to $80,735,000 and $139,253,000 for the years ended September 30, 2009 and 2008, respectively.

Contributions pledged to the Medical Center are due as follows as for years ended September 30 (in thousands):

	2009	2008
Due in less than one year	**$36,458**	$31,383
Due in one to five years	**45,355**	54,018
Due in more than five years	**3,442**	735
	85,255	86,136
Less discount to present value	**(7,796)**	(8,119)
Less allowance for uncollectible pledges	**(4,266)**	(4,311)
Total pledges receivable, net	**$73,193**	$73,706

4. Free Care, Health Safety Net, and Community Services

The Hospital provides care to patients who meet certain criteria under its free care policy without expectation of payment or at amounts less than its established rates. As the Hospital does not pursue collection of amounts determined to qualify as free care, they are not reported as net patient services revenue. The Hospital also supports the delivery of health care services to the indigent through payments to the Health Safety Net Trust (HST) (formerly the Uncompensated Care Pool), which is administered by the Commonwealth of Massachusetts. The amounts of net receipts to HST, provision for uncollectible accounts, and free care were as follows for years ended September 30 (in thousands):

	2009	**2008**
HST receipts	**$ (6,667)**	$ (6,643)
HST tax	**12,201**	10,980
Net disbursements to HST	**5,534**	4,337
Provision for uncollectible accounts	**20,572**	24,025
Total HST expense	**26,106**	28,362
Free care (deductions from revenue at standard charge)	**6,564**	6,749
Total free care and HST	**$32,670**	$35,111

The Hospital also provides resources to support numerous initiatives aimed at contributing to the physical and psychological well-being of children, youth, and families living in the Hospital's community. The initiatives include programs at the Hospital, and in collaboration with community-based organizations, to provide comprehensive services to adolescent mothers and children, HIV outreach services, services to reduce infant mortality, assistance to the homeless, and training and other related services to individuals with developmental disabilities. The Hospital also provides medical services to the community through its emergency room, which operates 24 hours a day, and is available to all regardless of ability to pay.

5. Property, Plant, and Equipment

Property, plant, and equipment consist of the following for years ended September 30 (in thousands):

	2009	2008
Land and improvements	**$ 17,423**	$ 17,077
Buildings and improvements	**1,128,113**	1,074,725
Equipment	**485,042**	443,985
Construction-in-progress	**37,952**	50,391
	1,668,530	1,586,178
Less accumulated depreciation and amortization	**(870,051)**	(778,423)
	$ 798,479	$ 807,755

At September 30, 2009, the Medical Center had commitments of $78,152,000 to complete projects relating to capital construction and software development.

6. Asset Retirement Obligations

Conditional asset retirement obligations amounted to $17,362,000 and $16,959,000 as of September 30, 2009 and 2008, respectively. These obligations are recorded in other liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations.

During 2009 and 2008, retirement obligations incurred and settled were $2,219,000 and $3,944,000, respectively. Accretion expense of $1,480,000 and $1,389,000 was recorded during the years ended September 30, 2009 and 2008, respectively.

7. Other Assets

Other assets consist of the following for years ended September 30 (in thousands):

	2009	2008
Unamortized debt issuance costs	**$8,219**	$8,019
Other assets	**350**	350
	$8,569	$8,369

8. Leases

The Medical Center and Subsidiaries leases buildings under operating leases which expire at various dates through 2028. The obligations under non-cancelable leases as of September 30, 2009 are as follows (in thousands):

2010	$ 25,128
2011	25,415
2012	22,481
2013	21,128
2014	20,401
Thereafter	164,530
Total operating leases	$279,084

Rent expense was approximately $30,076,000 and $18,604,000 for the years ended September 30, 2009 and 2008, respectively.

9. Long-Term Debt and Mortgage Note

Long-term debt consists of the following for years ended September 30 (in thousands):

	2009	**2008**
Bank term loan	**$200,000**	$200,000
Massachusetts Health and Educational Facilities Authority (MHEFA) issues:		
Series K	**30,800**	30,800
Series J	**74,200**	74,200
Series I	**49,075**	49,075
Series H	**80,000**	80,000
Series G	**105,250**	105,250
Other	**4,203**	5,530
	543,528	544,855
Less current portion of long-term debt	**1,705**	1,545
	$541,823	$543,310

The estimated fair market value of long-term debt as of September 30, 2009 and 2008 approximated its carrying value.

9. Long-Term Debt and Mortgage Note (continued)

Summary information for each issue and the mortgage note follows:

Bank Term Loan

On August 28, 2008, the Hospital entered into a term loan agreement with a bank in the amount of $200,000,000. Proceeds from the loan were used to purchase the Children's Hospital Series L-1 and L-2 MHEFA Revenue Bonds from the bank. These bonds were previously purchased by the bank during 2008 under the terms of the standby bond purchase agreement which was triggered when remarketing efforts on these bonds began to fail. The Hospital recorded a related extinguishment loss during 2008 of $4,940,000. The bank loan bears interest at a variable rate (1.4% at September 30, 2009), and was scheduled to mature on October 15, 2009. Interest payments are due monthly. In 2009, the Hospital extended the terms of this loan through October 15, 2011.

Series L-2 Bonds

On May 9, 2006, the Hospital issued Series L-2 MHEFA Revenue Bonds in the aggregate principal amount of $120,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures.

In connection with the issuance of these variable rate demand bonds, the Hospital entered into a standby bond purchase agreement with a bank, whereby the bank agreed to purchase any tendered bond which is not otherwise purchased. During 2008, the bank purchased $120,000,000 of the Series L-2 Revenue Bonds, which were subsequently sold back to the Hospital as described under the bank term loan above.

Series L-1 Bonds

On May 5, 2004, the Hospital issued Series L-1 MHEFA Revenue Bonds in the aggregate principal amount of $80,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures.

In connection with the issuance of these variable rate demand bonds, the Hospital entered into a standby bond purchase agreement with a bank, whereby the bank agreed to purchase any tendered bond which is not otherwise purchased. During 2008, the bank purchased $80,000,000 of the Series L-1 Revenue Bonds, which were subsequently sold back to the Hospital as described under the bank term loan above.

9. Long-Term Debt and Mortgage Note (continued)

Series J and K Bonds

On July 12, 2002, the Hospital issued Series J and K MHEFA Revenue Bonds in the aggregate principal amount of $105,000,000. Proceeds from the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures, and refund the Series E Revenue Bonds. Interest on the bonds is variable based on 14-day (Series J) and weekly auctions (Series K), and was 0.18% on both Series J and K at September 30, 2009. Interest payments are due every 14 days on Series J and weekly for Series K. The first annual principal payment on Series J and K is due in 2022. Final principal payments are due in 2025 for Series K and in 2036 for Series J. There is no put feature back to the Hospital by bondholders and, as such, no commercial bank liquidity feature is required.

Series G, H, and I Bonds

On May 31, 2001, the Hospital issued Series G, H, and I MHEFA Revenue Bonds in the aggregate principal amount of $234,325,000. Proceeds from the bonds were used to reimburse and fund certain capital renovation and equipment expenditures, refund the Series F Revenue Bonds, and fund the construction of a new 12-story research building and a 10-story clinical expansion building. Interest on the bonds is variable based on daily (Series G) and weekly auctions (Series H and I), and was 0.30%, 0.17%, and 0.30% on Series G, H, and I, respectively, at September 30, 2009. Interest payments are due monthly on Series G and weekly for Series H and I. The first annual principal payment on Series G is due in 2030 and on Series H and I in 2026. Final principal payments are due in 2035 for Series G and 2040 for Series H and I. There is no put feature back to the Hospital by bondholders and, as such, no commercial bank liquidity feature is required.

Other

In October 2001, IDI established a variable interest rate (5.5% at September 30, 2009) line of credit at Citizens Bank for $2,000,000. At September 30, 2009 and 2008, IDI had $913,000 and $713,000, respectively, outstanding under the line of credit.

During 2004 and 2005, IDI, financed $1,120,000 through the MHEFA Pool M1-A program and $1,220,000 through the MHEFA Pool M3-B program. The financings were used for the purchase of certain equipment and bear interest at a variable rate (1.7% at September 30, 2009). Interest payments are due monthly. During 2008, IDI obtained additional MHEFA financing of $2,900,000. Principal and interest are paid semi-annually through 2013 at annual interest rates ranging from 3.0% to 4.4%. Total obligations under all capital leases approximated $3,285,000 at September 30, 2009. Future obligations amount to $1,117,000 in 2010, $998,000 in 2011, $755,000 in 2012 and $629,000 in 2013. Amounts representing capital interest approximates $214,000 at September 30, 2009.

9. Long-Term Debt and Mortgage Note (continued)

Mortgage Note

On August 1, 2008, Fenmore Realty Corporation entered into a mortgage note in the amount of $43,250,000. The note is secured by certain real estate investments with a value of approximately $66,730,000 at September 30, 2009. The note bears interest at a fixed rate of 6.53%, and matures at varying annual amounts through 2018. The principal and interest payments are $3,291,000 each year through 2018.

Interest Rate Swap Agreements

Inception Date	Notional Amount	Fixed Interest Rate	Maturity Date
December 2007	$120,000,000	3.42%	December 2041
May 2006	119,875,000	3.57	April 2040
August 2004	70,000,000	4.00*	October 2027
November 2003	50,000,000	3.13	November 2040
December 2001	35,000,000	4.72	December 2021
December 2001	35,000,000	4.72	December 2026
May 2001	105,250,000	4.58	December 2036

*Fixed at 4.0% through October 1, 2027, if the variable-rate tax-exempt index reaches 4.5%.

The Medical Center uses interest rate swap agreements in order to manage its interest rate risk associated with its outstanding debt. These swaps effectively convert interest rates on variable rate bonds to fixed rates. The interest rate swap agreements meet the definition of derivative instruments. Consequently, the fair value of the swaps (a liability of $88,642,000 and $53,459,000 at September 30, 2009 and 2008, respectively) is reported in other liabilities in the accompanying balance sheets, and the change in fair value during the year of $35,183,000 and $28,396,000 for the years ended September 30, 2009 and 2008, respectively, is reported as a non-operating loss in the statements of operations and changes in net assets. The swaps, while serving as an economic hedge, do not qualify as an accounting hedge.

Cash flows under the swaps netted to payments of approximately $15,118,000 and $7,287,000 in 2009 and 2008, respectively, and are included in interest expense.

Guaranteed Debt

As security to the Hospital's bank term loan, and Series G, H, I, J, K, L-1, and L-2 bondholders, the Medical Center has executed unconditional and irrevocable guaranties of full and punctual payment of all obligations of the Hospital under the terms of the related loan agreements.

9. Long-Term Debt and Mortgage Note (continued)

The Hospital has also guaranteed $630,000 of the principal of $4,410,000 of revenue bonds issued by MHEFA on behalf of the Community Health Center Capital Funds. As of September 30, 2009, there have not been any requirements to honor calls under this guarantee.

In accordance with the terms of the loan agreements for Series G, Series H, Series I, Series J, and Series K, certain funds were established with independent trustees. The purpose of each fund and its respective balance at September 30 is as follows (in thousands):

	2009	2008
Bond funds – to receive debt service payments from the Hospital, and to disburse such payments to the bondholders	**$ 1,197**	$ 1,509
	1,197	1,509
Current portion	**(1,197)**	(1,509)
	$ –	$ –

Interest paid was $20,381,000 and $28,184,000 for the years ended September 30, 2009 and 2008, respectively. In 2009, there was no interest capitalized in connection with ongoing construction projects. In 2008, interest capitalized in connection with ongoing construction projects approximated $1,658,000.

10. Restricted Net Assets

Temporarily restricted net assets at September 30 are comprised of the following (in thousands):

	2009	2008
Mission-related activities	**$163,375**	$142,933
Accumulated gains on permanently restricted net assets	**183,068**	178,724
	$346,443	$321,657

10. Restricted Net Assets (continued)

Permanently restricted net assets at September 30 are restricted as follows (in thousands):

	2009	2008
Investments to be held in perpetuity, the income from which is:		
Unrestricted as to use	**$ 27,446**	$ 25,402
Restricted for patient care-related activities	**129,339**	117,601
Restricted for research	**118,071**	111,071
Restricted for medical education	**16,510**	13,841
	$291,366	$267,915

The Medical Center follows the requirements of the Massachusetts UPMIFA as they relate to its permanently restricted endowments. The Medical Center's endowments consist of numerous individual funds established for a variety of purposes. Its endowments consist solely of donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Massachusetts requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Medical Center classifies permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. The Medical Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purpose of the Medical Center and the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) the investment policies of the Medical Center.

10. Restricted Net Assets (continued)

The components of endowment-related activities include the following:

	Board Designated Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total Endowment Funds
Year ended September 30, 2009				
Endowment net assets at beginning of year	**$238,368**	**$183,279**	**$265,551**	**$687,198**
Investment return:				
Investment income	**2,575**	**4,191**	**–**	**6,766**
Net appreciation	**15,149**	**21,150**	**–**	**36,299**
Total investment return	**17,724**	**25,341**	**–**	**43,065**
Contributions	**–**	**–**	**18,376**	**18,376**
Net asset reclassifications	**20,948**	**–**	**3,778**	**24,726**
Amounts appropriated for expenditure	**(13,588)**	**(20,371)**	**–**	**(33,959)**
Endowment net assets at end of year	**$263,452**	**$188,249**	**$287,705**	**$739,406**

	Board Designated Funds	Temporarily Restricted Funds	Permanently Restricted Funds	Total Endowment Funds
Year ended September 30, 2008				
Endowment net assets at beginning of year	$302,301	$257,890	$172,448	$ 732,639
Investment return:				
Investment income	2,878	4,472	–	7,350
Net depreciation	(38,503)	(63,487)	–	(101,990)
Total investment return	(35,625)	(59,015)	–	(94,640)
Contributions	–	–	63,401	63,401
Net asset reclassifications	9,330	–	29,702	39,032
Reclassification	(17,400)	–	–	(17,400)
Amounts appropriated for expenditure	(20,238)	(15,596)		(35,834)
Endowment net assets at end of year	$238,368	$183,279	$265,551	$ 687,198

10. Restricted Net Assets (continued)

The Medical Center's investment and spending policies for endowment assets are intended to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Medical Center must hold in perpetuity, and the unexpended appreciation on those funds and unrestricted funds which the Board has designated to function as endowments in support of mission related activities. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in manners that are expected to generate a long-term rate of return of approximately 8% per annum. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Medical Center relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized), and current yield (interest and dividends). The Medical Center targets a diversified asset allocation that consists of equities, fixed income, and alternative investments.

The Medical Center has a policy of appropriating, for distribution each year, no more than 5% of its endowment funds' "three-year trailing average market value". In establishing this policy, the Medical Center considered the long-term expected return on its endowments.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Medical Center to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets are $10,427,000 as of September 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

The Hospital's faculty match program is a donor match program where the Hospital matches certain permanently restricted gifts from donors under a pre-defined ratio. This program has resulted in several major gifts to the Hospital in support of certain strategic purposes.

Net assets were released from donor or grantor restrictions during the year ended September 30 by incurring expenses satisfying the following restricted purposes (in thousands):

	2009	2008
Mission-related activities	**$32,874**	$34,849
Property, plant, and equipment	**2,183**	7,965
	$35,057	$42,814

11. Net Patient Services Revenue

The Hospital has agreements with numerous third-party payors that provide for payments at amounts different from its established charges. Medicaid payments are based on a contract with the Massachusetts Executive Office of Health and Human Services, and reimbursed for services on a standardized payment-per-encounter basis for outpatients and a standardized per-adjusted-discharge basis for inpatients. The current year payments are reflective of current year inflation adjusted for prior year diagnoses, procedures, and case mix.

Contracts with managed care providers provide for payments based on a variety of methodologies, including discounted charges, per-case, and per-diem arrangements for inpatients, and discounted charges and fee schedule arrangements for outpatients. Commercial insurers reimburse the Hospital for services on the basis of established charges. Since the Hospital is a pediatric institution, it is exempt from the Federal Prospective Payment System, which governs Medicare reimbursement; therefore, the Hospital's Medicare reimbursement is based upon Medicare's proportionate share of reasonable costs.

During 2009 and 2008, in connection with special legislative appropriations, the Hospital received $21,333,000 and $21,697,000, respectively, from the Federal Children's Hospital's GME program for reimbursement of graduate medical education expense. During 2008, the Hospital received $7,141,000 from the State Medicaid program in connection with the disproportionate share program. This funding was discontinued in 2009. In 2009, the Hospital also recognized $729,000 from Massachusetts Medicaid for pediatric cases with a case mix index greater than five. There is no guarantee that similar appropriations will occur in the future, or at what level.

Differences between estimated and final settlements are recorded as contractual adjustments in the year determined. The Hospital recorded favorable adjustments of approximately $9,031,000 and $14,154,000 in 2009 and 2008, respectively, as a result of final settlements and other adjustments to prior year estimates.

The Hospital grants credit without collateral to its patients. The concentration of credit risk by payor as measured by patient accounts receivables, net of contractual adjustments, was as follows for the years ended September 30:

	2009	**2008**
Other managed care	**35%**	36%
Blue Cross	**27**	23
Medicaid	**16**	15
Commercial	**9**	10
Self-pay	**7**	9
Neighborhood Health Plan	**4**	5
Other governmental	**2**	2
Total	**100%**	100%

12. Employees' Retirement Plans

The Hospital sponsors two non-contributory, defined benefit retirement plans (the Regular Employees' Pension Plan and the Maintenance Employees' Pension Plan), which cover substantially all employees of the Hospital. The Hospital does not provide postretirement benefits other than pension to its retirees.

The Regular Employees' Pension Plan and the Maintenance Employee' Pension Plan are cash balance plans under which benefits are based on the annuitized value of a participant's account, which consists of basic credits (determined on age, years of vesting service, and compensation), plus interest credits thereon. The measurement date of these plans is September 30.

Reconciliation of Funded Status and Accumulated Benefit Obligation

A reconciliation of the changes in the Hospital's pension plans' projected benefit obligation and the fair value of assets, and the accumulated benefit obligation of the plans as of September 30, follows (in thousands):

	2009	2008
Change in benefit obligation		
Benefit obligation at beginning of year	**$ 308,303**	$ 303,516
Service cost	**24,508**	23,402
Interest cost	**19,759**	18,374
Amendments	**9**	–
Actuarial loss (gain)	**32,069**	(27,532)
Benefits paid	**(7,346)**	(9,457)
Benefit obligations at end of year	**377,302**	308,303
Change in plan assets		
Fair value of plan assets at beginning of year	**262,314**	304,962
Actual return on plan assets	**19,634**	(51,777)
Employer contribution	**42,000**	18,586
Benefits paid	**(7,346)**	(9,457)
Fair value of plan assets at end of year	**316,602**	262,314
Funded status	**$ (60,700)**	$ (45,989)
Accumulated benefit obligation	**$297,165**	$242,792

The funded status of the plans of $(60,700,000) and $(45,989,000), at September 30, 2009 and 2008, respectively, is reported in the accompanying balance sheets under long-term liabilities.

12. Employees' Retirement Plans (continued)

Net periodic pension cost includes the following components for years ended September 30 (in thousands):

	2009	2008
Components of net periodic benefit cost		
Service cost	**$24,508**	$23,402
Interest cost	**19,759**	18,374
Expected return on plan assets	**(17,549)**	(22,144)
Amortization of prior service cost	**118**	118
Recognized net actuarial gain	**1,441**	(217)
Net periodic pension cost	**$28,277**	$19,533

Included in unrestricted net assets at September 30, 2009 and 2008 are the following amounts that had not yet been recognized in net periodic pension cost: unrecognized prior service costs of $576,302 and $686,000, respectively, and unrecognized actuarial loss of $30,808,663 and $2,265,000, respectively. The prior service cost included as other changes in unrestricted net assets, and expected to be recognized in net periodic pension cost during the fiscal year ending September 30, 2010 is $118,000.

The weighted-average assumptions used to develop pension expense for the years ended September 30 are as follows:

	2009	2008
Weighted-average assumptions for pension cost		
Discount rate	**6.12%**	6.00%
Expected return on plan assets	**7.00**	7.00
Rate of compensation increase	**5.00**	5.00

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

The weighted-average assumptions used to develop the projected benefit obligation for years ended September 30 are as follows:

	2009	2008
Weighted-average assumptions for benefit obligation		
Discount rate	**5.95%**	6.50%
Rate of compensation increase	**5.00**	5.00

12. Employees' Retirement Plans (continued)

Plan Assets

The plans' investment objectives are to achieve long-term growth in excess of long-term inflation, and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize risk, the plans intend to minimize the variability in yearly returns. The plans also intend to diversify their holdings among asset classes, investment managers, sectors, industries, and companies. The asset policy guidelines include total equities between 50% and 75%, total fixed income between 10% and 40%, and other strategies between 5% and 25%.

The Hospital's pension plans' weighted-average asset allocations at September 30, by asset category, are as follows:

	2009	2008
Domestic equities	**40%**	46%
International equities	**12**	19
Fixed income	**23**	9
Other	**25**	26
Total	**100%**	100%

Contributions

The Hospital expects to contribute approximately $27,819,000 to its pension plans in 2010.

Estimated Future Benefit Payments

Benefit payments, which reflect expected future service, are expected to be paid as follows (in thousands):

Fiscal Year	Pension Benefits
2010	$ 17,672
2011	11,542
2012	13,160
2013	12,881
2014	14,866
Years 2015 – 2019	121,718

12. Employees' Retirement Plans (continued)

Certain physicians, by virtue of their joint appointments at the Hospital and Harvard University, are eligible for participation in the Harvard Retirement Plan for Teaching Faculty (the Harvard Plan), a defined contribution plan, and do not participate in the Hospital's plans. The Hospital's pension expense related to the Harvard Plan was approximately $3,217,000 and $3,074,000 for the years ended September 30, 2009 and 2008, respectively.

13. Professional Liability

The Hospital's primary professional and general liability insurance coverage is provided by Controlled Risk Insurance Company, Ltd. (CRICO), a corporation formed and wholly owned by the Harvard-affiliated medical institutions. The Hospital owns approximately 10% of CRICO's stock. The premiums that the Hospital pays to CRICO are actuarially determined based on asserted claims, and reported but unasserted claims, and have been discounted at a rate of 5.5%. CRICO obtains excess coverage from other insurers.

The Hospital's professional liability insurance policy is on a claims-made basis. The Hospital accrues a liability for claims incurred but not reported. At September 30, 2009 and 2008, the liability was $3,338,000 and $3,044,000, respectively.

Professional liability insurance expenses, net of recoveries, are as follows for years ended September 30 (in thousands):

	2009	2008
Professional liability insurance premiums, net of recoveries	**$4,368**	$3,778
Increase in reserve for incurred but not reported professional liability claims	**294**	606
Total	**$4,662**	$4,384

14. Fair Value of Financial Instruments

As described in Note 1, on October 1, 2008, the Medical Center adopted the methods of calculating fair value defined in Topic 820 to value its financial assets and liabilities, where applicable. Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. ASC Topic 820 applies to other accounting pronouncements that require or permit fair value measurements, and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

14. Fair Value of Financial Instruments (continued)

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, and considers non-performance risk in its assessment of fair value. Financial instruments carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 247,422	$ –	$ –	$ 247,422
Commingled equity securities	–	324,466	–	324,466
Fixed income securities	–	240,160	–	240,160
Equity securities	212,207	–	–	212,207
Mutual funds	330,376	–	–	330,376
	$790,005	$564,626	$ –	$1,354,631
Liabilities				
Interest rate swap agreements	$ –	$ 88,642	$ –	$ 88,642

14. Fair Value of Financial Instruments (continued)

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

The amounts reported in the table above exclude assets invested in the Hospital's defined benefit pension plan (Note 12) and alternative investments which are reported under the equity method of accounting.

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

Accounts payable and accrued expenses: The carrying amount reported in the combined balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated third-party payor settlements: The carrying amount reported in the combined balance sheets for estimated third-party payor settlements approximates its fair value.

The Medical Center's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately $542,000,000 and $543,000,000 at September 30, 2009 and 2008, respectively. The carrying value of these obligations approximated their fair value at September 30, 2009 and 2008.

15. Functional Expenses

The Medical Center is a multifaceted pediatric patient care provider dedicated to the improvement of the quality of life for children and their families. In its leadership role in pediatric medicine, the Medical Center focuses its efforts in three major areas: patient care, research, and medical education. Expenses related to providing these services are estimated for years ended September 30 as follows (in thousands):

	2009	2008
Patient care	**$ 919,644**	$ 862,641
Research	**297,636**	268,338
Medical education	**51,368**	45,444
Total expenses	**$1,268,648**	$1,176,423

16. Subsequent Events

On November 18, 2009, the Hospital issued Series M MHEFA Revenue Bonds in the aggregate principal amount of $126,110,000, Proceeds of the bonds were used to reimburse and fund certain capital additions, renovations, and equipment expenditures. The bonds, with a final maturity in December 2039, were issued at a net discount in the amount of $1,780,287 to bear interest at yields which increase from 5.30% to 5.40% as maturities lengthen. Interest payments are due semiannually. The first annual principal payment is due in 2033.

The Medical Center is negotiating with a third party to acquire an interest in a portfolio of private equity fund limited partner interests owned by such third party. The interests to be acquired by the Medical Center would represent approximately $100 million of capital commitments, of which approximately 90% are unfunded. No binding agreement has been reached with respect to the proposed transaction, and there is no assurance that a binding agreement will be executed by the parties. If the transaction is consummated as currently structured, the Medical Center would become liable for satisfying future capital calls with respect to the purchased portfolio of private equity interests over an expected time period of approximately three to nine years.

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UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Children's Medical Center and Subsidiaries
Three Month Period Ended December 31, 2009
With Report of Independent Auditors

Children's Medical Center and Subsidiaries

Unaudited Consolidated Financial Statements

Three Month Period Ended December 31, 2009

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Consolidated Financial Statements (Unaudited)

Children's Medical Center and Subsidiaries

Consolidated Balance Sheets

December 31, 2009 and September 30, 2009

	(Unaudited) December 31 2009	(Audited) September 30 2009
	(In Thousands)	
Cash and short term investments	**$ 71,630**	$ 47,804
Patient accounts receivable, net of allowance for uncollectible accounts of $18,507 on December 31 and $21,746 on September 30	**124,046**	127,613
Other receivables	**58,617**	57,316
Other current assets	**13,654**	10,972
Current portion of assets whose use is limited	**1,197**	1,197
Total current assets	**269,144**	244,902
Investments:		
Unrestricted as to use	**1,015,428**	970,968
Board-designated as to use	**1,088,954**	1,029,998
Donor restricted as to use	**491,508**	439,852
	2,595,890	2,440,818
Assets whose use in limited:		
By long-term debt agreements	**58,405**	
By externally administrated trusts	**39,645**	39,167
Other	**12,383**	12,366
	110,433	51,533
Property, plant and equipment, net	**794,416**	798,479
Pledges receivable, net of allowance for uncollectible pledges	**61,533**	73,193
Total other assets	**10,147**	8,569
Total assets	**$3,841,563**	$3,617,494

	(Unaudited) December 31 2009	(Audited) September 30 2009
	(In Thousands)	
Accounts payable and accrued expenses	**$ 103,930**	$ 128,879
Accrued salaries and wages	**66,718**	85,013
Current portion of estimated third-party liabilities	**7,914**	10,886
Deferred revenue	**37,593**	30,242
Current portion of long-term debt	**1,953**	1,705
Total current liabilities	**218,108**	256,725
Long-term debt	**666,153**	541,823
Long term portion of estimated third-party liabilities	**29,669**	30,861
Mortgage notes – private real estate	**69,991**	42,807
Net pension liability	**60,700**	60,700
Funds held for others	**34,231**	32,819
Other liabilities	**109,398**	135,580
Total long-term liabilities	**970,142**	844,590
Net assets:		
Unrestricted	**1,975,508**	1,878,370
Temporarily restricted	**352,405**	346,443
Permanently restricted	**325,400**	291,366
Total net assets	**2,653,313**	2,516,179
Total liabilities and net assets	**$3,841,563**	$3,617,494

See accompanying notes.

Children's Medical Center Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets

	(Unaudited) Three Months Ended December 31	
	2009	**2008**
	(In Thousands)	
Revenues:		
Net patient service revenue	**$249,169**	$ 240,270
Research grants and contracts	**40,553**	35,051
Recovery of indirect costs on grants and contracts	**16,522**	14,603
Other operating revenue	**16,715**	16,370
Unrestricted contributions, net of fund-raising expenses of $2,114 for 2009 and $3,277 for 2008	**2,314**	2,367
Net assets released from restriction used for operations	**14,487**	8,862
Total revenues	**339,760**	317,523
Expenses:		
Salaries and benefits	**141,190**	134,947
Supplies and other expenses	**101,102**	90,871
Direct research expenses of grants	**40,553**	35,051
Provision for uncollectible accounts	**1,945**	4,052
Uncompensated care pool assessment	**2,783**	3,209
Depreciation and amortization	**24,352**	23,361
Interest	**6,218**	4,941
Total expenses	**318,143**	296,432
Gain from current operations	**21,617**	21,091
Resolutions of prior year contractual arrangements	**3,353**	562
Gain from operations	**24,970**	21,653
Non-operating gains (losses):		
Income from investments	**1,312**	1,571
Net realized gain (loss) on investment transactions	**8,090**	(2,907)
Increase (decrease) in value of alternative investments	**23,314**	(44,953)
Recognition of losses on investment	**(546)**	(30,662)
Adjustment of interest rate swap to fair market value	**27,162**	(114,922)
Fund raising expenses on restricted contributions	**(3,513)**	(3,370)
Other non-operating expenses	**(1,163)**	(1,148)
Total non-operating gains (losses)	**54,656**	(196,391)
Excess (deficit) of revenues over expenses	**$ 79,626**	$(174,738)

Children's Medical Center and Subsidiaries

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

	(Unaudited) Three Months Ended December 31	
	2009	**2008**
	(In Thousands)	
Changes in unrestricted net assets:		
Excess (deficit) of revenues over expenses	**$ 79,626**	$ (174,738)
Net assets released from restrictions for capital asset acquisitions	**114**	65
Net unrealized gain (loss) on investments	**25,992**	(112,255)
Net asset transfer related to donor-match program	**(11,012)**	(1,014)
Appreciation on endowment funds	**2,404**	–
Other	**14**	226
Increase (decrease) in unrestricted net assets	**97,138**	(287,716)
Changes in temporarily restricted net assets:		
Contributions	**8,196**	8,305
Income and net realized gain (loss) on investments	**5,039**	(772)
Recognition of other-than-temporary losses on investments	**(145)**	(6,736)
Increase (decrease) in value of alternative investments	**4,950**	(9,876)
Net unrealized gain (loss) on investments	**4,885**	(42,106)
Appreciation on endowment funds	**(2,404)**	–
Net assets released from restrictions	**(14,601)**	(8,927)
Other	**42**	–
Increase (decrease) in temporarily restricted net assets	**5,962**	(60,112)
Changes in permanently restricted net assets:		
Contributions	**23,022**	8,880
Net assets transfer related to donor-match program	**11,012**	1,014
Increase in permanently restricted net assets	**34,034**	9,894
Increase (decrease) in net assets	**137,134**	(337,934)
Net assets at beginning of the period	**2,516,179**	2,397,732
Net assets at end of the period	**$2,653,313**	$2,059,798

See accompanying notes.

Children's Medical Center and Subsidiaries

Consolidated Statements of Cash Flows

	Unaudited Three Months Ended December 31	
	2009	**2008**
	(In Thousands)	
Operating activities		
Change in net assets	**$ 137,134**	$(337,934)
Non-cash activities included in change in net assets:		
Depreciation and amortization	**24,352**	23,361
Restricted contributions and investment income	**(32,505)**	(17,580)
Net realized and unrealized (gain) loss on investments	**(70,292)**	250,662
Changes in operating assets and liabilities:		
Patient accounts receivable	**3,567**	9,618
Other accounts receivable	**(1,301)**	(1,618)
Other current assets	**(2,683)**	(1,640)
Accounts payable and accrued expenses	**(43,244)**	(58,196)
Estimated third-party liabilities	**(4,164)**	(543)
Other liabilities	**(17,419)**	117,834
Net cash used in operating activities	**(6,555)**	(16,036)
Financing activities		
Issuance of long-term debt	**126,110**	–
Issuance of mortgage note	**27,837**	–
Bond issuance discount	**(1,780)**	–
Payment of bond issue costs	**(1,830)**	–
Payments of long-term debt and mortgage note	**(405)**	(389)
Decrease in pledges receivable	**11,660**	1,393
Restricted contributions and investment income	**32,505**	17,580
Net cash provided by financing activities	**194,097**	18,584
Investing activities		
Purchase of investments	**(190,966)**	(336,959)
Proceeds from sale of investments	**106,186**	352,898
Capital expenditures, net of retirements	**(20,036)**	(23,065)
(Decrease) increase in assets whose use is limited	**(58,900)**	6,451
Net cash used in investing activities	**(163,716)**	(675)
Net increase in cash and cash equivalents	**23,826**	1,873
Cash and cash equivalents at beginning of the period	**47,804**	32,424
Cash and cash equivalents at end of the period	**$ 71,630**	$ 34,297

See accompanying notes.

Children's Medical Center and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

December 31, 2009

1. Organization and Basis of Presentation

The accompanying consolidated financial statements include the accounts of Children's Medical Center Corporation (the Medical Center) and its subsidiaries, Children's Hospital (the Hospital), which engages in pediatric patient care, research, training, and community service; Children's Extended Care Center, Inc., which engages in pediatric patient care in a suburban environment; Longwood Research Institute, Inc., which holds real property for the benefit of the Hospital in the furtherance of its research mission; Fenmore Realty Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center; and Longwood Corporation, which owns and operates real property and distributes the net income of such property to the Medical Center.

Amounts for all periods presented reflect the integration of the Immune Disease Institute, Inc. which became a wholly owned subsidiary of the Medical Center in February 2009 in a business combination that was accounted for under the pooling of interests method. The pooling of interests method requires that financial statements for periods prior to the combination, presented for comparative purposes, be restated to reflect the combined financial position, operations and changes in net assets and cash flows of the combining organizations.

All material intercompany balances and transactions are eliminated in the consolidation. In preparing these interim consolidated financial statements, the Medical Center evaluated the events and transactions that occurred through May 7, 2010, the date at which the interim consolidated financial statements were issued.

The Medical Center presumes that users of this interim financial information have read or have access to the Medical Center's audited financial statements which include certain additional disclosures required by generally accepted accounting principles. The audited financial statements of the Medical Center for the years ended September 30, 2009 and 2008 are on file, pursuant to the Hospital's Continuing Disclosure Agreement, with the Nationally Recognized Municipal Securities Information Repositories, and the information contained therein is incorporated herein. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Medical Center's most recent audited financial statements have been omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the results for the interim periods have been included in the accompanying interim financial statements. All such adjustments are considered by management to be of a normal, recurring nature.

1. Organization and Basis of Presentation (continued)

Patient volumes and net operating revenues are subject to seasonal variations caused by a number of factors, including, but not necessarily limited to, climate and weather conditions, vacation patterns of hospital patients and admitting physicians and other factors relating to the timing of elective hospital procedures. Monthly operating results are not necessarily representative of operations for a full year for various reasons, including levels of occupancy and other patient volumes, interest rates, unusual or non-recurring items and other seasonal fluctuations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 amounts could differ from those estimates.

Tax Status

The Medical Center and three of its subsidiaries, the Hospital, Children's Extended Care Center, Inc., and Longwood Research Institute, Inc., are exempt from income taxes on related business income pursuant to Internal Revenue Code (the Code) Section 501(c)(3). Longwood Corporation and Fenmore Realty Corporation are exempt from income taxes on related business income pursuant to Code Section 501(c)(2).

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board, or FASB, issued an accounting standards update requiring additional disclosures regarding fair value measurements. The update requires reporting entities to disclose additional information regarding assets and liabilities that are transferred between levels within the fair value hierarchy. The update also clarifies the level of disaggregation at which fair value disclosures should be made and the requirements to disclose information about the valuation techniques and inputs used in estimating Level 2 and Level 3 fair values. The update is effective for annual reporting periods beginning after December 15, 2009.

2. Benefit Plans

The Hospital's pension plans weighted-average asset allocations at December 31, by asset category, are as follows:

	2009	**2008**
Domestic equities	**36%**	44%
International equities	**11**	12
Fixed income	**30**	17
Alternative investments	**23**	27
Total	**100%**	100%

The Medical Center contributed $27.1 million and $27.2 million, to its defined benefit pension plan during the three month periods ended December 31, 2009 and 2008, respectively. Pension expense pertaining to the defined benefit pension plan was approximately $6.5 million and $5.8 million, respectively, for the same periods.

The following table provides the components of the net periodic benefit cost for the defined benefit pension plan for the period ended December 31 (in thousands):

	2009	**2008**
Service cost – benefits earned during the period	**$ 6,784**	$ 5,678
Interest cost on projected benefit obligations	**5,373**	4,790
Expected return on plan assets	**(5,688)**	(4,723)
Accretion of prior service cost	**17**	18
Recognized actuarial loss (gain)	**–**	–
Net periodic benefit cost	**$ 6,486**	$ 5,763

3. Fair Value Measurements

On October 1, 2008, the Medical Center adopted the methods of calculating fair value defined in Topic 820 to value its financial assets and liabilities, where applicable. Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. Topic 820 applies to other accounting pronouncements that require or permit fair value measurements, and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective.

3. Fair Value Measurements (continued)

The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

Topic 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Medical Center uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value. Financial instruments carried at fair value as of December 31, 2009 are classified in the table below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Mutual and exchange traded funds	$346,969	$ –	$–	$ 346,969
Common stocks	245,565			245,565
Cash and cash equivalents	264,475			264,475
Fixed income securities		272,840		272,840
Commingled equity securities		346,546		346,546
	$857,009	$619,386	$–	$1,476,395

3. Fair Value Measurements (continued)

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

The amounts reported in the table above exclude assets invested in the Hospital's defined benefit pension plan (Note 2) and alternative investments which are reported under the equity method of accounting.

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

Accounts Payable and Accrued Expenses

The carrying amount reported in the combined balance sheets for accounts payable and accrued expenses approximates its fair value.

Estimated Third-Party Payor Settlements

The carrying amount reported in the combined balance sheets for estimated third-party payor settlements approximates its fair value.

The Medical Center's long-term debt obligations are reported in the accompanying statements of financial position at principal value less unamortized discount or premium, which totaled approximately $666,000,000 and $542,000,000 at December 31, 2009 and 2008, respectively. The carrying values of the assets set aside in the defined benefit pension trust consist primarily of equity securities, fixed income securities and alternative investments.

Assets set aside in the defined benefit pension trust totaled $346,044,000 at December 31, 2009 and consisted primarily of equity securities, fixed income securities and alternative investments (Note 2). Equity securities are valued at quoted market prices (Level 1), fixed income securities (Level 2) are valued primarily is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers. Alternative investments (Level 3) are valued at the Hospital's interest in the net assets of the underlying limited partnership or trust as a practical expedient to an independent fair value estimate.

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DEFINITIONS OF CERTAIN TERMS

In addition to the terms defined elsewhere in this Official Statement, unless the context otherwise requires, the following terms shall have the following meanings in the Master Indenture, the Supplemental Master Indenture and the Agreement:

"Act" means Chapter 614 of the Massachusetts Acts of 1968 as amended from time to time.

"Agreement" means (i) with respect to the Series N-1 Bonds and the Series N-2 Bonds, the Loan and Trust Agreement dated as of May 1, 2010 among the Massachusetts Health and Educational Facilities Authority, The Children's Hospital Corporation and U.S. Bank National Association, as Trustee providing for the issuance of the Series N-1 Bonds and the Series N-2 Bonds and (ii) with respect to the Series N-3 Bonds and the Series N-4 Bonds, the Loan and Trust Agreement dated as of May 1, 2010 among the Massachusetts Health and Educational Facilities Authority, The Children's Hospital Corporation and U.S. Bank National Association, as Trustee providing for the issuance of the Series N-3 Bonds and the Series N-4 Bonds.

"Auction Agent" means the auctioneer appointed in accordance with the Agreement.

"Authorized Denominations" means (i) with respect to Bonds in a Daily Mode or Weekly Mode, $100,000 and any integral multiple of $5,000 in excess thereof, (ii) with respect to Bonds in a Flexible Mode, $100,000 and any integral multiple of $1,000 in excess thereof, (iii) with respect to Bonds in the Adjusted Index Term Mode or the Long-Term Mode, $5,000 and any integral multiple thereof and (iv) with respect to Bonds in a PARS Rate Period, as set forth in the Agreement.

"Authorized Officer" means: (i) in the case of the Authority, the Chair, Vice Chair, Executive Director, Director of Financing Programs, Deputy Director of Financing Programs, Associate Director of Financing Programs or Director of Finance, and when used with reference to an act or document of the Authority also means any other person authorized to perform the act or execute the document; and (ii) in the case of the Corporation, the Chair or other presiding officer of the Board of Trustees, the President and Chief Operating Officer, Chief Executive Officer, Senior Vice President and Chief Financial Officer, Director or other financial officer or any Assistant Treasurer, and when used with reference to an act or document of the Corporation, also means any other person authorized to perform the act or execute the document; and (iii) in the case of the Trustee, the President, any Vice President, Managing Director, Assistant Vice President, Secretary, Assistant Secretary, Treasurer or Assistant Treasurer, and when used with reference to an act or document of the Trustee also means any other person authorized to perform the act or sign the document.

"Bank" means (i) with respect to the Series N-1 Bonds and the Series N-2 Bonds, TD Bank, National Association and any successor thereto and (ii) with respect to the Series N-3 Bonds and the Series N-4 Bonds, JP Morgan Chase Bank, National Association, and any successor thereto, each as providers of Letters of Credit, or any provider of a replacement or substitute Letter of Credit pursuant to the terms of the Agreements.

"Bond Counsel" means any attorney at law or firm of attorneys selected by the Authority, of nationally recognized standing in matters pertaining to the federal tax exemption of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States.

"Bond Year" means each one year period (or shorter period from the date of issue of the Bonds) ending on September 30.

"Bondowners" or "Owners" means the registered owners of the Bonds from time to time as shown in the books kept by the Trustee as bond registrar and transfer agent.

"Bonds" means, collectively, the $50,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-1 (2010) (the "Series N-1 Bonds"), $75,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-2 (2010) (the "Series N-2 Bonds"), $65,000,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-3 (2010) (the "Series N-3 Bonds") and $151,590,000 Massachusetts Health and

Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-4 (2010) (the "Series N-4 Bonds"), each dated their date of delivery, and any Bond or Bonds duly issued in exchange or replacement therefor.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in the Agreement that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation, with the consent of the Authority and that is a party to a Broker-Dealer Agreement, as defined in the Agreements with the Auction Agent.

"Business Day" means any day (i) that is not a Saturday or Sunday, (ii) on which banks are not required or authorized to close in New York, New York or Boston, Massachusetts, (iii) on which banking institutions in each of the cities in which the principal offices of the Trustee, the Remarketing Agent, if any, the Auction Agent, if any, any Broker-Dealer and the Bank (and the office of the Bank specified for draws under the Letter of Credit) are located are not required or authorized to remain closed and (iv) on which the New York Stock Exchange or, except with respect to Bonds in the PARS Rate Period, the payment system of the Federal Reserve System is not closed.

"Continuing Disclosure Agreement" means, for any period during which the Bonds are subject to continuing disclosure requirements under federal securities laws, a Continuing Disclosure Agreement between the Corporation and Trustee, as originally executed and as it may be amended from time to time in accordance with its terms.

"Conversion Date" means the date on which a new Mode becomes effective.

"Corporation Bonds" means those Bonds purchased with moneys of the Corporation under the Agreement.

"Credit Facility" means a direct-pay letter of credit, insurance policy, surety bond, line of credit or other instrument then in effect which secures or guarantees the payment of principal of and interest on a series of Bonds, if any. The initial Credit Facilities shall be the Letters of Credit.

"Credit Provider" means any bank, insurance company, pension fund or other financial institution which provides a Credit Facility or Alternate Credit Facility for a series of Bonds. The initial Credit Provider shall be the Bank.

"Date of Issuance" means, with respect to the Bonds, May 13, 2010.

"Electronic Means" means telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including a telephonic communication confirmed by any other method set forth in this definition.

"Eligible Account" means an account that is either (a) maintained with a federal or state-chartered depository institution or trust company, including the Trustee, that has S&P's short-term debt rating of at least "A-2" (or, if no short-term debt rating, a long-term debt rating of "BBB+") or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution, including the Trustee, subject to regulations regarding fiduciary funds on deposit, which, in either case, has corporate trust powers and is acting in its fiduciary capacity. In the event that an account required to be an "Eligible Account" no longer complies with the requirement, the Trustee shall promptly (and, in any case, within not more than 30 calendar days) move such account to another financial institution such that the Eligible Account requirement will again be satisfied.

"Eligible Funds" means (i) amounts drawn on any Credit Facility or Liquidity Facility, as applicable; (ii) amounts paid to the Trustee pursuant to the Agreement which have been held by it for a period of at least 123 days during which no Event of Bankruptcy has occurred and which have been commingled only with other Eligible Funds; (iii) amounts which if applied to the payment of the Bonds would not, in the opinion of nationally recognized counsel experienced in bankruptcy matters selected by the Corporation and satisfactory to the Trustee and Moody's if Moody's is then rating the Bonds, be subject to avoidance as a preference under the United States Bankruptcy Code upon an Event of Bankruptcy; (iv) remarketing proceeds and proceeds of obligations issued to refund all or a portion of the Bonds; and (v) income derived from investment of the foregoing. The Trustee shall maintain records of Eligible Funds held by it.

"Event of Bankruptcy" means the filing of a petition in bankruptcy or the commencement of a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against the Corporation, any guarantor of the Bonds (other than the Bank) or the Authority, as debtor.

"Favorable Opinion of Bond Counsel" means, with respect to any action the occurrence of which requires such an opinion, an unqualified Opinion of Counsel, which shall be a Bond Counsel, to the effect that such action is permitted under the Act and the Agreement and will not impair the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation or the exemption of interest on the Bonds from personal income taxation under the laws of The Commonwealth of Massachusetts (subject to the inclusion of any exceptions contained in the opinion delivered upon original issuance of the Bonds).

"Fitch" means Fitch Ratings Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Corporation.

"Fixed Rate Conversion Date" means, with respect to all or a portion of the Bonds to be converted to the Fixed Rate Mode, the date on which the Fixed Rate shall take effect with respect to such Bonds.

"Government or Equivalent Obligations" means (i) obligations issued or guaranteed by the United States; (ii) certificates evidencing ownership of the right to the payment of the principal of and interest on obligations described in clause (i), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee or the Authority, as the case may be, in a special account separate from the general assets of such custodian and (iii) bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (B) which are fully secured as to principal and interest by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) or (ii) which fund may be applied only to the payment when due of interest and principal on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) or (ii), as the case may be, which have been deposited in such fund on deposit in such fund is sufficient to pay interest when due and principal on the bonds or other obligations described in this clause (iii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (A) of this clause (iii), as appropriate.

"Guaranty" means the Guaranty of Obligation No. 19, 20, 21 and 22 dated May 13, 2010 from The Children's Medical Center Corporation to the Master Trustee.

"Interest Payment Date" means each date on which interest is to be paid.

"IRC" means the Internal Revenue Code of 1986, as it may be amended and applied to the Bonds from time to time.

"Letter of Credit" means with respect to the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds, the irrevocable letter of credit issued by the applicable Bank for the benefit of the Trustee with respect to the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds, respectively, and any extension thereof, or any replacement or substitute letter of credit issued in accordance with the terms of the applicable Agreement.

"Liquidity Facility" means any letter of credit, line of credit, standby purchase agreement or other instrument then in effect which provides for the purchase of Bonds upon the tender thereof in the event remarketing proceeds are insufficient therefor.

"Liquidity Provider" means any bank, insurance company, pension fund or other financial institution which provides a Liquidity Facility or Alternate Liquidity Facility for the Bonds.

"Master Indenture" means the Amended and Restated Master Trust Indenture dated as of April 10, 2001, between the Corporation and the Master Trustee, as amended and supplemented from time to time.

"Master Trustee" means U.S. Bank National Association (as successor to State Street Bank and Trust Company, as successor to BayBank Middlesex), and its successors as Master Trustee under the Master Indenture.

"Maturity Date" means, with respect to Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and Series N-4 Bonds, in a Variable Rate Mode, October 1 of the years 2029, 2042, 2038 and 2049, respectively.

"Maximum Rate" with respect to Bonds in a Variable Rate Mode means the lesser of (a) twelve percent (12%) per annum for Bonds and (b) the maximum rate of interest permitted by applicable law.

"Moody's" means Moody's Investors Service, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities ratings agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Corporation.

"Non-Reinstatement Notice Period" means (i) with respect to the Series N-1 Bonds and the Series N-2 Bonds, ten (10) calendar days and (ii) with respect to the Series N-3 Bonds and the Series N-4 Bonds, five (5) calendar days.

"Note" means, collectively, Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 issued under the Master Indenture.

"Opinion of Counsel" means a written legal opinion from a firm of attorneys experienced in the matters to be covered in the opinion.

"Outstanding," when used to modify Bonds, refers to Bonds issued under the Agreement, excluding: (i) Bonds which have been exchanged or replaced, or delivered to the Trustee for credit against a principal payment or sinking fund installment; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; (iv) Bonds deemed tendered for purchase and not delivered to the Trustee on the Purchase Date, provided sufficient funds for payment of the Purchase Price are on deposit with the Trustee; and (v) Bonds for which there have been irrevocably set aside sufficient funds, or non-callable Government or Equivalent Obligations bearing interest at such rates, and with such maturities as will provide sufficient funds, to pay or redeem them, provided, however, that if any such Bonds are to be redeemed prior to maturity, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee.

"PARS Rate" means the rate of interest, determined in accordance with the Agreement, to be borne by the Bonds during each Auction Period, as defined in the Agreement.

"Person" means any natural person, corporation, limited liability company, partnership, trust, joint venture, association, company, estate, unincorporated organization or any other entity or organization, including a government or any agency or political subdivision or instrumentality thereof.

"Project" means the acquisition of land, site development, construction or alteration of buildings or the acquisition or installation of furnishings and equipment, or any combination of the foregoing, in connection with the projects financed and refinanced by the Series G, H and I Bonds and the Series J and K Bonds, including:

Series G, H and I projects – the projects originally financed by the Authority's Variable Rate Demand Revenue Bonds, Children's Hospital Issue, Series F, which included (1) (a) the demolition of a building located at 283 Longwood Avenue, Boston, Massachusetts, commonly known as the Gardner House; (b) the construction of a

parking garage of approximately 246,000 square feet at 283 Longwood Avenue, Boston, Massachusetts; (c) the demolition of a parking garage located at 319R Longwood Avenue, Boston, Massachusetts, commonly known as the Blackfan Garage; (d) the construction of an approximately 5,000 square foot addition to the Main Building of the Corporation for the purpose of providing additional space for radiology and surgical services; and (e) the acquisition of various capital equipment and other capital expenditures and renovations to the Main Building described above and other existing facilities of the Corporation located at 300 Longwood Avenue, Boston, Massachusetts 02115 (the "Corporation Campus"); and (2) (a) the construction of a new 12-story, approximately 300,000 square foot, research building and an attached underground parking garage to be located adjacent to the Corporation's Campus at 1 Blackfan Circle, Boston, Massachusetts; (b) the construction of a new 10-story, approximately 250,000 square foot, clinical building to be located on the Corporation Campus; (c) the routine construction, renovation, and equipping of capital improvements at 22 Hillside Avenue, Groton, Massachusetts, on behalf of Children's Extended Care Center, Inc.; and (d) the acquisition and installation of capital equipment and construction of improvements and renovations to existing facilities of the Corporation and other routine capital expenditures included in the Corporation's capital budget, at the addresses listed above and at facilities at 283, 320, 333 and 350 Longwood Avenue, 55 Shattuck Street, 819 Beacon Street, 1295 Boylston Street, 21-27 Burlington Street, 400 The Fenway, 77 Avenue Louis Pasteur, 3 Blackfan Circle, and 1542 Tremont Street, Boston, Massachusetts, and at 482 Bedford Street, Lexington, Massachusetts, 75 Bickford Street, Jamaica Plain, Massachusetts, and One Essex Center, Peabody, Massachusetts.

Series J and K projects – (1) the projects originally financed by the Authority's Revenue Bonds, Children's Hospital Issue, Series E, which included (a) the construction of an approximately 24,500 square foot Multidisciplinary Intensive Care Unit on the Corporation Campus for the purpose of housing 36 additional beds; (b) the construction of a ten-story inpatient facility of approximately 328,000 square feet on the Corporation Campus for the purpose of replacing 271 beds and providing new facilities for diagnostic radiology, surgery, emergency room and other services; (c) the renovation of approximately 216,000 square feet of inpatient facilities located on the Corporation Campus to provide for additional laboratory and administrative space; (d) the renovation of approximately 9,000 square feet of inpatient care space in the Judge Baker Children's Center, located at 295 Longwood Avenue; (e) the addition of approximately 170,000 square feet of laboratory space to the Enders Pediatric Research Laboratories located on the Corporation Campus; (f) the acquisition of land and a building of approximately 57,000 square feet located at 482 Bedford Street, Lexington, Massachusetts and renovations to said building for the purpose of providing a Corporation facility to be used primarily for ambulatory care; and (g) the acquisition of various capital equipment and other capital expenditures and renovations to existing facilities of the Corporation located on the Corporation Campus; and (2) (a) the acquisition and renovation of an approximately 25,000 square foot building located at 21 Autumn Street primarily for the purpose of administrative functions; (b) additional costs related to the construction of a new 10-story, approximately 250,000 square foot, clinical building located on the Corporation Campus; and (c) the acquisition and installation of capital equipment and construction of improvements and renovations to existing facilities of the Corporation and other routine capital expenditures included in the Corporation's capital budget, at the addresses listed above and at facilities at 283, 320, 333 and 350 Longwood Avenue, 55 Shattuck Street, 819 Beacon Street, 1295 Boylston Street, 21-27 Burlington Street, 400 The Fenway, 77 Avenue Louis Pasteur, 3 Blackfan Circle, and 1542 Tremont Street, Boston, Massachusetts, and at 482 Bedford Street, Lexington, Massachusetts, 75 Bickford Street, Jamaica Plain, Massachusetts, and One Essex Center, Peabody, Massachusetts.

"Rating Agency" means any of Moody's, S&P or Fitch, which is then providing a rating on the Bonds.

"Reimbursement Agreement" means, initially, (a) the Reimbursement Agreement dated as of May 1, 2010 between the Bank and the Corporation and any amendments and supplements thereto and thereafter (b) any reimbursement agreement, credit agreement, line of credit agreement, standby purchase agreement or other agreement, by and between the Credit Provider or Liquidity Provider, as applicable, and the Corporation.

"Revenues" means all rates, payments, rents, fees, charges, and other income and receipts, including proceeds of insurance, eminent domain and sale, and including proceeds derived from any security provided under the Agreement, payable to the Authority or the Trustee under the Agreement, excluding administrative fees of the Authority, fees of the Trustee, reimbursements to the Authority or the Trustee for expenses incurred by the Authority or the Trustee, and indemnification of the Authority and the Trustee.

"S&P" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities ratings agency, then the term "S&P" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Corporation.

"Securities Depository" or "DTC" means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation which agrees to follow the procedures required to be followed by such securities depository in connection with the Bonds.

"Series G, H and I Bonds" means the Authority's Revenue Bonds, Children's Hospital Issue, Series G, Series H and Series I, Periodic Auction Reset Securities (PARS), issued on May 31, 2001.

"Series J and K Bonds" means the Authority's Revenue Bonds, Children's Hospital Issue, Series J and Series K, Periodic Auction Reset Securities (PARS), issued on July 12, 2002.

"Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22" means the Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 between the Corporation and the Master Trustee.

"Tax Certificate and Agreement" means the Tax Certificate and Agreement between the Authority and the Corporation dated the date of original issuance of the Bonds.

"UCC" means the Massachusetts Uniform Commercial Code.

"Variable Rate Mode" means the Daily Mode, Weekly Mode, Flexible Mode, Adjusted Index Term Mode or Term Rate Mode (all as defined in the Agreement).

Variable Rate Mode Definitions

In addition to the terms defined elsewhere in this Official Statement, unless the context otherwise requires, the following terms shall have the following meanings in the Master Indenture, the Supplemental Master Indenture and the Agreement with respect to Bonds in a Variable Rate Period:

"Adjusted Index Rate" means the sum of the SIFMA Rate or LIBOR Rate, as applicable, plus the per annum spread determined as described in the Agreement.

"Adjusted Index Rate Period" means the period during which a Bond in the Adjusted Index Term Mode shall bear interest at an Adjusted Index Rate, which shall be from the Business Day following the Adjustment Date to and including the next succeeding Adjustment Date.

"Adjusted Index Term Mode" means the Short-Term Mode during which Bonds bear interest at the Adjusted Index Rate during the Adjusted Index Term Period.

"Adjusted Index Term Period" means the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Bonds shall be in the Adjusted Index Term Mode as established by the Corporation for the Bonds pursuant to the Agreement and thereafter, the period from (and including) the beginning date of each successive Adjusted Index Term Mode selected by the Corporation for the Bonds to (but excluding) the commencement date of the next succeeding Interest Period, including another Adjusted Index Term Period. Except as otherwise provided in the Agreement, an Interest Period for the Bonds in the Adjusted Index Term Mode must be at least 180 days in length.

"Adjustment Date" means Wednesday of each week, or if such day is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day.

"Affiliate" means any person controlled by, in control of or under common control with the Authority or the Corporation.

"Alternate Credit Facility" or "Alternate Liquidity Facility" means a letter of credit, insurance policy, line of credit, surety bond, standby purchase agreement or other security or liquidity instrument, as the case may be, issued in accordance with the terms of the Agreement as a replacement or substitute for any Credit Facility or Liquidity Facility, as applicable, then in effect.

"Alternate Rate" means, on any Rate Determination Date, a rate per annum equal to 110% of the SIFMA Rate most recently available as of the date of determination. The Trustee shall make the determinations required by this definition, upon notification from the Authority, if there is no Remarketing Agent, if the Remarketing Agent fails to make any such determination or if the Remarketing Agent has suspended its remarketing efforts in accordance with the Remarketing Agreement.

"Automatic Termination Event" means an event of default set forth in any Reimbursement Agreement which would result in the immediate termination of a Liquidity Facility prior to its stated expiration date without at least thirty days' prior notice from the Liquidity Provider to the Trustee, other than a termination upon the substitution of an Alternate Liquidity Facility.

"Available Amount" means the amount available under the Credit Facility or Liquidity Facility, as applicable, to pay the principal of and interest on the Bonds or the Purchase Price of the Bonds, as applicable.

"Bank Bonds" shall mean any Bonds purchased by or pledged to the Credit Provider, which Bonds were purchased with funds drawn on or advanced under the Credit Facility.

"Beneficial Owner" means, so long as the Bonds are negotiated in the Book-Entry-Only System, any Person who acquires a beneficial ownership interest in a Bond held by the Securities Depository. If at any time the Bonds are not held in the Book-Entry-Only System, Beneficial Owner means Owner for purposes of the Agreement.

"Calculation Agent" means the agent designated from time to time by the Corporation, in accordance with the Agreement to determine the Adjusted Index Rate in accordance with the Agreement.

"Conversion Date" means, with respect to all or a portion of a series of Bonds in the Daily Mode, Weekly Mode, Flexible Mode, Adjusted Index Term Mode or Term Rate Mode to be converted to a PARS Rate or a Fixed Rate, the date on which such Bonds begin to bear interest at a PARS Rate or a Fixed Rate, as applicable.

"Corporation Purchase Account" means the account by that name created in the Agreement.

"Credit Facility Failure" or "Liquidity Facility Failure" means a failure of a Credit Provider or Liquidity Provider, as applicable, to pay a properly presented and conforming draw or request for advance under the Credit Facility or Liquidity Facility, as applicable, or the filing or commencement of any bankruptcy or insolvency proceedings by or against the Credit Provider or Liquidity Provider, as applicable.

"Credit Facility Fund" means the account by that name created in the Agreement.

"Current Mode" means the mode then prevailing when the Corporation gives written notice of its intention to effect a change in Mode, as provided in the Agreement.

"Daily Mode" means the Mode during which the Bonds bear interest at the Daily Rate.

"Daily Rate" means the per annum interest rate on any Bond in the Daily Mode determined pursuant to the Agreement.

"Daily Rate Period" means the period during which a Bond in the Daily Mode shall bear interest at a Daily Rate, which shall be from the Business Day upon which a Daily Rate is set to but not including the next succeeding Business Day.

"Effective Date" means the date on which a new interest rate takes effect.

"Expiration Date" means the stated expiration date of any Credit Facility or Liquidity Facility, as it may be extended from time to time as provided in the Credit Facility or Liquidity Facility, or any earlier date on which any Credit Facility or Liquidity Facility shall terminate, expire or be cancelled.

"Fixed Rate" means the per annum interest rate on any Bond in the Fixed Rate Mode determined pursuant to the Agreement.

"Fixed Rate Bond" means a Bond in the Fixed Rate Mode.

"Fixed Rate Mode" means the Mode during which the Bonds bear interest at the Fixed Rate.

"Fixed Rate Period" means for the Bonds in the Fixed Rate Mode, the period from the Mode Change Date upon which the Bonds were converted to the Fixed Rate Mode to but not including the Maturity Date for the Bonds.

"Flexible Rate Bond" means a Bond in the Flexible Mode.

"Flexible Mode" means the Mode during which the Bonds bear interest at the Flexible Rate.

"Flexible Rate" means the per annum interest rate on a Bond in the Flexible Mode determined for such Bond pursuant to the Agreement. The Bonds in the Flexible Mode may bear interest at different Flexible Rates.

"Flexible Rate Period" means the period of from one to 360 calendar days (which period must end on a Business Day) during which a Flexible Rate Bond shall bear interest at a Flexible Rate, as established by the Remarketing Agent pursuant to the Agreement. The Bonds in the Flexible Mode may be in different Flexible Rate Periods.

"Interest Accrual Period" means the period during which a Bond accrues interest payable on the next Interest Payment Date applicable thereto. With respect to any Mode, each Interest Accrual Period shall commence on (and include) the last Interest Payment Date to which interest has been paid (or, if no interest has been paid in such Mode, from the date of original authentication and delivery of the Bonds, or the Mode Change Date, as the case may be) to, but not including, the next Interest Payment Date. If, at the time of authentication of any Bond, interest is in default or overdue on the Bonds, such Bond shall bear interest from the date to which interest has previously been paid in full or made available for payment in full on Outstanding Bonds.

"Interest Payment Date" means each date on which interest is to be paid and is: (i) with respect to the Bonds in the Flexible Mode, each Mandatory Purchase Date applicable thereto; (ii) with respect to the Bonds in the Daily Mode, Weekly Mode or Adjusted Index Term Mode, the first Business Day of each month; (iii) with respect to the Bonds in a Long-Term Mode, the first day of the sixth calendar month following the month in which such Long-Term Mode takes effect, and the first day of each sixth calendar month thereafter or, upon the receipt by the Trustee of a Favorable Opinion of Bond Counsel, any other six-month interval chosen by the Corporation (beginning with the first such day which is at least three months after the Mode Change Date) and, with respect to a Term Rate Period, the day next succeeding the final day of the current Interest Period if other than a regular six-month interval; (iv) (without duplication as to any Interest Payment Date listed above) any Mode Change Date and the Maturity Date; and (v) with respect to any Bank Bonds or Liquidity Provider Bonds, the day set forth in the Reimbursement Agreement then in effect.

"Interest Period" means, for the Bonds in a particular Mode, the period of time that the Bonds bear interest at the rate (per annum), or with respect to Bonds in an Adjusted Index Term Period, at the Adjusted Index Rate, which becomes effective at the beginning of such period, and shall include a Flexible Rate Period, a Daily Rate Period, a Weekly Rate Period, a Term Rate Period, an Adjusted Index Term Period, a Fixed Rate Period or a PARS Rate Period.

"LIBOR Rate" means 68% of One Month LIBOR.

"Liquidity Provider Bonds" means any Bonds purchased by a Liquidity Provider with funds drawn on or advanced under a Liquidity Facility.

"Long-Term Mode" means a Term Rate Mode or a Fixed Rate Mode.

"Mandatory Purchase Date" means: (i) with respect to a Flexible Rate Bond, the first Business Day following the last day of each Flexible Rate Period with respect to such Bond, (ii) for Bonds in the Term Rate Mode, the first Business Day following the last day of each Term Rate Period, (iii) for Bonds in the Adjusted Index Term Mode, the first Business Day following the last day of each Adjusted Index Term Period, (iv) any Mode Change Date, (v) for any Bonds that are secured by a Credit Facility or the purchase of which is provided for by a Liquidity Facility, any Substitution Date (other than a substitution of an Alternate Credit Facility for Credit Facility while the applicable Bonds are in the Fixed Rate Mode), (vi) for any Bonds which are secured by a Credit Facility or the purchase of which is provided for by a Liquidity Facility, the fifth Business Day prior to the Expiration Date (other than as a result of an Automatic Termination Event with respect to a Liquidity Facility), and (vii) for any Bonds that are secured by a Credit Facility or the purchase of which is provided for by a Liquidity Facility, on the date of receipt by the Trustee of written notice from the Credit Provider or Liquidity Provider, pursuant to the Agreement, following the occurrence of an event of default due to non-reinstatement under the Letter of Credit or any other event of default (other than an Automatic Termination Event with respect to a Liquidity Facility) under the Reimbursement Agreement (upon which date interest on the Bonds shall cease to accrue).

"Mode" means, as the context may require, the Flexible Mode, the Daily Mode, the Weekly Mode, the Term Rate Mode, the Adjusted Index Term Mode, the PARS Rate Period or the Fixed Rate Mode.

"Mode Change Date" means with respect to the Bonds in a particular Mode, the day on which another Mode for the Bonds begins.

"Mode Change Notice" means the notice from the Corporation to the other Notice Parties of the Corporation's intention to change the Mode with respect to the Bonds.

"New Mode" means the Mode prevailing after a Mode Change Date as specified in the Agreement..

"Notice Parties" means the Authority, the Trustee, the Remarketing Agent, the Credit Provider, the Liquidity Provider, the Corporation, and, as the context may require, the Calculation Agent, the Auction Agent and the Broker-Dealer.

"One Month LIBOR" means the rate for deposits in U.S. dollars with a one-month maturity as published by Reuters (or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time.

"Owner" means the registered owner of a Bond, including the Securities Depository, if any, or its nominee.

"Principal Payment Date" means any date upon which the principal amount of Bonds is due under the Agreement, including the Maturity Date, any Serial Maturity Date, any Redemption Date, or the date the maturity of any Bond is accelerated pursuant to the terms of the Agreement or otherwise.

"Purchase Date" means (i) for a Bond in the Daily Mode or the Weekly Mode, any Business Day selected by the Beneficial Owner of said Bond pursuant to the Agreement, and (ii) any Mandatory Purchase Date.

"Purchase Fund" means the fund by that name created in the Agreement.

"Purchase Price" means an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus accrued interest, if any.

"Rate Determination Date" means any date on which the interest rate on Bonds shall be determined, which, (i) in the case of the Flexible Mode, shall be the first day of an Interest Period; (ii) in the case of the Daily Mode, shall be each Business Day commencing with the first day (which must be a Business Day) the Bonds become subject to the Daily Mode; (iii) in the case of the initial conversion to the Weekly Mode, shall be no later than the Business Day prior to the Mode Change Date, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, then the Business Day next preceding such Wednesday; (iv) in the case of the Term Rate Mode, shall

be a Business Day no earlier than fifteen (15) Business Days and no later than the Business Day next preceding the first day of an Interest Period, as determined by the Remarketing Agent; (v) in the case of the Adjusted Index Term Mode, shall be each Adjustment Date; and (vi) in the case of the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

"Rating Confirmation Notice" means a notice from Moody's, S&P or Fitch, as appropriate, confirming that the unenhanced rating on the Bonds will not be lowered or withdrawn (other than a withdrawal of a short-term rating upon a change to a Long-Term Mode) as a result of the action proposed to be taken.

"Record Date" means (i) with respect to Bonds in a Short-Term Mode, the last Business Day before an Interest Payment Date and (ii) with respect to Bonds in a Long-Term Mode, the fifteenth (15th) day (whether or not a Business Day) of the month next preceding each Interest Payment Date.

"Redemption Date" means the date fixed for redemption of Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Agreement.

"Redemption Price" means an amount equal to the principal of and accrued interest, if any, on the Bonds to be paid on the Redemption Date.

"Remarketing Agent" means any investment banking firm or firms which shall be appointed by the Corporation to act as Remarketing Agent under the Agreement as provided therein.

"Remarketing Agreement" means that certain Remarketing Agreement relating to the Bonds by and between the Corporation and the Remarketing Agent or any similar agreement between the Corporation and a Remarketing Agent, as it may be amended or supplemented from time to time in accordance with its terms.

"Remarketing Proceeds Account" means each of the accounts by that name created in the Agreement.

"Serial Bonds" means the Bonds maturing on the Serial Maturity Dates, as determined pursuant to the Agreement.

"Serial Maturity Dates" means the dates on which the Serial Bonds mature, as determined pursuant the Agreement.

"Serial Payments" means the payments to be made in payment of the principal of the Serial Bonds on the Serial Maturity Dates.

"Short-Term Mode" means the Daily Mode, the Weekly Mode, the Adjusted Index Term Mode and the Flexible Mode.

"SIFMA Rate" for any day means the level of the most recently effective index rate which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and is issued on Wednesday of each week, or if any Wednesday is not a U.S. Government Securities Business Day, the next succeeding U.S. Government Securities Business Day. If such index is no longer published or otherwise not available, the "SIFMA Rate" for any day will mean the level of the "S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) maintained by Standard & Poor's Securities Evaluations Inc. for a 7-day maturity as published on the Adjustment Date or most recently published prior to the Adjustment Date. If neither such index is any longer available, the "SIFMA Rate" will be 68% of One Month LIBOR.

"S&P Weekly High Grade Index" (formerly the J.J. Kenny Index) means the index of such name maintained by Standard & Poors Securities Evaluations Inc. for weekly obligations, as published on the Rate Determination Date.

"Substitution Date" means the date upon which an Alternate Credit Facility or Alternate Liquidity Facility is substituted for the Credit Facility or Liquidity Facility then in effect.

"Tender Notice" means a notice delivered by Electronic Means or in writing that states (i) the principal amount of such Bond to be purchased pursuant to the Agreement, (ii) the Purchase Date on which such Bond is to be purchased, (iii) applicable payment instructions with respect to the Bonds being tendered for purchase and (iv) an irrevocable demand for such purchase.

"Tender Notice Deadline" means (i) during the Daily Mode, 11:00 A.M. on any Business Day and (ii) during the Weekly Mode, 5:00 P.M. on the Business Day seven days prior to the applicable Purchase Date.

"Term Rate" means the per annum interest rate for the Bonds in the Term Rate Mode determined pursuant to the Agreement.

"Term Rate Mode" means the Mode during which the Bonds bear interest at the Term Rate.

"Term Rate Period" means the period from (and including) the Mode Change Date to (but excluding) the last day of the first period that the Bonds shall be in the Term Rate Mode as established by the Corporation for the Bonds pursuant to the Agreement and, thereafter, the period from (and including) the beginning date of each successive Mode selected for the Bonds by the Corporation pursuant to the Agreement while it is in the Term Rate Mode to (but excluding) the commencement date of the next succeeding Interest Period, including another Term Rate Period. Except as otherwise provided in the Agreement, an Interest Period for the Bonds in the Term Rate Mode must be at least 180 days in length.

"U.S. Government Securities Business Day" means any day other than (a) a Saturday, a Sunday, (b) a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities, or (c) a day on which the Calculation Agent is required or permitted by law to close.

"Variable Rate" means the Daily Rate, Weekly Rate, Flexible Rate, Adjusted Index Rate or Term Rate.

"Weekly Mode" means the Mode during which the Bonds bear interest at the Weekly Rate.

"Weekly Rate" means the per annum interest rate on the Bonds in the Weekly Mode determined pursuant to the Agreement.

"Weekly Rate Period" means the period during which a Bond in the Weekly Mode shall bear a Weekly Rate, which shall be the period commencing on Thursday of each week to and including Wednesday of the following week, except the first Weekly Rate Period which shall be from the Mode Change Date or date of initial issuance of the Bonds, as applicable, to and including the Wednesday of the following week and the last Weekly Rate Period which shall be from and including the Thursday of the week prior to the Mode Change Date to the day next succeeding the Mode Change Date.

Words importing persons include firms, associations and corporations, and the singular and plural form of words shall be deemed interchangeable wherever appropriate.

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SUMMARY OF THE MASTER TRUST INDENTURE

The following summary reflects the terms of the Amended and Restated Master Trust Indenture, which was adopted on May 31, 2001. This summary does not purport to be complete, and reference is made to the Master Indenture for full and complete statements of such and all provisions.

Amount of Indenture Indebtedness and Interest Rate Agreements

The number of Obligations evidencing or securing Indenture Indebtedness and Interest Rate Agreements that may be created under the Master Indenture is not limited. The aggregate principal amount of Indenture Indebtedness, the aggregate notional amount of Interest Rate Agreements and the principal amount of each Obligation that may be issued, authenticated and delivered under the Master Indenture is not limited except as limited by the provisions of the Master Indenture or of the Related Supplements. (Section 2.01)

Designation of Indenture Indebtedness

Obligations shall be issued in such forms as may from time to time be determined by Related Supplements. Each Obligation or series of Obligations shall be created by a different Related Supplement and each Obligation shall be designated in such a manner as will differentiate such Obligation from any other Obligation. (Section 2.02)

Supplement Creating Obligations

The Representative and the Master Trustee may from time to time enter into a Related Supplement to create Obligations to be issued under the Master Indenture. (Section 2.04)

Conditions for Membership

A Person which is an Affiliate may become a Member of the Obligated Group upon satisfying the conditions set forth in the Master Indenture which include:

Unless such Person is the Medical Center or the Research Affiliate, the Master Trustee shall have received an Officer's Certificate of the Representative's chief financial officer to the effect that (A) the Projected Debt Service Coverage Ratio for the first Fiscal year succeeding the date of admission of such Person, is greater than the Projected Debt Service Coverage Ratio for such Fiscal Year of the Obligated Group without such Person or (B) subject to the provisions of the Indenture the Obligated Group could issue $1 of additional Long-Term Indebtedness pursuant to the Indenture or, if the Indebtedness of such Person would qualify as additional Long-Term Indebtedness under the Indenture. The Officer's Certificate shall include combined pro forma balance sheets, statements of operations and changes in net assets and statements of cash flows for such period, together with a statement of the relevant assumptions upon which such pro forma statements are based.

Unless the Officer's Certificate delivered pursuant to the Indenture was to the effect specified in clause (A) above, the Master Trustee shall have received an Officer's Certificate of the Representative 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. (Section 3.01)

Power to Incur Indebtedness On Behalf of Other Members of the Obligated Group

Each Member of the Obligated Group, respectively, by becoming a Member acknowledges that the Representative has the power to issue Obligations under the Master Indenture, subject to the requirements of the Master Indenture or of any Related Supplement, on which all Members of the Obligated Group will be jointly and severally obligated. (Section 4.01)

Each Member of the Obligated Group jointly and severally covenants promptly to pay or cause to be paid the principal of and premium, if any, and interest on Obligations issued under the Master Indenture at the place, on the dates and in the manner provided therein, in the Related Supplements, and in said Obligations and any coupons appertaining thereto according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise. (Section 5.01)

Each Member agrees that, with respect to Indenture Indebtedness incurred by it or for its direct benefit and evidenced or secured by an Obligation, it will be primarily liable to make full and timely payment on such Obligation and Indenture Indebtedness. (Section 4.02)

Withdrawal From the Obligated Group

No Member of the Obligated Group may withdraw from the Obligated Group unless the Representative consents to such withdrawal such Member is not a party to a Related Bond Indenture with respect to Related Bonds then Outstanding and is not primarily liable pursuant to the Master Indenture for the payment of any Outstanding Obligation or Indenture Indebtedness or the remaining Members of the Obligated Group expressly agree in writing to pay the related Bonds; and the Master Trustee shall have received an Officer's Certificate of the Representative's chief financial officer to the effect that the Projected Debt Service Coverage Ratio for the first Fiscal Year succeeding the date of withdrawal of such Member and assuming the withdrawal of such Member (A) is greater than the Projected Debt Service Coverage Ratio for such Fiscal Year of the Obligated Group including such Member or (B) the Obligated Group could issue $1 of additional Long-Term Indebtedness pursuant to the Master Indenture or if the Indebtedness of such Person would qualify as Additional Long-Term Indebtedness under the Master Indenture. The Officer's Certificate shall include combined pro forma balance sheets, statements of income or of revenue and expenses and statements of changes in financial position for such period, together with a statement of the relevant assumptions upon which such pro forma statements are based. (Section 4.03)

Covenants as to Corporate Existence, Maintenance of Properties, Etc.

Each Member of the Obligated Group, respectively, covenants:

Except as otherwise expressly provided, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs 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 requires such qualifications, unless any of its rights or licenses is no longer used or useful in the conduct of its business or affairs.

At all times to cause its Properties 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; provided, however, that the covenant does not (i) prevent it from ceasing to operate any portion of its Properties if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body) it is advisable not to operate the same, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (ii) obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business or affairs.

To do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof and with all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Properties, unless the validity of such laws, orders, regulations or requirements or the applicability thereof to it shall be contested in good faith.

Promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Properties; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof. (Section 5.02)

Insurance

(a) Each Member of the Obligated Group shall (i) keep its plant, equipment and furnishings included in its Property insured against fire, lightning and extended coverage perils and against such other risks as are customarily insured against by similar institutions in the area; (ii) to the extent required by law, carry worker's compensation insurance, (which may be through the so-called Massachusetts Self – Insurance Group) disability insurance and other insurance covering injury, sickness, disability or death of employees; (iii) maintain insurance against liability of the Member imposed by law or assumed by contract for injuries to persons (excluding liability covered by clauses (iv) and (v)), and for death of persons from such injuries; (iv) maintain motor vehicle liability insurance covering owned, nonowned and hired motor vehicles, protecting the Member against liability for property damage, and (v) if it provides health care services, maintain insurance against liability of the Member for professional malpractice.

(b) In lieu of obtaining third-party coverage for the risks described in Subsection (a), the Corporation or any other Member may self-insure any of the required coverages or a portion thereof (or may participate in captive insurance programs sponsored by the Medical Center, any Affiliate, Harvard University, or any association or organization exposed to comparable risks); provided such Member delivers to the Master Trustee a report of an Insurance Consultant stating that the self-insurance of such risks (or such participation) is consistent with reasonable management and insurance practices.

(c) As long as any Member maintains any self-insurance (or participates in any captive insurance program) pursuant to Subsection (b), it will provide the Master Trustee bi-annually with a report of an Insurance Consultant concerning the adequacy of funding and the funding determination processes employed in connection therewith. The insurance maintained by any Member pursuant to Subsection (a) shall also be subject to the review of an Insurance Consultant who shall every five years prepare and file with the Master Trustee a report on the adequacy of such insurance. Each Member of the Obligated Group, respectively, agrees that it will follow any reasonable recommendations of the Insurance Consultant to the extent permitted by law. (Section 5.03)

Limitations on Creation of Liens

Each Member of the Obligated Group, respectively, agrees that it will not create or suffer to be created or exist any Lien upon any Property consisting solely of real property now owned or hereafter acquired by it or upon Gross Receipts other than Permitted Liens.

Permitted Liens 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 is stayed or while 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 the Member's 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 rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen, 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; and (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;

(iii) Any Lien described in Exhibit B to the Master Indenture which is existing on the date of authentication and delivery of Obligation No. 8 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 Member of the Obligated Group 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;

(iv) 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 lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles; provided that the aggregate principal amounts secured by any such interests shall not exceed at the time of incurrence or assumption the fair market value of such Property;

(v) Any Lien in favor of the Master Trustee securing all Indenture Indebtedness on a parity basis;

(vi) Liens arising by reason of good faith deposits in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits 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;

(vii) 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 arrangements, or to share in the privileges or benefits required for companies participating in such arrangements and any Lien in the nature of a banker's lien or right of setoff with respect to deposits that any Member is required to maintain with the bank in question;

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

(ix) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds or while held in a debt service reserve fund;

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

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

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

(xiii) Liens for taxes or special assessments not then delinquent or which are being contested in accordance with the Master Indenture;

(xiv) Liens on Property due to rights of third-party payers for setoff or recoupment of amounts paid to any Member;

(xv) Liens securing Long-Term Indebtedness, provided that the aggregate amount of Indebtedness of the Members of the Obligated Group (other than capitalized leases) which is secured pursuant to this Paragraph (xv) shall not at any time exceed 10% of the total Book Value of the Property of the Obligated Group;

(xvi) Any Lien created or permitted by the Master Indenture;

(xvii) Any Lien upon Property the loss of which Property would not have any material adverse effect upon (1) the security for the Outstanding Obligations, (2) the operations of the Property of the Obligated Group or (3) the Aggregate Income Available for Debt Service;

(xviii) Liens arising from leases that relate to Property of a Member, as lessor, that is of a type that is customarily the subject of such leases, such as office space of physicians, health care and educational institutions, food service facilities, gift shops and radiology or other hospital-specialty services, pharmacy and similar departments; leases, licenses or similar rights existing as of the date of issuance of Obligation No. 6 to use Property owned on such date by any Person who was a Member on such date, and any renewal extensions thereof; and any leases, licenses or similar rights to use Property whereunder a Member is a lessee, licensee or the equivalent thereof; and

(xix) Liens securing non-recourse Indebtedness, provided, however, that the Property subject to such Lien is the Property being financed by such Indebtedness;

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

(xxi) Any Lien on accounts receivable of the Obligated Group and on amounts due the Obligated Group from Medicare, Medicaid and other third party payors, in each case which may be senior to or on a parity with any Lien on gross receipts hereafter granted under the Master Indenture, securing Short-Term Indebtedness (including Guaranties) in an amount not to exceed 50% of the aggregate amount of such accounts, accounts receivable and amounts due from Medicare, Medicaid and other third party payors, net of bad debt, as shown as patients accounts receivable, less allowances for uncollectible accounts, on the most recent year-end audited combined or consolidated financial statements of the Obligated Group at the time such Short-Term Indebtedness (or Guaranty) is incurred;

(xxii) Any Lien on accounts receivable of the Obligated Group and on amounts due the Obligated Group from Medicare, Medicaid and other third party payors, which are junior to any Lien on gross receipts hereafter granted under the Master Indenture;

(xxiii) Liens granted by a member of the Obligated Group to any other Member to secure any Indebtedness of a Member of the Obligated Group to any other Member, and

(xxiv) Any Lien on Property that, at the time of the creation of such Lien, could have otherwise been disposed of in accordance with the Master Indenture.

A determination by the Master Trustee that a Lien is a Permitted Lien pursuant to Paragraph (xvii) shall be binding upon the Obligation Holders, but such a determination shall not be required. (Section 5.04)

Limitations on Incurrence of Additional Indebtedness

Each Member of the Obligated Group, respectively, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, including Indenture Indebtedness, if prior to incurrence of the Long-Term Indebtedness, there is delivered to the Master Trustee an Officer's Certificate of the Representative's chief financial officer, certifying that:

(i) the ratio determined by dividing Aggregate Income Available for Debt Service for the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants, by Maximum Annual Debt Service including the Additional Indebtedness, is not less than 1.25; or

(ii) Subject to the provisions of Subsection (f) below, (A) the Historical Debt Service Coverage Ratio for the period mentioned in Paragraph (a)(i) of this Section, not including the proposed Additional

Indebtedness, is not less than 1.10, and (B) the Projected Debt Service Coverage Ratio, taking the proposed Additional Indebtedness into account, for (1) in the case of Additional Indebtedness to finance capital improvements, each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be placed in operation, or (2) in the case of Long-Term Indebtedness refinancing other Indebtedness for completed capital projects or Long-Term Indebtedness not financing capital improvements, each of the two Fiscal Years succeeding the date on which the Indebtedness is incurred, is not less than 1.25, as shown by combined pro forma balance sheets, statements of operations and changes in net assets and statements of cash flows for each such period, accompanied by a statement of the relevant assumptions upon which such pro forma statements are based, 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 Paragraph (a)(iii), including the proposed Additional Indebtedness, does not exceed 20% of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants. Any Outstanding Indebtedness incurred under this Paragraph (iii) shall be deemed to have been incurred under another provision of this Section upon the satisfaction of such other provision as if such Outstanding Indebtedness were then being incurred.

(b) Completion Indebtedness in an amount not greater than twenty-five percent (25%) of the Indebtedness originally incurred to finance the facilities being completed.

(c) Long-Term Indebtedness incurred for the purpose of refunding any Long-Term Indebtedness if the conditions described in Subsection (a) of this Section are met with respect to such proposed Long-Term Indebtedness or if upon the 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%.

(d) Short-Term Indebtedness if:

(A) immediately after the incurrence of such Short-Term Indebtedness, the principal amount of all Outstanding Short-Term Indebtedness does not exceed the greater of (l) 15% of the Adjusted Annual Operating Revenues or (2) 75% of the aggregate net accounts receivable of the Obligated Group as of the end of the most recent Fiscal Year for which the combined financial statements of the Obligated Group have been reported upon by independent certified public accountants, and (B) during the 12 months immediately preceding the incurrence of such Short-Term Indebtedness there shall have been a period of at least 30 consecutive days in which the Obligated Group had Outstanding Short-Term Indebtedness of no more than five percent 5% of Adjusted Annual Operating Revenues, provided that the Master Trustee shall waive the requirement of this clause B if (i) there is delivered to the Master Trustee a Consultant's report confirming that there is a temporary interruption in the flow of reimbursement revenues from third parties, or (ii) if and to the extent that such Short-Term Indebtedness could be incurred under Subparagraph (i) or (ii) of Subsection (a) above if it were Long-Term Indebtedness.

(e) Indebtedness the payment of which is subordinated in a manner satisfactory to the Master Trustee to the payment of all Indenture Indebtedness.

(f) Agreements relating to letters or lines of credit or similar credit facilities used to secure Additional Indebtedness incurred in accordance with the provisions of this Section.

(g) If the Obligated Group is unable to satisfy certain requirements of the Master Indenture regarding maintenance of Projected Debt Service Coverage Ratios as specified in the Master Indenture as a condition to Membership in the Obligated Group, consolidation, merger or disposition of assets, or incurrence of Additional Indebtedness, such otherwise unmet requirements shall be deemed satisfied if there shall be filed with the Master Trustee a report by a Consultant containing the following opinions:

(1) That applicable laws or regulations, and contracts generally applicable to all similar health care providers have prevented or will prevent generation of the required level of Aggregate Income Available for Debt Service, and, if requested by the Master Trustee, an accompanying Opinion of Counsel acceptable to the Master Trustee setting forth any conclusions of law relevant to such opinion;

(2) That, with regard to such a failure, the Obligated Group has generated the maximum amount of Aggregate Income Available for Debt Service which could reasonably be generated given such governing laws and regulations during the applicable period and that the Historical Debt Service Coverage Ratio for the period was at least 1.00; and

(3) That, with regard to such a failure based upon forecasts and estimates contained in the report, the Obligated Group will generate the maximum amount of Aggregate Income Available for Debt Service which can reasonably be generated given such governing laws and regulations during the applicable period and that the Projected Debt Service Coverage Ratio for the applicable period is not less than l.00. (Section 5.05)

Debt Service on Guaranties

In determining the Debt Service Requirement of any Member, whether historical or projected, computations of debt service on Long-Term Indebtedness shall include an amount equal to twenty-five percent (25%) of the debt service on Guaranties for the period during which such Debt Service Requirement is computed; provided, however, that debt service on Guaranties with respect to which a payment has been made during the preceding twenty-four (24) months or with respect to which the primary obligor is in default by reason of bankruptcy or insolvency shall be included at one hundred percent (100%) of such debt service. (Section 5.06)

Debt Service on Balloon Indebtedness

At the election of any Member, for the purpose of any computation of the Debt Service Requirement, whether historical or projected, the principal and interest deemed to be payable on Balloon Indebtedness of such Member outstanding for the period during which such Debt Service Requirement is computed, shall be as set forth below:

(a) If the Member has obtained a binding commitment of a responsible financial institution satisfactory to the Master Trustee to refinance such Balloon Indebtedness (or a portion thereof), including without limitation, a letter of credit or a line of credit, which commitment is subject only to such conditions as are reasonably acceptable to the Master Trustee, the Balloon Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or

(b) (A) the Date of Maturity of any portion of such Balloon Indebtedness is more than 18 months after the date of any transaction for which a Projection is made or (B) the condition of paragraph (a), above is satisfied with respect to such portion by a financing arrangement having a term not less than 3 years, such portion of such Balloon Indebtedness may be deemed to be Indebtedness payable over a 25 year term, at the interest rate certified below, in equal annual installments of principal and interest, provided that the Representative has delivered to the Master Trustee a certificate of an investment banker satisfactory to the Master Trustee stating that it is reasonable to assume that such Indebtedness of the Member could be sold and stating the interest rate then applicable to 25 year obligations of comparable quality and type. (Section 5.07)

Debt Service on Discount Indebtedness; Interest Rate Agreements

At the election of any Member, for the purpose of any Projection the principal and interest payable on Discount Indebtedness of such Member shall be deemed to be payable as set forth below:

(a) If the Member has obtained a binding commitment of a responsible financial institution satisfactory to the Master Trustee to refinance such Discount Indebtedness (or a portion thereof), including without

limitation, a letter of credit or a line of credit, which commitment is subject only to such conditions as are reasonably acceptable to the Master Trustee, the Discount Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of the refinancing arrangement; or

(b) If the Member has entered into a binding agreement satisfactory to the Master Trustee providing for the deposit by such Member with a responsible financial institution in trust of amounts equal in aggregate to the principal amount of such Discount Indebtedness (or a portion thereof) and for the payment of such principal amount when due from the sums so deposited, the principal amount of the Discount Indebtedness (or portion thereof) may be deemed to be payable in accordance with the terms of such agreement.

(c) Notwithstanding anything in any Interest Rate Agreement to the contrary, any so-called mark to market charge or credit attributable to any Interest Rate Agreement under Financial Accounting Standard 133 or otherwise shall be excluded from calculation of the revenues and expenses, in each case, of each Member of the Obligated Group and all related definitions and financial covenants in the Master Indenture for all purposes of the Master Indenture. Furthermore, notwithstanding anything else in the Master Indenture to the contrary, any portion of any Indebtedness of any Member for which an Interest Rate Agreement has been obtained by such Member shall be deemed to bear interest for the period of time that such Interest Rate Agreement is in effect at a net rate which takes into account the interest payments made by such Member on such Indebtedness and the payments made or received by such Member on such Interest Rate Agreement; provided that the long-term credit rating of the provider of such Interest Rate Agreement (or any guarantor thereof) is in one of the three highest rating categories of any Rating Agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise). In addition, so long as any Indebtedness is deemed to bear interest at such net rate taking into account an Interest Rate Agreement, any payments made by a Member on such Interest Rate Agreement shall be excluded from expenses and any payments received by a Member on Such Interest Rate Agreement shall be excluded from revenues, in each case, for all purposes of the Master Indenture. (Section 5.08)

Debt Service Coverage Ratios

The Obligated Group agrees to charge and collect rates and charges which shall, together with other available moneys, including without limitation amounts transferred from the Medical Center and available to make payments under the Master Indenture, provide moneys sufficient at all times to make any payments required under the Master Indenture and to comply with the Master Indenture in all other respects, and to satisfy all other obligations of the Obligated Group in a timely fashion. Without limiting the generality of the foregoing, the Obligated Group shall charge and collect rates and charges which together with other available moneys, in each fiscal year will produce revenues at least sufficient to meet expenses. In determining compliance with the preceding sentence, amounts actually transferred from the Medical Center to any Member may be treated as revenues of such Member provided such amounts were not restricted to purposes inconsistent with the payment of any Indebtedness of such Member. Within one hundred twenty (120) days after the end of each Fiscal Year, the Obligated Group shall furnish to the Master Trustee a letter from its auditors confirming that the requirement of the foregoing sentence was met during the Fiscal Year.

The Obligated Group agrees to use its best efforts 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 less than 1.10, the Obligated Group 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 of the Obligated Group, respectively, agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as the Obligated Group 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 even if such ratio for any subsequent Fiscal Year is less than 1.10. If in any Fiscal Year the Historical Debt Service Coverage Ratio is less than 1.10, the Obligated Group will not be required to retain a Consultant to make such recommendations if a written report of a Consultant is filed with the Master Trustee which contains an opinion of such Consultant 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 maximum amount of Income Available for Debt Service which in the opinion of such Consultant could reasonably have been generated given such laws and regulations during the period affected thereby and (iii) the ratio actually achieved was at least 1.00. Notwithstanding any other provision

under the Master Indenture to the contrary, if at any time the Historical Debt Service Coverage Ratio is less than 1.00, then an Event of Default shall be deemed to have occurred. (Section 5.09)

Sale, Lease or Other Disposition of Property

Each Member of the Obligated Group, respectively, agrees that it will not in any Fiscal Year sell, lease or otherwise dispose of any Property, the disposition of which would cause the aggregate Book Value of Property so transferred by Members of the Obligated Group in such year to exceed 20% of the Book Value of the Property of the Obligated Group, or $l,000,000, whichever is greater, except in the ordinary course of business and except for transfers of Property:

(a) To any Person if 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;

(b) To another Member of the Obligated Group or to the Medical Center;

(c) To any Person provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of the Corporation's chief financial officer, or, if requested by the Master Trustee, a Consultant's report, to the effect that (A) the Obligated Group could issue $1 of additional Long-Term Indebtedness pursuant to the Master Indenture, or (B) the Projected Debt Service Coverage Ratio for such Fiscal Year immediately following such transfer is no less than 90% of what it would be for such fiscal year if such transfer were not to occur;

(d) As part of a merger, consolidation, sale or conveyance permitted under the Master Indenture;

(e) To any Person if in exchange therefor such Member receives the fair market value of the Property so transferred;

(f) In the case of cash or cash equivalents, as a loan to any Person provided that such loan is in writing, bears interest at a reasonable interest rate, and there is a reasonable expectation that such loan will be repaid in accordance with its terms;

(g) To any person in connection with a "sale and lease back" transaction that would constitute and be treated as a true sale and lease back under the Code. (Section 5.10)

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group, respectively, covenants that it will not merge or consolidate with any other corporation not a Member of the Obligated Group or sell or convey all or substantially all of its assets to any Person not a Member of the Obligated Group 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 corporation organized and existing under the laws of the United States of America or a state thereof and such corporation shall expressly assume the due and punctual payment of the principal of and premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by a supplement satisfactory to the Master Trustee, executed and delivered to the Master Trustee by such corporation; and

(ii) Except in the case of a merger or consolidation with or a sale or conveyance to the Medical Center, the Master Trustee shall have received an Officer's Certificate of the Representative's chief financial officer or, if requested by the Master Trustee a report of a Consultant to the effect that, subject to

the provisions of the Master Indenture, (A) the Obligated Group could issue $1 of additional Long-Term Indebtedness pursuant to the Master Indenture, or (B) the Projected Debt Service Coverage Ratio for the next Fiscal Year is no less than it would be for such Fiscal Year if such consolidation, merger, sale or conveyance were not to occur.

(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 of the Obligated Group, as the case may be.

(c) The Master Trustee shall receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture. (Section 5.11)

Insurance and Condemnation Proceeds

Any Member of the Obligated Group may make agreements and covenants with the holder of secured Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Lien with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

Amounts received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards which do not exceed 20% of the aggregate Book Value of the Property, Plant and Equipment of the Obligated Group, shall be paid to such Member and applied to the repair of the Property with respect to which such proceeds were received; provided that the Member receiving such proceeds may use such proceeds for any lawful corporate purpose if there is filed with the Master Trustee an Officer's Certificate stating that such application of proceeds will not adversely affect such Member's Income Available for Debt Service or the Aggregate Income Available for Debt Service. If the amount of proceeds received by any Member with respect to any one casualty or condemnation exceeds such limit such amount shall be paid to the Master Trustee and, as specified in an Officer's Certificate, applied to either (i) capital expenditures of the Member, or (ii) to the prepayment of the Outstanding Obligations equally and ratably, either directly or indirectly by paying underlying Indenture Indebtedness. (Section 5.13)

Events of Default

Event of Default shall mean any of the following events:

(a) Any payment of the principal of, the premium, if any, and interest on any Obligation issued and Outstanding under the Master Indenture is not made after same shall become due and payable, and after any applicable grace period, whether at maturity, by proceedings for redemption, by acceleration or otherwise, in accordance with the terms thereof, of the Master Indenture and the Related Supplement;

(b) Any Member of the Obligated Group shall fail duly to observe or perform any covenant or agreement on its part under the Master Indenture 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;

(c) A breach shall occur (and continue beyond any applicable grace period) with respect to a payment by any Member of Indebtedness for borrowed money with respect to outstanding Indebtedness, or with respect to the performance of any agreement securing such other Indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, and as a result of such breach or occurrence a holder or holders of such Indebtedness or a trustee or trustees under any such agreement accelerates any such Indebtedness in an amount

exceeding the greater of $10,000,000 and 1% of Adjusted Annual Operating Revenues; but an Event of Default shall not be deemed to be in existence or to be continuing under this clause (c) if (i) the Member is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings, or (ii) such breach or event is remedied and the acceleration is wholly annulled. Each Member shall notify the Master Trustee of any such breach or event immediately upon becoming aware of its occurrence and shall from time to time furnish such information as the Master Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph has occurred and whether the acceleration continues to be in effect;

(d) The entry of a decree or order by a court having jurisdiction in the premises adjudging any Member of the Obligated Group 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 law, 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 60 consecutive days or the consent of such Member to such decree or order;

(e) The institution by any Member of the Obligated Group of proceedings 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; or

(f) An event of default shall occur (and continue beyond any applicable grace period) with respect to (i) the performance by the Medical Center under any agreement guaranteeing or securing a guaranty by the Medical Center of any Obligation or (ii) the payment by the Medical Center under any agreement guaranteeing Indenture Indebtedness or any other Indebtedness of a Member for borrowed moneys with respect to outstanding Indebtedness exceeding the greater of $10,000,000 and 1% of Adjusted Annual Operating Revenues of the Medical Center. (Section 6.01)

Remedies Upon Default: Acceleration; Annulment of Acceleration

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 50% in aggregate principal amount of the Obligations Outstanding, shall, by notice to the Members of the Obligated Group, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable without any further action or notice. There shall then be due and payable on the Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Outstanding Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree on any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest, and interest on installments of principal and interest, and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents incurred as a result of such Event of Default, (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then, unless otherwise directed in writing by Holders of not less than 50% in aggregate principal amount of the Obligations then Outstanding, the Master Trustee shall annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by its terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon. (Section 6.02)

Additional Remedies and Enforcement of Remedies

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

Regardless of the occurrence 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 the Obligation Holders not making such request. (Section 6.03)

Application of Revenues and Other Moneys After Default

During the continuance of an Event of Default, the Master Trustee may by written notice to the Representative require that all payments of Outstanding Obligations be made to the Master Trustee when due in immediately available funds. 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, including expenses of the Master Trustee as set forth in the Master Indenture, incurred or made by the Master Trustee with respect thereto shall be applied as follows:

First: To the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amount of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference. (Section 6.04)

Obligation Holders' Control of Proceedings

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 an 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 of 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 therein) 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 under the Master Indenture, which it may deem proper and which is not inconsistent with such direction by Obligation Holders.

It is recognized that certain Obligation Holders may exercise rights against the Corporation and other Members of the Obligated Group in connection with Related Bonds and otherwise which are independent of the Master Indenture. The Master Trustee shall not be required to take notice of the exercise of such rights, and the Master Trustee shall have no duty to other Obligation Holders where the exercise of such rights by a particular Obligation Holder is or may be prejudicial to such other Obligation Holders. (Section 6.07)

Waiver of Event of Default

The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy.

Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Indenture Indebtedness then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations at the time Outstanding unless (i) the conditions set forth in the Master Indenture regarding compensation of the Master Trustee and any paying agents of any expenses incurred as a result of such Event of Default, payment of all sums then payable and remedy of each Event of Default are satisfied and (ii) if the principal of the Obligations has been declared due and payable, such declaration has been annulled. (Section 6.09)

Notice of Default

The Master Trustee shall, within 10 days after an officer of the Master Trustee in its corporate trust department has knowledge of the occurrence of an Event of Default, mail to all Obligation Holders as the name and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default so known to the Master Trustee, unless such Event of Default shall have been cured before the giving of such notice not including certain periods of grace provided for in the Master Indenture and irrespective of the giving of written notice specified in the Master Indenture and provided that, except in the case of default on the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in the Master Indenture regarding Bankruptcy or insolvency, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Master Trustee in good faith determine that the withholding of such notice is in the interests of the Obligation Holders. (Section 6.12)

Limitations on Obligation Holders' Remedies

The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of a majority in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under the Master Indenture. (Section 7.01)

The duties and responsibilities of the Master Trustee are qualified as provided in the Master Indenture including:

(a) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Indenture at the request or direction of any of the Obligation Holders pursuant to the Master Indenture, unless such Obligation Holders shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(b) Except as specifically provided in the Master Indenture, the Master Trustee shall not be required to monitor the financial condition of the Corporation or any other Member of the Obligated Group or the physical

condition of the Property and shall not have any responsibility with respect to reports, notices, certificates or other documents filed or to be filed with it under the Master Indenture. The Master Trustee shall not be required to take notice of any breach or default under the Master Indenture by the Corporation or any Member of the Obligated Group, except for (i) those of which it receives written notice by an Obligation Holder, and (ii) the failure of the Master Trustee to receive certificates, reports, or opinions specifically required to be furnished to the Master Trustee by the Master Indenture. The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member of the Obligated Group, personally or by agent or attorney. (Section 7.02)

Removal and Resignation of the Master Trustee

The Master Trustee may resign at any time or be removed at any time by an instrument or instruments in writing signed by the Holders of not less than 50% of the principal amount of the Obligations Outstanding. Any such resignation or removal shall not become effective for 60 days after notice of such resignation or removal shall have been given as provided in the Master Indenture nor unless and until a successor Master Trustee has been appointed and has assumed the trusts created under the Master Indenture. Written notice of such resignation or removal shall be given to the Members of the Obligated Group and to each Holder of Obligations then Outstanding at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than 50% in aggregate principal amount of the Obligations Outstanding. In the event a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member of the Obligated Group or any Obligation Holder may apply to any court of competent jurisdiction for the appointment of a successor Master Trustee to act until such time as a successor is appointed. (Section 7.04)

Supplements Not Requiring Consent of Obligation Holders

The Representative and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Master 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 the Master Indenture.

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.

(e) To create and provide for the issuance of Obligations as permitted under the Master Indenture.

(f) To obligate a successor to the Corporation or other Member of the Obligated Group as provided in the Master Indenture.

(g) To add additional security for the benefit of the Holders. (Section 8.01)

Supplements Requiring Consent of Obligation Holders

Other than supplements referred to above and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution, by each Member of the Obligated Group and the Master Trustee, of such supplements as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, nothing in this Section shall permit or be construed as permitting a supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Obligations or reduce the principal amount of or the redemption premium, if any, or rate of interest payable on any Obligations;

(ii) Make any Obligation redeemable other than in accordance with its terms;

(iii) Create a preference or priority of one Obligation over any other Obligation; or

(iv) Reduce the aggregate principal amount of Obligations the consent of the Holders of which is required to authorize any such supplement without the unanimous written consent of the affected Holders of Obligations then Outstanding. (Section 8.02)

Satisfaction and Discharge of Master Indenture

If (A) (i) all Members of the Obligated Group shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in the Related Supplement) and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and shall have been paid, or (iii) the Members of the Obligated Group shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Representative and such bank or trust company in form acceptable to the Master Trustee) as trust funds Government of Equivalent Obligations bearing interest at such rates and with such maturities as will provide sufficient funds to pay or redeem in full all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and (B) 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 or any thereof, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group or any thereof, and at the cost and expense of the Members of the Obligated Group or any thereof, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. If any Obligation is to be redeemed prior to Maturity thereof, the Master Indenture shall not cease to be in effect until all action necessary to redeem such Obligation shall have been taken or irrevocable provision satisfactory to the Master Trustee has been made for the taking of such action. (Section 9.01)

Guaranties by the Medical Center

If tendered to the Master Trustee by the Medical Center (substantially in the form attached to the Master Indenture as Exhibit C, and as summarized in Appendix C-5 to this Official Statement with such changes as are reasonably acceptable to the Master Trustee), the Master Trustee shall accept the written guaranty by the Medical Center of full and punctual payment of any particular Obligation. Notwithstanding any other provision of the Master Indenture, moneys received by the Master Trustee from the Medical Center pursuant to any such guaranty of an Obligation shall be applied by the Master Trustee solely to the payment when due of such Obligation. The Master Trustee may agree to amendments of any such guaranty with the consent of the Holder of the Obligation guaranteed thereby. (Section 11.01)

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SUMMARY OF THE SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NOS. 19, 20, 21 AND 22

The following is a summary of the Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 dated as of May 13, 2010, between the Corporation and the Master Trustee. This summary does not purport to be complete, and reference is made to the Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 for full and complete statements of such and all provisions.

Issuance of Obligation Nos. 19, 20, 21 and 22

The Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 (the "Supplemental Master Indenture") creates and authorizes the issuance of four Obligations under the Master Indenture, in the aggregate principal amount of $341,590,000. (Section 2)

Payments on Obligation Nos. 19, 20, 21 and 22; Credits

Principal of, premium, if any, and interest on Obligation Nos. 19, 20, 21 and 22 are payable in lawful money of the United States of America. Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 shall mature on October 1 of 2029, 2042, 2038 and 2049, respectively.

Interest on Obligation Nos. 19, 20, 21 and 22 shall accrue in the same manner and at the same rates as interest shall accrue on the Bonds, and shall be payable on the same dates as interest on the Bonds.

Obligation Nos. 19, 20, 21 and 22 are subject to redemption from sinking fund installments at the principal amounts, without premium, plus accrued interest to the redemption date on October 1 of each of the years and in the same amounts set forth in the Agreements for mandatory redemption of the Bonds from sinking fund installments.

Principal of Obligation Nos. 19, 20, 21 and 22 are not subject to prepayment at the option of the Corporation in the manner and at the times set forth in the Agreements.

The Corporation shall receive credit as provided in the Supplemental Master Indenture for payments of principal of or interest on Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 in an amount equal to the payments of principal of or interest on the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds, respectively, except to the extent such amounts have previously been credited against payments on Obligation Nos. 19, 20, 21 and 22 and except for payments of principal of or interest on the Bonds of purchases made from the proceeds of payments made on Obligation Nos. 19, 20, 21 and 22.

On the date of any payment of interest or premium on the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds or the Series N-4 Bonds, the Corporation shall receive credit for payment on such date of a like amount of interest or premium on Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22, respectively. On the date of any payment of principal of the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds or the Series N-4 Bonds, whether at maturity or upon acceleration or redemption, the Corporation shall receive credit as provided below for the payment of a like principal amount of Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22, respectively. If a Series N-1 Bond, Series N-2 Bond, Series N-3 Bond or Series N-4 Bond is purchased and delivered to the Bond Trustee for cancellation, the Corporation shall receive credit for payment of a like principal amount of Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22, respectively. Such credit for a payment of principal of the Bonds or a delivery for cancellation of a purchased Bond shall be applied to reduce the payments which would otherwise be required to provide for the payment of the principal (including sinking fund installments) of and interest on the Bond so paid. Principal of or interest or premium on Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22 as to which a credit is made as provided in this paragraph shall be deemed *pro tanto* to be paid for all purposes of the Master Indenture and thereafter no interest shall accrue on such principal.

When all Outstanding Bonds are deemed to have been paid in full when due or prepaid in whole and all other conditions imposed by the Agreements are satisfied, Obligation Nos. 19, 20, 21 and 22 shall be deemed to have been paid and to be no longer Outstanding under the Master Indenture. (Sections 3 and 6)

Registration, Number, Negotiability and Transfer of Obligation Nos. 19, 20, 21 and 22

Except as otherwise provided, so long as any Series N-1 Bonds, Series N-2 Bonds, Series N-3 Bonds or Series N-4 Bonds remain Outstanding, each of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 shall consist of a single Obligation without coupons registered in the name of the Bond Trustee and no transfer of Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22 shall be registered under the Master Indenture except for transfers to a successor Bond Trustee. Upon the principal of all Indenture Indebtedness Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation Nos. 19, 20, 21 and 22 may be transferred, if and to the extent the Bond Trustee requests that the above restrictions on transfers be terminated. (Section 4)

Default

Upon the occurrence of certain "Events of Default" (as defined in the Master Indenture), the principal of all Outstanding Obligations may be declared, and thereupon shall become, due and payable as provided in the Master Indenture.

The Holder(s) of each of Obligation Nos. 19, 20, 21 and 22 shall have no right to enforce the provisions of the Master Indenture, institute any action to enforce the covenants of the Master Indenture, take any action with respect to any default under the Master Indenture, institute, appear in or defend any suit or other proceeding with respect to any default under the Master Indenture, or institute, appear in or defend any other suit or proceeding with respect to the Master Indenture, except as provided in the Master Indenture. (Section 6)

Continuing Disclosure Agreement

So long as the Bonds are outstanding and the Continuing Disclosure Agreement remains in effect, the Corporation shall cause any additional Members of the Obligated Group at the time such Members join the Obligated Group to enter into a continuing disclosure agreement generally consistent with the provisions of the Continuing Disclosure Agreement, whereby the additional Members agree to provide financial information and operating data of the type specified in the Continuing Disclosure Agreement with respect to additional members of the Obligated Group. (Section 7)

Amendments to the Master Indenture

The Master Trustee, the Obligated Group, the owners of the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds, by their purchase of the Series N-1 Bonds, the Series N-2 Bonds, the Series N-3 Bonds and the Series N-4 Bonds, respectively, and the Holders of Obligation Nos. 19, 20, 21 and 22, by agreeing to hold Obligation Nos. 19, 20, 21 and 22, respectively, consent to the following amendments to the Master Indenture. Such amendments shall be effective upon the redemption of the Prior Bonds.

(A) The Agreement amends Section 1.04 of the Master Indenture by adding the following:

"(g) For the avoidance of doubt, provisions calling for or referring to a calculation, with respect to the Obligated Group in accordance with generally accepted accounting principles ("GAAP"), shall be deemed not to require the consolidation of accounts of entities that are not Members of the Obligated Group, as the case may be, even if GAAP would require such consolidation."

(B) The Agreement amends Section 8.01 of the Master Indenture by adding the following:

"(h) If there are Outstanding Related Bonds issued by any Governmental Issuer, then with the consent of such Governmental Issuer, to make any changes (1) relating to the application of GAAP or the

definition or determination of Adjusted Annual Operating Revenues, Book Value, Indebtedness (which for the avoidance of doubt includes all definitions incorporating the definition of Indebtedness, including, without limitation, Long-Term Indebtedness, Aggregate Income Available for Debt Service, Debt Service Requirement, Aggregate Debt Service Requirement, Maximum Annual Debt Service and Projected Debt Service Requirement), or Income Available for Debt Service, or (2) to the provisions of Article V hereto, in each case, that are necessary to address a change in GAAP that solely in and of itself would cause any Member of the Obligated Group to be in default of any of the covenants set forth in Article V." (Section 8)

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SUMMARY OF THE GUARANTY OF OBLIGATION NOS. 19, 20, 21 AND 22

Definitions

In addition to terms defined elsewhere in this Official Statement, the following terms shall have the following meanings in the Guaranty of Obligation Nos. 19, 20, 21 and 22 (the "Guaranty"):

"Direct Debt" shall mean with respect to the Guarantor its Long-Term Indebtedness, excluding any Guaranty.

"Direct Debt Service Requirement" shall mean with respect to the Guarantor, the Debt Service Requirement of the Guarantor, excluding from the determination thereof payments with respect to indebtedness guaranteed by the Guarantor except to the extent actually made by the Guarantor.

"Marketable Securities" shall mean all cash and securities of the Guarantor that may be converted to cash by the Guarantor within 120 days.

"Unconsolidated Income Available for Debt Service" shall mean, with respect to the Guarantor, as to any period of time, the excess of revenues over expenses (excluding from revenues and expenses extraordinary items, infrequently occurring or unusual items and the cumulative effect of changes in accounting principles, excluding income from Irrevocable Deposits and excluding from expenses depreciation, interest on Long-Term Indebtedness and amortization of bond discount and financing expenses), as determined in accordance with generally accepted accounting principles, provided that no determination thereof shall take into account any revenue or expense of any Affiliate. (Section 14)

Guaranty of Payment

The Guarantor unconditionally guarantees (a) to the Master Trustee for the benefit of the holder(s) of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 (the "Obligation Holder(s)"), the full and punctual payment of all amounts payable pursuant to such Obligations, including, without limitation, principal, prepayment premium, if any, and interest, when due whether at maturity, upon tender, by proceedings for prepayment, upon acceleration or otherwise. The Guaranty is an absolute and unlimited guaranty of the full and punctual payment of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 without regard to the regularity, validity or enforceability thereof against the Corporation. The obligation of the Guarantor is not a guarantee of collectability only and is in no way conditioned upon any requirement that the Master Trustee first attempt to collect from the Corporation or resort to any security or other means of obtaining payment of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 which the Master Trustee now has or may acquire after the date of the Guaranty, or upon any other contingency whatsoever.

The Guaranty shall be fully effective in all circumstances notwithstanding any modification of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22, the Master Indenture, or the Agreements, or any waiver, extension, release or security or other indulgence granted to the Guarantor, the Corporation or the Authority and notwithstanding any bankruptcy, merger, change in membership or control of the Guarantor or the Corporation, or other change of circumstances of any of the foregoing. (Section 1)

Warranties by the Guarantor

(1) Corporate Organization, Authorization and Powers. The Guarantor represents and warrants that it is a corporation duly organized, validly existing and in good standing under the laws of The Commonwealth of Massachusetts, with the power to enter into and perform the Guaranty and that by proper corporate action it has duly authorized the execution and delivery of the Guaranty. The Guarantor further represents and warrants that the execution and delivery of the Guaranty and the consummation of the transactions contemplated therein will not conflict with or constitute a breach of or default under any bond, indenture, note or other evidence of indebtedness of the Guarantor, or any contract, lease or other instrument to which the Guarantor is a party or by which it is bound

or cause the Guarantor to be in violation of any applicable statute or rule or regulation of any governmental authority. (Section 2)

(2) Tax Status. The Guarantor represents and warrants that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code") (or corresponding provisions of prior law) and it is not a "private foundation" as defined in Section 509 of the Code. To the extent consistent with its status as a nonprofit corporation, the Guarantor will not take any action or omit to take any action which would adversely affect its exemption from federal income taxes provided, however, that the Guarantor may change such status if there is delivered to the Authority and the Bond Trustee an opinion of nationally recognized bond counsel selected by the Authority and acceptable to the Bond Trustee to the effect that such change would not adversely affect the validity of the Bonds or the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. (Section 3)

(3) Securities Law Status. The Guarantor represents and warrants that it is an organization organized and operated exclusively for charitable purposes and not for pecuniary profit; and that no part of its earnings inures to the benefit of any person, private stockholder or individual, all within the meaning of the Securities Act of 1933, as amended. The Guarantor shall not take any action or omit to take any action if such action or omission would change its status under the Securities Act of 1933 provided, that the Guarantor may change such status if there is delivered to the Authority and the Bond Trustee an opinion of nationally recognized bond counsel selected by the Authority and acceptable to the Bond Trustee to the effect that such change would not subject the Bonds to the registration provisions of the Securities Act of 1933, as amended, or that the Bonds have been so registered if registration is required. (Section 4)

Covenants of the Guarantor

(1) Maintenance of Corporate Existence. The Guarantor shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts, subject to the Guarantor's right to alter its status under the Securities Act of 1933 upon compliance with the requirements set forth in the Guaranty and shall not dissolve or dispose of all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except upon satisfaction of the conditions set forth in the Guaranty which include (a) that the surviving or resulting entity or entities (i) each meet certain requirements set forth in the Guaranty as to its corporate, nonprofit, tax-exempt status; (ii) if not the Guarantor, assumes all the obligations of the Guarantor under the Guaranty; and (iii) has an unrestricted net assets ("UNA") equal at least to ninety percent (90%) of the Guarantor's UNA before the transaction as reflected on the respective most recent audited financial statements of such entity or entities, and (b) that the consolidation or merger does not result in a conflict, breach or default referred to in the Guaranty. (Section 6)

(2) Debt Service Coverage Ratio. The Guarantor agrees to use its best efforts to maintain the ratio (the "Coverage Ratio") of its Unconsolidated Income Available for Debt Service to its Direct Debt Service Requirement at least equal to 1.10 in each Fiscal Year. If such ratio, as calculated at the end of any Fiscal Year, is below 1.10, the Guarantor 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. So long as the Guarantor shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, this Section shall be deemed to have been complied with even if such ratio for any subsequent Fiscal Year is below 1.10. (Section 7)

(3) Additional Indebtedness. Prior to incurrence of additional Direct Debt, the Guarantor shall deliver to the Master Trustee an Officer's Certificate of the Guarantor's chief financial officer projecting the Coverage Ratio of the Guarantor (taking account of such additional Indebtedness) for the period described below. If the projected Coverage Ratio as shown in the Officer's Certificate is less than 1.25, the Guarantor shall not incur such additional Direct Debt. The period referred to in the first sentence of this Section shall be (1) in the case of Indebtedness to finance capital improvements, the Fiscal Year succeeding the date on which such improvements are expected to be placed in operation or (2) in the case of Indebtedness refinancing other Indebtedness for capital improvements or Indebtedness not financing capital improvements, the Fiscal Year succeeding the date on which the Indebtedness is incurred. (Section 8)

(4) Maintenance of Unrestricted Assets. As of the end of each Fiscal Year, the Guarantor shall have unconsolidated total cash and unrestricted and unencumbered investments ("Unrestricted Assets"), valued at market, equal to at least one-third of the total outstanding amount of indebtedness guaranteed by the Guarantor ("Guaranteed Debt"). If in any Fiscal Year the ratio of the Corporation's Income Available for Debt Service to its Debt Service Requirement is less than 1.75, within six months from the date such ratio is determined the Guarantor shall submit an Officer's Certificate together with such additional evidence as the Master Trustee may require demonstrating that the Guarantor has Unrestricted Assets at least equal to the amount of any Indebtedness of the Guarantor to the Corporation. Unrestricted Assets in such amount will be required to be maintained until the next Fiscal Year in which such ratio is at least 1.75. For the purposes of the Guaranty, the amount of indebtedness guaranteed by the Guarantor shall be deemed to include all obligations of the Guarantor guaranteeing in any manner whether directly or indirectly any obligation of any other Person (including the Corporation) which constitutes or would, if such other Person were a Member of the Obligated Group, constitute Indebtedness under the Master Indenture. To avoid double-counting of Guaranteed Debt, the Master Trustee may consent to the exclusion from Guaranteed Debt of (i) any letters or lines of credit or similar credit facilities guaranteed by the Guarantor used to secure Indebtedness guaranteed by the Guarantor, (ii) Indebtedness secured by funds or Marketable Securities (as defined below) in such principal amounts, bearing interest at such rates and with such maturities as will provide sufficient funds to pay such Indebtedness and interest thereon (assuming no acceleration thereof) to some future date, and (iii) the amount of any Indebtedness secured by Marketable Securities. Not later than five (5) months after the end of each Fiscal Year, the Guarantor shall deliver to the Master Trustee a certificate stating the ratio of its Unrestricted Assets to its Guaranteed Debt. (Section 9)

(5) Maintenance of Marketable Securities. The Guarantor will, as of the last day of each December and June, maintain unrestricted and unencumbered Marketable Securities having a market value at least equal to the highest Debt Service Requirement of the Guarantor for the then current or any succeeding Fiscal Year (determined as if the Guarantor were a Member and as if the amounts payable for such Fiscal Year on all Guaranties by the Guarantor or any Member equal the amounts payable for such Fiscal Year on the indebtedness being guaranteed). The unrestricted and unencumbered Marketable Securities required by this Section to be maintained by the Guarantor shall be reduced by the market value of cash or other investments actually held in a trusteed debt service reserve fund established in connection with any Indebtedness of the Guarantor (including any indebtedness being guaranteed). The Guarantor shall deliver to the Master Trustee on or prior to the last day of each January and July, an Officer's Certificate or, if requested by the Master Trustee, a certificate of a commercial bank, investment banker, registered broker-dealer or independent certified public accountant confirming that the market value of the Guarantor's Marketable Securities as of the last day of the previous month equals or exceeds the amount required by this Section. (Section 10)

Default

Event of Default, as used in the Guaranty, shall mean any of the following events:

(1) Default under Obligation Nos. 19, 20, 21 and 22. Any payment of the Bank Obligations or the principal of, or premium, if any, or interest on Obligation No. 19, Obligation No. 20, Obligation No. 21 or Obligation No. 22 is not made when same shall become due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise;

(2) Breach of Covenants. The Guarantor shall fail duly to observe or perform any covenant or agreement on its part under the Guaranty for a period of 60 days (or such longer period as permitted in writing by the Master Trustee) after written notice of such failure.

(3) Breach of other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of other indebtedness of the Guarantor for borrowed money with respect to loans exceeding the greater of $10,000,000 or 1% of Adjusted Annual Operating Revenues, or with respect to the performance of any agreement securing the same or pursuant to which the same was incurred, or an event shall occur with respect to provisions of any such agreement so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates any such indebtedness; unless (i) the Guarantor is in good faith contesting the existence of such breach or event and if such acceleration is being stayed by judicial proceedings or (ii) such breach or event is remedied and the acceleration is wholly annulled.

(4) Decree of Bankruptcy. The entry of a decree or order by a court having jurisdiction in the premises adjudging the Guarantor a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Guarantor under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Guarantor 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 60 consecutive days; or

(5) Insolvency Proceedings. The institution by the Guarantor of proceedings 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 the Guarantor or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due. (Section 13.1)

Remedies and Enforcement of Remedies.

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon written request of the Obligation Holder(s), together with indemnification of the Master Trustee to its satisfaction, the Master Trustee shall, proceed forthwith to protect and enforce its rights and the rights of the Obligation Holder(s) under the Guaranty by such suits, actions or proceedings as the Master Trustee, being advised by its counsel, shall deem expedient.

Regardless of the occurrence of an Event of Default, the Master Trustee, if requested in writing by the Obligation Holder(s), upon being indemnified to its satisfaction therefor, shall 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 Guaranty by any acts which may be unlawful or in violation of the Guaranty, or (ii) to preserve or protect the interests of the Obligation Holder(s). (Section 13.2)

The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the Guaranty, or before the completion of the enforcement of any other remedy under the Guaranty. Upon written request of the Obligation Holder(s), the Master Trustee shall waive any Event of Default. (Section 13.4)

SUMMARY OF CERTAIN PROVISIONS OF THE AGREEMENT

The following is a brief summary, prepared by Edwards Angell Palmer & Dodge LLP, bond counsel to the Corporation, of certain provisions of the Loan and Trust Agreements dated as of May 1, 2010 (each individually, an "Agreement"), pertaining to the Bonds. This summary does not purport to be complete, and reference is made to the Agreements for full and complete statements of such and all provisions.

The Agreement provides for the following transactions: (i) the Authority's issue of the Bonds; (ii) the Authority's loan of the proceeds of the Bonds to the Corporation to finance and refinance the Project; (iii) the Corporation's repayment of the loan from the Authority through payment to the Trustee of all amounts necessary to pay the Bonds; (iv) the Corporation's delivery to the Trustee, in trust for the benefit of the Bondowners, of Obligation No. 19, Obligation No. 20, Obligation No. 21 and Obligation No. 22 issued under the Amended and Restated Master Trust Indenture dated as of April 10, 2001, as amended and supplemented, and the Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 dated as of May 1, 2010 between the Corporation and U.S. Bank National Association, as successor Master Trustee; and (v) the Authority's assignment to the Trustee in trust for the benefit and security of the Bondowners of certain of the Authority's rights under the Agreement and the Revenues to be received under the Agreement and the rights to receive the same. As additional security for its obligations to make payments to the Debt Service Fund and the Redemption Fund, and for its other payment obligations under the Agreement, the Corporation grants to the Trustee a security interest, for the benefit of the Bondowners and the Bank, in its interest in the moneys and other investments and any proceeds thereof held from time to time in such Funds and the Expense Fund established under the Agreement.

Establishment of Funds

The Agreement creates two funds to be held by the Trustee, the Debt Service Fund and the Redemption Fund, and one fund to be held by the Authority, the Expense Fund. (Sections 303, 304 and 307)

Debt Service Fund

The Debt Service Fund is established under the Agreement for the payment of debt service on the Bonds. The Corporation grants to the Trustee for the benefit of the Bondowners and the Bank a security interest in all deposits in the Debt Service Fund. The moneys in the Debt Service Fund and any investments held as part of such Fund shall be held in trust and, except as otherwise provided in the Agreement, shall be applied by the Trustee solely to pay principal, Purchase Price of and interest on, the Bonds. (Section 303)

Redemption Fund

Moneys and investments held in the Redemption Fund shall be held in trust and, except as otherwise provided, shall be applied by the Trustee on behalf of the Authority solely to the redemption of Bonds. The Trustee may, and upon written direction of the Corporation for specific purchases shall, apply moneys in the Redemption Fund to the purchase the allocable Series of Bonds for cancellation at prices not exceeding the price at which they are then redeemable (or next redeemable if they are not then redeemable), but not within forty-five (45) days preceding a redemption date. Accrued interest, if any, on the purchase of Bonds shall be paid from the Debt Service Fund.

If on any date the amount in the Debt Service Fund is less than the amount then required to be applied by the Trustee to pay the principal (including sinking fund installments) and interest then due on the Bonds or if on any date an amount is then required to be paid to the United States as provided in the Agreement, the Trustee shall apply the amount in the Redemption Fund (other than any sum irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) first to the satisfaction of such rebate payment, and second, to the Debt Service Fund to the extent necessary to meet the deficiency. The Corporation shall remain liable for any sums which it has not paid into the Debt Service Fund or pursuant to the Rebate Provision and any subsequent payment thereof shall be used to restore the funds so applied. (Section 304)

Expense Fund

Moneys and investments in the Expense Fund shall be held in trust and, except as otherwise provided, shall be applied by the Authority at the written direction of the Corporation to the payment or reimbursement of the costs of issuing the Bonds, including the reasonable fees and expenses of financial consultants and Bond Counsel, reasonable fees and expenses of the Trustee incurred prior to the completion of the Project in accordance with the Agreement, any recording or similar fees and any expenses of the Corporation in connection with the issuance of the Bonds. After all costs of issuing the Bonds have been paid, any amounts remaining in the Expense Fund shall be transferred to the Debt Service Fund. To the extent the Expense Fund is insufficient to pay any of the above costs, the Corporation shall be liable for the deficiency and shall pay such deficiency as directed by the Authority. (Section 307)

Rebate

The Corporation covenants that no later than sixty (60) days after the close of the fifth Bond Year following the date of issue of the Bonds (or any earlier date that may be required) and the close of each fifth Bond Year thereafter, the Corporation shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under IRC §148(f) and the regulations thereunder (the "Rebate Provision"). Within sixty (60) days after the Bonds have been paid in full, the Corporation shall pay to the United States on behalf of the Authority the full amount of rebate then required to be paid under the Rebate Provision.

No later than fifteen (15) days prior to each date on which a payment could become due under the foregoing paragraph (a "Rebate Payment Date"), the Corporation shall deliver to the Authority and the Trustee a certificate either summarizing the determination that no amount is required to be paid or specifying the amount then required to be paid pursuant to the Agreement. If the certificate specifies an amount to be paid, (A) such certificate shall be accompanied by a completed Form 8038-T, which is to be signed by an officer of the Authority, and shall include a certification stating that the Form 8038-T is accurate and complete, and (B) no later than ten (10) days after the Rebate Payment Date the Corporation shall furnish to the Authority and the Trustee a certificate stating that such amount has been timely paid. (Section 306)

Application of Moneys

If, in addition to moneys drawn on the Credit Facility or Liquidity Facility, as applicable, available moneys in the Debt Service Fund after any required transfers from the Redemption Fund are not sufficient on any day to pay the Purchase Price, principal (including sinking fund installments) or Redemption Price of and interest on the Outstanding Bonds then due or overdue, such moneys (other than any sum in the Redemption Fund irrevocably set aside for the redemption of particular Bonds or required to purchase Bonds under outstanding purchase contracts) shall, after payment of all charges and disbursements of the Trustee in accordance with the Agreement, be applied (in the order such Funds are named in this section) first to the payment of interest, including interest on overdue principal, in the order in which the same became due (pro rata with respect to interest which became due at the same time), second to the payment of principal (including sinking fund installments), without regard to the order in which the same became due (in proportion to the amounts due), and third to the payment of Purchase Price. In the event there exist Corporation Bonds on the date of any application of moneys under this paragraph, moneys otherwise to be paid to the Corporation as described in this paragraph shall be applied, first, pro rata to all other Bondowners (including the Credit Provider or Liquidity Provider, as the Owner of Bank Bonds or Liquidity Provider Bonds, as applicable, if any), and second, if any balance remains, to the Corporation, in respect of any Corporation Bonds. For this purpose interest on overdue principal shall be treated as coming due on the first day of each month. Whenever moneys are to be applied pursuant to this section, such moneys shall be applied at such times, and from time to time, as the Trustee in its discretion shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall exercise such discretion it shall fix the date (which shall be the first of a month unless the Trustee shall deem another date more suitable) upon which such application is to be made, and upon such date interest on the amounts of principal paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date. When interest or a portion of the principal is to be paid on an overdue Bond, the Trustee may require presentation of the Bond for endorsement of the payment. (Section 305)

Payments by the Corporation

The Corporation shall make payments in immediately available funds to the Trustee for deposit in the Debt Service Fund on each Interest Payment Date in an amount equal to the interest payment then coming due on such Bonds. The Corporation shall satisfy the requirement to pay interest under the preceding sentence while a Credit Facility is available for the Bonds by reimbursing the Credit Provider directly for drawings on the Credit Facility to pay interest on the Bonds. On each Principal Payment Date, the Corporation shall deposit in the Debt Service Fund an amount equal to the principal next or then coming due on the Bonds (including principal coming due by redemption pursuant to the Agreement). The Corporation shall satisfy the requirement to pay principal under the preceding sentence while a Credit Facility is available for the Bonds by reimbursing the Credit Provider directly for drawings on the Credit Facility to pay principal on the Bonds.

The payments to be made under the foregoing paragraph shall be appropriately adjusted to reflect the date of issue of Bonds, any earnings on amounts in the Debt Service Fund and any purchase or redemption of Bonds, so that there will be available on each payment date in the Debt Service Fund the amount necessary to pay or reimburse payment by the Bank of the interest and principal or sinking fund installment due or coming due on the Bonds.

At any time when any principal (including sinking fund installments) of the Bonds is overdue, the Corporation shall also have a continuing obligation to pay to the Trustee for deposit in the Debt Service Fund an amount equal to interest on the overdue principal but the payments described under this heading shall not otherwise bear interest.

Payments by the Corporation to the Trustee for deposit in the Debt Service Fund under the Agreement shall discharge the obligation of the Corporation to the extent of such payments; provided, that if any moneys are invested in accordance with the Agreement and a loss results therefrom so that there are insufficient funds to pay or redeem principal of and interest on the Bonds when due, the Corporation shall supply the deficiency.

The Trustee shall apply Eligible Funds, and to the extent necessary other funds, from the Debt Service Fund for the payment of principal and interest payable on the Bonds (whether at maturity, upon redemption or acceleration, on an Interest Payment Date, or otherwise) as provided in the Agreement to the extent amounts in the Credit Facility Fund are insufficient to pay the same. The Trustee shall apply such funds to the payment of principal and interest on the Bonds, in the following order, (i) moneys in the Credit Facility Fund, (ii) Eligible Funds on deposit in the Debt Service Fund, (iii) any other moneys in the Debt Service Fund, and (iv) other available moneys from the Corporation; provided, that except as specified in the next sentence, in no event shall the Trustee use any moneys other than Eligible Funds to pay principal of or interest on Bonds supported by a Credit Facility. If and to the extent that sufficient Eligible Funds, including moneys in the Credit Facility Fund, are not available to pay in full the principal of and interest on the Bonds supported by a Credit Facility, then other available moneys shall be so used. Promptly after any payment on the Bonds is made from moneys in the Credit Facility Fund, the Trustee shall to the extent available pay to the Credit Provider from amounts in the Debt Service Fund an amount equal to such payment on the Bonds from the Credit Facility Fund. Each payment to the Credit Provider described in the immediately preceding sentence shall be made by the Trustee by wire transfer to the Credit Provider (to such account as the Credit Provider may from time to time indicate) of the applicable amount immediately following, and on the same Business Day as, the Credit Provider's initiation of payment of the corresponding drawing under the Credit Facility. Notwithstanding the foregoing, the Corporation may reimburse the Credit Provider directly as provided in the Agreement.

If the Credit Facility or Liquidity Facility does not provide sufficient funds, together with all other amounts (including remarketing proceeds) received by the Trustee for the purchase of Bonds pursuant the Agreement to pay the Purchase Price of such Bonds on the Purchase Date, the Trustee shall, on such Purchase Date, notify the Corporation and the Remarketing Agent of such deficiency by telephone promptly confirmed in writing. The Corporation may, in its sole discretion, by 2:45 P.M. New York City time on the Purchase Date for Bonds tendered pursuant to the Agreement, pay to the Trustee for deposit into the Corporation Purchase Account immediately available funds in an amount equal to the Purchase Price of such Bonds less the amount, if any, available to pay the Purchase Price in accordance with the Agreement as the case may be, from the proceeds of the remarketing of such Bonds or from drawings on the Credit Facility or Liquidity Facility, as reported by the Trustee.

In no such case, however, shall the Corporation be obligated to make such payment. Bonds so purchased with moneys furnished by the Corporation shall be "Corporation Bonds." (Section 308)

Unconditional Obligation

To the extent permitted by law, the obligation of the Corporation to make payments to the Authority and the Trustee under the Agreement shall be absolute and unconditional, shall be binding and enforceable in all circumstances whatsoever, shall not be subject to setoff, recoupment or counterclaim and shall be a general obligation of the Corporation to which the full faith and credit of the Corporation are pledged. (Section 309)

Investments

Pending their use under the Agreement, moneys in the Debt Service Fund and Redemption Fund may be invested by the Trustee in Permitted Investments (as defined below) maturing or redeemable at the option of the holder at or before the time when such moneys are expected to be needed and shall be so invested pursuant to written direction of the Corporation if there is not then an Event of Default known to the Trustee. Moneys in the Expense Fund may be invested by the Authority pursuant to written direction of the Corporation in Permitted Investments maturing or redeemable at the option of the holder not later than the time when such moneys are expected to be needed. Any investments pursuant to that part of the Agreement described in this paragraph shall be held by the Trustee or the Authority, as the case may be, as a part of the applicable Fund and shall be sold or redeemed to the extent necessary to make payments or transfers or anticipated payments or transfers from such Fund, subject to the notice provisions of Section 9-611 of the UCC to the extent applicable.

Except as set forth below, any interest realized on investments in any Fund and any profit realized upon the sale or other disposition thereof shall be credited to the Fund or Account with respect to which they were earned and any loss shall be charged thereto. Earnings (which for this purpose include net profit and are after deduction of net loss) on the Expense Fund shall be transferred to the Debt Service Fund not less often than quarterly and credited against payments otherwise required to be made thereto.

The term "Permitted Investments" means (A) Government or Equivalent Obligations; (B) (1) "tax exempt bonds" as defined in IRC §150(a)(6), other than "specified private activity bonds" as defined in IRC §57(a)(5)(C), and (2) bonds issued pursuant to Section 54A, 54AA or 1400U of the IRC, in any case, rated at least AA or Aa by S&P and Moody's, respectively, or the equivalent by any other nationally recognized rating agency at the time of acquisition thereof or shares of a so-called money market or mutual fund that do not constitute "investment property" within the meaning of IRC §148(b)(2), provided either that the fund has all of its assets invested in obligations of such rating quality or, if such obligations are not so rated, that the fund has comparable creditworthiness through insurance or otherwise and which fund is rated AAm or AAm G if rated by S&P; (C) shares of money market funds rated AAAm-G, AAAm or AAm by S&P; (D) certificates of deposit of, banker's acceptances drawn on and accepted by, and interest bearing deposit accounts of, a bank or trust company which (1) has a capital and surplus of not less than $50,000,000 or (2) shall be continuously and fully (a) insured by the Federal Deposit Insurance Corporation or any successor thereof, or (b) secured by Government or Equivalent Obligations; (E) bonds, debentures, notes or other evidences of indebtedness issued by any government sponsored enterprise, agency or instrumentality of the United States of America that are rated Aaa by Moody's and AAA by S&P; (F) commercial paper rated at least P-1 by Moody's and A-1 by S&P; (G) long-term or medium-term (maturity date greater than one year from date of purchase) corporate debt issued or guaranteed by any corporation that is rated by Moody's and S&P in their two highest rating categories; (H) asset-backed or mortgage-backed securities rated by Moody's and S&P in their two highest rating categories, provided that collateralized debt obligations or collateralized mortgage obligations shall not be considered Permitted Investments; (I) investment agreements or contracts representing the unconditional obligations of entities the secured long-term debt obligations of which are rated in either of the two highest rating categories by Moody's or S&P, provided that, in the event of a provider downgrade below either Aa3 or AA- by Moody's and S&P, respectively, (1) collateral consisting of Government or Equivalent Obligations be posted that has a value equal to at least 104% of the principal plus accrued interest or collateral consisting of senior debt obligations of securities of the type described in clause (E) of this definition of Permitted Investments be posted that has a value equal to at least 105% of the principal plus accrued interest, or (2) the agreement shall terminate; (J) the Massachusetts Health and Educational Facilities Authority Short Term Asset Reserve Fund (MassSTAR); (K) forward purchase agreements pursuant to which the Trustee

agrees to purchase securities of the type described in clauses (A) or (E) of this definition of Permitted Investments; and (L) Repurchase Agreements. The term "Repurchase Agreement" shall mean a written agreement under which a bank or trust company which has a capital and surplus of not less than $50,000,000 or a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York sells to, and agrees to repurchase from the Authority or the Trustee obligations issued or guaranteed by the United States; provided that the market value of such obligations is at the time of entering into the agreement at least one hundred and four percent (104%) of the repurchase price specified in the agreement and that such obligations are segregated from the unencumbered assets of such bank or trust company or government bond dealer; and provided further that unless the agreement is with a bank or trust company, such agreement shall require the repurchase to occur on demand or on a date certain which is not later than one (1) year after such agreement is entered into and shall expressly authorize the Trustee or the Authority, as the case may be, to liquidate the purchased obligations in the event of the insolvency of the party required to repurchase such obligations or the commencement against such party of a case under the federal Bankruptcy Code or the appointment of or taking possession by a trustee or custodian in a case against such party under the Bankruptcy Code. Any such investments may be purchased from or through the Trustee.

Notwithstanding the immediately preceding paragraph, Permitted Investments shall not include the following:

(A) Government or Equivalent Obligations, certificates of deposit and bankers' acceptances, in each case with yields lower than either (1) the yield available on comparable obligations then offered by the United States Treasury; or (2) the highest yield published or posted by the provider of the Permitted Investments to be currently available from the provider on reasonably comparable investments;

(B) Any demand deposit or similar account with a bank, trust company or broker, unless (1) the account is used for holding funds for a short period of time until such funds are reinvested or spent, and (2) substantially all the funds in the account are withdrawn for reinvestment or expenditure within fifteen (15) days of their deposit therein; or

(C) Repurchase Agreements unless (1) at least three (3) bids are obtained on the proposed Repurchase Agreement from persons other than those with an interest in the Bonds, (2) the highest yielding Repurchase Agreement for which a qualifying bid is received is purchased, (3) the terms of the Repurchase Agreement , including collateral requirements, are reasonable, and (4) a written record of the yield offered by each bidder is maintained.

Any of the above requirements shall not apply to moneys as to which the Trustee and the Authority shall have received a Favorable Opinion of Bond Counsel regarding the waiver of such requirements. Permitted Investments shall not include any investment that would cause any of the Bonds to be federally guaranteed within the meaning of IRC §149(b).

A security interest required by Permitted Investments shall be perfected in such manner as may be provided by law. In the case of a Repurchase Agreement, if under applicable law, including the federal Bankruptcy Code, the agreement is recognized as transferring ownership in the underlying securities to the investing party with a right to liquidate the securities and apply the proceeds against the repurchase obligation, all free and clear of the claims of creditors and transferees of the other party, the interest of the investing party shall be regarded as the equivalent of a perfected security interest for the purposes of this subsection. In any case, however, if the underlying securities or the securities subject to the security interest are certificated securities (as opposed to uncertificated or book entry securities), they shall be delivered to the Authority in the case of a Fund in the custody of the Authority, or to the Trustee in the case of a Fund in the custody of the Trustee, or to a depository satisfactory to the Authority or the Trustee, as the case may be, either as agent for the Authority or the Trustee or as bailee with appropriate instructions and acknowledgement, at the time of or prior to the investment, or, if the security interest is perfected without delivery, delivery shall be made within three (3) Business Days. Possession by the Trustee of the security for an obligation of the Trustee shall not be deemed to satisfy the requirements of this the part of the Agreement described in this paragraph unless there is an opinion of counsel satisfactory to the Authority to the effect that such possession satisfies the requirements of this subsection.

The Trustee may hold undivided interests in Permitted Investments for more than one Fund (for which they are eligible) and may make interfund transfers in kind. The Trustee shall be entitled to rely conclusively on all written investment instructions provided by the Corporation under the Agreement. The Trustee shall not have any responsibility for any depreciation in the value of any investment or for any loss, direct or indirect, resulting from any investment made in accordance with the written instructions of the Corporation. The Trustee shall be without liability to the Corporation, any Bondowner or any other person in the event that any investment in Permitted Investments made in accordance with written instructions of the Corporation shall cause any or all of the Bonds to be or become arbitrage bonds within the meaning of IRC Section 148 or shall cause any person to incur any liability pursuant to the IRC. (Section 311)

Alternate Credit Facility

If at any time there shall have been delivered to the Trustee (i) an Alternate Credit Facility or an Alternate Liquidity Facility in substitution for a Credit Facility or Liquidity Facility then in effect, (ii) a Favorable Opinion of Bond Counsel, (iii) a written Opinion of Counsel for the provider of the Alternate Credit Facility or Alternate Liquidity Facility, as applicable, to the effect that such Alternate Credit Facility or Alternate Liquidity Facility is a valid, legal and binding obligation of the provider thereof (subject to customary exceptions), (iv) unless waived by such entity, written evidence satisfactory to the Credit Provider and the Liquidity Provider of the provision for purchase from the Credit Provider or Liquidity Provider, as applicable, of all Bank Bonds or Liquidity Provider Bonds of such series, as the case may be, at a price equal to the principal amount thereof plus accrued and unpaid interest at the rate provided for in the applicable Reimbursement Agreement, and payment of all amounts due to the Credit Provider and the Liquidity Provider under the Reimbursement Agreement(s) on or before the effective date of such Alternate Credit Facility or Alternate Liquidity Facility, (v) if the Bonds to be covered by the Alternate Credit Facility are in the Fixed Rate Mode and are then rated by a Rating Agency, a written confirmation from each Rating Agency that the substitution will not result in the withdrawal or reduction of its respective rating on such Bonds, then the Trustee shall accept such Alternate Credit Facility or Alternate Liquidity Facility on the Substitution Date and shall surrender the Credit Facility or Liquidity Facility then in effect to the provider thereof on the Substitution Date so long as the Credit Provider or Liquidity Provider has honored any necessary draws on the Credit Facility or Liquidity Facility then in effect prior to such surrender. The Corporation shall give the Notice Parties and the Rating Agencies written notice of the proposed substitution of an Alternate Credit Facility or Alternate Liquidity Facility no less than twenty (20) days prior to the proposed Substitution Date. The Trustee shall give notice of such proposed substitution by mail to the Owners of the Bonds no less than fifteen (15) days prior to the proposed Substitution Date. (Section 521)

Covenants of the Corporation

The Corporation covenants, among other things:

(a) In the acquisition, construction, maintenance, improvement and operation of the Project, the Corporation has complied and will comply with all material and applicable building, zoning and land use, environmental protection, sanitary, safety and health care laws, rules and regulations, and all material and applicable grant, reimbursement and insurance requirements, and will not permit a nuisance thereon;

(b) The Corporation shall make timely payment of all taxes and assessments and other municipal or governmental charges and all claims and demands for work, labor, services, materials or other objects, which, if unpaid, might by law become a lien on the Project or any part thereof, except that it shall not be a breach of this covenant if the Corporation is diligently and in good faith contesting the validity thereof;

(c) The Corporation agrees that it will maintain and repair the Project and keep the same in good and serviceable condition and in at least as good condition and repair (reasonable wear and tear and casualty loss excepted) as it was on the date the same was placed in service;

(d) The Corporation shall pay all costs of maintaining and operating the Project; and

(e) The Corporation shall maintain its existence as a nonprofit corporation qualified to do business in Massachusetts and shall not dissolve, dispose of or spin off all or substantially all of its assets, or consolidate with or merge into another entity or entities, or permit one or more other entities to consolidate with or merge into it, except that it may consolidate with or merge into one or more other entities, or permit one or more other entities to consolidate with or merge into it, or transfer all or substantially all of its assets to one or more other entities (and thereafter dissolve or not dissolve as it may elect), if (a) the surviving, resulting or transferee entity or entities each is a corporation described in Section 501(c)(3) of the IRC having the corporate and securities law status and powers set forth in the Agreement, (b) the transaction does not result in a conflict, breach or default referred to in the Agreement, and (c) the surviving, resulting or transferee entity or entities each (i) assumes by written agreement with the Authority and the Trustee all the obligations of the Corporation under the Agreement, (ii) notifies the Authority and the Trustee of any change in the name of the Corporation and (iii) executes, delivers, registers, records and files such other instruments as the Authority or the Trustee may reasonably require to confirm, perfect or maintain any security granted under the Agreement. (Sections 601, 602 and 1105)

Events of Default

"Event of Default" in the Agreement means any one of the events set forth below and "Default" means any Event of Default without regard to any lapse of time or notice.

Debt Service on Bonds; Required Purchase. Any principal (including sinking fund installments) of or interest on any Bond shall not be paid when due, whether at maturity, by acceleration, upon redemption or otherwise or any Purchase Price for Bonds shall not be paid when required as provided in the Agreement.

Other Obligations. The Corporation shall fail to make any other required payment to the Trustee, and such failure is not remedied within seven (7) days after written notice thereof is given by the Trustee or the Authority to the Corporation; or the Corporation shall fail to observe or perform any of its other agreements, covenants or obligations under the Agreement and such failure is not remedied within sixty (60) days after written notice thereof is given by the Trustee or the Authority to the Corporation.

Warranties. There shall be a material breach of warranty made in the Agreement by the Corporation as of the date it was intended to be effective and the breach is not cured within sixty (60) days after written notice thereof is given by the Trustee or the Authority to the Corporation.

Voluntary Bankruptcy. The Corporation shall commence a voluntary case under the federal bankruptcy laws, or shall become insolvent or unable to pay its debts as they become due, or shall make an assignment for the benefit of creditors, or shall apply for, consent to or acquiesce in the appointment of, or taking possession by, a trustee, receiver, custodian or similar official or agent for itself or any substantial part of its property.

Appointment of Receiver. A trustee, receiver, custodian or similar official or agent shall be appointed for the Corporation or for any substantial part of its property and such trustee or receiver shall not be discharged within sixty (60) days.

Involuntary Bankruptcy. The Corporation shall have an order or decree for relief in an involuntary case under the federal bankruptcy laws entered against it, or a petition seeking reorganization, readjustment, arrangement, composition, or other similar relief as to it under the federal bankruptcy laws or any similar law for the relief of debtors shall be brought against it and shall be consented to by it or shall remain undismissed for sixty (60) days.

Breach of Other Agreements. A breach shall occur (and continue beyond any applicable grace period) with respect to the payment of other indebtedness of the Corporation for borrowed money with respect to loans exceeding $10,000,000, or with respect to the performance of any agreement securing such other indebtedness or pursuant to which the same was issued or incurred, or an event shall occur with respect to provisions of any such agreement relating to matters of the character referred to in this section, so that a holder or holders of such indebtedness or a trustee or trustees under any such agreement accelerates or is empowered to accelerate any such indebtedness; but an Event of Default shall not be deemed to be in existence or to be continuing under this paragraph if (A) the Corporation is in good faith contesting the existence of such breach or event and if such acceleration is being stayed

by judicial proceedings, or (B) such breach or event is remedied and the acceleration is wholly annulled. The Corporation shall notify the Authority and the Trustee of any such breach or event immediately upon the Corporation's becoming aware of its occurrence and shall from time to time furnish such information as the Authority or the Trustee may reasonably request for the purpose of determining whether a breach or event described in this paragraph has occurred.

Default Under the Master Indenture. An Event of Default shall occur under the Master Indenture (as defined therein).

Reimbursement Agreement. The Trustee shall have received written notice from the Bank of the occurrence of an event of default under the Reimbursement Agreement.

Non-Reinstatement under the Letters of Credit. The Trustee shall receive written notice from the Bank within the Non-Reinstatement Notice Period after a drawing under a Letter of Credit to pay interest on the Bonds that the Bank has not reinstated the amount so drawn, and such non-reinstatement causes the total amount of the obligation of the Bank under the Letter of Credit to be less than the principal amount of the Outstanding Bonds supported by the Letter of Credit (other than Bank Bonds or Corporation Bonds) and accrued interest for a period of 47 days at the Maximum Rate with respect to the principal amount of such Bonds then Outstanding in the Daily or Weekly Mode or, if applicable, 210 days (or such lesser or greater number of days as may be required by any rating agency then rating the Bonds in the Term or Fixed Rate Mode) at the Term or Fixed Rate if the Bonds are in the Term or Fixed Rate Mode, respectively.

Waiver. If the Trustee determines that a default has been cured before the entry of any final judgment or decree with respect to it, the Trustee may waive the default and its consequences, including any acceleration, with the written consent of the Authority, by written notice to the Corporation and shall do so, with the written consent of the Authority, upon written instruction of the owners of at least twenty-five percent (25%) in principal amount of the Outstanding Bonds; provided that the Trustee shall not waive any default after a drawing under a Credit Facility or a Liquidity Facility until (i) the Credit Provider or Liquidity Provider, as the case may be, has reinstated the amount so drawn and (ii) in the case of an Event of Default listed in the above paragraph captioned "Reimbursement Agreement," the Trustee has received written notice from the Bank that the notice of event of default to the Trustee has been rescinded. (Section 701)

Remedies for Events of Default

If an Event of Default occurs and is continuing:

Acceleration.

(A) *Bonds Supported by a Letter of Credit*. If the Event of Default is one described in above in the paragraphs captioned "Reimbursement Agreement" or "Non-Reinstatement under the Letters of Credit," and, in the case of an Event of Default described in the paragraph captioned "Non-Reinstatement under the Letters of Credit", the notice from the Bank directs the Trustee to accelerate the applicable Bonds, the principal of the Bonds that are supported by the Letter of Credit and Bank Bonds and accrued interest thereon shall automatically become immediately due and payable without any further notice or action. So long as a Letter of Credit is in effect and the Bank has not failed to honor a properly presented and conforming drawing thereunder, no acceleration shall be declared by reason of an Event of Default described in the remaining paragraphs without the prior written consent of the Bank. Notwithstanding the foregoing, if any Event of Default described in the paragraph captioned "Debt Service on Bonds; Required Purchase" occurs due to the failure of the Trustee to receive sufficient funds for the payment of the Purchase Price of all Bonds supported by a Letter of Credit tendered for purchase on any Purchase Date, the Trustee shall immediately draw under the applicable Letter of Credit an amount equal to such deficiency (except to the extent that one or more drawings have been made previously in respect of the same deficiency), plus one day's accrued interest on such Bonds, and only if such Event of Default is not cured by the close of business on the next Business Day shall there be such an automatic acceleration of the payment of principal of and accrued interest on the Bonds.

(B) *Bonds not Supported by a Letter of Credit*. The Trustee may, and upon the written request of the registered owners of a majority in principal amount of the Outstanding Bonds which are not supported by a Letter of Credit shall, by written notice to the Corporation, the Authority, the Credit Provider and the Liquidity Provider, if any, the Remarketing Agent, if any, the Broker-Dealer, if any, the Auction Agent, if any, and the Rating Agencies declare immediately due and payable the principal amount of such Outstanding Bonds and the payments to be made by the Corporation therefor, and accrued interest on the foregoing, whereupon the same shall become immediately due and payable without any further action or notice.

Rights as a Secured Party. The Trustee and the Authority, as appropriate, may exercise all of the rights and remedies of a secured party under the UCC with respect to securities in the Debt Service Fund, Redemption Fund and Expense Fund, including the right to sell or redeem such securities and the right to retain the securities in satisfaction of the obligations of the Corporation under the Agreement. Notice sent by registered or certified mail, postage prepaid, or delivered during business hours, to the Corporation at least seven (7) days before an event under UCC Section 9-611 or any successor provision of law shall constitute reasonable notification of such event.

Rights as a Note Holder. The Trustee may exercise all its rights and remedies under the Master Indenture as holder of the Note, including but not limited to directing the Master Trustee as to the exercise of its remedies and the conduct or proceedings, the acceleration of Obligations (as defined in the Master Indenture), the annulment of any such acceleration and the waiver of Events of Default (as defined in the Master Indenture), the amendment of any provision of the Master Indenture and the amendment of the Guaranty. If the Note is declared to be due and payable because of an Event of Default under the Master Indenture which does not arise from or cause (otherwise than by such declaration) an Event of Default under the paragraphs captioned "Debt Service on Bonds; Required Purchase" or "Other Obligations", and if such Event of Default under the Master Indenture is cured and the conditions of clauses (i) through (iv) of Section 6.02(b) of the Master Indenture are satisfied, the Trustee shall refrain from directing the Master Trustee not to annul such declaration and its consequences. (Section 702)

Court Proceedings

Subject to the Agreement, the Trustee may enforce the obligations under the Agreement by legal proceedings for the specific performance of any covenant, obligation or agreement contained in the Agreement, whether or not an Event of Default exists, or for the enforcement of any other appropriate legal or equitable remedy, and may recover damages caused by any breach by the Authority of the provisions of the Agreement, including (to the extent the Agreement may lawfully provide) court costs, reasonable attorneys' fees and other costs and expenses incurred in enforcing the obligations under the Agreement. (Section 703)

Revenues after Default

The proceeds from the exercise of the rights and remedies under "Rights as a Secured Party" above shall be remitted to the Trustee upon receipt and in the form received. Such proceeds shall be applied, first to the remaining obligations of the Corporation under the Agreement (other than obligations to make payments to the Authority for its own use) in such order as may be determined by the Trustee, and second, to any unpaid sums due the Authority for its own use. Any surplus thereof shall be paid to the Corporation. (Section 704)

Letters of Credit; Acceleration

Upon declaration of acceleration of the Bonds prior to expiration of a Letter of Credit, if applicable, the Trustee shall draw immediately on the applicable Letter of Credit in an amount equal to the aggregate unpaid principal of and interest on the Bonds supported by the Letter of Credit to the date of declaration of acceleration for Bonds on which date interest shall cease to accrue. The Trustee shall not require indemnification for any declaration of acceleration or any draw required as described under this heading except and unless such instruction is prohibited by or violates applicable law or any outstanding or pending court or governmental order or decree. (Section 705)

Subrogation Rights of the Bank

So long as no Credit Facility Failure exists, in the event that (i) an Event of Default shall occur and be continuing under the Agreement, or (ii) the Trustee shall draw under the applicable Letter of Credit in connection with the payment of principal or Purchase Price of or interest on the applicable Bonds (other than Bank Bonds or Corporation Bonds), and in either such case the Bank shall have provided the Trustee with funds pursuant to the applicable Letter of Credit for the payment of the principal or Purchase Price of or interest on the Bonds (other than Bank Bonds or Corporation Bonds), then, in any such event, the Bank shall be subrogated to all rights theretofore possessed under the Agreement by the Trustee and the Bondowners in respect of which such principal or Purchase Price of and interest shall have been paid with funds provided by the Bank (to the extent such funds provided by the Bank pursuant to the Letter of Credit shall not have been reimbursed to the Bank). After the payment of any such Outstanding Bonds owned by the Bondowners other than the Bank, any reference in the Agreement to the Owners of such Bonds or such Bondowners shall mean the Bank to the extent of its subrogation rights resulting from the payments made pursuant to the applicable Letter of Credit. Notwithstanding any provision contained in the Agreement to the contrary, under no circumstances shall the Authority's rights or the Trustee's rights relating to the Trustee as opposed to rights for the benefit of Bondowners reserved in the Agreement, including without limitation the right of indemnification or the Authority's right or the Trustee's right to enforce the same, be subrogated to the Bank. (Section 706)

Rights of the Bank

All consents, approvals and requests required of the Bank shall be deemed not required if a Credit Facility Failure has occurred and is continuing. Subject to the immediately preceding sentence, but notwithstanding any other provision of the Agreement, in the event that all Outstanding Bonds (other than Bank Bonds and Corporation Bonds) are secured by the Bank pursuant to the Letters of Credit, the exercise or direction of all remedies granted under the Agreement (other than acceleration of the Bonds upon the occurrence of an Event of Default described in the paragraphs captioned "Reimbursement Agreement or "Non-Reinstatement under the Letters of Credit") and the granting of any directions, consents, waivers or other actions pursuant to the Agreement and rights as Note Holder under the Agreement shall be subject solely to the direction and prior written consent of the Bank. Further, the Trustee, in its exercise of its rights for the benefit of Bondowners under the Agreement and the rights of the Authority assigned under the Agreement (but not including the rights of the Trustee or the Authority under the Agreement for its own benefit including, but not limited to, indemnification and any fees and expenses owed to it), in the event that all Outstanding Bonds are Bank Bonds, shall be subject to the direction of the Bank. In the event that less than all Outstanding Bonds are secured by the Bank pursuant to the Letters of Credit, the Bank shall be treated as the Owner of all Bank Bonds for purposes of giving directions, consents, waivers or other actions. In no event shall the Bonds be accelerated without the prior written consent of the Bank so long as the Letters of Credit are in full force and effect and the Bank has neither defaulted thereunder by failing to honor a draft submitted under the Letters of Credit in strict conformity therewith nor given the notice of non-reinstatement described in the paragraph captioned "Non-Reinstatement under the Letters of Credit." (Section 707)

Action by Bondowners

Any request, authorization, direction, notice, consent, waiver or other action provided by the Agreement to be given or taken by Bondowners may be contained in and evidenced by one or more writings of substantially the same tenor signed by the requisite number of Bondowners or their attorneys duly appointed in writing.

Any request, consent or vote of the Owner of any Bond shall bind all future Owners of such Bond. Bonds (other than Bank Bonds) owned or held by or for the account of the Authority or the Corporation shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondowners. (Section 1001)

Proceedings by Bondowners

No Bondowner shall have any right to institute any legal proceedings for the enforcement of the Agreement or any applicable remedy under the Agreement, unless the Bondowners have directed the Authority to act and furnished the Authority indemnity as provided in the Agreement and have afforded the Authority reasonable opportunity to proceed, and the Authority shall thereafter fail or refuse to take such action.

Subject to the foregoing, any Bondowner may by any available legal proceedings enforce and protect its rights under the Agreement and under the laws of The Commonwealth of Massachusetts.

Any request, consent or vote of the Owner of any Bond shall bind all future Owners of such Bond. Bonds (other than Bank Bonds) owned or held by or for the account of the Authority or the Corporation shall not be deemed Outstanding Bonds for the purpose of any consent or other action by Bondowners. So long as the Bonds are supported by a Letter of Credit or any obligations to the Bank under the Reimbursement Agreement remain unpaid and the Bank has not failed to honor a properly presented and conforming draw under a Letter of Credit, the Bank and not the Bondowners shall be treated as the Owner of all Bonds entitled to the benefit of such Letter of Credit for the purpose of any consent, direction or other action by Bondowners. (Section 1002)

Performance of Corporation's Obligations

If the Corporation fails to observe or perform any covenant, condition, agreement or provision contained in the Agreement with respect to the Project (including, without limitation, the insurance, maintenance or repair of the Project and the payment of taxes or other governmental charges thereon), whether or not there is an Event of Default under the Agreement, the Trustee may perform such covenant, condition, agreement or provision in its own name or in the Corporation's name, and is irrevocably appointed the Corporation's attorney-in-fact for such purpose. The Trustee shall give at least seven (7) days' notice to the Corporation before taking action as described under this heading, except that in the case of emergency as reasonably determined by the Trustee, the Trustee may act on lesser notice or give the notice promptly after rather than before taking the action. The reasonable cost of any such action by the Trustee shall be paid or reimbursed by the Corporation within thirty (30) days after the Trustee notifies the Corporation of such cost. (Section 802)

Tax Matters

The Corporation shall not take or omit to take any action if such action or omission (i) would cause the Bonds to be "arbitrage bonds" under Section 148 of the IRC, (ii) would cause the Bonds to not meet any of the requirements of Section 149 of the IRC, or (iii) cause the Bonds to cease to be "qualified 501(c)(3) bonds" under Section 145 of the IRC. To the extent consistent with its status as a nonprofit hospital, the Corporation agrees that it will not take any action or omit to take any action if such action or omission would cause any revocation or adverse modification of such federal income tax status of the Corporation. (Section 1102)

Continuing Disclosure

The Corporation and the Trustee covenant and agree that each will comply with and carry out all of the provisions of any Continuing Disclosure Agreement applicable to it. The Authority shall have no liability to the owners of the Bonds or any other person with respect to such disclosure matters. Notwithstanding any other provisions of the Agreement, failure of the Corporation or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the owners of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Owner (including a Beneficial Owner) of Bonds may seek specific performance of the Corporation's or the Trustee's obligations to comply with its obligations under the Continuing Disclosure Agreement or this paragraph and not for money damages in any amount. (Section 1107)

Amendments

The Agreement may be amended by the parties without Bondowner consent for any of the following purposes: (a) to subject any property to the lien of the Agreement, (b) to provide for the establishment or amendment of a book-entry system of registration for the Bonds through a securities depository (which may or may not be DTC), (c) to add to the covenants and agreements of the Corporation or to surrender or limit any right or power of the Corporation, (d) to cure any ambiguity or defect, or to add provisions which are not inconsistent with the Agreement and which do not impair the security for the Bonds or (e) to make any necessary changes to the Agreement to facilitate (i) the conversion of any portion of the Bonds to a different Mode or (ii) the addition of a Credit Facility for the Bonds in a form other than a Letter of Credit, provided such changes take effect only after a mandatory tender of the Bonds. Provisions of the Agreement may also be amended by the parties without Bondowner consent, but only with respect to the applicable portion of the Bonds on the date of any mandatory tender of the Bonds.

While Bonds are in the Daily or Weekly Mode, the Corporation may amend provisions of the Agreement concerning such Bonds in such Modes by obtaining the consent of a majority of registered owners of the Bonds in such Modes. The Corporation may also amend the definition of Maximum Rate, without Bondowner consent (but with at least 20 days' notice to the Bondowners if the amendment is to reduce the Maximum Rate), provided that, if a Credit Facility (with a liquidity component) or a Liquidity Facility is then in effect, it entitles the Trustee to draw upon or demand and receive in immediately available funds an amount equal to the principal amount of the Bonds then Outstanding plus a number of days of accrued interest at such amended Maximum Rate at least equal to the number of days required to be covered under the Agreement.

Except as provided in the foregoing paragraphs, the Agreement may be amended only with the written consent of the registered owners of a majority in principal amount of the Outstanding Bonds. Notwithstanding anything in the Agreement to the contrary, no amendment of the Agreement may be made without the unanimous written consent of the affected Bondowners for any of the following purposes: (i) to extend the maturity of any Bond; (ii) to reduce the principal amount, or interest rate of any Bond; (iii) to make any Bond redeemable other than in accordance with the terms of the Agreement; (iv) to create a preference or priority of any Bond or Bonds over any other Bond or Bonds; or (v) to reduce the percentage of the Bonds required to be represented by the Bondowners giving their consent to any amendment.

Any amendment of the Agreement shall be accompanied by a Favorable Opinion of Bond Counsel to the effect that the amendment (i) is permitted by the Agreement and (ii) shall not adversely affect the validity of the Bonds or the exclusion of interest on the Bonds from the gross income of the owners of the Bonds for federal

income tax purposes. So long as a Credit Facility supports the Bonds no amendment to the Agreement shall be made without the consent of the Credit Provider. So long as no Credit Facility Failure exists with respect to any Bonds supported by a Credit Facility, the Credit Provider and not the Bondowners shall be deemed to be the owner of all Bonds entitled to the benefits of such Credit Facility for the purpose of consenting to any amendment by Bondowners, other than those amendments requiring the unanimous written consent of the affected Bondowners set forth in the immediately preceding paragraph. (Section 1201)

Indemnification; Limits of Responsibility; Replacement of the Trustee

The Agreement sets forth certain immunities and limitations of the responsibilities of the Authority and the Trustee and provides for indemnification of the Authority and the Trustee against claims relating to the Agreement or the Project.

The Trustee may resign on not less than 30 days' notice given in writing to the Authority, the Corporation, each Credit Provider or Liquidity Provider, if any, and the Bondowners, but such resignation shall not take effect until a successor has been appointed by the Corporation. The Trustee may be removed by written notice from (i) the registered owners of a majority in principal amount of the Outstanding Bonds to the Trustee, the Authority, the Credit Provider or Liquidity Provider, if any, and the Corporation or (ii) so long as no default or Event of Default exists under the Agreement, from the Corporation to the Trustee, the Credit Provider or Liquidity Provider, if any, and the Authority, with the consent of the Authority in its sole discretion, but such removal shall not take effect until a successor has been appointed. (Sections 802, 804 and 902)

Defeasance

When there are in the Debt Service Fund and Redemption Fund or in any other trust fund established with the Trustee exclusively for the purpose of paying or redeeming the Bonds in full, sufficient cash or non-callable Government or Equivalent Obligations in such principal amounts and with such maturities as will provide sufficient cash, in each case constituting Eligible Funds (except when no Credit Facility which is a Letter of Credit is in effect for the Bonds), to pay or redeem the Bonds in full and, prior to the Fixed Rate Conversion Date for all the Bonds, to pay the Purchase Price thereof whenever the same may be payable and when all the rights under the Agreement of the Authority, the Credit Provider and the Trustee have been provided for, then upon written notice from the Corporation to the Authority and the Trustee, the Bondowners, the Trustee and the Authority shall cease to be entitled to any benefit or security under the Agreement except the right to receive payment of the funds deposited and held for payment and other rights which by their nature cannot be satisfied prior to or simultaneously with termination of the lien of the Agreement, the security interests created by the Agreement (except in such funds and investments) shall terminate, and the Authority and the Trustee shall execute and deliver such instruments as may be necessary to discharge the lien and security interests created under the Agreement; provided, however, that if any such Bonds are to be redeemed prior to the maturity thereof, the Authority shall have taken all action necessary to redeem such Bonds and notice of such redemption shall have been duly mailed in accordance with the Agreement or irrevocable instructions so to mail shall have been given to the Trustee, and provided further, however, that the Trustee shall have received written confirmation from S&P, if the Bonds are then rated by S&P and are in the Daily or Weekly Mode, that the defeasance will not result in the withdrawal or reduction of its rating on the Bonds. Upon such defeasance, the funds and investments required to pay or redeem the Bonds in full shall be irrevocably set aside for that purpose, subject, however, to the Agreement, and moneys held for defeasance shall be invested only as provided above under this heading. Any funds or property held by the Trustee and not required for payment or redemption of the Bonds in full shall, after satisfaction of all the rights of the Authority, the Credit Provider and the Trustee and after allowance for payment of any rebate pursuant to the Rebate Provision, be distributed to the Corporation upon such indemnification, if any, as the Authority or the Trustee may reasonably require. Notwithstanding any other provisions of the Agreement to the contrary, the Maximum Rate payable with respect to the Bonds shall be used for purposes of determining the amount payable on the Bonds pursuant to the Agreement for any period for which the interest rate payable on the Bonds is not otherwise fixed or determined. (Section 203)

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EDWARDS ANGELL PALMER & DODGE LLP
111 Huntington Avenue Boston, MA 02199 617.239.0100 *fax* 617.227.4420 eapdlaw.com

PROPOSED FORM OF BOND COUNSEL OPINION

[Date of Delivery]

Massachusetts Health and Educational
Facilities Authority
99 Summer Street, Suite 1000
Boston, Massachusetts 02110

$341,590,000
Massachusetts Health and Educational Facilities Authority
Revenue Bonds, Children's Hospital Issue, Series N (2010)
Dated the Date of Delivery
(the "Bonds")

We have acted as bond counsel to the Massachusetts Health and Educational Facilities Authority (the "Authority") in connection with the issuance by the Authority of the above-referenced Bonds. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion, including the Amended and Restated Master Trust Indenture dated as of April 10, 2001, between The Children's Hospital Corporation (the "Corporation") and State Street Bank and Trust Company, predecessor to U.S. Bank National Association, as Master Trustee (the "Master Trustee"), as previously amended and as further amended by a Supplemental Master Indenture for Obligation Nos. 19, 20, 21 and 22 dated as of May 13, 2010 between the Corporation and the Master Trustee (collectively, the "Master Indenture"), the Guaranty of Obligation Nos. 19, 20, 21 and 22 dated as of May 13, 2010 executed by The Children's Medical Center Corporation (the "Guarantor"), and two Loan and Trust Agreements dated as of May 1, 2010 (the "Agreements") among the Authority, the Corporation and U.S. Bank National Association, as Trustee (the "Trustee").

As to questions of fact material to our opinion we have relied upon representations and covenants of the Authority and the Corporation contained in the Agreements and in the certified proceedings and other certifications of public officials furnished to us, and certifications of officials of the Corporation and others, without undertaking to verify the same by independent investigation.

The Bonds are issued pursuant to the Agreements. The Bonds are payable solely from funds to be provided therefor by the Corporation pursuant to the Agreements. Under the Agreements, the Corporation has agreed to make payments sufficient to pay when due the principal (including sinking fund installments) and purchase (solely to the extent provided in the Agreements) or redemption price of and interest on the Bonds. Such payments and other moneys payable to the Authority or the Trustee under the Agreements, including proceeds derived from any security provided thereunder (collectively the "Revenues"), and the rights of the Authority under the Agreements to receive the same (excluding, however, certain administrative fees, indemnification, and reimbursements), are pledged and assigned by the Authority as security for the Bonds. Such payments are secured by Obligation Nos. 19, 20, 21 and 22 issued under the

Master Indenture. The Bonds are payable solely from the Revenues and amounts received from payments of Obligation Nos. 19, 20, 21 and 22.

We express no opinion with respect to compliance by the Corporation with applicable legal requirements with respect to the Agreements or in connection with the operation of the Project (as defined in the Agreements) being refinanced by the Bonds.

Reference is made to the opinion of even date of Ropes & Gray LLP, counsel to the Corporation and the Guarantor, with respect to, among other matters, the corporate existence of the Corporation and the Guarantor, the power of the Corporation and the Guarantor to enter into and perform their obligations under the Master Indenture and Obligation Nos. 19, 20, 21 and 22, the power of the Guarantor to enter into and perform its obligations under the Guaranty and the power of the Corporation to enter into and perform its obligations under the Agreements (such instruments and agreements being collectively called the "Bond Documents") and the authorization, execution and delivery of the Bond Documents by the Corporation and, as applicable, the Guarantor. We have relied on such opinion with regard to such matters and to the other matters addressed therein, including, without limitation, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to the limitations and conditions described therein. Failure of the Corporation to maintain its status as an organization described in Section 501(c)(3) of the Code or to use the Project in activities of the Corporation that do not constitute unrelated trades or businesses 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.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Authority is a duly created and validly existing body corporate and politic and a public instrumentality of The Commonwealth of Massachusetts with the power to enter into and perform the Agreements and to issue the Bonds.

2. The Agreements have been duly authorized, executed and delivered by the Authority and are valid and binding obligations of the Authority enforceable against the Authority. As provided in Section 13 of Chapter 614 of the Acts of 1968 of The Commonwealth of Massachusetts, as amended, each of the Agreements creates a valid lien on the Revenues and on the rights of the Authority or the Trustee on behalf of the Authority to receive Revenues under such Agreement (except certain rights to indemnification, reimbursements and fees).

3. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the Revenues

and amounts received by the Trustee pursuant to Obligation Nos. 19, 20, 21 and 22 and the Guaranty.

4. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, however such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Authority and the Corporation with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Corporation and, to the extent necessary, the Authority have covenanted in the Agreements to comply with all such requirements. Failure by the Authority or the Corporation to comply with certain of such requirements may cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

5. Interest on the Bonds and any profit made on the sale thereof are exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds and the Agreements may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

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APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by The Children's Hospital Corporation (the "Corporation"), The Children's Medical Center Corporation (the "Medical Center") and U.S. Bank National Association (the "Trustee") in connection with the issuance of $341,590,000 Massachusetts Health and Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-1, Series N-2, Series N-3 and Series N-4 (2010) (collectively, the "Bonds"). The Bonds are being issued pursuant to two Loan and Trust Agreements dated as of May 1, 2010 among the Massachusetts Health and Educational Facilities Authority (the "Authority"), the Trustee and the Corporation (collectively, the "Agreement"), and the proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to the Agreement. The Corporation and the Trustee 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 Trustee for the benefit of the Bondowners and in order to assist the Participating Underwriter (defined below) in complying with the Rule (defined below). The Corporation and the Trustee acknowledge that the Authority 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 Bondowner, with respect to any such reports, notices or disclosures. The Trustee, except as provided in Section 3(c), 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 Bondowner, with respect to any such reports, notices or disclosures except for its negligent failure to comply with its obligations under Section 3(c).

SECTION 2. Definitions. In addition to the definitions set forth in the Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Bondowner" shall mean the registered owner of a Bond and any beneficial owner thereof, as established to the reasonable satisfaction of the Trustee or Corporation.

"Dissemination Agent" shall mean any Dissemination Agent or successor Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation, the Trustee and the Authority a written acceptance of such designation. The same entity may serve as both Trustee and Dissemination Agent. The initial Dissemination Agent shall be U.S. Bank National Association. In the absence of a third-party Dissemination Agent, the Corporation shall serve as the Dissemination Agent.

"Guarantor" shall mean The Children's Medical Center Corporation in accordance with the terms of the Guaranty of Obligation Nos. 19, 20, 21 and 22, dated May 13, 2010.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Agreement. Filing information relating to the MSRB is set forth in Exhibit B hereto.

"Participating Underwriter" shall mean Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities Inc., the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Quarterly Statement" shall mean any Quarterly Statement provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"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.

SECTION 3. Provision of Annual Reports and Quarterly Statements.

(a) Commencing with the Corporation's fiscal year ending September 30, 2010, the Dissemination Agent, not later than 180 days after the end of each fiscal year (the "Annual Report Filing Deadline"), shall provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. Commencing with the Corporation's fiscal quarter ending June 30, 2010, the Dissemination Agent, not later than 75 days after the end of each of the first, second and third fiscal quarters (i.e., the fiscal quarters ending December 31, March 31 and June 30) (the "Quarterly Statement Filing Deadline" and together with the Annual Report Filing Deadline, the "Filing Deadline"), shall provide to each Repository a Quarterly Statement which is consistent with the requirements of Section 4 of this Disclosure Agreement. Not later than fifteen (15) Business Days prior to the Annual Report Filing Deadline, the Corporation (if it is not the Dissemination Agent) shall provide the Annual Report to the Dissemination Agent. Not later than three (3) Business Days prior to each Quarterly Statement Filing Deadline, the Corporation (if it is not the Dissemination Agent) shall provide the Quarterly Statement to the Dissemination Agent. The Corporation may provide Quarterly Statements directly to each Repository by the Quarterly Statement Filing Deadline in lieu of providing Quarterly Statements to the Dissemination Agent. 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 of the Corporation may be submitted separately from, and at a later date than, the balance of the Annual Report if such audited financial statements are not available as of the date set forth above. If the Dissemination Agent submits the audited financial statements of the Corporation at a later date, it shall provide unaudited financial statements by the above-specified deadline and shall provide the audited financial statements as soon as practicable after the audited financial statements become available. The Corporation shall submit the audited financial statements to the Dissemination Agent and the Trustee as soon as practicable after they become available and the Dissemination Agent shall submit the audited financial statements to the MSRB as soon as practicable thereafter. The Corporation shall provide a copy of each Annual Report and Quarterly Statement to the Authority and the Trustee.

(b) The Dissemination Agent shall file a report with the Corporation, the Authority and the Trustee certifying that the Annual Report or Quarterly Statement, as applicable, has been provided pursuant to this Disclosure Agreement and stating the date it was provided (the "Compliance Certificate"); such report shall include a certification from the Corporation that the Annual Report or Quarterly Statement, as applicable, complies with the requirements of this Disclosure Agreement.

(c) Upon request of any Bondowner or Beneficial Owner to the Dissemination Agent, the Dissemination Agent shall provide the most recent Quarterly Statements directly to such requesting Bondowner or Beneficial Owner, and the costs of complying with such requests will be borne by the Corporation.

(d) If the Trustee has not received a Compliance Certificate by the Filing Deadline, the Trustee shall send, and the Corporation hereby authorizes and directs the Trustee to submit on its behalf, a notice to the MSRB in substantially the form attached as Exhibit A.

(e) If the Dissemination Agent has not provided the Annual Report or Quarterly Statements to the MSRB by the applicable Filing Deadline, the Corporation shall send, or cause the Dissemination Agent to send, a notice substantially in the form of Exhibit A irrespective of whether the Trustee submits such notice.

SECTION 4. Content of Annual Reports and Quarterly Statements.

(a) The Corporation's Annual Report shall contain or incorporate by reference the following:

(i) Financial Statements of the Corporation and Guarantor and Supplemental Information and Independent Auditor's Report similar in form and scope to the statements, information and reports included in Appendix B to the Official Statement dated May 7, 2010 (the "Official Statement") with respect to the Bonds; and

(ii) information with respect to the Corporation of the kind, and in substantially the same form and scope found in Appendix A to the Official Statement with respect to the Bonds in the tables captioned "Utilization Statistics for 2007 – 2009," "Summary of Philanthropic Revenue" and "Payor Mix as a Percentage of Gross Patient Services Revenue," and in each case to the extent such information is not contained in the audited financial statements and related notes.

The financial statements provided pursuant to Sections 3 and 4 of this Disclosure Agreement shall be prepared in conformity with generally accepted accounting principles, as in effect from time to time. Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues with respect to which the Corporation is an "obligated person" (as defined by the Rule), which (i) are available to the public on the MSRB Internet Web site, or (ii) have been filed with the Securities and Exchange Commission. The Corporation shall clearly identify each such other document so incorporated by reference.

(b) Each Quarterly Statement submitted by the Corporation shall contain information relating to the fiscal quarter and for the year to date of the type included in Appendix A to the Official Statement with respect to the Bonds in the table captioned "Children's Medical Center Corporation and Subsidiaries – Summary Consolidated Statements of Revenues and Expenses."

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds.

8. Bond calls.

9. Defeasance of the Bonds or any portion thereof.

10. Release, substitution or sale of property securing repayment of the Bonds.

11. Rating changes.

(b) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, if such Listed Event is material, the Corporation shall, in a timely manner, direct the Dissemination Agent to file a notice of such occurrence with the MSRB. The Corporation shall provide a copy of each such notice to the Authority and the Trustee. The Dissemination Agent, if other than the Corporation, shall have no duty to file a notice of an event described hereunder unless it is directed in writing to do so by the Corporation, and shall have no responsibility for verifying any of the information in any such notice or determining the materiality of the event described in such notice.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Corporation's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds or upon delivery to the Trustee of an opinion of counsel expert in federal securities laws selected by the Corporation and acceptable to the Trustee to the effect that compliance with this Disclosure Agreement no longer is required by the Rule; provided, however, that the Corporation shall be required to provide Quarterly Statements in the manner required hereunder for so long as the Corporation is required to comply with the other provisions of this Disclosure Agreement regardless of whether the provision of Quarterly Statements is required by the Rule. If the Corporation's obligations under the Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the Corporation and the original Corporation shall have no further responsibility hereunder.

SECTION 8. Dissemination Agent. The Corporation may, from time to time with notice to the Trustee and the Authority appoint or engage a third-party Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may, with notice to the Trustee and the Authority, discharge any such third-party Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the Corporation) may resign upon 30 days' written notice to the Corporation, the Trustee and the Authority.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Corporation) and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in

federal securities laws acceptable to both the Corporation and the Trustee to the effect that such amendment or waiver would not, in and of itself, violate the Rule; provided, however, that no amendment or waiver which eliminates or diminishes the requirement to deliver Quarterly Statements may be made unless the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1201 of the Agreement. Without limiting the foregoing, the Corporation and the Trustee may amend this Disclosure Agreement if (a) such amendment is 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 the Corporation or of the type of business conducted by the Corporation, (b) this Disclosure Agreement, as so amended, would have complied with the requirements of the Rule at the time the Bonds were issued, taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and (c) (i) the Trustee determines, or the Trustee receives an opinion of counsel expert in federal securities laws and acceptable to the Trustee to the effect that, the amendment does not materially impair the interests of the Bondowners or (ii) the amendment is consented to by the Bondowners as though it were an amendment to the Agreement pursuant to Section 1201 of the Agreement. The annual financial information containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided. Neither the Trustee nor the Dissemination Agent shall be required to accept or acknowledge any amendment of this Disclosure Agreement if the amendment adversely affects its respective rights or immunities or increases its respective duties hereunder.

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, Quarterly Statement 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, Quarterly Statement 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, Quarterly Statement or notice of occurrence of a Listed Event. The Medical Center covenants to cooperate with the Corporation in fulfilling the Corporation's obligations under this Disclosure Agreement, including, without limitation, Sections 3, 4 and 5.

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 Trustee may (and, at the request of Bondowners representing at least 25% in aggregate principal amount of Outstanding Bond, shall), take such actions as may be necessary and appropriate, including seeking 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. Without regard to the foregoing, any Bondowner may take such actions as may be necessary and appropriate, including seeking 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 Agreement, 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. In no event shall the Corporation or the Dissemination Agent be liable for monetary damages in the event of a default under this Disclosure Agreement.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. As to the Trustee, Article VIII of the Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Agreement. The Dissemination Agent (if other than the Corporation) 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 (if other than the Corporation), its officers, director, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Corporation covenants that whenever it is serving as Dissemination Agent, it shall take any action required of the Dissemination Agent under this Disclosure Agreement.

The Trustee shall have no obligation under this Disclosure Agreement to report any information to the MSRB or any Bondowner. If an officer of the Trustee obtains actual knowledge of the occurrence of an event described in Section 5 hereunder, whether or not such event is material, the Trustee shall timely notify the Corporation of such occurrence, provided, however, that any failure by the Trustee to give such notice to the Corporation shall not affect the Corporation's obligations under this Disclosure Agreement or give rise to any liability by the Trustee for such failure.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriter and the Bondowners, and shall create no rights in any other person or entity.

SECTION 14. Disclaimer. No Annual Report, Quarterly Statement or notice of a Listed Event filed by or on behalf of the Corporation under this Disclosure Agreement shall obligate the Corporation to file any information regarding matters other than those specifically described in Section 4 and Section 5 hereof, nor shall any such filing constitute a representation by the Corporation or raise any inference that no other material events have occurred with respect to the Corporation or the Bonds or that all material information regarding the Corporation or the Bonds has been disclosed. The Corporation shall have no obligation under this Disclosure Agreement to update information provided pursuant to this Disclosure Agreement except as specifically stated herein.

Date: May 13, 2010

THE CHILDREN'S HOSPITAL CORPORATION

By _____
Senior Vice President and Chief Financial Officer

THE CHILDREN'S MEDICAL CENTER CORPORATION

By _____
Senior Vice President and Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

EXHIBIT A
NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT
OR QUARTERLY STATEMENT

Name of Issuer:	Massachusetts Health and Educational Facilities Authority
Name of Bond Issue:	Massachusetts Health and Educational Facilities Authority Revenue Bonds, Children's Hospital Issue, Series N-1, N-2, N-3 and N-4 (2010)
Name of Obligated Person:	The Children's Hospital Corporation
Date of Issuance:	May 13, 2010

NOTICE IS HEREBY GIVEN that The Children's Hospital Corporation (the "Corporation") has not provided an Annual Report or Quarterly Statement with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated May 13, 2010 between the Corporation and U.S. Bank National Association.

Dated: _____

[TRUSTEE/DISSEMINATION AGENT on behalf of] THE CHILDREN'S HOSPITAL CORPORATION

[cc: The Children's Hospital Corporation]

APPENDIX E

EXHIBIT B

Filing information relating to the Municipal Securities Rulemaking Board is as follows:

Municipal Securities Rulemaking Board http://emma.msrb.org

APPENDIX F-1

SUMMARY OF CERTAIN PROVISIONS OF THE JPMORGAN CHASE BANK, NATIONAL ASSOCIATION REIMBURSEMENT AGREEMENT

The JPM Letters of Credit will be issued pursuant to the terms of the JPM Reimbursement Agreement. The terms and provisions of each of the JPM Letters of Credit are substantially identical. Accordingly, the majority of the discussion below is generic and applies equally to the Series N-3 Bonds and the Series N-4 Bonds. Each of the JPM Letters of Credit provides credit enhancement for the series of Bonds identified therein and does not provide security for the other series of the Bonds. Any capitalized terms used in this summary and not otherwise defined herein or in the Official Statement shall have the meaning provided for such term in the JPM Reimbursement Agreement.

The following summarizes certain provisions of the JPM Letters of Credit and the JPM Reimbursement Agreement, to which documents reference is made for the complete provisions thereof. The JPM Reimbursement Agreement may have covenants and requirements more stringent than the Series N-3/4 Agreement or the Master Indenture. Such covenants can be waived at the sole discretion of JPMorgan. The provisions of any Alternate Credit Facility and related credit facility agreement may be different from those summarized below. See "Appendix G-1: Information Concerning JPMorgan Chase Bank, National Association" for a brief description of JPMorgan.

The Letters of Credit

The JPM Letters of Credit are irrevocable obligations of JPMorgan to pay to the Series N-3/4 Trustee up to the total of the following amounts (the "Stated Amount"), upon the terms and conditions set forth in the JPM Letters of Credit: (i) the aggregate principal amount of the related Bonds (A) to enable the Series N-3/4 Trustee to pay the principal amount of the related Bonds when due at maturity, upon redemption or acceleration and (B) to enable the Series N-3/4 Trustee to pay the portion of the purchase price of such Bonds tendered to it equal to the principal amount of such tendered Bonds, plus (ii) an amount for accrued interest at a rate not to exceed twelve percent (12%) per annum on the outstanding related Bonds for forty-five (45) days (A) to enable to the Series N-3/4 Trustee to pay the interest on such Bonds when due and (B) to enable the Series N-3/4 Trustee to pay the portion, if any, of the purchase price of such Series 2009 Bonds tendered to it equal to the accrued interest on such Bonds. *The JPM Letters of Credit secure payment on the related Bonds only while such Bonds bear interest in the Weekly Mode or the Daily Mode.*

The Stated Amount of the JPM Letters of Credit and the amounts available to be drawn to pay principal of the related Bonds or to pay the principal portion of the purchase price for any such Bonds will be reduced automatically without notice by amounts drawn under the related JPM Letters of Credit for the payment of principal when due on such Bonds or to pay the principal portion of the purchase price of any such Bonds. The Stated Amount will be reinstated with respect to a draw for the principal portion of the purchase price of the related Bonds upon the receipt by JPMorgan of remarketing proceeds with respect to such Bonds.

The Stated Amount and the amounts available to be drawn for the payment of interest will be reduced automatically, without notice, by the amount of any draw on the JPM Letters of Credit for the payment of interest. Such amount with respect to interest will be reinstated automatically in an amount sufficient to provide total interest coverage equal to forty-five (45) days' interest at a rate of twelve percent (12%) per annum on the then outstanding principal amount of the related Bonds, at the open of business on the fifth (5th) calendar day from the date such drawing is honored by JPMorgan unless the

Series N-3/4 Trustee shall have received written notice by telecopy or tested telex (or other electronic telecommunication) by 5:00 P.M., New York time, on the fourth (4th) calendar day after such date that JPMorgan has not been reimbursed in full for any such drawing or any other Event of Default has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and JPMorgan is therefor directing the Series N-3/4 Trustee to accelerate or cause a mandatory tender of the related Bonds pursuant to the JPM Reimbursement Agreement.

The JPM Letters of Credit will expire on May 13, 2013 unless earlier terminated as provided therein or extended at the sole option of JPMorgan.

Events of Default

The occurrence of any of the following events constitutes an "Event of Default" under the JPM Reimbursement Agreement:

(i) any representation or warranty made by the Hospital in the JPM Reimbursement Agreement, the Bond Documents, the other Reimbursement Documents or in any certificate or information delivered in connection therewith shall prove to have been materially false or misleading either on the date of the JPM Reimbursement Agreement, on the date of any drawing under a Letter of Credit, or on the date when made (or deemed made);

(ii) an "event of default" shall have occurred and be continuing under any of the Bond Documents or any of the Reimbursement Documents (after giving effect to any applicable grace or cure period relating thereto), including, without limitation, a failure to pay any principal, interest or other amount due with respect to any Bonds or any Parity Debt;

(iii) default in the payment of (A) any amounts payable under certain sections of the JPM Reimbursement Agreement or the Letter Agreement, in each case, when and as due, or (B) other amounts required to be paid or reimbursed under the JPM Reimbursement Agreement to JPMorgan when and as the same shall become due and payable, and continuance of such default for five (5) days after the same becomes due;

(iv) default in the due observance or performance of certain affirmative and negative covenants contained in the JPM Reimbursement Agreement (provided that with respect to any covenant incorporated by reference from any other Bond Document, the foregoing shall be subject to any applicable notice and cure provisions contained therein);

(v) default in the due observance or performance of any other term, covenant or agreement set forth in the JPM Reimbursement Agreement (other than as described in clause (iii) or (iv) above) and such default has not been remedied within thirty (30) days after written notice thereof to the Hospital and the Obligated Group Representative by JPMorgan;

(vi) the Hospital or any Member shall (A) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (B) make an assignment for the benefit of creditors, (C) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (D) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (E) have a final and non-

appealable debt moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of principal or interest on the indebtedness of the Hospital or any Member declared or imposed pursuant to a finding or ruling by such Hospital or Member, the United States of America, the State, any instrumentality thereof or any other Governmental Authority of competent jurisdiction over such Hospital or Member, (F) be subject to the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the Hospital or any Member, (G) take any corporate action to authorize or effect any of the foregoing actions set forth in this clause (vi), or (H) fail to contest in good faith any appointment or proceeding described in clause (vii) below;

(vii) without the application, approval or consent of the Hospital or any Member, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Hospital or any Member or for all or any Substantial Portion of the Hospital's or such Member's Property, or a proceeding described in clause (vi) above shall be instituted against the Hospital or any Member and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 consecutive days;

(viii) (A) (i) any provision of the JPM Reimbursement Agreement, the Series N-3/4 Agreement, the Master Indenture or the Bank Notes or (ii) any material (in the opinion of JPMorgan) provision of any of the other Bond Documents or Reimbursement Documents to which the Hospital is a party, in any case, at any time for any reason ceases to be the legal, valid and binding obligation of the Hospital or ceases to be in full force and effect, or, in any case, is declared to be null and void, or, in any case, the validity or enforceability thereof is contested by the Hospital, or, in any case, the Hospital renounces the same, or (B) the Hospital denies that it has any further liability under the JPM Reimbursement Agreement, the Series N-3/4 Agreement, the Master Indenture, the Bank Notes or any of the other Bond Documents or Reimbursement Documents to which the Hospital is a party;

(ix) an event of default has occurred and is continuing (which is not cured within any applicable cure period and which, if not cured, would give rise to remedies available thereunder) as defined in any other credit agreement under which the Hospital or any other Member of the Obligated Group is now or hereafter obligated to JPMorgan;

(x) (A) failure of the Hospital or any Member to pay any Indebtedness when due after giving effect to any grace period or cure period provided in the agreement governing such Indebtedness, which Indebtedness exceeds the aggregate amount of $10,000,000 and is not an Obligation ("Other Indebtedness"); or (B) the default by the Hospital or any Member in the performance of any term, provision or condition contained in any agreement under which any such Other Indebtedness was created or is governed, or (C) any other event shall occur or condition exist, the effect of which is to cause, or to permit the holder or holders of such Other Indebtedness to cause, such Other Indebtedness to become due prior to its stated maturity, or (D) any Other Indebtedness of the Hospital or any Member shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Hospital or any Member shall not pay, or admit in writing its inability to pay, its debts generally as they become due; provided that no event or condition as described in clause (B) or (C) shall constitute an Event of Default so long as no other party to any other Indebtedness of the Obligated Group or any Member thereof, as applicable, shall have declared such Indebtedness due and payable prior to the maturity date thereof or otherwise commenced its exercise of remedies pursuant to the agreement or instrument relating to such Indebtedness or the execution by any such party on Property of the Obligated Group or any Member thereof shall have been stayed;

(xi) there shall occur a Reportable Event, violation of law or excise tax or penalty with respect to a Plan, the Hospital or any other members of a Controlled Group shall have withdrawn from a Plan or initiated steps to do so, steps shall have been taken to terminate any Plan (other than a standard

termination under Section 4041 of ERISA), any of which individually or in the aggregate results in or might reasonably be expected to result in liability of the Hospital or any other members of a Controlled Group in excess of $10,000,000;

(xii) the Hospital or any Member shall fail within 30 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $10,000,000, which is not stayed on appeal or otherwise being appropriately contested in good faith;

(xiii) any pledge or security interest created by the Master Indenture, the Series N-3/4 Agreement or Custody Agreement to secure any amount due under any Bonds, any Parity Debt or the JPM Reimbursement Agreement shall fail to be fully enforceable with the priority required under the Master Indenture, the Series N-3/4 Agreement or the Custody Agreement, as the case may be, by reason of a judgment of a court of competent jurisdiction;

(xiv) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Bonds is includable in the gross income of the holder(s) or owner(s) of such Bonds and either (i) the Hospital, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Hospital shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(xv) (A) either of Moody's and S&P shall downgrade their respective ratings of the Hospital's long-term unenhanced indebtedness or any Parity Debt to below "Baa3" or "BBB-," respectively or (B) either of Moody's and S&P shall suspend or withdraw their respective ratings of the Hospital's long-term unenhanced indebtedness or any Parity Debt for credit-related reasons.

Remedies

Upon the occurrence and during the continuance of any Event of Default JPMorgan may:

(i) by written notice to the Hospital and the Obligated Group Representative, require that the Hospital immediately prepay to JPMorgan an amount equal to the Available Amount plus all other amounts due and payable to JPMorgan and the Bank Participants under the JPM Reimbursement Agreement; provided that, if an Event of Default described in (vi) or (vii) under the caption "Events of Default" above has occurred, the Hospital shall immediately prepay to JPMorgan an amount equal to the Available Amount plus all other amounts due and payable to JPMorgan and the Bank Participants under the JPM Reimbursement Agreement, without presentment, demand, protest or other notice of any kind, all of which are waived by the Hospital;

(ii) give written notice to Series N-3/4 Trustee as provided in the JPM Letters of Credit, specifying that an Event of Default under the JPM Reimbursement Agreement has occurred and is continuing, and directing the Series N-3/4 Trustee to immediately cause, in the sole discretion of JPMorgan, either an acceleration or a mandatory tender of the related Bonds;

(iii) by notice to the Hospital declare the principal and interest of all L/C Obligations owing under the JPM Reimbursement Agreement immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are by the Hospital; provided that, if an Event of Default described in described in (vi) or (vii) under the caption "Events of Default" above has occurred, the outstanding amount of the L/C Obligations will be automatically accelerated on the date of the occurrence of such Event of Default without

presentment, demand, protest, notice of intention to accelerate, notice of acceleration or other notice of any kind to the Hospital or any other Person, all of which are waived;

(iv) direct the Master Trustee to exercise its rights under the Bank Notes with respect to the Master Indenture, including, without limitation, acceleration of the Bank Notes; and

(v) pursue any other action, remedy or right available at law or in equity or provided by any of the Bond Documents or the Reimbursement Documents.

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APPENDIX F-2

SUMMARY OF CERTAIN PROVISIONS OF THE TD BANK, NATIONAL ASSOCIATION REIMBURSEMENT AGREEMENT

The TD Letters of Credit will be issued pursuant to the terms of the TD Reimbursement Agreement. The terms and provisions of each of the TD Letters of Credit are substantially identical. Accordingly, the majority of the discussion below is generic and applies equally to the Series N-1 Bonds and the Series N-2 Bonds. Each of the TD Letters of Credit provides credit enhancement for the series of Bonds identified therein and does not provide security for the other series of the Bonds. Any capitalized terms used in this summary and not otherwise defined herein or in the Official Statement shall have the meaning provided for such term in the TD Reimbursement Agreement.

The following summarizes certain provisions of the TD Letters of Credit and the TD Reimbursement Agreement, to which documents reference is made for the complete provisions thereof. The TD Reimbursement Agreement may have covenants and requirements more stringent than the Series N-1/2 Agreement or the Master Indenture. Such covenants can be waived at the sole discretion of TD. The provisions of any Alternate Credit Facility and related credit facility agreement may be different from those summarized below. See "Appendix G-2: Information Concerning TD Bank, National Association" for a brief description of TD.

The Letters of Credit

The TD Letters of Credit are irrevocable obligations of TD to pay to the Series N-1/2 Trustee up to the total of the following amounts (the "Stated Amount"), upon the terms and conditions set forth in the TD Letters of Credit: (i) the aggregate principal amount of the related Bonds (A) to enable the Series N-1/2 Trustee to pay the principal amount of the related Bonds when due at maturity, upon redemption or acceleration and (B) to enable the Series N-1/2 Trustee to pay the portion of the purchase price of such Bonds tendered to it equal to the principal amount of such tendered Bonds, plus (ii) an amount for accrued interest at a rate not to exceed twelve percent (12%) per annum on the outstanding related Bonds for fifty (50) days (A) to enable to the Series N-1/2 Trustee to pay the interest on such Bonds when due and (B) to enable the Series N-1/2 Trustee to pay the portion, if any, of the purchase price of such Series 2009 Bonds tendered to it equal to the accrued interest on such Bonds. *The TD Letters of Credit secure payment on the related Bonds only while such Bonds bear interest in the Weekly Mode or the Daily Mode.*

The Stated Amount of the TD Letters of Credit and the amounts available to be drawn to pay principal of the related Bonds or to pay the principal portion of the purchase price for any such Bonds will be reduced automatically without notice by amounts drawn under the related TD Letters of Credit for the payment of principal when due on such Bonds or to pay the principal portion of the purchase price of any such Bonds. The Stated Amount will be reinstated with respect to a draw for the principal portion of the purchase price of the related Bonds upon the receipt by TD of remarketing proceeds with respect to such Bonds.

The Stated Amount and the amounts available to be drawn for the payment of interest will be reduced automatically, without notice, by the amount of any draw on the TD Letters of Credit for the payment of interest. Such amount with respect to interest will be reinstated automatically in an amount sufficient to provide total interest coverage equal to fifty (50) days' interest at a rate of twelve percent (12%) per annum on the then outstanding principal amount of the related Bonds, at the opening of business on the eleventh (11th) calendar day from the date such drawing is honored by TD unless the

Series N-1/2 Trustee shall have received written notice by telecopy or tested telex (or other electronic telecommunication) by 5:00 P.M., Boston, Massachusetts time on the tenth (10th) calendar day after the date such drawing is honored by TD that TD has not been reimbursed in full for any such drawing or any other Event of Default has occurred and as a consequence thereof the Letter of Credit will not be so reinstated and TD is therefor directing the Series N-1/2 Trustee to accelerate or cause a mandatory tender of the related Bonds pursuant to the TD Reimbursement Agreement.

The TD Letters of Credit will expire on May 13, 2015 unless earlier terminated as provided therein or extended at the sole option of TD.

Events of Default

The occurrence of any of the following events constitutes an "Event of Default" under the TD Reimbursement Agreement:

(i) any representation or warranty made by the Hospital in the TD Reimbursement Agreement, the Bond Documents, the other Reimbursement Documents or in any certificate or information delivered in connection therewith shall prove to have been materially false or misleading either on the date of the TD Reimbursement Agreement, on the date of any drawing under a Letter of Credit, or on the date when made (or deemed made);

(ii) an "event of default" shall have occurred and be continuing under any of the Bond Documents or any of the Reimbursement Documents (after giving effect to any applicable grace or cure period relating thereto), including, without limitation, a failure to pay any principal, interest or other amount due with respect to any Bonds or any Parity Debt;

(iii) default in the payment of (A) any amounts payable under certain sections of the TD Reimbursement Agreement or the Letter Agreement, in each case, when and as due, or (B) other amounts required to be paid or reimbursed under the TD Reimbursement Agreement to TD when and as the same shall become due and payable, and continuance of such default for five (5) days after the same becomes due;

(iv) default in the due observance or performance of certain affirmative and negative covenants contained in the TD Reimbursement Agreement (provided that with respect to any covenant incorporated by reference from any other Bond Document, the foregoing shall be subject to any applicable notice and cure provisions contained therein);

(v) default in the due observance or performance of any other term, covenant or agreement set forth in the TD Reimbursement Agreement (other than as described in clause (iii) or (iv) above) and such default has not been remedied within thirty (30) days after written notice thereof to the Hospital and the Obligated Group Representative by TD;

(vi) the Hospital or any Member shall (A) have an order for relief entered with respect to it under the Federal bankruptcy laws as now or hereafter in effect, (B) make an assignment for the benefit of creditors, (C) apply for, seek, consent to, or acquiesce in, the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any Substantial Portion of its Property, (D) institute any proceeding seeking an order for relief under the Federal bankruptcy laws as now or hereafter in effect or seeking to adjudicate it a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors or fail to file an answer or other pleading denying the material allegations of any such proceeding filed against it, (E) have a final and non-

appealable debt moratorium, debt adjustment, debt restructuring or comparable extraordinary restriction with respect to the payment of principal or interest on the indebtedness of the Hospital or any Member declared or imposed pursuant to a finding or ruling by such Hospital or Member, the United States of America, the State, any instrumentality thereof or any other Governmental Authority of competent jurisdiction over such Hospital or Member, (F) be subject to the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the Hospital or any Member, (G) take any corporate action to authorize or effect any of the foregoing actions set forth in this clause (vi), or (H) fail to contest in good faith any appointment or proceeding described in clause (vii) below;

(vii) without the application, approval or consent of the Hospital or any Member, a receiver, trustee, examiner, liquidator or similar official shall be appointed for the Hospital or any Member or for all or any Substantial Portion of the Hospital's or such Member's Property, or a proceeding described in clause (vi) above shall be instituted against the Hospital or any Member and such appointment continues undischarged or such proceeding continues undismissed or unstayed for a period of 60 consecutive days;

(viii) (A) (i) any provision of the TD Reimbursement Agreement, the Series N-1/2 Agreement, the Master Indenture or the Bank Notes or (ii) any material (in the opinion of TD) provision of any of the other Bond Documents or Reimbursement Documents to which the Hospital is a party, in any case, at any time for any reason ceases to be the legal, valid and binding obligation of the Hospital or ceases to be in full force and effect, or, in any case, is declared to be null and void, or, in any case, the validity or enforceability thereof is contested by the Hospital, or, in any case, the Hospital renounces the same, or (B) the Hospital denies that it has any further liability under the TD Reimbursement Agreement, the Series N-1/2 Agreement, the Master Indenture, the Bank Notes or any of the other Bond Documents or Reimbursement Documents to which the Hospital is a party;

(ix) an event of default has occurred and is continuing (which is not cured within any applicable cure period and which, if not cured, would give rise to remedies available thereunder) as defined in any other credit agreement under which the Hospital or any other Member of the Obligated Group is now or hereafter obligated to TD;

(x) (A) failure of the Hospital or any Member to pay any Indebtedness when due after giving effect to any grace period or cure period provided in the agreement governing such Indebtedness, which Indebtedness exceeds the aggregate amount of $10,000,000 and is not an Obligation ("Other Indebtedness"); or (B) the default by the Hospital or any Member in the performance of any term, provision or condition contained in any agreement under which any such Other Indebtedness was created or is governed, or (C) any other event shall occur or condition exist, the effect of which is to cause, or to permit the holder or holders of such Other Indebtedness to cause, such Other Indebtedness to become due prior to its stated maturity; or (D) any Other Indebtedness of the Hospital or any Member shall be declared to be due and payable or required to be prepaid (other than by a regularly scheduled payment) prior to the stated maturity thereof; or the Hospital or any Member shall not pay, or admit in writing its inability to pay, its debts generally as they become due; provided that no event or condition as described in clause (B) or (C) shall constitute an Event of Default so long as no other party to any other Indebtedness of the Obligated Group or any Member thereof, as applicable, shall have declared such Indebtedness due and payable prior to the maturity date thereof or otherwise commenced its exercise of remedies pursuant to the agreement or instrument relating to such Indebtedness or the execution by any such party on Property of the Obligated Group or any Member thereof shall have been stayed;

(xi) there shall occur a Reportable Event, violation of law or excise tax or penalty with respect to a Plan, the Hospital or any other members of a Controlled Group shall have withdrawn from a Plan or initiated steps to do so, steps shall have been taken to terminate any Plan (other than a standard

termination under Section 4041 of ERISA), any of which individually or in the aggregate results in or might reasonably be expected to result in liability of Hospital or any other members of a Controlled Group in excess of $10,000,000;

(xii) the Hospital or any Member shall fail within 30 days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $10,000,000, which is not stayed on appeal or otherwise being appropriately contested in good faith;

(xiii) any pledge or security interest created by the Master Indenture, the Series N-1/2 Agreement or Bond Pledge Agreement to secure any amount due under any Bonds, any Parity Debt or the TD Reimbursement Agreement shall fail to be fully enforceable with the priority required under the Master Indenture, the Series N-1/2 Agreement or the Bond Pledge Agreement, as the case may be, by reason of a judgment of a court of competent jurisdiction;

(xiv) a ruling, assessment, notice of deficiency or technical advice by the Internal Revenue Service shall be rendered to the effect that interest on the Bonds is includable in the gross income of the holder(s) or owner(s) of such Bonds and either (i) the Hospital, after it has been notified by the Internal Revenue Service, shall not challenge such ruling, assessment, notice or advice in a court of law during the period within which such challenge is permitted or (ii) the Hospital shall challenge such ruling, assessment, notice or advice and a court of law shall make a determination, not subject to appeal or review by another court of law, that such ruling, assessment, notice or advice is correctly rendered; or

(xv) either of Moody's and S&P shall suspend or withdraw their respective ratings of the Hospital's long-term unenhanced indebtedness or any Parity Debt for credit-related reasons.

Remedies

Upon the occurrence and during the continuance of any Event of Default TD may:

(i) by written notice to the Hospital and the Obligated Group Representative, require that the Hospital immediately prepay to TD an amount equal to the Available Amount plus all other amounts due and payable to TD and the Bank Participants under the TD Reimbursement Agreement; provided that, if an Event of Default described in (vi) or (vii) under the caption "Events of Default" above has occurred, the Hospital shall immediately prepay to TD an amount equal to the Available Amount plus all other amounts due and payable to TD and the Bank Participants under the TD Reimbursement Agreement, without presentment, demand, protest or other notice of any kind, all of which are waived by the Hospital;

(ii) give written notice to Series N-1/2 Trustee as provided in the TD Letters of Credit, specifying that an Event of Default under the TD Reimbursement Agreement has occurred and is continuing, and directing the Series N-1/2 Trustee to immediately cause, in the sole discretion of TD, either an acceleration or a mandatory tender of the related Bonds;

(iii) by notice to the Hospital declare the principal and interest of all L/C Obligations owing under the TD Reimbursement Agreement immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are by the Hospital; provided that, if an Event of Default described in described in (vi) or (vii) under the caption "Events of Default" above has occurred, the outstanding amount of the L/C Obligations will be automatically accelerated on the date of the occurrence of such Event of Default without presentment, demand, protest, notice of intention to accelerate, notice of acceleration or other notice of any kind to the Hospital or any other Person, all of which are waived;

(iv) direct the Master Trustee to exercise its rights under the Bank Notes with respect to the Master Indenture, including, without limitation, acceleration of the Bank Notes; and

(v) pursue any other action, remedy or right available at law or in equity or provided by any of the Bond Documents or the Reimbursement Documents.

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JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

JPMorgan Chase Bank, National Association (the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of December 31st, 2009, JPMorgan Chase Bank, National Association, had total assets of $1,628 billion, total net loans of $531.2 billion, total deposits of $1,024 billion, and total stockholder's equity of $128.3 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as at December 31st, 2009, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2009, of JPMorgan Chase & Co., the 2008 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

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APPENDIX G-2

INFORMATION CONCERNING TD BANK, NATIONAL ASSOCIATION

TD Bank, N.A. (the "Bank") is a national banking association organized under the laws of the United States, with its main office located in Wilmington, Delaware. The Bank is an indirect, wholly-owned subsidiary of The Toronto-Dominion Bank ("TD") and offers a full range of banking services and products to individuals, businesses and governments throughout its market areas, including commercial, consumer, trust, investment advisory and insurance agency services. The Bank operates banking offices in Connecticut, Delaware, the District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Vermont and Virginia. As of December 31, 2009, the Bank had consolidated assets of $140.0 billion, consolidated deposits of $111.6 billion and stockholder's equity of $22.5 billion, based on regulatory accounting principles.

Additional information regarding the Bank and TD is available from the filings made by TD with the U.S. Securities and Exchange Commission (the "SEC"), which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. In addition, the SEC maintains a website at http://www.sec.gov, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning TD and the Bank contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

The Letter of Credit has been issued by the Bank and is the obligation of the Bank and not TD.

The Bank will provide copies of the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

TD Bank, N.A.
1701 Route 70 East
Cherry Hill, New Jersey 08034
Attn: Corporate and Public Affairs

Information regarding the financial condition and results of operations of the Bank is contained in the quarterly Call Reports of the Bank delivered to the Comptroller of the Currency and available online at https://cdr.ffiec.gov/public. General information regarding the Bank may be found in periodic filings made by TD with the SEC. TD is a foreign issuer that is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare certain filings with the SEC in accordance with the disclosure requirements of Canada, its home country. Canadian disclosure requirements are different from those of the United States. TD's financial

statements are prepared in accordance with Canadian generally accepted accounting principles, and may be subject to Canadian auditing and auditor independence standards, and thus may not be comparable to financial statements of United States companies prepared in accordance with United States generally accepted accounting principles.

The delivery hereof shall not create any implication that there has been no change in the affairs of TD or the Bank since the date hereof, or that the information contained or referred to in this Appendix G-2 is correct as of any time subsequent to its date.