

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

\$124,605,000

CITY OF UPLAND

CERTIFICATES OF PARTICIPATION

Evidencing Undivided Ownership Interests of the Holders Thereof in Installment Payments to be Made by the City of Upland from Purchase Payments to be Received from

SAN ANTONIO COMMUNITY HOSPITAL



**SAN ANTONIO
COMMUNITY HOSPITAL**

Dated: Date of Delivery

Due: January 1, as shown on the inside cover hereof

The above-referenced certificates (the "Certificates") evidence undivided ownership interests in the right to receive installment payments (the "Installment Payments") to be paid by the City of Upland, California (the "City") under a Purchase Agreement, dated as of January 1, 2011 (the "Purchase Agreement"), between the City and San Antonio Community Hospital, a California nonprofit public benefit corporation (the "Corporation"). The obligation of the City to make Installment Payments under the Purchase Agreement is a limited obligation of the City, payable by the City solely from purchase payments (the "Purchase Payments") to be paid by the Corporation pursuant to an Installment Sale Agreement, dated as of January 1, 2011 (the "Sale Agreement"), between the City and the Corporation and other moneys received by the City pursuant to the Sale Agreement. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2011 (the "Trust Agreement"), between the City and U.S. Bank National Association, as trustee (the "Trustee"). The Corporation will pay the Purchase Payments due under the Sale Agreement directly to the Trustee in satisfaction of the City's obligation to pay Installment Payments under the Purchase Agreement. The obligations of the Corporation to make payments pursuant to the Sale Agreement will be secured by Obligation No. 1, issued pursuant to the provisions of the Master Trust Indenture, dated as of January 1, 2011 (as supplemented, the "Master Indenture"), between the Corporation and U.S. Bank National Association, as Master Trustee (the "Master Trustee").

The Certificates will be delivered in fully registered form only and initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates, and individual purchases of the Certificates will be made in book-entry form only. Principal and interest due with respect to the Certificates will be payable by the Trustee to Cede & Co., as registered Holder of the Certificates. So long as Cede & Co. is the registered Holder of the Certificates, references herein to the Holder or registered Holders of the Certificates shall mean Cede & Co. and shall not mean the Beneficial Owners of the Certificates. See APPENDIX F - "BOOK-ENTRY ONLY SYSTEM." The Certificates will be delivered in denominations of \$5,000 and integral multiples thereof. Interest due with respect to the Certificates will be payable on July 1, 2011, and semiannually thereafter on each January 1 and July 1, at the rates per annum set forth on the inside cover page.

SEE MATURITY SCHEDULE ON THE INSIDE FRONT COVER

The Certificates are subject to prepayment and purchase in lieu of prepayment prior to their respective Certificate Payment Dates as described herein.

THE INSTALLMENT PAYMENTS SHALL NOT BE DEEMED TO CONSTITUTE A DEBT OR LIABILITY OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE CITY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 1, AND THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE CITY'S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE CITY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE CITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

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

The Certificates are offered when, as and if received by the Underwriters, subject to prior sale and to the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. Certain other legal matters will be passed upon for the Corporation by its counsel, Ropes & Gray LLP, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. It is expected that the Certificates in definitive form will be available for delivery through the facilities of DTC on or about January 27, 2011.

MORGAN STANLEY

BofA MERRILL LYNCH

MATURITY SCHEDULE

\$124,605,000

CITY OF UPLAND

CERTIFICATES OF PARTICIPATION

**Evidencing Undivided Ownership Interests of the Holders Thereof in
Installment Payments to be Made by the City of Upland from Purchase
Payments to be Received from**

SAN ANTONIO COMMUNITY HOSPITAL

\$20,900,000 Serial Certificates

Certificate Payment Dates	Principal Amount	Interest Rate	Yield	CUSIP†
January 1, 2012	\$1,615,000	3.000%	1.740%	915346EW6
2013	\$1,790,000	3.000%	2.300%	915346EX4
2014	\$1,845,000	4.000%	2.850%	915346EY2
2015	\$1,915,000	5.000%	3.360%	915346EZ9
2016	\$2,015,000	5.000%	3.750%	915346FA3
2017	\$2,115,000	5.000%	4.040%	915346FB1
2018	\$2,220,000	5.000%	4.400%	915346FC9
2019	\$2,330,000	5.500%	4.690%	915346FD7
2020	\$2,460,000	5.500%	4.970%	915346FE5
2021	\$2,595,000	5.750%	5.220%	915346FF2

\$15,465,000 6.000% Term Certificates due January 1, 2026 – Yield 6.200% CUSIP† 915346FG0

\$25,850,000 6.375% Term Certificates due January 1, 2032 – Yield 6.625% CUSIP† 915346FJ4

\$62,390,000 6.500% Term Certificates due January 1, 2041 – Yield 6.750% CUSIP† 915346FH8

† Copyright, American Bankers Association. CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a Division of The McGraw Hill Companies, Inc. CUSIP numbers have been assigned by an independent company not affiliated with the City, the Underwriters or the Corporation and are included solely for the convenience of the holders of the Certificates. Neither the City, the Underwriters nor the Corporation is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Certificates or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates 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 Certificates.

This Official Statement does not constitute an offer to sell the Certificates or the solicitation of an offer to buy the Certificates, nor shall there be any sale of the Certificates by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesperson or any other person has been authorized to give any information or to make any representation other than those contained herein in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon. The 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 relating to the City set forth herein under the caption “ABSENCE OF MATERIAL LITIGATION—The City” has been furnished by the City and the information relating to DTC and the book-entry system set forth herein under the caption “THE CERTIFICATES—General” and in APPENDIX F – “BOOK-ENTRY ONLY SYSTEM” has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters or the Corporation. All other information set forth herein has been obtained from the Corporation and other sources (other than the City) that are believed to be reliable, but the accuracy or completeness of such information is not guaranteed by and is not to be construed as a representation by the City or the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale of Certificates made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the City, the Corporation or DTC since the date hereof. This Official Statement is submitted in connection with the issuance of the securities referred to herein and may not be used, in whole or in part, for any other purpose.

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

THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE TRUST AGREEMENT HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH CERTIFICATES HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE CERTIFICATES OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements.” Such statements generally are identifiable by the terminology used, such as “plan,” “expect,” “estimate,” “budget” or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions

“INTRODUCTION—Plan of Financing and Refunding”, “PLAN OF FINANCING AND REFUNDING”, “CERTIFICATEHOLDERS’ RISKS” AND “ABSENCE OF MATERIAL LITIGATION—The Corporation” in the forepart of this Official Statement and the statements contained in APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SELECTED FINANCIAL INFORMATION - Management’s Discussion and Analysis of Financial Information.”

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

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OFFICIAL STATEMENT

\$124,605,000

CITY OF UPLAND

CERTIFICATES OF PARTICIPATION

**Evidencing Undivided Ownership Interests of the Holders Thereof in
Installment Payments to be Made by the City of Upland from Purchase
Payments to be Received from**

SAN ANTONIO COMMUNITY HOSPITAL

INTRODUCTION

The following introductory statement is subject in all respects to the more complete information set forth in this Official Statement. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each document. All capitalized terms used in this Official Statement and not otherwise defined herein or in APPENDIX C have the same meaning as in the Master Indenture or the Trust Agreement (each as defined below). See APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—DEFINITIONS OF CERTAIN TERMS.”

Purpose of this Official Statement

This Official Statement, including the cover page, the inside front cover page and the appendices hereto, is provided to furnish information in connection with the execution and delivery of the above-referenced certificates (the “*Certificates*”), evidencing proportionate interests of the registered holders thereof (the “*Holders*”) in certain installment payments (the “*Installment Payments*”) to be made by the City of Upland, California (the “*City*”) in connection with the purchase of certain real property (the “*Real Property*”) owned by San Antonio Community Hospital, a California nonprofit public benefit corporation (the “*Corporation*”). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2011 (the “*Trust Agreement*”), between the City and U.S. Bank National Association, as Trustee (the “*Trustee*”).

Pursuant to a Purchase Agreement, dated as of January 1, 2011 (the “*Purchase Agreement*”), between the Corporation and the City, the Corporation will sell to the City an interest in the Real Property in consideration for which the City has agreed to make Installment Payments. Simultaneously therewith, the City will sell the Real Property back to the Corporation pursuant to an Installment Sale Agreement, dated as of January 1, 2011 (the “*Sale Agreement*”), between the Corporation and the City, in consideration for which the Corporation will make certain payments (the “*Purchase Payments*”) to the City. Pursuant to the Sale Agreement, the Purchase Payments must be in an amount sufficient to pay, when due, the Installment Payments evidenced by the Certificates.

San Antonio Community Hospital and the Obligated Group

San Antonio Community Hospital was established in 1907 and incorporated as a California nonprofit public benefit corporation in 1920. See APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL” for additional information about the Corporation.

The Corporation is currently the only member of the Obligated Group to be created under that certain Master Indenture of Trust, dated as of January 1, 2011 (as supplemented and amended from time to time the “*Master Indenture*”), between the Corporation and U.S. Bank National Association, as Master

Trustee (the “*Master Trustee*”). The Corporation is also referred to herein as the “*Obligated Group*” or “*Obligated Group Member*.”

The consolidated audited financial statements of the Corporation for the fiscal years ended December 31, 2008 and 2009, and the unaudited consolidated financial statements of the Corporation for the nine-month periods ended September 30, 2009 and 2010, are included in APPENDIX B – “AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION – SAN ANTONIO COMMUNITY HOSPITAL AND SUBSIDIARIES; CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION (UNAUDITED) – SAN ANTONIO COMMUNITY HOSPITAL AND SUBSIDIARIES.” Such financial statements also include financial information for San Antonio Hospital Foundation, Inc. (the “*Foundation*”) and Cucamonga Health Services, Inc. (“*CHS*”). **Neither the Foundation nor CHS is an Obligated Group Member.**

Master Indenture

In order to secure the obligation of the Corporation to make Purchase Payments under the Sale Agreement, the Corporation will execute and deliver to the Trustee its Master Indenture Obligation No. 1 (“*Obligation No. 1*”) under and pursuant to the Supplemental Master Indenture for Master Indenture Obligation No. 1, dated as of January 1, 2011 (“*Supplement No. 1*”), between the Corporation, as sole Obligated Group Member, and the Master Trustee. The Corporation and any future Obligated Group Members are jointly and severally obligated to make payments on all Master Indenture Obligations, including Obligation No. 1. Payments on Obligation No. 1 are required to be sufficient to pay, when due, the Purchase Payments due from the Corporation under the Sale Agreement. Obligation No. 1 entitles the Trustee, as the holder of Obligation No. 1, to the protection of the covenants, restrictions and other obligations imposed upon the Obligated Group under the Master Indenture. Pursuant to the Master Indenture, additional Members may join the Obligated Group and Members may withdraw from the Obligated Group upon compliance with the terms of the Master Indenture. **The Corporation is currently the only Obligated Group Member.** For additional information regarding the Master Indenture, Supplement No. 1 and Obligation No. 1, *see* “SECURITY FOR THE CERTIFICATES—The Master Indenture” herein and APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—MASTER INDENTURE.”

The Sale Agreement

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

THE CITY’S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS A LIMITED OBLIGATION PAYABLE SOLELY FROM PAYMENTS AND OTHER MONEYS AND ASSETS RECEIVED BY THE CITY PURSUANT TO THE SALE AGREEMENT OR OBLIGATION NO. 1. NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OR LIABILITY OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE CITY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 1, AND THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE CITY’S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE CITY

OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE CITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS.

Plan of Financing and Refunding

The proceeds to be received from the sale of the Certificates, together with other moneys to be contributed by the Corporation, will be used to: (i) finance or reimburse the Corporation for its prior payment of certain costs relating to the construction, renovation, expansion and equipping of its hospital and medical facilities; (ii) prepay a portion of the Existing Indebtedness (as defined below); and (iii) pay the costs of delivery associated with the Certificates. See “PLAN OF FINANCING AND REFUNDING” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

“*Existing Indebtedness*” means the obligations of the Corporation to make installment payments to the City pursuant to an Installment Sale Agreement, dated as of October 1, 1986, as modified by the Second Supplemental Installment Sale Agreement, dated as of September 1, 1993 (the “*1993 Supplement*”), and the Third Supplemental Installment Sale Agreement, dated as of January 1, 1996 (the “*1996 Supplement*”), each between the City and the Corporation. At November 1, 2010, the aggregate remaining principal amount of installment payments remaining due under the 1993 Supplement and the 1996 Supplement was \$16,280,000 and \$3,040,000, respectively.

The installment payments remaining due under the 1996 Supplement will be paid on January 1, 2011. The installment payments remaining due under the 1993 Supplement will be prepaid on or about January 1, 2011 with proceeds from the sale of the Certificates.

Certificateholders’ Risks

There are a number of risks associated with the purchase of the Certificates. See “CERTIFICATEHOLDERS’ RISKS” herein for a discussion of certain of these risks.

Availability of Documents

The descriptions and summaries of various documents set forth in this Official Statement do not purport to be conclusive or definitive and reference is made to each such document for the complete details of all terms and conditions hereof. Further descriptions of the Master Indenture, the Trust Agreement, the Purchase Agreement and the Sale Agreement are set forth in APPENDIX C hereto and a form of the Continuing Disclosure Agreement is attached hereto as APPENDIX E. All references herein to the Certificates, Obligation No. 1, Supplement No. 1, the Master Indenture, the Continuing Disclosure Agreement, the Trust Agreement, the Purchase Agreement and the Sale Agreement are qualified in their entirety by such documents, copies of which are available from the Underwriters prior to the execution and delivery of the Certificates and thereafter may be examined or obtained at the expense of the person requesting the same at the corporate trust office of the Trustee in Los Angeles, California. Information relating to The Depository Trust Company (“*DTC*”) and the book-entry only system has been furnished by DTC.

THE CITY

The City is a municipal corporation and general law city organized and existing under the laws of the State of California (the “*State*”).

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement and the Purchase Agreement for all

of the provisions relating to the Certificates. The discussion herein is qualified by such reference. The provisions described herein apply to the Certificates and reference the provisions of the Trust Agreement.

General

The Certificates are being executed and delivered pursuant to the Trust Agreement. The principal represented by the Certificates will accrue interest at the rates and will be payable on the Certificate Payment Dates as set forth on the inside front cover of this Official Statement. The Certificates will be in fully registered form, without coupons, in the denomination of \$5,000 and any integral multiple thereof. Interest with respect to the Certificates will be payable on July 1, 2011, and semiannually thereafter on January 1 and July 1 of each year (each, an “*Interest Payment Date*”), to the person whose name appears on the certificate registration books of the Trustee as the Holder thereof as of the close of business on the Record Date (which will be the fifteenth day of the calendar month preceding the Interest Payment Date, whether or not a Business Day), except with respect to defaulted interest, for which a special record date will be established. Interest with respect to the Certificates will be computed on the basis of a 360-day year consisting of twelve 30-day months.

The Certificates will be delivered only in book-entry form and, when delivered, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of DTC, as nominee of DTC. DTC will act as securities depository for the Certificates. *See* APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.” Except as described in APPENDIX F, Beneficial Owners (as defined in APPENDIX F) of the Certificates will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Certificates. For so long as any purchaser is the Beneficial Owner of a Certificate, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in APPENDIX F) to receive payment of the principal and interest with respect to such Certificates and all notices, including any notice of prepayment, shall be mailed only to Cede & Co.

So long as the Certificates are held in the book-entry system, the principal and interest with respect to the Certificates will be paid to Cede & Co., as the registered Holder, through the facilities of DTC (or a successor Securities Depository). Otherwise, the principal and purchase price with respect to the Certificates is payable upon presentation and surrender thereof at the designated corporate trust office of the Trustee, and interest with respect to the Certificates is payable by check mailed on each Interest Payment Date to the Holders of the Certificates at the close of business on the Record Date in respect of such Interest Payment Date at the addresses of Holders as shall appear on the registration books of the Trustee. In the case of any Holder of Certificates in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the Trustee who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Trustee with wire transfer instructions, interest payable with respect to such Certificates shall be paid in accordance with the wire transfer instructions provided by the Holder of such Certificates and at the Holder’s risk and expense.

Prepayment

Optional Prepayment. The Certificates having a Certificate Payment Date on or before January 1, 2021, are not subject to prepayment prior to their respective stated final Certificate Payment Dates. The Certificates having a Certificate Payment Date after January 1, 2021, are subject to prepayment prior to their respective stated final Certificate Payment Dates at the option of the City (which option shall be exercised upon request of the Corporation) on any date on and after January 1, 2021, as a whole or in part (in such amounts and from such Certificate Payment Dates as are selected by the Corporation (or if the Corporation fails to select such Certificate Payment Dates, in inverse order of Certificate Payment Date)), from moneys derived from optional prepayments of Installment Payments by the City and deposited in the Optional Prepayment Account or from any other source of available funds,

at a Prepayment Price equal to the principal component thereof, plus accrued interest with respect thereto to and including the date fixed for prepayment, without premium.

Mandatory Prepayment. The Certificates with a Certificate Payment Date of January 1, 2026, January 1, 2032 or January 1, 2041 are subject to prepayment prior to their stated Certificate Payment Date, in part, by lot, from Mandatory Sinking Account Payments in the amounts and on each January 1 in the years set forth below, at a Prepayment Price equal to the principal amount thereof plus interest accrued with respect thereto to the date fixed for prepayment, without premium.

**Certificates with a Certificate Payment Date of
January 1, 2026**

Mandatory Sinking Account Payment Dates <u>January 1,</u>	Mandatory Sinking Account Payments <u>Account Payments</u>
2022	\$2,745,000
2023	\$2,910,000
2024	\$3,080,000
2025	\$3,265,000
2026 [†]	\$3,465,000

[†] Maturity.

**Certificates with a Certificate Payment Date of
January 1, 2032**

Mandatory Sinking Account Payment Dates <u>January 1,</u>	Mandatory Sinking Account Payments <u>Account Payments</u>
2027	\$3,670,000
2028	\$3,905,000
2029	\$4,155,000
2030	\$4,420,000
2031	\$4,700,000
2032 [†]	\$5,000,000

[†] Maturity.

**Certificates with a Certificate Payment Date of
January 1, 2041**

Mandatory Sinking Account Payment Dates <u>January 1,</u>	Mandatory Sinking Account Payments
2033	\$5,320,000
2034	\$5,665,000
2035	\$6,030,000
2036	\$6,425,000
2037	\$6,840,000
2038	\$7,285,000
2039	\$7,760,000
2040	\$8,265,000
2041 [†]	\$8,800,000

† Maturity.

Special Prepayment. The Certificates are also subject to prepayment prior to their respective Certificate Payment Dates, at the option of the City (which option shall be exercised upon request of the Corporation), in whole or in part on any date, (in such amounts and from such Certificate Payment Dates as are selected by the Corporation or, if the Corporation fails to select such Certificate Payment Dates, in inverse order of Certificate Payment Date), from hazard insurance or condemnation proceeds received with respect to the facilities of any of the Members of the Obligated Group and deposited in the Special Prepayment Account, at a Prepayment Price equal to the principal component thereof, plus accrued interest thereon (if any) to the date fixed for prepayment, without premium.

Purchase in Lieu of Prepayment. Each Holder, by purchase and acceptance of any Certificate, irrevocably grants to the Corporation the option to purchase such Certificate, at any time such Certificate is subject to optional prepayment, at a purchase price equal to the Prepayment Price then applicable to such Certificate. In order to exercise such option, the Corporation must deliver to the Trustee a Favorable Opinion of Bond Counsel to the effect that such purchase will not, in and of itself, cause the interest with respect to the Certificates to be included in gross income for Federal income tax purposes. No mandatory purchase shall operate to extinguish the indebtedness evidenced by such Certificate. No Holder or Beneficial Owner may elect to retain a Certificate subject to purchase in lieu of prepayment.

Notice of Prepayment. The Trustee is required to mail notice of prepayment by first-class mail not less than 20 days and not more than 60 days prior to the prepayment date, to the respective Holders of any Certificates designated for prepayment at their addresses appearing on the certificate registration books of the Trustee. Each notice of prepayment shall state the date of such notice, the date of execution and delivery of the Certificates, the prepayment date, the Prepayment Price, the place or places of prepayment (including the name and appropriate address or addresses of the Trustee), the CUSIP numbers, if any, and, in the case of Certificates to be prepaid in part only, the respective portions of the principal component thereof to be prepaid. Each such notice shall also state that on said date there will become due and payable on each of said Certificates the Prepayment Price thereof or of said specified portion of the principal component thereof in the case of a Certificate to be prepaid in part only, together with interest accrued thereon to the prepayment date, and that from and after such prepayment date interest thereon shall cease to accrue, and shall require that such Certificates be then surrendered. None

of the City, the Trustee or the Corporation shall be liable for any defect or inaccuracy in the CUSIP number that appears on any Certificate or in any prepayment notice.

Failure by the Trustee to mail notice of prepayment to any one or more of the respective Holders of any Certificates designated for prepayment shall not affect the sufficiency of the proceedings for prepayment with respect to the Holders to whom such notice was mailed.

Any prepayment notice (other than notice of Mandatory Sinking Account prepayment) may be made conditional on receipt by the Trustee of sufficient funds for the payment of the Prepayment Price of Certificates on or before the date fixed for prepayment or any other condition specifically set forth in such notice. If any such condition is not satisfied on or prior to the date set for prepayment, such notice shall be of no force and effect and the Certificates specified in such notice shall not be prepaid. No Event of Default shall exist under the Trust Agreement, the Sale Agreement or the Purchase Agreement as a result of the failure to satisfy any condition specified in any such prepayment notice or the failure to prepay Certificates pursuant to such notice.

Effect of Prepayment. Notice of prepayment having been duly given as provided in the Trust Agreement, and moneys for payment of the Prepayment Price of, together with interest accrued to the prepayment date on, the Certificates (or portions thereof) so called for prepayment being held by the Trustee, on the prepayment date designated in such notice, the Certificates (or portions thereof) so called for prepayment shall become due and payable at the Prepayment Price specified in such notice and interest accrued with respect thereto to the prepayment date, interest with respect to the Certificates so called for prepayment shall cease to accrue, said Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement, and the Holders of said Certificates shall have no rights in respect thereof except to receive payment of said Prepayment Price and accrued interest to the date fixed for prepayment from funds held by the Trustee for such payment.

Any notice of prepayment (other than notice of Mandatory Sinking Account prepayment) given pursuant to the Trust Agreement may be rescinded by written notice given to the Trustee by the Corporation no later than five Business Days prior to the date specified for prepayment. The Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner and to the same Persons as notice of such prepayment was given pursuant to the Trust Agreement.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of less than all of Certificates payable on a specific Certificate Payment Date, the Trustee shall select the Certificates within such Certificate Prepayment Date to be prepaid, from all such Certificates subject to prepayment or such given portion thereof not previously called for prepayment, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Trustee may (but need not) prepare and execute and deliver to the Holder thereof, at the expense of the Corporation, a new Certificate or Certificates of authorized denominations with the same Certificate Payment Date, equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered.

Annual Payment Requirements

The following table sets forth for each Certificate Year ending January 1 the total payments with respect to the Certificates (all amounts rounded to the nearest whole dollar).

The Certificates			
Year Ending January 1,	Principal Component ⁽¹⁾	Interest Component	Total Payment Requirements
2012	\$1,615,000	\$7,081,774	\$8,696,774
2013	1,790,000	7,584,600	9,374,600
2014	1,845,000	7,530,900	9,375,900
2015	1,915,000	7,457,100	9,372,100
2016	2,015,000	7,361,350	9,376,350
2017	2,115,000	7,260,600	9,375,600
2018	2,220,000	7,154,850	9,374,850
2019	2,330,000	7,043,850	9,373,850
2020	2,460,000	6,915,700	9,375,700
2021	2,595,000	6,780,400	9,375,400
2022	2,745,000	6,631,188	9,376,188
2023	2,910,000	6,466,488	9,376,488
2024	3,080,000	6,291,888	9,371,888
2025	3,265,000	6,107,088	9,372,088
2026	3,465,000	5,911,188	9,376,188
2027	3,670,000	5,703,288	9,373,288
2028	3,905,000	5,469,325	9,374,325
2029	4,155,000	5,220,381	9,375,381
2030	4,420,000	4,955,500	9,375,500
2031	4,700,000	4,673,725	9,373,725
2032	5,000,000	4,374,100	9,374,100
2033	5,320,000	4,055,350	9,375,350
2034	5,665,000	3,709,550	9,374,550
2035	6,030,000	3,341,325	9,371,325
2036	6,425,000	2,949,375	9,374,375
2037	6,840,000	2,531,750	9,371,750
2038	7,285,000	2,087,150	9,372,150
2039	7,760,000	1,613,625	9,373,625
2040	8,265,000	1,109,225	9,374,225
2041	8,800,000	572,000	9,372,000
Total	\$124,605,000	\$155,944,630	\$280,549,630

⁽¹⁾ Consists of all Long Term Indebtedness other than Existing Indebtedness to be prepaid with a portion of the proceeds received from the sale of the Certificates.

SECURITY FOR THE CERTIFICATES

General

The Certificates represent proportionate ownership interests in the Installment Payments required to be made by the City under the Purchase Agreement. The City's obligations under the Purchase Agreement, including its obligation to make Installment Payments, are limited obligations of the City and are payable solely from payments and other moneys received by the City or the Trustee, as the assignee of the City, from the Corporation pursuant to the Sale Agreement or Obligation No. 1. To the extent the City or the Trustee, as the assignee of the City, receives payments and other moneys under the Sale Agreement or Obligation No. 1, the obligation of the City to make Installment Payments is absolute and unconditional.

No reserve fund is being established in connection with the Certificates. The Trust Agreement and Sale Agreement require that, under certain conditions, a reserve fund relating to the Certificates must be established and funded on a later date. See APPENDIX C - "SUMMARY OF PRINCIPAL DOCUMENTS - Installment Sale Agreement - Payment Provisions - Funding of Reserve Fund."

NEITHER THE INSTALLMENT PAYMENTS NOR THE CERTIFICATES CONSTITUTE A DEBT OR LIABILITY OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROHIBITION. THE CITY SHALL NOT BE OBLIGATED TO PAY THE INSTALLMENT PAYMENTS EXCEPT FROM FUNDS PROVIDED UNDER THE SALE AGREEMENT AND OBLIGATION NO. 1, AND THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES SHALL BE PAYABLE SOLELY FROM SAID FUNDS. THE CITY'S OBLIGATION TO MAKE INSTALLMENT PAYMENTS IS NOT PAYABLE FROM ANY OTHER MONEYS OF THE CITY. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY IS PLEDGED TO THE PAYMENT OF THE INSTALLMENT PAYMENTS OR THE PRINCIPAL OR INTEREST WITH RESPECT TO THE CERTIFICATES. NEITHER THE EXECUTION AND DELIVERY OF THE CERTIFICATES NOR THE EXECUTION BY THE CITY OF THE TRUST AGREEMENT OR THE PURCHASE AGREEMENT SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATE THE CITY TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE INSTALLMENT PAYMENTS

For a description of the provisions of the Trust Agreement, the Sale Agreement, and the Master Indenture, including covenants of the Corporation, *see* APPENDIX C - "SUMMARY OF PRINCIPAL DOCUMENTS."

Installment Payments

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

Under the Trust Agreement, the City appoints the Trustee to hold and disburse Installment Payments paid to the Trustee under the Sale Agreement; to execute, deliver and administer the Certificates; to apply and disburse Installment Payments to the Holders of the Certificates; to hold and disburse certain other funds held under the Trust Agreement; and to perform certain other duties. The Trustee in turn accepted such appointment pursuant to the terms of the Trust Agreement.

Concurrently with the delivery of the Certificates, the Corporation will deliver Obligation No. 1 to the Trustee, pursuant to which the Corporation, for itself and on behalf of any future Obligated Group

Members, agrees to make payments to the Trustee in amounts sufficient to pay, when due the Purchase Payments required to be paid by the Corporation under the Sale Agreement. *See* the information herein under the caption “SECURITY FOR THE CERTIFICATES - The Master Indenture.”

Revenue Pledge

In order to secure the payment of the principal and interest components of the Certificates under the Trust Agreement, the Revenues and any other amounts (including proceeds of the sale of the Certificates) held in any fund or account established under the Trust Agreement, excepting only moneys in the Rebate Fund, Administrative Fees and Expenses and certain rights of indemnification, will be pledged to the Trustee under the Trust Agreement. The term “*Revenues*” is defined to mean all amounts received by the City or the Trustee for the account of the City under the Trust Agreement pursuant or with respect to the Sale Agreement or Obligation No.1, including, without limiting the generality of the foregoing, Purchase Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including amounts received or on deposit in the Rebate Fund, any Administrative Fees and Expenses or any amounts paid with respect to rights of indemnification.

The Master Indenture

The Corporation expects to enter into the Master Indenture with the Master Trustee on the date of issuance of the Certificates. Under the Master Indenture, the Obligated Group Members, currently only the Corporation, are liable with respect to Master Indenture Obligations. Other entities may become members of the Obligated Group in accordance with the procedures set forth in the Master Indenture. Each Obligated Group Member is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Master Indenture Obligation, including Obligation No. 1, which will evidence and secure the Corporation’s obligation to make Purchase Payments. For more information, *see* APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS.”

Obligated Group Members. Under certain conditions described in the Master Indenture, Members may be added to the Obligated Group from time to time and made jointly and severally liable with respect to Obligation No. 1, and all other Master Indenture Obligations outstanding under the Master Indenture. Additionally, in accordance with the Master Indenture, Members may withdraw from the Obligated Group from time to time. *See* APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS - Master Indenture—Membership in the Obligated Group” and “-Withdrawal From the Obligated Group.”
The Corporation is currently the only Obligated Group Member under the Master Indenture.

Designated Affiliates. Under the Master Indenture, the Corporation, as the Credit Group Representative, may by resolution designate “*Designated Affiliates*” from time to time, and may rescind any such designation at any time. **There are currently no Designated Affiliates under the Master Indenture.** *See* APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture - Designation of Designated Affiliates.”

Covenant Against Liens. Pursuant to the Master Indenture, each Obligated Group Member agrees that it will not, and each “*Controlling Member*” covenants that it will not permit any of its Designated Affiliates to, create, assume or suffer to be created or permit the existence of any Lien upon any of its Property, except for Permitted Liens. *See* the definition of “*Permitted Liens*” in APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS— Definitions” and “—Master Indenture—Particular Covenants of Each Member of the Obligated Group—Against Encumbrances.”

Security Interest in Gross Receivables. Pursuant to the Master Indenture, each Obligated Group Member, currently only the Corporation, grants to the Master Trustee, for the benefit of the Holders of Master Indenture Obligations, subject in all cases to Permitted Liens, a security interest in all of its right,

title, and interest, whether now owned or hereafter acquired, in and to the Gross Receivables of that Obligated Group Member. “*Gross Receivables*” means all of the accounts, chattel paper, instruments and general intangibles (all as defined in the Uniform Commercial Code of the State of California (“*UCC*”)) of each Obligated Group Member, as now in existence or as may be later acquired, and the proceeds thereof, excluding Restricted Moneys. “*Restricted Moneys*” means the proceeds of any grant, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to an object or purpose inconsistent with their use for the payment of amounts required to be paid pursuant to any Master Indenture Obligation. The security interest in Gross Receivables described above will be perfected to the extent, and only to the extent, that such security interest may be perfected under the UCC by filing and maintenance of UCC financing statements. The Obligated Group Members will not be required to enter into any deposit account control agreements, which are generally required to perfect security interests in deposit accounts under the UCC. See “Security and Enforceability—Perfection of a Security Interest” below.

Additional Indebtedness. Indebtedness in addition to the Certificates may be incurred by Obligated Group Members and secured on a parity with Master Indenture Obligations for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Each Master Indenture Obligation will be the full and unlimited obligation of the issuing Member and each Member will be jointly and severally obligated for the payment of any and all amounts payable under the Master Indenture Obligation. Subject to the conditions therein, the Master Indenture also permits Obligated Group Members to incur secured and unsecured indebtedness in addition to Master Indenture Obligations and to enter into Guarantees. See APPENDIX C — “SUMMARY OF PRINCIPAL DOCUMENTS” and “— Master Indenture - Particular Covenants of Each Member of the Obligated Group.”

Master Indenture Obligations. Under the Master Indenture, the Credit Group Representative is authorized by the Obligated Group Members to incur, pursuant to a supplement to the Master Indenture, on behalf of the Obligated Group Members, Master Indenture Obligations to evidence or secure Indebtedness (or other obligations of an Obligated Group Member not constituting Indebtedness). The Obligated Group Members are jointly and severally liable with respect to the payment of each Master Indenture Obligation, including Obligation No. 1, incurred under the Master Indenture. The Corporation has issued Obligation No. 1 under the Master Indenture to evidence its obligation to make Installment Payments. **The Corporation is currently the only Obligated Group Member.** There are no other Master Indenture Obligations currently outstanding under the Master Indenture.

Security and Enforceability

Security for Master Indenture Obligations. All Master Indenture Obligations issued and Outstanding under the Master Indenture are equally and ratably secured by the Master Indenture except to the extent specifically provided otherwise in the Master Indenture. Any one or more series of Master Indenture Obligations may, so long as any Liens created in connection therewith constitute Permitted Liens, be secured by security (including, without limitation, letters or lines of credit, insurance, Liens on Property of the Members or Designated Affiliates, or security interests in a depreciation reserve, debt service or interest reserve or debt service or similar funds). Such security need not extend to any other Indebtedness (including any other Master Indenture Obligations or series of Master Indenture Obligations). Consequently, the Related Supplement pursuant to which any one or more series of Master Indenture Obligations is issued may provide for such supplements or amendments to the provisions of the Master Indenture, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Master Indenture Obligations entitled thereto.

Perfection of a Security Interest. Each Obligated Group Member (currently only the Corporation) grants to the Master Trustee a security interest in all of the Gross Receivables of such Member and agrees to perfect the grant of a security interest in the Gross Receivables to the extent, and

only to the extent, that such security interest may be perfected by filing under the UCC. The Obligated Group Members are, therefore, not required to enter into any deposit account control agreements, which are generally required to perfect security interests in deposit accounts under the UCC. The security interest of the Master Trustee may not be effective against third parties with perfected security interests. Even if perfected, the grant of a security interest in Gross Receivables may be subordinate to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment, including collateral assignment, in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Receivables and (vi) liens on investments and investment accounts constituting Gross Receivables in favor of secured parties who have entered into control agreements with respect to such investments and investment accounts.

Enforceability of the Master Indenture. Counsel to the Corporation will give an opinion, concurrently with the delivery of the Certificates, that the Master Indenture and Obligation No. 1 are the valid and binding obligations of the Obligated Group enforceable in accordance with their respective terms. Such opinion will be qualified, however, as to enforceability by limitations imposed by conditions such as bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws affecting the enforceability of creditors' rights generally and by the application of equitable principles.

Limitations on Enforceability

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

In addition, Obligated Group Members that are nonprofit corporations may be held by a court to be subject to a charitable trust which prohibits payments in respect of obligations incurred by or for the benefit of others. Such a determination may be made if the Obligated Group Member making the payments has insufficient assets remaining to carry out its own charitable functions or, under certain

circumstances, if the obligation paid was incurred for purposes inconsistent with or beyond the scope of the charitable purposes of the Obligated Group Member which made the payment. In addition, in the case of governmental bodies, such as the Corporation, State law imposes limitations on the use of governmental revenues and assets for the benefit of non-governmental entities.

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

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

Bankruptcy. In the event the Corporation commences a bankruptcy case under chapter 11 of the federal Bankruptcy Code (the "*Bankruptcy Code*"), the rights and remedies of the Holders would be subject to various provisions of the Bankruptcy Code. An involuntary chapter 11 case cannot be commenced against the Corporation; only voluntary chapter 11 cases are permitted under the Bankruptcy Code. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over such property, as well as various other actions to enforce, maintain or enhance the rights of the Trustee, other than the right to apply pledged Gross Receivables to payment of the Obligations.

The Corporation can use the Gross Receivables and proceeds thereof to pay the necessary operating expenses of the project or system from which such Gross Receivables or proceeds are derived, despite any security interest of the Master Trustee therein, but such funds might not be available to the Corporation to pay other creditors and for the financial rehabilitation of the Corporation. The rights of the Trustee and Master Trustee to enforce their respective interests and liens could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding, which could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. In a case under chapter 11 of the Bankruptcy Code, creditors are not authorized to file a plan for the reorganization of the debtor. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which conditions are that the plan shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if (with certain exceptions) creditors holding at least two-thirds in dollar amount and more than one-half in number of the claims in the class which vote to accept or reject the plan cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

In addition, the obligation of the Corporation to pay principal and interest with respect to the Certificates is not secured by a lien on or security interest in any assets or revenues of the Corporation other than the pledge under the Master Indenture on Gross Receivables and the lien on certain funds held by Trustee under the Trust Agreement, as described in APPENDIX C – "SUMMARY OF PRINCIPAL

DOCUMENTS— TRUST AGREEMENT.” Except with respect to such pledge of Gross Receivables and such funds held under the Trust Agreement, in the event of a bankruptcy of the Corporation, Holders would not have a claim against the Corporation or be unsecured creditors of the Corporation.

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

PLAN OF FINANCING AND REFUNDING

The proceeds to be received from the sale of the Certificates, together with other moneys to be contributed by the Corporation, will be used to: (i) finance or reimburse the Corporation for its prior payment of certain costs relating to the construction, renovation, expansion and equipping of its hospital and medical facilities included in the Corporation’s Facilities Master Plan (the “*Project*”) (described and discussed in APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—CURRENT FACILITIES AND FUTURE CAPITAL NEEDS” and “THE PROJECT”); and (ii) prepay a portion of the Existing Indebtedness.

ESTIMATED SOURCES AND USES OF PROCEEDS

The following table sets forth the estimated sources and uses of proceeds of the Certificates, together with certain other funds (all amounts rounded to the nearest whole dollar):

Sources of Proceeds

Principal Amount of the Certificates.....	\$124,605,000
Less Net Original Issue Discount.....	(2,190,639)
Corporation Contribution.....	1,865,015
Funds on Deposit in Reserve Fund for Existing Indebtedness.....	2,257,682
TOTAL SOURCES	<u>\$126,537,058</u>

Uses of Proceeds

Deposit to Project Fund ⁽¹⁾	\$110,004,997
Refunding Escrow Deposits.....	14,667,046
Costs of Delivery ⁽²⁾	1,865,015
TOTAL USES	<u>\$126,537,058</u>

⁽¹⁾ Includes only Project costs financed from the proceeds of the Certificates. See APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL – THE PROJECT” for a description of the Corporation’s Facilities Master Plan and “– THE PROJECT – Funding the Project” for the various sources of funding thereof.

⁽²⁾ Includes proceeds applied for the payment of legal and accounting fees, Underwriters’ compensation, printing costs, rating agency fees and miscellaneous other expenses of delivery.

CERTIFICATEHOLDERS’ RISKS

The purchase of the Certificates involves investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Certificates should evaluate all of the information presented in this Official Statement. This section on Certificateholders’ Risks focuses primarily on the

general risks associated with the operations and activities of hospitals and health care systems; whereas APPENDIX A describes the Corporation specifically and APPENDIX B contains financial statements of the Corporation and its subsidiaries. These should be read together. This discussion is not intended to be comprehensive or definitive, but rather is to summarize certain matters that could affect payment of the Certificates. Investors should recognize that the discussion below does not cover all such risks, that payment provisions for, and regulations and restrictions on, hospitals change frequently and that additional material payment limitations and regulations or restrictions may be created, implemented or expanded while the Certificates are Outstanding.

General

The Certificates represent proportionate ownership interests in the Installment Payments made pursuant to the Purchase Agreement. The Installment Payments are a limited liability of the City, payable solely from Revenues, which consist primarily of Purchase Payments made by the Corporation under the Sale Agreement. The Corporation's obligation to make Purchase Payments pursuant to the Sale Agreement will be further evidenced and secured by Obligation No. 1 issued under the Master Indenture. **The Corporation is currently the only Obligated Group Member.** All Master Indenture Obligations issued and Outstanding under the Master Indenture are secured by the security interests in the Gross Receivables. **No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make the Purchase Payments and, therefore, the Installment Payments represented by the Certificates.**

The Corporation is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and are subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of California, and other federal, state and local government agencies. The future financial condition of the Corporation could be adversely affected by, among other things, changes in the method and amount of payments to the Corporation by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, the costs associated with responding to governmental inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., a "single-payor" system), future changes in the economy, demographic changes, availability of physicians, nurses and other health care professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation and any future Obligated Group Member under the Sale Agreement and Obligation No. 1 and, consequently, on the Certificates. In addition, the tax-exempt status of the Corporation and any future Obligated Group Member and, therefore, of the Certificates, could be adversely affected by, among other things, an adverse determination by a governmental entity, non-compliance with governmental regulations or legislative changes.

Significant Risk Areas Summarized

Certain of the primary risks associated with the operations of the Corporation are briefly summarized in general terms below and are explained in greater detail in subsequent sections. The occurrence of one or more of these risks could have a material adverse effect on the financial condition and results of operations of the Corporation or any future Obligated Group Member and, in turn, the ability of the Corporation to make payments under the Sale Agreement and Obligation No. 1.

Federal Health Care Reform. The federal health care reform legislation enacted in March 2010 contains extensive provisions that will take effect and be implemented over the course of the next decade.

This legislation addresses almost all aspects of hospital and provider operations, health care delivery and reimbursement. These changes will likely result in lower hospital and provider reimbursement, utilization changes, increased government enforcement and the necessity for health care providers to assess, and potentially alter, their business strategy and practices, among other consequences.

General Economic Conditions; Bad Debt, Indigent Care and Investment Performance. Health care providers are affected by the economic environment in which they operate. To the extent that employers reduce their workforces, employers reduce their budgets for employee health benefits or private and public insurers seek to reduce payments to health care providers or curb utilization of health care services, health care providers may experience decreases in insured patient volume and reductions in payments for services. In addition, to the extent that state, county or city governments are unable to provide a safety net of medical services, pressure is applied to local health care providers to increase free care. Economic downturns and lower funding of Medicare and state Medicaid and other state health care programs may increase the number of patients unable to pay for services. These conditions may give rise to increases in health care providers' uncollectible accounts, or "bad debt", and, consequently, to reductions in operating income. Declines in investment portfolio values may reduce or eliminate non-operating revenues. Losses in pension and benefit funds may result in increased funding requirements. Potential failure of lenders, insurers or vendors may negatively impact the results of operations and the overall financial condition of health care providers. Philanthropic support may also decrease. For a discussion of these risks with regard to the Corporation, in particular the Corporation's recent results of operations and statement of financial position and performance of the Corporation's investments, *see* APPENDIX A – "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL – SELECTED FINANCIAL INFORMATION—Summary of Financial Information."

Rate Pressure from Insurers and Purchasers. Certain health care markets, including many communities in California, are strongly impacted by large health insurers and, in some cases, by major purchasers of health services. In those areas, health insurers may have significant influence over the rates, utilization and competition of hospitals and other health care providers. Rate pressure imposed by health insurers or other major purchasers, including managed care payers, may have a material adverse impact on health care providers, particularly if major purchasers put increasing pressure on payers to restrain rate increases. Business failures by health insurers also could have a material adverse impact on contracted hospitals and other health care providers in the form of payment shortfalls or delay, and continuing obligations to care for managed care patients without receiving payment. In addition, disputes with non-contracted payers may result in an inability to collect billed charges from these payers.

Nonprofit Health Care Environment. The significant tax benefits received by nonprofit, tax-exempt hospitals may cause the business practices of such hospitals to be subject to scrutiny of public officials and the press, and to legal challenges of the ongoing qualification of such organizations for tax-exempt status. Practices that have been examined, criticized or challenged have included pricing practices, billing and collection practices, charitable care and executive compensation. Challenges to entitlement to exemption of property from real property taxation have succeeded from time to time. Multiple governmental authorities, including state attorneys general, the Internal Revenue Service (the "IRS"), Congress and state legislatures have held hearings and carried out audits regarding the conduct of tax-exempt organizations, including tax-exempt hospitals. These efforts will likely continue in the future. Citizen organizations, such as labor unions and patient advocates, have also focused public attention on the activities of tax-exempt hospitals and raised questions about their practices. Proposals to increase the regulatory requirements for nonprofit hospitals' retention of tax-exempt status, such as by establishing a minimum level of charity care, have also been introduced repeatedly in Congress. Significant changes in the obligations of nonprofit, tax-exempt hospitals and challenges to the tax-exempt status of non-profit hospitals generally or the Corporation in particular could have a material adverse effect on the Corporation.

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and expectations of physicians and patients require constant and often significant capital investment. In California, seismic safety standards mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may outstrip capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of recent credit market dislocations and investment losses, and it is uncertain how long those conditions may persist.

Construction Risks. Construction projects are subject to a variety of risks, including but not limited to delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals, strikes, shortages of materials and labor, and adverse weather conditions. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs to exceed available funds. See APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—CURRENT FACILITIES AND FUTURE CAPITAL NEEDS” and “- THE PROJECT.” See also “Other Risk Factors - Construction Risks” below.

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

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

Violations and Sanctions. The government and/or private “whistleblowers” often pursue aggressive investigative and enforcement actions. The government has a wide array of civil, criminal and monetary penalties, including withholding essential hospital and other health care provider 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 and other health care provider operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital and health care sector. Most large hospital and other health care provider systems are likely to be adversely impacted.

Personnel Shortage. Currently, a shortage of physicians (including specialists) and nursing and other technical personnel exists which may have its primary impact on hospitals and health care systems. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In California, state regulation of nurse staff ratios intensified the shortage of

nursing personnel. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals and health care systems.

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

Costs and Restrictions from Governmental Regulation. Nearly every aspect of hospital operation and health care delivery is regulated, in some cases by multiple agencies of government. The level and complexity of regulation and compliance audits appear to be increasing, imposing greater operational limitations, enforcement and liability risks, and significant and sometimes unanticipated costs.

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

Increasing Consumer Choice. Hospitals and other health care providers face increased pressure to be transparent and provide information about cost and quality of services, which may lead to a loss of business as consumers and others make choices about where to receive health care services based upon cost and quality.

Labor Costs and Disruption. The delivery of health care services is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impact on hospital and health care provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation. *See* APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—EMPLOYEES.”

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

Pension and Benefit Funds. As large employers, hospitals and health care providers may incur significant expenses to fund pension and benefit plans for employees and former employees, and to fund required workers' compensation benefits. Funding obligations in some cases may be erratic or unanticipated and may require significant commitments of available cash needed for other purposes. See APPENDIX A – "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SELECTED FINANCIAL INFORMATION—Management's Discussion and Analysis of Financial Information" and "— PENSION PLAN."

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

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

Nonprofit Health Care Environment

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

The operations and practices of nonprofit, tax-exempt hospitals are routinely challenged or criticized for inconsistency or inadequate compliance with the regulatory requirements for, and societal expectations of, nonprofit tax-exempt organizations. These challenges 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, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and private use of facilities financed with tax-exempt securities. These challenges and questions have come from a variety of sources, including state attorneys general, the IRS, labor unions, Congress, state legislatures and patients, and in a variety of forums, including hearings, audits and litigation.

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 "IRS Examination of Compensation Practices and Community Benefit" below.

IRS Examinations. IRS officials have recently indicated that more resources will be invested in audits of tax-exempt securities in the charitable organization sector with specific review of private use. A schedule to the revised Form 990 return ("*Schedule K*"), effective for the 2009 tax year and thereafter, is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. Schedule K also requires tax-exempt organizations to report on the investment

and use of proceeds of tax-exempt securities to address IRS concerns regarding compliance with arbitrage rebate requirements and the private use of financed facilities.

IRS 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 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 will continue to heavily scrutinize executive compensation arrangements, practices and procedures of tax-exempt hospitals and other tax-exempt organizations, and in certain circumstances, may conduct further investigations or impose fines on 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.

California Attorney General. California nonprofit public benefit corporations, including the Corporation, are subject to oversight and examination by the California Attorney General (the “AG”) to ensure that their charitable purposes are being carried out, that their fund raising and investment activities comply with state law and that the terms of charitable gifts are followed.

Financial Assistance and Charity Care. California law requires hospitals to maintain written policies about discount payment and charity care and to provide copies of such policies to patients and the Office of Statewide Health Planning and Development (“OSHPD”). The law also requires hospitals to follow specific billing and collection procedures. The Corporation has adopted and maintains such policies.

Indigent Care. Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. These hospitals and health care providers may be susceptible to economic and political changes that could increase the number of indigents or their responsibility for caring for the uninsured and under-insured. General economic conditions that affect the number of employed individuals who have health coverage affect the ability of patients to pay for their care. Similarly, changes in governmental policy, which may result in coverage exclusions under local, county, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition to federal income tax exemption or exemption from certain state or local taxes.

Class Actions. Nonprofit hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for nonprofit hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices

and breaches of privacy, and they may be used for a variety of currently unanticipated causes of action. Since the subject matter of class action suits may involve uninsured risks, and since such actions often involve alleged large classes of plaintiffs, they may have material adverse consequences on nonprofit hospitals and health systems in the future.

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. In California, the California Public Employees' Retirement System, the nation's third largest purchaser of employee health benefits, has pledged to take action to restrain the rate of growth of hospital charges and has excluded certain California hospitals from serving its covered members. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted. In addition, consumers and groups on behalf of consumers are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

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

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on hospitals and health care providers, including the Corporation, and, in turn, its ability to make payments under the Sale Agreement and Obligation No. 1.

Health Care Reform

As a result of the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the "*Health Care Reform Act*"), enacted in March 2010, substantial changes are anticipated in the United States health care system. Some of the provisions of the Health Care Reform Act took effect immediately, while others will take effect or will be phased in over time. Such legislation has been intended by its supporters to be transformative and includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are slated to take effect at specified times over approximately the next decade and, therefore, the full consequences of the new laws on the health care industry will not be immediately realized. Because of the complexity of the Health Care Reform Act, the ramifications of federal health care reform legislation may also become apparent only following implementation or through later regulatory and judicial interpretations. Portions of the Health Care Reform Act may also be limited or nullified as a result of legal challenges or amendments. In addition, the uncertainties regarding the implementation of health care reform legislation create unpredictability for the strategic planning efforts of health care providers, which in itself constitutes a risk.

The Health Care Reform Act will likely affect some hospitals differently from others, depending, in part, on how each hospital adapts to the legislation's emphasis on directing more federal health care

dollars to integrated provider organizations and providers with demonstrable achievements in quality care. The demographics of the markets in which individual hospitals provide services, the mix of services that any hospital provides to its community and other factors that are unique to any hospital will also effect individual outcomes. At this time, management of the Corporation cannot predict the aggregate effect of the Health Care Reform Act upon the Corporation.

Some of the specific provisions of the Health Care Reform Act that may affect hospital operations, financial performance or financial conditions are described below. *This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive.* The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws.

- Commencing upon enactment through September 30, 2019, the annual Medicare market-based updates for hospitals will be reduced and, beginning October 1, 2011, the market-based updates will be subject to productivity adjustments. The reductions in market-based updates and the productivity adjustment will have a disproportionately negative effect upon those providers that are relatively more dependent upon Medicare than other providers. Additionally, the reductions in market-based updates will be effective prior to the periods during which insurance coverage and the insured consumer base will expand, which may have an interim negative effect on revenues. The combination of reductions to the market-based updates and the imposition of the productivity adjustments may, in some cases and in some years, result in reductions in Medicare payment per discharge on a year-to-year basis.
- The Congressional Budget Office has estimated that 16 million consumers who are currently uninsured will become newly eligible for Medicaid through 2019 as a result of the expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels. Providers operating in markets with large Medicaid and uninsured populations are anticipated to benefit from increased revenues resulting from increased utilization and reductions in bad debt or uncompensated care. The increase in utilization can also be expected to increase in costs of providing that care, which may or may not be balanced by increased revenues.
- Commencing October 1, 2012, Medicare payments that would otherwise be made to hospitals that have a high rate of potentially preventable readmissions of Medicare patients for certain clinical conditions will be reduced by specified percentages to account for those excess and “preventable” hospital readmissions.
- Commencing October 1, 2014, Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Commencing July 1, 2011, federal payments to states for Medicaid services related to health care-acquired conditions will be prohibited.
- Commencing October 1, 2011, health care insurers will be required to include quality improvement covenants in their contracts with hospital providers, and will be required to report their progress on such actions to the Secretary of DHHS. Commencing January 1, 2015, health care insurers participating in the health insurance exchanges will be allowed to contract only with hospitals that have implemented programs designed to ensure patient safety and enhance quality of care. The effect of these provisions upon the process of negotiating contracts with insurers or the costs of implementing such programs cannot be predicted.

- With varying effective dates, the Health Care Reform Act enhances the ability to detect and reduce waste, fraud, and abuse in public programs through provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Health Care Reform Act requires the development of a database to capture and share health care provider data across federal health care programs and provides for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.
- Effective for tax years commencing immediately after approval, additional requirements for tax-exemption will be imposed upon tax-exempt hospitals, including obligations to adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Additionally, effective for tax years commencing January 1, 2013, tax-exempt hospitals must conduct a community needs assessment and adopt an implementation strategy to meet those identified needs. Failure to satisfy these conditions may result in the imposition of fines and the loss of tax-exempt status.
- Provisions of the Health Care Reform Act create an Independent Payment Advisory Board (the “*Advisory Board*”) to develop proposals to improve the quality of care and oversee health care system costs. Beginning January 15, 2019, the Advisory Board is charged with ensuring that Medicare expenditures stay within the specific target growth rates established by the Health Care Reform Act. The Advisory Board must also make recommendations to Congress as to how to control health care costs more generally.
- The Health Care Reform Act establishes a value-based purchasing system commencing October 1, 2012, for hospitals under which a percentage of payments will be contingent on satisfaction of specified performance measures related to common and high-cost medical conditions, such as cardiac, surgical and pneumonia care. The Health Care Reform Act also funds various demonstration programs and pilot projects to evaluate, and encourage new provider delivery models and payment structures, including accountable care organizations and bundled provider payments. The outcomes of these projects and programs, including the likelihood of their being made permanent or expanded or their effect on hospitals’ revenues or financial performance cannot be predicted.

The changes in the health care industry brought about by the Health Care Reform Act will likely have both positive and negative effects, directly and indirectly, on the nation’s hospitals, and on the Corporation specifically. The projected increase in the numbers of individuals with health care insurance, occurring as a consequence of the Medicaid expansion, creation of health insurance exchanges, subsidies for insurance purchase and the mandate for individuals to purchase insurance, could result in lower levels of bad debt and increased utilization or profitable shifts in utilization patterns for hospitals. The greatest negative impact to the hospital industry overall will likely result from substantial reductions in Medicare payments. See “Patient Service Revenues—The Medicare Program” below.

Management of the Corporation is analyzing the Health Care Reform Act and will continue to do so in order to assess the effects of the legislation and evolving regulations on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

Patient Service Revenues

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

As the population ages, more people will become eligible for the Medicare program. Current projections indicate that demographic changes and continuation of current cost trends will exert significant and negative forces on the overall federal budget. The Health Care Reform Act institutes multiple mechanisms for reducing the costs of the Medicare program. The demonstration and pilot projects authorized and funded by the Health Care Reform Act are also likely to precipitate other significant modifications in the future to the Medicare payment system. Management cannot project the extent of these modifications, or what impact such modifications may have on the financial operations of the Corporation.

Hospitals also receive payments from health plans under the Medicare Advantage program. The Health Care Reform Act includes significant changes to federal payments to Medicare Advantage plans. Payments to plans are frozen for fiscal year 2011 and thereafter will transition to benchmark payments tied to the level of fee-for-service spending in the applicable county (i.e., from 95% of payment levels in the highest-spending counties to 115% of levels in the lowest-spending counties). These reduced federal payments could in turn affect the scope of coverage of these plans or cause plan sponsors to negotiate lower payments to providers.

For information concerning the Medicare payments received by the Corporation for the fiscal years ended December 31, 2005, 2006, 2007, 2008 and 2009, *see* APPENDIX A – "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SUMMARY OF FINANCIAL INFORMATION—Sources of Patient Service Revenues."

Medicare and Medicaid Audits. Hospitals that participate in the Medicare and Medicaid programs are subject from time to time to audits and other investigations relating to various aspects of their operations and billing practices, as well as to retroactive audit adjustments to reimbursement claimed under these programs. Medicare and Medicaid regulations also provide for withholding reimbursement payments in certain circumstances. New billing rules and reporting requirements for which there is no clear guidance from CMS or state Medicaid agencies could result in claims submissions being considered inaccurate. The penalties for violations may include an obligation to refund money to the Medicare or Medicaid program, payment of criminal or civil fines and, for serious or repeated violations, exclusion from participation in federal health programs.

Authorized by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), the Medicare Integrity Program ("MIP") was established to deter fraud and abuse in the Medicare program. Funded separately from the general administrative contractor program, the MIP allows CMS to enter into contracts with outside entities and insure the "integrity" of the Medicare program. These entities, Medicare zone program integrity contractors ("ZPICs"), formerly known as program safeguard contractors, are contracted by CMS to review claims and medical charts, both on a prepayment and post-payment basis, conduct cost report audits and identify cases of suspected fraud. ZPICs have the authority to deny and recover payments as well as to refer cases to the Office of Inspector General ("OIG"). CMS

is also planning to enable ZPICs to compile claims data from multiple sources in order to analyze the complete claims histories of beneficiaries for inconsistencies.

CMS also enlists recovery audit contractors (“RACs”) to conduct periodic annual audits of Medicare payments to search for potentially improper Medicare payments from prior years that were not detected through CMS’s routine program integrity efforts. The RACs are private contractors, paid on a contingency fee basis, and use their own software and review processes. Although required to identify both overpayments and underpayments, RACs have in practice collected significantly more in overpayments from providers in proportion to the underpayments to providers.

In addition, CMS has instituted a Medicaid Integrity Program, modeled on the MIP. Medicaid Integrity Program contractors assist state Medicaid agencies by analyzing Medicaid claims data to identify high-risk areas and potential vulnerabilities and conducting post-payment field audits and desk reviews audits of Medicaid provider payments.

Audits may result in reduced reimbursement or repayment obligations related to past alleged overpayments and may also delay Medicare payments to providers pending resolution of the appeals process. The Health Care Reform Act explicitly gives DHHS the authority to suspend Medicare and Medicaid payments to a provider or supplier during a pending investigation of fraud.

Hospital Inpatient Reimbursement. Hospitals are generally paid for inpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as diagnosis related groups (“DRGs”). The actual cost of care, including capital costs, may be more or less than the DRG rate. DRG rates are subject to adjustment by CMS and are subject to federal budget considerations. There is no guarantee that DRG rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

The Health Care Reform Act includes provisions that will constrain increases in payments made to hospitals for inpatient services, reduce rates paid to hospitals that do not meet established quality benchmarks, and restructure payments to address perceived treatment inefficiencies, including eliminating or cutting reimbursement for certain hospital-acquired conditions and readmissions. Most significantly, the Health Care Reform Act decreases Medicare’s annual payment updates for services covered under the Part A hospital insurance program which are intended to account for economy-wide productivity increases and cost savings. Along with certain other reductions, these adjustments are estimated to reduce Medicare spending substantially over the decade following enactment. There can be no assurance that these future payment limitations will not adversely affect the revenue of the Corporation or any future Obligated Group Member.

Hospital Outpatient Reimbursement. Hospitals are generally paid for outpatient services provided to Medicare beneficiaries based on established categories of treatments or conditions known as ambulatory payment classifications (“APC”). The actual cost of care, including capital costs, may be more or less than the considerations. There is no guarantee that APC rates, as they change from time to time, will cover actual costs of providing services to Medicare patients.

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

Reimbursement of Hospital Capital Costs. Hospital capital costs apportioned to Medicare patient use (including depreciation and interest) are paid by Medicare exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to limited adjustments specific to the hospital. There can be no assurance that future capital-related payments will be sufficient to cover the actual capital-related costs of the Corporation's or any future Obligated Group Member's facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Hospital Provider Fee. In October 2009 the State legislature enacted the Medi-Cal Hospital Provider Rates Stabilization Act (the "*Hospital Provider Fee Law*"), which CMS approved in October 2010. The Hospital Provider Fee Law imposes a one-time quality assurance fee on California's general acute care hospitals, except for designated public hospitals and certain other exempt hospitals. The amount of the quality assurance fee owed by each California hospital varies, based upon each hospital's managed care, fee-for-service and Medi-Cal total patient days, as derived from hospital census data for 2007 and applied to the period from April 1, 2009 through December 31, 2010. The fee proceeds are used to earn federal matching funds, which, along with the fee proceeds, fund increases in Medi-Cal payments to hospitals, supplemental payments to Medi-Cal managed care plans, health care coverage for children and certain costs of administering the quality assurance fee program. Under the program, some California hospitals will receive more money in the form of increased Medi-Cal reimbursement than the quality assurance fees paid, while other California hospitals will receive less money in Medi-Cal payments than the fees paid. Hospitals that provided a significant amount of care (measured in total patient days) to Medi-Cal beneficiaries during calendar year 2007 relative to other hospitals in the State will receive the largest payments.

The Hospital Provider Fee Law also directs the State legislature to enact subsequent legislation to extend the collection of quality assurance fee after December 31, 2010. An extension would be subject to federal approval to enable Medi-Cal to obtain federal matching funds for periods subsequent to December 31, 2010. There can be no predictions as to whether the State legislature will take action to extend the fee beyond December 31, 2010.

Medicaid Program. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending.

California Medi-Cal. Medi-Cal is the California Medicaid program. The State of California selectively contracts with general acute care hospitals through the Selective Provider Contracting Program ("*SPCP*") to provide inpatient services to Medi-Cal patients. The State is obligated to make contractual payments only to the extent the legislature appropriates adequate funding. Under certain circumstances, the State may terminate an SPCP contract without notice. No assurances can be made that hospitals will be awarded or retain Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services.

Hospitals may elect not to participate in the SPCP, in which case they are considered non-contracting hospitals. Except in areas of the State that have been designated "open" health facility planning areas, Medi-Cal generally will not approve inpatient admissions or non-emergency treatment of Medi-Cal beneficiaries at a non-contracting hospital. In the past, the State Legislature has enacted laws requiring reductions in payments for services provided by non-contracting hospitals, although such reductions have typically been suspended by federal courts pending resolution of litigation challenging the reductions. No assurances can be provided that previously enacted payment reductions to non-

contracting hospitals will be repealed or not go into effect or that additional payment reductions will not occur.

For information concerning the Medi-Cal payments received by the Corporation, for the fiscal years ended December 31, 2005, 2006, 2007, 2008 and 2009, *see* APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SUMMARY OF FINANCIAL INFORMATION—Sources of Patient Service Revenue.”

California State Budget. California faces severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slower economic growth and higher unemployment, which may continue or worsen over the coming years. Shortfalls between state revenues and spending have in the past and may in the future result in cutbacks to government health care programs. Failure by the California legislature to approve budgets prior to the start of a new fiscal year can also result in a temporary hold on or delay of Medi-Cal reimbursement.

The financial challenges facing the State of California may negatively affect hospitals in a number of ways, including elimination or reduction of health care safety net programs (causing a greater number of indigent, uninsured or underinsured patients) and reductions in Medi-Cal reimbursement rates. The financial challenges may also result in a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care or access primary care facilities, a greater number of individuals who qualify for Medi-Cal and reductions in Medi-Cal reimbursement rates.

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

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

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

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

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

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

For information concerning the managed care payments received by the Corporation for the fiscal years ended December 31, 2005, 2006, 2007, 2008 and 2009, see APPENDIX A – "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SUMMARY OF FINANCIAL INFORMATION—Sources of Patient Service Revenue."

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medi-Cal, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and providers. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospital, the members of their medical staffs and other providers and to influence the behavior of consumers and providers such as the Members. Currently prevalent are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction and investment in health information technology. Measures of performance are set by others that characterize a hospital or a provider negatively may adversely affect its reputation and financial condition.

Regulatory Environment

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

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

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

False Claims Act. The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim for payment or approval for payment for which the federal government provides, or reimburses at least some portion of the requested money or property. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the federal government’s primary weapons against health care fraud. FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital.

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

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

Stark Referral Law. The federal “Stark” statute prohibits the referral by a physician of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital furnishing the designated services from billing Medicare, or any other payor or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. If certain technical requirements are met, many ordinary business practices and economically desirable arrangements between hospitals and physicians arguably constitute “financial relationships” within the meaning of the Stark statute, thus triggering the prohibition on referrals and billing. Most providers of the designated health services with physician relationships have some exposure to liability under the Stark statute. The Stark regulations effective December 4, 2007 and the CMS comments proceeding them have made the statute more difficult to interpret clearly; this increases the possibility that inadvertent violations may occur.

Medicare may deny payment for all services related to a prohibited referral and a hospital that has billed for prohibited services may be obligated to refund the amounts collected from the Medicare program. For example, if an office lease between a hospital and a large group of heart surgeons is found to violate Stark, the hospital could be obligated to repay CMS for the payments received from Medicare for all of the heart surgeries performed by all of the physicians in the group for the duration of the lease; a potentially significant amount. The government may also seek substantial civil monetary penalties, and in some cases, a hospital may be liable for fines up to three times the amount of any monetary penalty, and/or be excluded from the Medicare and Medicaid programs. Potential repayments to CMS,

settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital.

State “Fraud” and “False Claims” Laws. Hospital providers in California also are subject to a variety of State laws related to false claims (similar to the FCA or that are generally applicable false claims laws), anti-kickback (similar to the federal Anti-Kickback Law or that are generally applicable anti-kickback or fraud laws), and physician referral (similar to Stark). These prohibitions while similar in public policy and scope to the federal laws have not in all instances been avidly enforced to date. However, in the future they could pose the possibility of material adverse impact for the same reasons as the federal statutes.

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

Violation of the antitrust laws could result in criminal and 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.

HIPAA. HIPAA adds additional criminal sanctions for health care fraud and applies to all health care benefit programs, whether public or private. HIPAA also provides for punishment of a health care provider for knowingly and willfully embezzling, stealing, converting or intentionally misapplying any money, funds, or other assets of a health care benefit program. A health care provider convicted of health care fraud could be subject to mandatory exclusion from Medicare.

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

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from \$50,000 to \$250,000 and imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

The HITECH Act. Provisions in the 2008 Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), enacted as part of the economic stimulus legislation, increase the maximum civil monetary penalties for violations of HIPAA and grant enforcement authority of HIPAA to state attorneys general. The HITECH Act also (i) extends the reach of HIPAA beyond “covered entities,” (ii) imposes a breach notification requirement on HIPAA covered entities, (iii) limits certain uses and disclosures of individually identifiable health information and (iv) restricts covered entities’ marketing communications.

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 government may exclude a hospital from Medicare/Medicaid program participation that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, fraud against any federal, state or locally financed health care program or an offense relating to the illegal manufacture, distribution, prescription, or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud, or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital would be decertified and no program payments can be made. Any hospital exclusion could be a materially adverse event. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

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

Compliance with Conditions of Participation. CMS, in its role of monitoring participating providers' compliance with conditions of participation in the Medicare program, may determine that a provider is not in compliance with its conditions of participation. In that event, a notice of termination of participation may be issued or other sanctions potentially could be imposed.

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

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

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

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

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

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

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

Business Relationships and Other Business Matters

Integrated Delivery Systems. Health facilities and health care systems often own, control or have affiliations with relatively large physician groups and independent practice associations. Generally, the sponsoring health facility or health system will be the capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

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

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

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

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

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

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

Likewise, freestanding ambulatory surgery centers may attract away significant commercial outpatient services traditionally performed at hospitals. Commercial outpatient services, currently among the most profitable for hospitals, may be lost to competitors who can provide these services in an alternative, less costly setting. Full-service hospitals rely upon the revenues generated from commercial outpatient services to fund other less profitable services, and the decline of such business may result in the significant reduction of profitable income. Competing ambulatory surgery centers, more likely a for-

profit business, may not accept indigent patients or low paying programs and would leave these populations to receive services in the hospital setting. Consequently, hospitals are vulnerable to competition from ambulatory surgery centers.

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

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. *See* APPENDIX A – “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—EMPLOYEES.”

Wage and Hour Class Actions and Litigation. Federal law and many states, including notably California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals, such class actions can involve multi-million dollar claims, judgments and settlements. A major class action decided or settled adversely to the Corporation could have a material adverse impact on its financial condition and results of operations.

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

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

Pension Funds. Pension funding obligations typically are determined annually and are dependant on assumptions, including discount rates, expected return on plan assets, rate of compensation increases, health care cost trend rates and other factors. Actual results that differ from the assumptions usually are

accumulated and amortized over future periods. Accordingly, differences in actual experience or changes in assumptions may impact future funding obligations and expense, and these differences may cause a significant increase in funding obligations. For information regarding the pension and deferred compensation plans maintained by the Corporation, see APPENDIX A -“INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL - PENSION PLAN.”

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

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

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

Information Systems. The ability to adequately price health care services and to accurately report financial results depends on the integrity of the data stored within information systems. Information systems require an ongoing commitment of significant resources to maintain, protect and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving systems and regulatory standards. There can be no assurance that efforts to upgrade and expand information systems capabilities, protect and enhance these systems, and develop new systems to keep pace with continuing changes in information processing technology will be successful or that additional systems issues will not arise in the future.

Electronic media are also increasingly being used in clinical operations, including the conversion from paper to electronic medical records, computerization of order entry functions and the implementation of clinical decision-support software. The reliance on information technology for these purposes imposes new expectations on physicians and other workforce members to be adept in using and managing electronic systems. It also introduces risks related to patient safety, and to the privacy, accessibility and preservation of health information. Technology malfunctions or failure to understand and use information systems properly could result in the dissemination of or reliance on inaccurate information, as well as in disputes with patients, physicians and other health care professionals. Health information systems may also be subject to different or higher standards or greater regulation than other information technology or the paper-based systems previously used by health care providers, which may increase the cost, complexity and risks of operations. All of these risks may have adverse consequences on health care providers.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status. The tax-exempt status of the Certificates presently depends upon maintenance by the Corporation of its status as an organization described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). The maintenance of such

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

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

If the IRS were to find that the Corporation or any future Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status potentially could result in loss of tax exemption of the Certificates and of other tax-exempt debt of the Corporation or any future Obligated Group Member and defaults in covenants regarding the Certificates and other related tax-exempt debt and obligations likely would be triggered. Loss of tax-exempt status also could result in substantial tax liabilities on income of the Corporation or any future Obligated Group Member. For these reasons, loss of tax-exempt status of the Corporation could have a material adverse effect on the Corporation's financial condition.

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

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

State and Local Tax Exemption. Until recently, the State of California has not been as active as the IRS in scrutinizing the income tax exemption of health care organizations. In California it is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health systems. It is likely that the loss by the Corporation or

any future Obligated Group Member of federal tax exemption would also trigger a challenge to their respective state tax-exemption. Depending on the circumstances, such event could be material and adverse.

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

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

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

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt securities, including the use of proceeds therefrom in the charitable organization sector, with specific review of private use. In addition, the IRS states that it has sent post-issuance compliance questionnaires to several hundred 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 the interest components of the Installment Payments represented by the Certificates. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of certificate-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, more will be sent to additional nonprofit organizations.

Effective with the 2009 tax year, tax-exempt organizations must also complete new schedules to IRS Form 990—Return of Organizations Exempt From Income Tax, which create additional reporting responsibilities. On Schedule H, hospitals and health systems must report how they provide community benefit and specify certain billing and collection practices. Schedule K, as described above, requires detailed information related to all outstanding certificate issues of tax-exempt borrowers, including

information regarding operating, management and research contracts as well as private use compliance. Tax-exempt organizations must also complete Schedule J, which requires reporting of compensation information for the organizations' officers, directors, trustees, key employees, and other highly compensated employees.

There can be no assurance that responses by the Corporation to a questionnaire or Form 990 will not lead to an IRS review that could adversely affect the market value of the Certificates or of other outstanding tax-exempt indebtedness of the Corporation. Additionally, the Certificates or other tax-exempt obligations issued for the benefit of the Corporation may be, from time to time, subject to examinations or audits by the IRS.

The Corporation believes that the Certificates properly comply with the tax laws. In addition, Bond Counsel will render an opinion with respect to the tax-exempt status of the interest portion of Installment Payments paid by the City and represented by the Certificates, as described under the caption "TAX MATTERS." No ruling with respect to the Certificates has been or will be sought from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Certificates will not adversely affect the Certificates or the market value of the Certificates. See "TAX MATTERS" herein.

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

Other Risk Factors

Earthquakes. Many hospitals in California are in close proximity to active earthquake faults. A significant earthquake in California could destroy or disable the Hospital or other health care facilities operated by the Corporation.

California law requires each acute care hospital in the State either to comply with new hospital seismic safety standards or to cease acute care operations by January 1, 2009. California law allows three types of extensions of the January 1, 2009 deadline.

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

The second type of extension allows the 2013 deadline to be extended for up to two years to January 1, 2015, in limited cases. To qualify for such an extension, such hospital must have (i) begun construction when the extension is requested; (ii) submitted construction plans to OSHPD before

January 1, 2010; (iii) obtained a building permit for construction by January 1, 2011; (iv) submitted to state officials a timetable for construction; and (v) made reasonable progress in meeting this timetable.

The third type of extension allows an acute care hospital that has obtained a compliance extension to 2013 to extend its compliance deadline to 2020. This extension is meant for hospitals that cannot afford to retrofit existing facilities by 2013, and gives them an opportunity to forego retrofitting and instead construct replacement facilities by 2020. To qualify for this extension, the hospital must (i) certify that it lacks financial capacity to comply with applicable seismic safety standards by 2013 using statutory criteria; (ii) show that it serves otherwise underserved communities; (iii) submit its facility master plan to OSHPD before January 1, 2010; (iv) comply with statutory construction planning timeline; and (v) document its progress on the project.

Construction Risks. The Corporation is currently undertaking a number of major construction projects, including construction to comply with the State's seismic safety requirements, and is expected to undertake additional projects in the future. Construction projects are subject to a variety of risks, including but not limited to strikes, shortages of materials and labor, adverse weather conditions, and delays in issuance of required building permits or other necessary approvals or permits, including environmental approvals. Such events could delay occupancy.

The anticipated costs and construction period for projects are based upon budgets, conceptual design documents and construction schedule estimates prepared by the Corporation in consultation with the Corporation's architects, contractors and consultants. The cost of any project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor or other factors and could cause the costs to exceed available funds and completion of projects to be postponed until adequate funding is available. The completion dates of any of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that any project will be completed, if at all, on time or within established budgets, or that any project will result in increased earnings. Significant delays, cost overruns or downsizing of the construction or renovation projects could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation has obtained such permits, licenses and approvals as are required for its current and immediately forthcoming construction projects. Certain permits and approvals for planned construction work are in the process of being obtained. Unexpected changes or concessions required by local, state or federal regulatory authorities to obtain these permits and approvals could involve additional costs and delay the scheduled openings of the facilities. The Corporation may not receive the necessary permits and approvals or obtain the necessary permits and approvals within the anticipated time frame.

In addition, no assurances can be given that the construction and renovation of hospital facilities will not disrupt the ongoing operations of the Corporation or that it will be implemented as planned. Therefore, the construction and renovation of hospital facilities may adversely impact the ongoing business, operations and revenues of the Corporation.

Investments. The Corporation has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be material. For a discussion of the Corporation's investments, *see* APPENDIX A – "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL—SELECTED FINANCIAL INFORMATION—Investments and Investment Guidelines" and " - Liquidity."

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

- 1) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.
- 2) Reduced demand for the services of the Corporation or any future Obligated Group Member that might result from decreases in population or loss of market share to competitors.
- 3) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- 4) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- 5) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.
- 6) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage the Corporation's facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Corporation's operations and the generation of revenues from the facilities.
- 7) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

CONTINUING DISCLOSURE

The Corporation has undertaken all responsibilities for any continuing disclosure to holders of Certificates as described below, and the City shall have no liability to the holders of the Certificates or any other person with respect to Rule 15c2-12, as amended (the "*Rule*"), promulgated by the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended.

The Corporation has covenanted for the benefit of the Holders and Beneficial Owners of the Certificates to provide certain financial information and operating data by not later than 150 days following the end of the Corporation's Fiscal Year (which currently is December 31) (the "*Annual Report*"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of certain material events will be filed in readable PDF or other acceptable electronic form with the Electronic Municipal Market Access system ("*EMMA*") of the Municipal Securities Rulemaking Board (the "*MSRB*"). The specific nature of the information to be contained in the Annual Report or the notices of material events is described in the Continuing Disclosure Agreement, the form of which is included as APPENDIX E hereto. These covenants have been made in order to assist the Underwriters in complying with the Rule. During the past five years, the Corporation has not failed to comply with any undertaking under the Rule.

The Corporation has also covenanted in the Continuing Disclosure Agreement to provide to the MSRB, not later than 60 days after the end of each fiscal quarter (excepting the fourth fiscal quarter of each Fiscal Year), commencing with the fiscal quarter ending March 31, 2011, unaudited financial information for the Corporation for such fiscal quarter, including a balance sheet and a statement of operations.

On November 15, 2010, the Corporation caused certain unaudited financial information for the nine-month period ending September 30, 2010 to be posted to EMMA, as required by a continuing disclosure undertaking relating to the installment payments to be made pursuant to certain of the Existing Indebtedness. Such information is available in electronic form through the EMMA website: <http://emma.mrsb.org>.

ABSENCE OF MATERIAL LITIGATION

The City

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

The Corporation

There is no action, suit, proceeding, or investigation at law or in equity before or by any court, public board or body pending or, to the Corporation's knowledge, threatened against or affecting the Corporation: restraining or enjoining the execution or delivery of the Certificates; in any way contesting or affecting the validity of the Certificates, any proceedings of the Corporation taken concerning the execution, sale or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Certificates, existence or powers of the Corporation relating to the execution or delivery of the Certificates, the Certificate Purchase Contract, among the Underwriters, the Corporation and the City (the "*Purchase Contract*"), this Official Statement, the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Master Indenture, the Supplemental No. 1 or Obligation No. 1 (collectively, the "*Certificate Documents*"); or wherein an unfavorable decision, ruling or finding would have a materially adverse effect on the business, properties or financial condition of the Corporation, or the transactions contemplated by this Official Statement, the Certificates or the Certificate Documents.

TAX MATTERS

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

To the extent the issue price of a maturity of the Certificates is less than the amount to be paid at maturity of such Certificate (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of Underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial Owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City and the Corporation have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the interest portion of Installment Payments paid by the City under the Purchase Agreement and received by the Holders of the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in the interest portion of Installment Payments paid by the City under the Purchase Agreement and received by the Holders of the Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Certificates. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of the interest with respect to, the Certificates. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

In addition, Bond Counsel has relied, among other things, on the opinion of Ropes & Gray LLP, Counsel to the Corporation, regarding the current qualifications of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation’s “unrelated trade or business” activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to the Corporation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the Corporation can give or has given any

opinion or assurance about the future activities of the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization in a manner that is substantially related to the Corporation's charitable purpose under Section 513(a) of the Code, may result in the interest portion of the Installment Payments paid by the City under the Purchase Agreement and received by the Holders of the Certificates being included in federal gross income, possibly from the date of the original execution and delivery of the Certificates.

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

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

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the interest portion of Installment Payments paid by the City under the Purchase Agreement and received by the Holders of the Certificates for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or the Corporation, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City and the Corporation have covenanted, however, to comply with the requirements of the Code.

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

APPROVAL OF LEGALITY

Certain legal matters incident to the execution and delivery of the Certificates are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City. A complete copy of the proposed form of opinion of Bond Counsel is set forth as APPENDIX D. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Corporation by its counsel, Ropes & Gray LLP, and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP. Neither counsel to the Underwriters nor counsel to the Corporation undertakes responsibility for the accuracy, completeness or fairness of this Official Statement, except as otherwise stated in their respective opinions delivered upon the execution and delivery of the Certificates, and none of such opinions is addressed to or may be relied upon by purchasers upon delivery of the Certificates.

UNDERWRITING

The Certificates are being purchased by the underwriters named on the cover hereof, (collectively, the “*Underwriters*” each an “*Underwriter*”). The Underwriters have agreed to purchase the Certificates at an aggregate purchase price of \$122,414,360.85 (being the principal amount of the Certificates of \$124,605,000, minus a net original issue discount of \$2,190,639.15). In consideration of the purchase of the Bonds by the Underwriters, the Corporation shall pay the Underwriters an underwriting fee of \$1,091,764.75, which includes certain expenses of the Underwriters. The Purchase Contract provides that the Underwriters will purchase all of the Certificates if any are purchased, subject to certain terms and conditions set forth therein, including the delivery of specified opinions of counsel and of a certificate of the Corporation to the effect that there has been no material adverse change in its condition, financial or otherwise, from that set forth in this Official Statement.

The initial public offering prices or yields set forth on the inside front cover hereof may be changed without notice from time to time by the Underwriters, and the Underwriters may offer and sell Certificates to certain purchasers at prices lower than the public offering prices stated on the inside cover page hereof. The Corporation has been advised by the Underwriters that (i) it presently intends to make a market in the Certificates offered hereby, (ii) it is not, however, obligated to do so, (iii) any market-making may be discontinued at any time, and (iv) there can be no assurance that an active public market for the Certificates will develop.

Morgan Stanley, parent company of Morgan Stanley & Co. Incorporated, an Underwriter of the Certificates, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. Incorporated may distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. Incorporated may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Certificates.

The Underwriters and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriters and their affiliates may perform various investment banking services for the Corporation or the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and

short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Corporation or the City.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Corporation and its subsidiaries as of December 31, 2008 and 2009 and for the two (2) years then ended, included in this Official Statement in APPENDIX B, have been audited by Ernst & Young, LLP, independent auditors, as stated in their report appearing herein.

FINANCIAL ADVISOR

Public Financial Management (“*PFM*”), Boston, Massachusetts, was engaged by the Corporation to provide financial advisory services in connection with the delivery of the Certificates. 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.

RATINGS

Moody’s Investor Service, Inc. (“*Moody’s*”) and Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies (“*Standard & Poor’s*”) have assigned the Certificates the ratings of “A3” and “A,” respectively. The ratings reflect only the views of the organizations, and any explanation of the significance of such ratings should be obtained from (i) Moody’s at the following addresses: Moody’s Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; or (ii) Standard & Poor’s at the following address: Standard and Poor’s Rating Services, 55 Water Street, New York, New York 10041. In order to obtain such ratings, the Corporation furnished certain information and materials to Moody’s and Standard & Poor’s, some of which has not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and their own investigation, studies and assumptions. There is no assurance that the ratings will be maintained for any given period of time or that the ratings will not be revised downward, suspended or withdrawn entirely by the organizations if, in their judgment, circumstances so warrant. The Corporation undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of any rating obtained or other actions by the organizations relating to their ratings may have an adverse effect on the market price of the Certificates.

The Corporation expects to furnish Moody’s and Standard & Poor’s such information and materials as it may request. The Corporation, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of the rating on the Certificates.

MISCELLANEOUS

The references to and the descriptions of the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement, the Master Indenture, Obligation No. 1, and the Purchase Contract contained herein and in APPENDIX C are brief outlines of certain provisions thereof. Such outlines, and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions. Copies of the documents mentioned under this heading are on file with the Underwriters and following execution and delivery of the Certificates will be on file at the corporate trust office of the Trustee in Los Angeles, California.

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

This Official Statement and its distribution has been approved by the City and the Corporation. This Official Statement is not to be construed as a contract or agreement between the City or the Corporation and the purchasers or Holders of any Certificates.

CITY OF UPLAND

By: /s/ Stephen Dunn
Its: Finance Director

Approved:

SAN ANTONIO COMMUNITY HOSPITAL

By: /s/ Roger Parsons
Its: Chief Financial Officer and Corporate Secretary

APPENDIX A

**INFORMATION CONCERNING
SAN ANTONIO COMMUNITY HOSPITAL**

The information contained in this Appendix A has been obtained from San Antonio Community Hospital.

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CORPORATE OVERVIEW

History

San Antonio Community Hospital (“SACH” or the “Hospital”) was established in 1907 and incorporated as a California nonprofit public benefit corporation in 1920. SACH has been determined by the Internal Revenue Service to be an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”). SACH owns and operates a general acute care hospital and related facilities (the “Health Facilities”), located on a 20-acre campus in Upland, California, approximately 40 miles east of Los Angeles.

Current Operating Profile

The Health Facilities are currently licensed and staffed to operate 279 beds. The Hospital provides inpatient acute care services, including medical/surgical and telemetry care, intensive and coronary care, and obstetrics, pediatrics, and neonatal intensive care. Inpatient nursing units are supported by diagnostic and therapeutic radiology, clinical and pathology laboratory, respiratory care, non-invasive and invasive cardiology, neurology, and cardiac and physical rehabilitation services. The Hospital also provides diagnostic and therapeutic services in several of these clinical areas on an outpatient basis, and has a dedicated emergency room that is open at all times. See “HOSPITAL SERVICES” herein. As of September 30, 2010, the Hospital had approximately 1,565 full-time equivalent employees and a medical staff of approximately 475 members. For the fiscal year ended December 31, 2009, the Hospital had approximately 15,700 inpatient admissions, 140,500 outpatient visits and 71,400 emergency room visits.

National and Local Awards

In its National Benchmarks study published in 2009, Thomson Reuters recognized SACH as a “Top 100 Hospital” in the United States. SACH was the only large community hospital in California (the “State”) and the first California hospital in four years to receive an award. This recognition is based on performance achievements in nine areas: mortality, medical complications, patient safety, average length of stay, expenses, profitability, cash-to-debt ratio, patient satisfaction, and adherence to clinical standards of care. Also in 2009, Thomson Reuters selected SACH as one of 23 hospitals nationally to receive its “Everest” award for sustained operational performance and rapid increases in performance improvement rates over the previous five years. In addition, SACH has received the following quality excellence awards:

- Health Grades – Emergency Medicine Excellence Award (2010).
- Health Grades – Stroke Care Excellence Awards (2008, 2009, and 2010).
- Health Grades – Maternity Care Excellence Award (2006 and 2007).
- Baby Friendly Initiative (2008) – SACH became the 65th hospital in the U.S. to receive this designation which measures infant health, breast feeding, and infant-parent attachment based on global criteria developed by the World Health Organization and UNICEF.
- California Hospital Assessment Reporting Taskforce (CHART) Certificate of Excellence (2009) – SACH was recognized for excellence in clinical and safety measures.

Strategic Plan

The Hospital conducts a formal strategic planning process involving senior management, the Board of Trustees (the “Hospital Board”), and Medical Staff leadership every three years with annual reviews and updates.

In 2008, the Hospital’s executive management team worked closely with the Hospital Board and Medical Staff leadership to develop a three-year strategic plan for 2009 to 2011 (the “Strategic Plan”), which includes detailed strategic, operational, quality, community benefit, physician alignment, and market expansion initiatives along with financial, operating, and capital plans. In addition, the executive management, Hospital Board, and medical staff leadership are currently working with an outside consultant to assess potential strategic options to better align Hospital and medical staff goals and financial incentives.

A key component of the Strategic Plan is a master plan for development and renovation of the Health Facilities (the “Facilities Master Plan”). The primary goals of the Facilities Master Plan are to provide new medical/surgical and intensive care inpatient beds and a new emergency department in order to accommodate anticipated population growth in SACH’s service area and to offset a reduction in the number of medical/surgical beds expected as a result of the State of California’s seismic compliance requirements. The Facilities Master Plan also includes construction to provide for the energy needs of the new facilities. See “CURRENT FACILITIES AND FUTURE CAPITAL NEEDS” herein. SACH intends to use the proceeds from the Certificates to finance a significant portion of the capital improvement projects envisioned by the Facilities Master Plan. See “THE PROJECT” herein.

Another important component of the Hospital’s Strategic Plan is the expanded use of recent improvements in information technology, including integrated communication of clinical information between SACH and members of the medical staff and active participation in future community based health information exchanges. In October 2009, the Hospital implemented several Cerner software applications, including nursing/physician order entry and results reporting, clinical documentation, surgery, pharmacy, radiology, medical records, and document imaging.

Affiliates

The Foundation. SACH is the sole corporate member of San Antonio Hospital Foundation, Inc. (the “Foundation”) a nonprofit, tax-exempt corporation that exists to provide support for the Hospital’s charitable mission and to fund programs and services that benefit the health of the community. The Foundation is the fundraising arm of the Hospital. The sole purpose of the Foundation is to encourage and facilitate charitable donations to further the mission of the Hospital. The Foundation is governed by a separate Board of Directors, and the Foundation’s Finance Committee oversees Foundation investments. The Foundation is not an Obligated Group Member.

Other Affiliates. SACH is also the sole shareholder of Cucamonga Health Services, Inc. (“CHS”), a for-profit corporation whose only current business activity is to hold minority investments of 14% and 10% in two limited liability companies (“LLCs”) that together own the gamma knife located on the Hospital campus. Physicians own the majority of shares in each of the LLCs. The investment in these two LLCs generated a small loss of approximately \$26,000 for CHS in 2009, the gamma knife’s first year of operation.

SACH also owns 30% of San Antonio Ambulatory Surgery Center (“San Antonio ASC”) which operates a surgery center in space leased from the Hospital in a medical office building on the Health Facilities’ main campus. The remaining 70% interest in San Antonio ASC is held by approximately 30 physicians. SACH’s investment in the San Antonio ASC generates a return of approximately \$575,000 for the Hospital each year which is recorded as Other Revenue in the Hospital’s financial statements.

CURRENT FACILITIES AND FUTURE CAPITAL NEEDS

Facilities

The Health Facilities' main campus is located on a 20-acre site in the City of Upland in western San Bernardino County, California. In addition, SACH owns two medical office buildings across the street from the main campus. One of the buildings houses outpatient ancillary services including diagnostic imaging, a clinical laboratory draw station, and cardiac rehabilitation. The second building is used for administrative offices. SACH also owns a medical office building in Rancho Cucamonga about five miles east of the main campus ("Rancho San Antonio Medical Plaza"). A portion of the building is used by the Hospital for an outpatient diagnostic imaging center, a clinical laboratory draw station, and an outpatient physical rehabilitation center. The remaining portion of the building contains 17 physician offices which are 100% occupied. SACH also leases space in a medical office building in Fontana approximately 12 miles east of the main campus ("Sierra San Antonio Medical Plaza") for the provision of outpatient imaging services, a clinical laboratory draw station, and limited outpatient physical rehabilitation services.

The Health Facilities were originally constructed on the present site in 1924 and since that time have been remodeled, altered and enlarged in response to community health needs. In 1964, a 130-bed three-story patient tower was added, more than doubling the size of the Health Facilities. In 1974, an additional floor housing 28 beds was added to the patient tower, and the maternity/nursery departments of the Health Facilities were completely renovated. A major addition to SACH was completed in 1975 to house the pharmacy, radiology, laboratory, neurology and emergency departments. In 1983, a new intensive care unit became part of the Health Facilities and a 10-bed expansion of the existing maternity unit was completed in late 1994. A 17,500 square-foot, three-story addition was completed in 1996 to provide a dedicated 20-bed neo-natal intensive care unit ("NICU") on the main floor, an endoscopy laboratory on the second floor, and administrative support offices in the basement level.

Facilities Master Plan

The current Facilities Master Plan was developed through an analysis of anticipated inpatient bed needs, expected future demand for emergency and other outpatient services and an evaluation of the impact new facilities would have on existing engineering and other facility support systems.

The need for additional inpatient beds is driven by both the anticipated loss in 2015 of 39 medical/surgical beds, which will be taken out of service in order to comply with California's seismic safety law, and capacity constraints on critical care beds in the existing 12-bed intensive care and 12-bed coronary care units.

Growth in SACH's emergency department services is also driving the need for additional facilities. The Hospital's 19-bed emergency department, which was built in 1975, was designed to accommodate 30,000 patient visits per year. In fiscal year 2009, the Hospital's emergency department had 71,400 visits. The opening in January 2008 of an additional 11-bed Emergency Department suite in space adjacent to the existing Emergency Department has helped to meet the increasing demand for emergency department services. Emergency department patient volumes are expected to continue increasing along with population growth in the service area.

Development of the Facilities Master Plan also included an analysis of utility and other support needs, including power generation and delivery. The Health Facilities have a co-generation system that has supplied the majority of the Health Facilities' electricity needs since 1985. The Health Facility currently operates three 900 kilowatt co-generation engines that supply over 80% of the Health Facility's electricity needs. The new

ED Bed Tower (defined below) will require the addition of a conventional energy plant. See “THE PROJECT—Energy Plant” herein.

Seismic Safety Compliance

SACH has identified four buildings on its main campus that will require seismic upgrade work in order to be in compliance with California seismic safety requirements. These four building upgrades have been grouped together into a single project, which is independent from the Project described below. The seismic compliance project plan was submitted to the California Office of Statewide Health Planning and Development (“OSHPD”) and the project was approved in November 2007. A building permit for the project was issued in November 2008. Construction on the project started in May 2009 and is planned to continue in phases until completed in the fourth quarter of 2013. The total cost of this project is estimated to be \$17.0 million with approximately \$2.8 million having been expended through September 30, 2010. SACH intends to fund the remaining costs of the seismic compliance project with operating cash and cash reserves.

In recent years, the Hospital has averaged between \$5.1 million and \$7.9 million per year in routine capital expenditures to support clinical departments and information technology infrastructure.

THE PROJECT

The facilities master planning process identified the need for a new four-story patient care tower, additional energy plant, and energy delivery facilities (the “Project.”)

Four-Story Patient Tower. The primary structure in the planned addition to the Health Facilities will be a four-story patient care tower (the “ED Bed Tower”) to be constructed on the east side of the Health Facilities campus immediately adjacent to the existing patient tower and ancillary service departments.

The four-story tower is designed to include a 52-room replacement emergency department, including computer tomography (“CT”) scanning and other radiology capabilities, 80 medical, surgical and telemetry rooms, 12 intensive care rooms, a new main lobby, 33,470 square feet of shelled space on the first floor, and site improvements including landscaping.

Energy Plant. The addition of the new four-story patient care tower will require construction of a conventional energy plant to supplement existing co-generation capacity. The new energy plant will be built on the Health Facilities campus near the existing energy plant in a location that will allow plant operations to meet environmental standards.

Site Utilities. The site utilities project will connect the new energy plant with the new four-story patient care tower.

Construction Status

SACH has negotiated a guaranteed maximum price contract with HBE, a design build company, for construction of the ED Bed Tower, an energy plant to support the new building, and remodeling of the Hospital’s existing lobby. The contract with HBE is for a maximum price of \$99.3 million. SACH retained the services of Jacobs Engineering to assist with oversight of the Project planning, design, and regulatory approval processes. SACH anticipates using Jacobs Engineering as the construction manager for the Project. In addition to the HBE contract, SACH anticipates making approximately \$40.6 million in Project-related expenditures for items such as electrical upgrades, hospital clinical equipment, low-voltage electrical systems, OSHPD fees, materials testing, landscaping, window coverings, and furnishings. The total Project budget of \$158.1 million includes a contingency amount of \$18.2 million.

SACH has received OSHPD’s approval for all components of the Project and has received approval for the Project from the City of Upland Planning Commission. Construction is anticipated to begin in February 2011 and expected to last 30 months.

Funding for Project

The total cost of the Project is estimated to be approximately \$158.1 million, of which approximately \$13.3 million had already been expended for architectural and design costs as of September 30, 2010. A portion of the estimated costs, in an amount of \$18.2 million, has been allocated to a contingency fund to be used for change orders and unforeseen cost increases or delays in the Project. Approximately \$110 million of the Project’s cost will be covered by proceeds of the Certificates. The remainder of the Project will be funded from the Hospital’s available cash and investments and contributions made by the Foundation. Accrued interest during construction is estimated to be approximately \$15.5 million, which SACH will pay from operating funds.

The approximate sources of funds for costs either already incurred or anticipated to be spent for the Project are identified below (in millions):

Proceeds of the Certificates	\$110.0
SACH Reserves and Operating Cash	38.1
Foundation Contributions	10.0 ⁽¹⁾
Total Estimated Sources of Funding	<u>\$158.1</u>

⁽¹⁾As of September 30, 2010, the Foundation had received approximately \$5.3 million in contributions and is conducting fund raising for the balance. To the extent the balance is not raised, SACH will use available cash to complete the project funding.

HOSPITAL SERVICES

Description of Services

The Hospital provides a full spectrum of preventive, acute, primary and specialty care to the communities it services. These services include inpatient and outpatient medical and surgical services, emergency and intensive care services, palliative care, and community wellness and health promotion programs. Areas of special expertise include the cardiovascular services provided at the Hospital’s Heart Center, care provided at the Level II NICU and the diagnostic and treatment services available at its Cancer Center and Gamma Knife Center.

The Heart Center. The Heart Program at SACH coordinates the comprehensive cardiac service line, including non-invasive cardiology, diagnostic and interventional cardiac catheterization, cardiac nuclear scanning, cardiovascular surgery, and cardiac rehabilitation. SACH has been designated as a “STEMI” (ST-elevation myocardial infarction) receiving hospital by San Bernardino, Los Angeles, and Riverside counties, meaning that the Hospital has the equipment, expertise and facilities to administer percutaneous coronary intervention, the preferred method for treating severe heart attack patients.

Cancer Center. The Hospital’s cancer program has been fully accredited by the American College of Surgeons’ Commission on Cancer since 1980. The Hospital treats more than 800 new cancer cases per year. The cancer program treatment modalities include surgery, chemotherapy, hormone therapy and immunotherapy. Outpatient radiation oncology services include 3D conformal, external beam, electron beam, and intensity modulated therapy (“IMRT”).

Gamma Knife Center. SACH offers the only Gamma Knife radiosurgery system in its primary service area. The Gamma Knife enables the Hospital’s Radiation Oncology and Neurosurgery departments to conduct noninvasive, outpatient brain surgery, using low-dose radiation beams to target tumors and abnormal cells with precision. SACH leases the gamma knife from a limited liability company, in which CHS, a subsidiary of SACH, holds a minority ownership interest. The majority of shares in the LLC are owned by physicians in the regional community. See “CORPORATE OVERVIEW—Affiliates” above.

Women’s Breast and Imaging Center. The Women’s Breast and Imaging Center operates out of a facility located immediately adjacent to the main hospital facility and provides advanced diagnostic services, including digital mammography, ultrasound and stereotactic breast biopsy.

Maternal Child Services. The Maternal Child service line coordinates care with obstetricians and pediatricians to provide comprehensive prenatal, delivery, and postpartum care. The Maternal Child Department includes 32 maternity beds, four labor, delivery and recovery rooms, 10 labor, delivery, recovery and postpartum rooms, a cesarean section surgical suite and recovery room, and a 20-bed NICU.

Surgical Services. The Surgery Department operates nine surgical suites and two additional surgical suites dedicated to cardiovascular surgeries. The Surgery Department performs approximately 370 inpatient and 380 outpatient surgeries per month, including general surgery and surgeries in the specialties of orthopedics, cardiology, gynecology, urology, otolaryngology, neurosurgery and ophthalmology.

Imaging and Radiation Oncology Services. The Radiology Department provides imaging services to support the Hospital’s Emergency, Surgery, and other departments. The imaging services offered to both inpatients and outpatients include diagnostic radiology and fluoroscopy, 64-slice CT scan, 3-T magnetic resonance imaging (“MRI”), interventional radiology, ultrasound, mammography and special procedures. The Radiation Oncology Department provides outpatient external beam radiation for the treatment of various cancer conditions and brachytherapy for the treatment of prostate cancer.

Urgent Care. The Hospital works closely with two physician-owned urgent care centers located at the Rancho San Antonio Medical Plaza and Sierra San Antonio Medical Plaza.

Community Services and Education. As part of its mission to improve the health of the community it serves, SACH conducts an ongoing assessment process to identify community health needs. The Hospital’s Community Outreach Program offers a variety of services designed to meet these needs, including sponsorship of support groups, educational seminars and community health fairs, as well as several specialty initiatives. These initiatives include the Hospital’s Healthy Beginnings, which is a multidisciplinary program that provides new mothers with post-discharge follow-up care, support and referral services in collaboration with community physicians and community agencies. The Hospital also supports the San Antonio Community Hospital Dental Center, a clinic that has been operating for 75 years to provide dental care to needy and uninsured children in Western San Bernardino County. SACH participates actively in community partnerships, as well as several civic health improvement initiatives, including those sponsored by the cities of Chino, Fontana and Upland.

Bed Distribution

SACH's license included the following bed complement at December 31, 2009.

<u>License Category</u>	<u>Licensed and Staffed Beds</u>
General Acute Care, Medical/Surgical	178
Obstetrics	32
Pediatrics	25
Intensive Care	24
Neonatal Intensive Care	20
	<hr/>
Total Beds	<u>279</u>

Historical Utilization

The following is a summary of the Hospital's key utilization statistics for the past four fiscal years.

Utilization Statistics Fiscal Years 2006 - 2009

	<u>December 31,</u>			
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Licensed Beds	279	279	279	279
Average Daily Census ⁽¹⁾	157	162	177	174
<u>Inpatient Services</u>				
Admissions	14,747	15,094	16,469	15,734
Average Length of Stay (Days)	3.76	3.70	3.58	3.68
Patient Days	55,394	55,791	58,957	57,921
<u>Outpatient Services</u>				
Emergency Visits	61,550	65,321	67,934	71,432
Outpatient Referral Visits	138,191	142,556	142,867	140,509
Outpatient Surgeries	4,239	4,212	4,397	4,583

⁽¹⁾Includes patients under outpatient observation occupying inpatient beds.

Source: Hospital records.

Inpatient admissions increased by 11.7% from 2006 through 2008 due to population growth and the Hospital's strategic initiatives to improve service levels and to work more collaboratively with the medical staff. Admissions declined in 2009 as the economic recession and rapid increase in unemployment took hold in SACH's primary service area. In September 2010, unemployment in the Riverside/San Bernardino/Ontario areas was 14.8%, the second highest of all large metropolitan areas in the United States according to the U.S. Department of Labor Statistics.

Average length of stay is in the 3.6 to 3.8 days range following a focused effort beginning in 2004 to reduce inpatient hospitalization days for Medicare patients. The average length of stay for Medicare patients

declined from 6.2 days in 2004 to approximately 4.3 days in 2009. This reduction in Medicare length of stay has improved operating efficiencies and increased SACH's profitability.

Emergency Department visits have increased by about 5% each year from 2007 through 2009. The volume increase is due mainly to population growth in the Hospital's primary service area. Outpatient referral visits for imaging, clinical laboratory, and physical rehabilitation services have remained relatively stable over the past three years as increased volume due to population growth has been offset by general economic conditions and insurers imposing stricter pre-authorization requirements on certain high-cost outpatient exams and procedures. The number of outpatient surgeries has grown over the past two years.

Clinical Quality Initiatives

SACH's vision statement and strategic plan both emphasize the organization's goal of being recognized for excellence in clinical quality. During the last four years, quality improvement has also been a top priority for the Hospital and its medical staff. One of the specific objectives set forth in the strategic plan is that the Hospital meet or exceed the CMS and state benchmarks in 75% or more of the publicly reportable clinical measures. In the latest report on clinical measures for calendar year 2009, SACH met or exceeded CMS/state benchmarks in 23 of 24 indicators (96%) and met or exceeded The Joint Commission benchmarks in 29 of 37 indicators (78%). SACH has also demonstrated significant accomplishments in reducing ventilator-associated infections, attaining higher vaccination rates, and achieving other identified clinical benchmarks.

SACH is also currently monitoring and implementing operational processes for all required CMS clinical process and outcome measures and Agency for Healthcare Research and Quality ("AHRQ") safety measures, including complications, mortality, and hospital acquired infections. In addition, SACH participates in several collaboratives and reporting initiatives, including:

- California Hospital Assessment and Reporting Task Force (CHART).
- Institute for Healthcare Improvement's (IHI) Five Million Lives Campaign.
- Hospital Association of Southern California's (HASC) Patient Safety Collaborative.
- Anthem Blue Cross' Quality Insights Hospital Incentive Program.
- Leapfrog for Patient Safety.
- March of Dimes' of California Maternal Quality of Care Collaborative.
- California Perinatal Quality Care Collaborative.

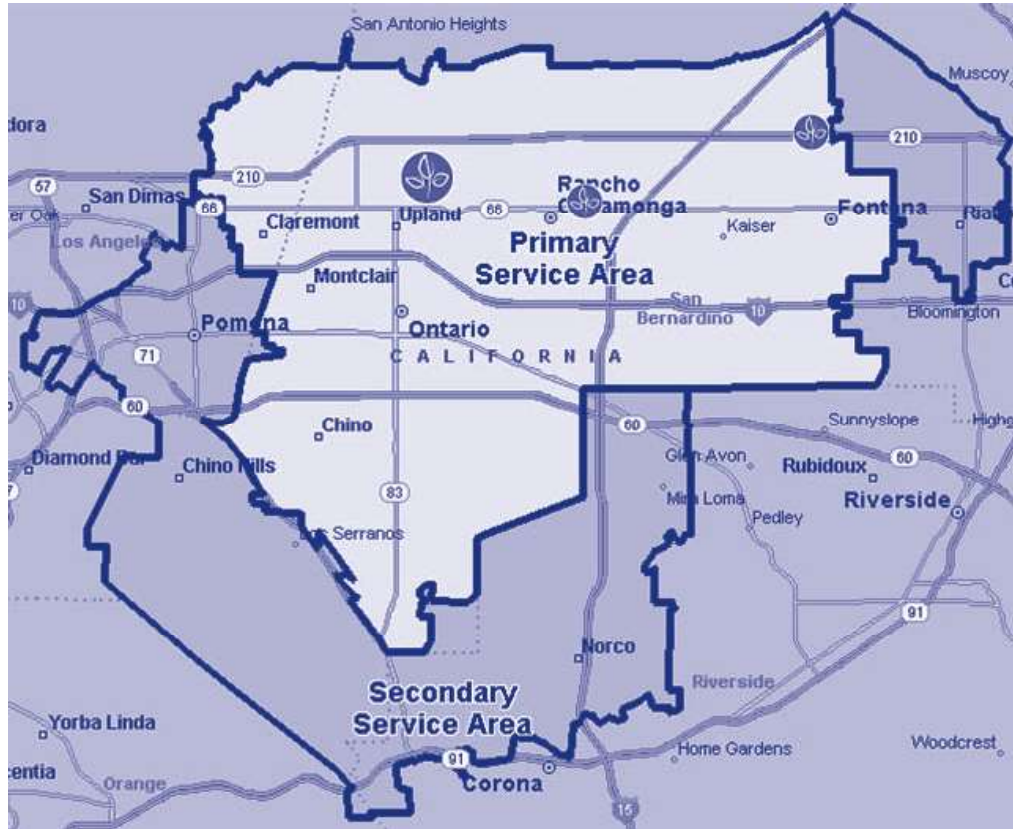
These organizations and collaboratives provide evidence-based protocols, access to leading process improvement experts, and the opportunity to learn and share best practices.

SACH also uses several data sources to identify quality improvement opportunities, including:

- California Hospital Association's Data Suite Reports – provides hospital progress and trending reports on value based purchasing and comparisons to California and Federal data.
- Thompson Reuters Care Discovery – provides patient level data to help identify improvement opportunities by physician specialty, individual physician, DRGs, procedures, and complications.

SERVICE AREA AND COMPETITION

Service Area. The Hospital’s service area, as defined by SACH management, encompasses the western portion of San Bernardino County, the northwestern area of Riverside County and the two most eastern cities (Pomona and Claremont) in Los Angeles County.



The “Hospital logo” indicates the location of the main campus in Upland and the two satellite outpatient facilities, Rancho San Antonio Medical Plaza and Sierra San Antonio Medical Plaza.

The Hospital’s primary service area includes the cities of Upland, Rancho Cucamonga, Ontario, Fontana, Chino, Montclair, and Claremont, all of which are located within a 12-mile radius of the Health Facilities. Patient admissions of residents from this primary service area accounted for approximately 82% of the Hospital’s total inpatient admissions during the fiscal year ended December 31, 2008, the latest year for which comparative market information is available. The Hospital’s secondary service area covers a region bounded by the cities of Pomona on the west, Rialto on the east, Chino Hills to the south, and Mira Loma, Norco, and a portion of Corona to the southeast. Patients residing in the secondary service area represented approximately 7% of the Hospital’s total inpatient admissions during the fiscal year ended December 31, 2008. Patients residing beyond these defined service areas made up the remaining 11% of the Hospital’s admissions in fiscal year 2008.

Competitor Acute Care Hospitals. The Hospital competes with Kaiser Foundation Hospital in Fontana (“KFH-Fontana”), which is located 14 miles from the Hospital at the eastern edge of SACH’s primary service area. Typically, patients served by KFH are members of the Kaiser Permanente Health Plan (“Kaiser”), and as such, are limited to the services offered by Kaiser’s facilities. Kaiser is planning to open a new 220-bed hospital in Ontario about six miles from SACH in September 2011. The facilities plan for the

new hospital includes an emergency room; medical/surgical, intensive care, and obstetric beds; and a medical office building containing a surgery center and outpatient imaging and radiation therapy equipment. Initially, the new hospital will increase Kaiser’s capacity by approximately 140 beds. The remaining 80 beds will replace beds that will be taken out of service for a five-year period during renovations at KFH-Fontana. When these renovations are completed, the combined beds at KFH-Fontana and the new hospital will constitute a capacity increase of 220 beds for Kaiser in SACH’s primary service area.

The Hospital also competes with Pomona Valley Hospital Medical Center (“PVHMC”), a 446-bed teaching facility located just across the Los Angeles County line and approximately 8 miles west of SACH. Arrowhead Regional Medical Center (“ARMC”), which is the county hospital for San Bernardino County, is located approximately 18 miles to the east. ARMC serves as a Level II trauma center, operates three family health centers, and has the only burn center serving San Bernardino, Riverside, Inyo and Mono counties.

The Hospital also competes directly with two smaller acute care hospitals in its primary service area: Doctors Medical Center of Montclair, a 102-bed facility located approximately 5 miles southwest of the Hospital, and Chino Valley Medical Center, a 126-bed facility, located just 8 miles to the south.

Market Share. The following table presents primary service area market share data for the Hospital and its major competitors for the calendar years 2004 through 2008.

**Primary Service Area ⁽¹⁾
Market Share Trends
Years 2004 – 2008**

<u>Hospital</u>	<u>Miles</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
San Antonio Community Hospital	–	19.0%	18.9%	18.4%	18.4%	19.3%
Pomona Valley Hospital Medical Center	7.8	14.3	14.7	15.8	16.1	15.9
Kaiser Foundation Hospital (Fontana)	13.8	13.4	13.5	14.5	15.0	15.7
Arrowhead Regional Medical Center	18.4	8.2	8.3	8.7	8.9	8.5
Doctors Medical Center of Montclair	4.9	6.8	6.9	6.4	5.6	5.1
Chino Valley Medical Center	8.3	6.7	7.4	6.3	6.2	5.9
Subtotal		68.4	69.7	70.1	70.2	70.4
All Other Hospitals		<u>31.6</u>	<u>30.3</u>	<u>29.9</u>	<u>29.8</u>	<u>29.6</u>
TOTAL		<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
<i>Total Primary Service Area Discharges ⁽²⁾</i>		64,615	66,425	65,484	68,176	69,816

⁽¹⁾ Primary Service Area includes zip codes 91701, 91708, 91710, 91711, 91729, 91730, 91737, 91739, 91761, 91762, 91763, 91764, 91784, 91785, 91786, 92334, 92335, 92336, 92337.

⁽²⁾ Discharges exclude normal newborns.

Source: Office of Statewide Health Planning and Development, inpatient discharge databases for years 2004 – 2008 (latest available data).

The slight decline in SACH's primary service area market share from 2004 to 2007 was due to the increasing percentage of Medi-Cal (Medicaid) recipients in the primary service area. Because SACH does not have a Medi-Cal selective provider contract, Medi-Cal patients are directed to hospitals other than SACH for obstetric and other non emergent care. The Hospital decided to terminate its Medi-Cal selective provider contract in 2001 when reimbursement rates offered by the Medi-Cal program fell significantly below the direct costs (before overhead allocations) incurred to treat Medi-Cal patients. Market share in the primary service area increased in 2008 as a result of SACH’s strategic initiatives to strengthen physician relationships, improve care quality, and increase brand awareness.

Population Growth. Given the depth of the economic recession in the Hospital's service area, SACH's current strategic plan assumes population increases of 0.5% in both 2010 and 2011, trending upward to 1.0% and 1.5% in 2012 and 2013, respectively, before returning to the pre-recession growth rate of approximately 2.0% per year by 2014. These assumptions result in the population in SACH's primary service area increasing from 808,800 today to approximately 854,200 by the end of 2014.

MEDICAL STAFF

As of December 31, 2009, the Hospital's medical staff was comprised of 477 active physicians. The active staff is comprised of 183 primary care physicians (family practice, internal medicine, obstetrics, and pediatrics), while the remaining 62% represent all major clinical specialties and sub-specialties. Physicians are granted privileges for specific medical diagnoses and procedures, and all physicians must reapply for these medical staff privileges every two years. A profile of the active physicians by specialty follows.

Active Medical Staff by Specialty As of December 31, 2009

<u>Specialty</u>	<u>Total on Staff</u>	<u>Board Certified</u>	<u>Average Age</u>	<u>Specialty</u>	<u>Total on Staff</u>	<u>Board Certified</u>	<u>Average Age</u>
Primary Care				Surgical			
Family Practice	79	58	49	Cardiovascular Surgery	8	8	51
Internal Medicine	53	38	49	General Surgery	15	12	59
Obstetrics	16	10	52	Neurosurgery	11	6	48
Pediatrics	35	29	56	Ophthalmology	7	6	44
Subtotal	<u>183</u>	<u>135</u>		Oral/Maxillo Surgery	5	4	46
				Orthopedic Surgery	19	17	52
Specialists				Otolaryngology	6	6	57
Allergy	2	2	46	Plastic Surgery	7	7	52
Cardiology	23	23	52	Podiatry	11	9	49
Dermatology	8	7	49	Reproductive	1	1	37
Endocrinology	5	4	51	Endocrinology			
Gastroenterology	12	8	56	Urology	7	6	48
Hematology/ Oncology	12	11	51	Subtotal	<u>97</u>	<u>82</u>	
Infectious Diseases	5	4	49	Hospital Based			
Nephrology	16	14	52	Anesthesia	27	25	49
Neurology	8	6	52	Emergency Medicine	19	17	44
Pediatric Specialties	7	7	50	Fast Track/Urgent Care	4	3	53
Perinatology	6	6	52	Neonatology	2	2	56
Physical Medicine/ Rehabilitation	4	3	49	Pathology	4	4	61
Pulmonary Medicine	14	12	52	Radiation Oncology	3	3	46
Rheumatology	5	4	41	Radiology	11	11	54
Subtotal	<u>127</u>	<u>111</u>		Subtotal	<u>70</u>	<u>65</u>	
				Total	<u>477</u>	<u>393</u>	

Source: Hospital records.

The Hospital periodically conducts assessments of the actual and projected supply of primary care and specialist physicians in order to address potential shortages and ensure adequate physician coverage to meet service area needs.

SELECTED FINANCIAL INFORMATION

Sources of Patient Service Revenue

The Hospital receives payments on behalf of patients from the federal Medicare program, the federal and the State of California Medicaid (Medi-Cal) program, managed care plans, commercial insurance carriers, and private-pay patients. SACH does not have a selective provider contract with the Medi-Cal program. The Hospital's Medi-Cal revenue derives primarily from emergency department encounters and inpatient admissions from the emergency department.

The following indicates the percentage of the Hospital's gross patient care revenues that are represented by each of the major payer categories for the past five years.

	Major Payer Categories				
	Percent of Gross Revenues				
	Fiscal Year Ended				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Medicare	30.5%	28.7%	26.7%	26.1%	25.4%
Medi-Cal	7.1%	6.5%	5.6%	5.7%	5.9%
Managed Care					
Non-Capitated ⁽¹⁾	56.4%	58.8%	61.5%	62.6%	62.8%
Private-Pay and Other	<u>6.0%</u>	<u>6.0%</u>	<u>6.2%</u>	<u>5.6%</u>	<u>5.9%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

⁽¹⁾ Includes all commercial insurers.

Medicare gross revenue has declined relative to revenue from other payers as a result of the reduction in Medicare average length of stay discussed in the section entitled "HOSPITAL SERVICES – Historical Utilization" above. The Private-Pay and Other category, which generates the majority of bad debts, has remained relatively consistent over the past five years. The Hospital's only capitated contracts are for a portion of its outpatient physical rehabilitation and outpatient oncology services and involve less than \$1.5 million in annual premium revenues.

SACH is a plaintiff in two lawsuits filed in federal court by a select group of Medi-Cal providers claiming that the State of California lacked authority to enact legislation reducing reimbursement for non-contracting hospitals in 2008. On April 6, 2009, the plaintiffs won a preliminary injunction from the United States Court of Appeals for the Ninth Circuit (the "Ninth Circuit") against the rate reductions, and since that date, the State has paid non-contracting hospitals, including SACH, at the cost-based rates in effect prior to the enacted reductions. SACH has recorded Medi-Cal net revenue at the unreduced rates from April 6, 2009 through September 30, 2010. The plaintiffs have filed a motion with the Ninth Circuit to convert the preliminary injunction to a permanent injunction. In addition, the State has filed a petition with the U.S. Supreme Court for reversal of the Ninth Circuit's decision. The injunction against rate reductions will remain in effect while the petition is pending. Although the plaintiffs' counsel expects the challenge to Medi-Cal rate reductions to succeed and the cuts not to be reinstated, if the State ultimately were to prevail on the lawsuit, SACH would be required to repay Medi-Cal the payment differential received since the injunction was issued and would record a contractual allowance adjustment (loss) on its income statement equal to approximately \$475,000 per month retroactive to April 2009.

Summary of Financial Information

The following summary of revenues and expenses for SACH's fiscal years 2007 through 2009 along with selected balance sheet information for fiscal years 2007 through 2009 has been derived by management of SACH from the audited consolidated financial statements of SACH. The operating and balance sheet information for the nine-month period ended September 30, 2010 and the operating information for the nine-month period ended September 30, 2009 have been derived by management from the unaudited financial statements of SACH for such periods. The results for the nine-month period ended September 30, 2010 are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2010. Such information in the opinion of SACH management fairly reflects the results of operations for such interim periods and is presented on a basis consistent with the audited consolidated financial statements of SACH. The following financial data should be read in conjunction with the audited consolidated financial statements and other financial information of SACH and its subsidiaries, and the independent auditors' report thereto, dated April 23, 2010, included in APPENDIX B to this Official Statement.

**Summary of Revenues and Expenses
(In Thousands)**

	Fiscal Years Ended December 31,			Nine Months Ended September 30,	
	2007	2008	2009	2009	2010
REVENUES					
Net Patient Service Revenues	\$259,716	\$271,948	\$277,683	\$207,666	\$212,857
Investment Income	12,212	12,594	12,080	10,009	9,615
Other Revenue	4,662	4,401	4,119	3,256	2,894
Beneficial Interest in SAHF	1,125	(3,251)	1,832	889	867
Total Revenues	<u>\$277,715</u>	<u>\$285,692</u>	<u>\$295,714</u>	<u>\$221,820</u>	<u>\$226,233</u>
EXPENSES					
Salaries and Benefits	\$129,232	\$137,930	\$146,680	\$109,168	\$104,929
Purchased Services, Supplies, and Other	84,104	91,824	92,306	68,873	64,822
Provision for Uncollectable Accounts	19,858	23,077	26,866	19,687	20,907
Depreciation and Amortization	9,854	10,097	11,402	7,721	8,504
Provision for Legal Settlement ¹	–	4,750	(277)	–	–
Loss on Abandonment of Construction	–	8,671	–	–	–
Interest	2,260	2,056	1,822	1,415	1,221
Total Expenses	<u>\$245,308</u>	<u>\$278,405</u>	<u>\$278,799</u>	<u>\$206,864</u>	<u>\$200,383</u>
Excess of Revenues Over Expenses	\$32,407	\$7,287	\$16,915	\$14,956	\$25,850
Change in Net Unrealized Gains/(Losses)	44	(8,247)	3,961	3,833	2,543
Change in Pension Liability	2,653	(29,000)	4,288	–	–
Transfer from Affiliates	–	701	1,034	1,034	754
Increase (Decrease) in Unrestricted Net Assets	35,104	(29,259)	26,198	19,823	29,147
Beneficial Interest in SAHF	1,074	(236)	1,224	1,253	955
Increase in Net Assets	<u>\$36,178</u>	<u>\$(29,495)</u>	<u>\$27,422</u>	<u>\$21,076</u>	<u>\$30,102</u>

¹This legal charge represents reserves accrued with respect to class action litigation alleging wage and hour violations by SACH, which was settled in 2009 for approximately \$0.3 million less than the 2008 accrued reserve of \$4.8 million. See Note 5 in the Notes to the Consolidated Financial Statements therein, included in APPENDIX B to this Official Statement.

Summary Balance Sheets
(In Thousands)

	As of December 31,			As of
	2007	2008	2009	September 30, 2010
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$17,722	\$15,773	\$22,880	\$30,836
Marketable Securities	43,502	51,558	30,913	45,414
Accounts Receivable, Net	49,879	43,632	48,398	46,965
Other Current Assets	<u>11,891</u>	<u>13,804</u>	<u>13,627</u>	<u>11,548</u>
Total Current Assets	\$122,914	\$124,767	\$115,818	\$134,763
Assets Limited As to Use, less Current Portion				
Property and Equipment, net	121,673	123,519	137,313	138,247
Other Assets	86,414	88,236	95,432	94,615
	<u>34,383</u>	<u>28,889</u>	<u>32,173</u>	<u>34,029</u>
Total Assets	<u>\$365,384</u>	<u>\$365,411</u>	<u>\$380,736</u>	<u>\$401,654</u>
LIABILITIES AND NET ASSETS				
Total Current Liabilities				
Long Term Debt, less Current Portion	\$28,369	\$34,092	\$30,286	\$27,917
Pension Liability	35,796	31,338	26,628	21,832
Other Non-Current Liabilities	25,230	54,011	49,252	47,844
	<u>5,431</u>	<u>4,907</u>	<u>6,085</u>	<u>5,475</u>
Total Liabilities	<u>\$94,826</u>	<u>\$124,348</u>	<u>\$112,251</u>	<u>\$103,068</u>
Unrestricted Net Assets				
Temporary Restricted Net Assets	\$256,776	\$227,518	\$253,715	\$282,862
Permanently Restricted Net Assets	9,779	9,527	10,752	11,706
	<u>4,003</u>	<u>4,018</u>	<u>4,018</u>	<u>4,018</u>
Total Net Assets	<u>\$270,558</u>	<u>\$241,063</u>	<u>\$268,485</u>	<u>\$298,586</u>
Total Liabilities and Net Assets	<u>\$365,384</u>	<u>\$365,411</u>	<u>\$380,736</u>	<u>\$401,654</u>

Investments and Investment Guidelines

SACH maintains a conservative investment strategy that seeks first to protect principal and second to generate reasonable returns to support the Hospital's funding needs.

The Hospital's short and intermediate-term fixed-income investments are managed by Wells Capital Management and HighMark Capital, and are invested as shown below:

Short-Term Investment Assets	
	September 30, 2010 (In Millions)
HighMark Capital (Union Bank) – Actively Managed	\$41.1
Wells Capital Management – Actively Managed	35.2
Total	<u>\$76.3</u>

The funds in these accounts support the Hospital's liquidity needs. The investment guidelines for both of the above accounts limit investments to fixed income securities with maturities ranging from overnight to 36 months. The investment managers are further limited to investment grade securities carrying a credit rating of at least A or A-1 (short-term investments). All credit rating references are to Standard and Poor's ratings. No more than 5% of each account balance may be invested in a single issuer with the exception of U.S. Treasury securities.

SACH's long-term investments are managed by Wells Capital Management, State Street Global Advisors, and Vanguard Mutual Funds and are invested as follows:

Board-Designated Assets Investment Allocation		
	September 30, 2010 (In Millions)	
	<u>Dollars</u>	<u>Percent</u>
<u>Fixed Income</u>		
Wells Capital Management – Actively Managed	\$ 69.7	53.3%
State Street Global – Bond Index Fund ⁽¹⁾	46.6	35.7
<u>Equities</u>		
Vanguard Mutual Funds	14.4	11.0
Total	<u>\$130.7</u>	<u>100.0%</u>

⁽¹⁾ Indexed to Barclays Capital Aggregate Bond Index.

The funds in these accounts are available to support the Hospital's long-range strategic plans, including the Project. The investment guidelines for the Wells Capital Management account limit investments to fixed income securities with an average duration that approximates the duration of the Barclays Capital Aggregate Bond Index. The investment guidelines restrict Wells Capital Management to investment grade securities, requiring at least 80% of the portfolio investments to carry a minimum credit rating of A-. The investment guidelines allow up to 20% of the portfolio to be invested in securities rated in the BBB category. The investment guidelines further restrict Wells Capital Management to limit the maximum investment in any one issuer to 3% of the portfolio. There are no restrictions on the percent of the portfolio that can be invested in U.S. Treasury Securities.

Liquidity

A summary of SACH's liquidity position for the past three years is shown in the following table. Cash and investments included in the Liquidity Position exclude assets limited as to use for self insurance program and debt agreements. SACH's goal is to maintain a minimum days cash on hand of 175 days.

Liquidity Position Fiscal Years 2007 - 2009

	December 31, (In Thousands)		
	2007	2008	2009
Cash and Cash Equivalents	\$ 31,773	\$ 80,116	\$ 28,149
U.S. Government and Agencies	70,765	27,510	24,339
Corporate Debt	54,786	65,090	117,185
Equities	16,914	10,321	13,624
Available Cash and Investments	<u>\$174,238</u>	<u>\$183,037</u>	<u>\$183,297</u>
Days Cash on Hand	270	258	250

Capitalization

The table below, prepared by management of the Hospital, sets forth the capitalization of the Hospital, calculated in accordance with the Master Indenture, as adjusted to reflect the issuance of \$124,605,000 in principal amount of the Certificates, the final principal payment on certificates of participation evidencing a proportionate interest in installment payments to be made by the City of Upland from purchase payments received from SACH, originally executed and delivered as of January 15, 1996 (the "1996 COPs") and the refunding of certificates of participation evidencing a proportionate interest in installment payments to be made by the City of Upland from purchase payments received from SACH, originally executed and delivered on September 29, 1993 (the "1993 COPs"). The information included in the table below has been derived from information that is contained in the audited consolidated financial statements of SACH included in APPENDIX B to this Official Statement.

Pro Forma Capitalization

	December 31, 2009
Long-Term Indebtedness	
The Certificates	\$124,605,000
Net Assets	<u>\$268,368,499</u>
Total Capitalization	<u>\$392,973,499</u>
Net Long-Term Debt as a Percent of Capitalization	31.7%

Source: Hospital audited financial statements, FY 2009

Debt Service Coverage

The following table sets forth the historical debt service coverage ratio for each of the fiscal years ended December 31, 2007, 2008 and 2009 and the estimated pro forma debt service coverage ratio for the fiscal year ended December 31, 2009, adjusted to reflect the issuance of the Certificates, the final principal payment on the 1996 COPs and the refunding of the 1993 COPs, as calculated in accordance with the Master Indenture. The Master Indenture requires that SACH, as the Obligated Group Member, maintain a Debt Service Coverage Ratio of at least 1.10, calculated at the end of each fiscal year

Debt Service Coverage Fiscal Years 2007-2009

	December 31, (In Thousands)			
	2007	2008	2009 (Actual)	2009 (Pro Forma)
Excess of Revenues Over Expenses	\$32,407	\$7,287	\$16,915	\$16,915
Add: Interest expense	2,260	2,056	1,822	1,822
Add: Depreciation and amortization	9,854	10,097	11,402	11,402
Add (Subtract): Losses (gains) on certain non-recurring items, as permitted under the Master Indenture	-	\$13,421	\$ (277)	\$ (277)
Income Available for Debt Service	<u>\$44,521</u>	<u>\$32,861</u>	<u>\$29,862</u>	<u>\$29,862</u>
Maximum Annual Debt Service	\$5,738	\$5,738	\$5,738	\$9,376
Debt Service Coverage Ratio	7.8x	5.7x	5.2x	3.2x

Management's Discussion and Analysis of Financial Information

The following discussion of operations and financial results should be read in conjunction with the audited consolidated financial statements and other financial information of the Hospital and its subsidiaries, including the footnotes thereto, included in APPENDIX B to this Official Statement. Management's discussion of future operations and financial results are based on current economic and market conditions and actual results may differ significantly from projections.

Significant Accounting Policies and Use of Estimates. The Hospital's financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States, require management to make estimates and assumptions that affect amounts recorded in the consolidated financial statements and accompanying notes. The significant accounting policies and assumptions that were used in the preparation of the financial statements are explained in Note 1 to the Notes to the Audited Consolidated Financial Statements and Other Financial Information contained in APPENDIX B to this Official Statement. Management's estimates are based on historical trends and estimation methods have remained consistent.

Net Patient Service Revenue. Net patient service revenue is recorded at the amount estimated to be received from Medicare, Medicaid, insurance companies, and patients for services rendered. Accounts receivable on the Hospital's balance sheet have been reduced for contractual allowances, reserves for uncollectable accounts, and the provision of charity care.

Self-Insurance Liabilities. The Hospital is self-insured for workers' compensation and approximately 82% of employee health insurance claims. The Hospital has purchased excess insurance coverage for unusually large workers' compensation and employee healthcare claims. Self-insurance liability estimates recorded on the Hospital's balance sheet are based on historical trends consistently applied.

Fair Value of Financial Instruments. SACH's investments in marketable securities are recorded on its balance sheet at fair value defined as an exit price representing the amount that would be received by selling an asset in an orderly transaction between market participants in the principal or most advantageous market for the asset at the measurement date.

Historical Performance of the Obligated Group

SACH's excess of revenues and other income over expenses, excluding unusual items and unrealized gains and losses on investments, remained strong at \$32.4 million, \$20.7 million, and \$16.6 million for the years ended December 31, 2007, 2008, and 2009 respectively. The decline in net excess in 2008 and 2009 reflects a slowing of patient volumes due to deteriorating general economic conditions. The Hospital's investments performed exceptionally well in 2007 through 2009 as a result of overall equity exposure being limited to less than 15% and a timely trade in December 2008 that captured realized gains when moving \$55.0 million out of a U.S. Treasury bond ladder into a managed portfolio of investment grade corporate bonds.

Comparison of Nine Months Ended September 30, 2010 to Nine Months Ended September 30, 2009. The Hospital's net patient service revenues increased by 2.5% in 2010 to \$212.9 million compared to \$207.7 million in 2009 as patient acuity and contract payment rate increases more than offset a slight decline in patient volumes. SACH's payer mix in 2010 remained consistent with 2009. Total expenses declined by \$6.5 million or 3.1% from \$206.9 million in 2009 to \$200.4 million in 2010 as a result of a formal cost reduction program implemented in March 2010. This 3.1% decrease in expenses was accomplished despite a \$1.2 million or 6.2% increase in provision for uncollectable accounts in 2010. The cost reduction program reduced the Hospital's number of full time equivalent employees by approximately 100 compared to months with comparable patient volumes in 2009. Total salary and benefits costs decreased by 3.9% to \$104.9 million in 2010 compared to \$109.2 million in 2009.

The Hospital's excess of revenues over expenses increased by \$10.8 million or 71.4% from \$15.1 million in 2009 to \$25.9 million in 2010. With the addition of unrealized gains on investments and transfers from affiliates, the Hospital's increase in unrestricted net assets grew by \$9.2 million or 46.1% from 19.9 million in 2009 to \$29.1 million in 2010. The Hospital's restricted net assets increased \$1.0 million in 2010 compared to \$1.3 million in 2009. The Hospital's total net assets increased by \$30.1 million in 2010 compared to a \$21.1 million increase in 2009.

Comparison of Fiscal Year Ended December 31, 2009 to Fiscal Year Ended December 31, 2008. The Hospital's net patient service revenues increased by \$5.8 million or 2.1% from \$271.9 million in fiscal year 2008 to \$277.7 million in fiscal year 2009 despite a decline in total inpatient and outpatient observation days of 2.2%. The increase in net patient service revenues was due mainly to a 5.1% increase in emergency room visits from 67,900 in 2008 to 71,400 in 2009 along with negotiated rate increases in SACH's managed care contracts. The Hospital's patient payer mix in 2009 remained consistent with 2008.

SACH's operating expenses increased by only \$0.4 million or 0.1% in 2009 compared to 2008; however, operating expenses in 2008 included two unusual non-recurring items. In fiscal year 2008, the Hospital recorded an \$8.7 million loss on abandonment of architectural and design fees incurred in 2004 through 2006 related to a planned construction project that became cost prohibitive. In addition, the Hospital recorded a \$4.8 million reserve for settlement of a class action lawsuit, similar to lawsuits brought against several Southern California hospitals, related to the payment of 12-hour nurses. A final settlement of \$4.5

million was paid by SACH in January 2010. Without these two unusual expenses in 2008, total operating expenses in 2009 would have increased by \$13.8 million or 5.2% compared to 2008.

Two expense categories, pension plan and bad debts, accounted for over 62% of the \$13.8 million expense increase. In 2009, costs associated with SACH's defined benefit pension plan increased by \$4.9 million from \$8.0 million to \$12.8 million due mainly to equity investment losses in late 2008 as a result of significant declines in the U.S. and international equity markets. See "PENSION PLAN" herein. Also in 2009, bad debt expense increased by \$3.8 million from \$23.1 million to \$26.9 million as general economic conditions in SACH's service area continued to deteriorate.

The excess of revenues over expenses in 2009 was \$16.9 million compared to \$7.3 million in 2008, but the 2008 amount was reduced by the unusual non-recurring project abandonment and class action lawsuit reserve costs totaling \$13.4 million.

Investment income and other revenue declined slightly from \$17.0 million in 2008 to \$16.2 million in 2009. The Hospital recorded a net change in unrealized gain on marketable securities in 2009 of \$4.0 million comprised of a \$3.0 million net change in gain on equities, as the U.S. and international stock markets rebounded from the prior year lows, and a \$0.9 million net unrealized gain on fixed income investments. In 2008 the net change in unrealized loss on marketable securities was \$8.3 million with \$7.5 million of the net loss occurring in the U.S. and international equity portfolios as common stock values fell near year end. See "SELECTED FINANCIAL INFORMATION—Investments and Investment Guidelines" herein.

Comparison of Fiscal Year Ended December 31, 2008 to Fiscal Year Ended December 31, 2007.

Net patient service revenues increased by 4.7% from \$259.7 million in fiscal year 2007 to \$271.9 million in 2008 due mainly to a 9.1% increase in inpatient admissions from 15,100 in 2007 to 16,400 in 2008 and a 4.0% increase in emergency department visits. The Hospital's payer mix remained consistent across both years.

Total operating expenses in 2008 were \$278.4 million. As discussed above, these operating expenses included two unusual and non-recurring items relating to abandonment of capital project costs (\$8.67 million) and a reserve for the settlement of a class action lawsuit (\$4.8 million). Excluding these two unusual costs, operating expenses increased in 2008 by \$19.7 million or 8.0% compared to 2007. The main components of the cost increase were salaries/registry \$7.6 million, supply costs \$4.2 million, and bad debts \$3.2 million. The salary/registry and supply costs represented a 7.6% and 9.0% increase respectively compared to 2007 related in large part to increased inpatient and outpatient emergency patient volumes. The majority of the increase in the 2008 bad debt expense was incurred in the last half of the year as local unemployment began to rise.

The excess of revenues over expenses in 2008 was \$7.3 million compared to \$32.4 million in 2007. Without the unusual abandonment and class action lawsuit costs, the 2008 excess of revenues over expenses would have been \$20.7 million compared to \$32.4 million in 2007.

Investment and other income increased from \$16.9 million in 2007 to \$17.0 million in 2008. In 2008, the Hospital recorded an \$8.3 million change in net unrealized loss on investments of which \$7.5 million was related to U.S. and international equity investments. In 2007, the Hospital recorded a change in net unrealized gains on marketable securities of \$44,000.

Balance Sheet Discussion. At December 31, 2009, available cash and investments were \$183.3 million, which equaled 251 days cash on hand. From December 31, 2007 through December 31, 2009, available cash increased by \$9.1 million despite expenditures during the period of \$41.3 million for facilities and equipment and \$22.1 million for contributions to SACH's defined benefit pension plan. The Hospital's

cash and investments also benefited from SACH's investment strategies as investment income remained consistent while unrealized investment losses during the two years ended December 31, 2009 were limited to \$4.3 million.

Accounts payable and accrued expenses at December 31, 2009 included a \$4.5 million reserve for the class action lawsuit settlement that was paid in January 2010.

At December 31, 2009, SACH's long-term debt less current portion consisted of \$16.3 million on the 1993 COPs, \$3.0 million on the 1996 COPs and \$7.3 million for debt related to the construction of a medical office building that is not an obligation of the Hospital and will be extinguished via a non-cash accounting entry in 2011 when the Hospital's master lease agreement terminates. See Note 10 (Asset Constructed for Other) in the Notes to the Audited Consolidated Financial Statements and Other Financial Information contained in APPENDIX B to this Official Statement. The final principal payment in the amount of \$3.0 million on the 1996 COPs is due January 1, 2011. At December 31, 2009, SACH's debt service coverage ratio was 5.3, debt to capitalization was 9.0%, and cash to debt ratio was 6.9.

SACH's pension liability decreased in fiscal year 2009 by \$4.8 million to \$49.3 million. See Note 6 (Retirement Plan) in the Notes to the Audited Consolidated Financial Statements and Other Financial Information contained in APPENDIX B to this Official Statement.

SACH's net assets increased in 2009 by \$27.4 million due to \$16.9 million in excess of revenues over expenses, a \$4.0 million change in net unrealized investment gains, a \$4.3 million decrease in SACH's defined benefit pension liability, a \$1.0 million cash transfer from the Foundation, and a \$1.2 million increase in SACH's beneficial interest in the Foundation.

Balance Sheet Update – Comparison for Nine Months Ended September 30, 2010 to Fiscal Year Ended December 31, 2009. The Hospital's balance sheet strengthened during the nine months ended September 30, 2010. Available cash increased by \$23.4 million from \$191.1 million to \$214.5 million and accounts receivable declined by \$1.4 million to \$47.0 million at September 30, 2009. During the nine months ended September 30, 2010 total assets increased by \$20.9 million to \$401.7 million.

During the first nine months of 2010, current liabilities declined by \$2.4 million from \$30.3 million to \$27.9 million. Total liabilities declined by \$9.2 million from \$112.3 million to \$103.1 million. During the first nine months of 2010, the Hospital's unrestricted net assets increased by \$29.2 million from \$253.7 million to \$282.9 million and total net assets increased by \$30.1 million to \$298.6 million.

ORGANIZATION AND MANAGEMENT

Hospital Board of Trustees

The Hospital Board consists of fifteen (15) trustees, eleven (11) of whom are elected for a three-year term and may serve three consecutive terms. Three (3) trustee positions are held by the President of the Medical Staff, the immediate past President of the Medical Staff and the Medical Staff President-Elect. Each of these physicians serve one year in each capacity for a total of three (3) years. The Hospital's Chief Executive Officer is an ex-officio voting member of the Board. The present trustees and officers of the Hospital Board are shown below. One position on the Hospital Board is currently vacant.

Name	Current Term Expires	Business Affiliation
James R. Milhiser <i>Chairman of the Board</i>	12/12	Vice President, US Bank & City Treasurer, City of Ontario
Mark Bertone <i>Vice Chairman</i>	12/10	President/Owner, Madole & Associates (Structural Engineering Firm)
Al Ronco <i>Treasurer</i>	12/12	Retired. Former executive, auto parts manufacturer
Steven C. Moreau ⁽¹⁾	*	President/CEO, Hospital
Donald Alpiner, D.O.	12/10	Assistant Surgeon, San Antonio Community Hospital
Dora Barilla, PhD.	12/10	Faculty Member, Loma Linda University Medical Center; Executive Director, Partners for Better Health
Victor Ching, M.D.	12/10 *	Past President of the Medical Staff; Urologist in private practice
Thomas Easter, M.D.	12/11 *	President of the Medical Staff; Obstetrician & Gynecologist, private practice
Richard E. Gilbert	12/10	Retired. Former executive, financial services
J. Michael Gunn	12/10	Retired Superior Court Judge, County of San Bernardino
Stanley Kim, M.D.	12/12 *	President Elect of the Medical Staff; Oncologist in private practice
Thomas Ritchie	12/11	Attorney at Law, Ritchie, Klinkert & McCallion
Carl Schultz, M.D.	12/11	Radiologist, San Antonio Community Hospital
Steve Spears	12/11	Managing Partner, Mellon, Johnson & Reardon (CPA Firm)

* ex officio member of the Hospital Board

⁽¹⁾ Mr. Moreau has resigned as President, CEO effective December 1, 2010; the Board of Trustees has appointed Vincent Leist, Senior Vice President /Chief Operating Officer, to serve as the Hospital's Chief Executive Officer on an interim basis and in such capacity he will become a member of the Board of Trustees *ex officio* on December 1, 2010. See "MANAGEMENT" herein.

The Hospital Board has also designated the following Board committees that meet as noted:

<u>Committee Name</u>	<u>Meeting Frequency</u>
Executive Committee	On-Call
Finance Committee	Monthly
Quality Committee	Monthly
Audit Committee	Two times per year
Planning Committee	Monthly
Executive Compensation Committee	On-Call
Governance and Nominating Committee	On-Call

Management

The executive management team for the Hospital includes the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Nursing Officer, Vice President of Strategic Planning and Business Development, and Vice President of Human Resources.

The following is a brief biographical summary for each of the current executive management team members:

Steven C. Moreau - President and Chief Executive Officer (58). Steven Moreau was appointed President and Chief Executive Officer effective March 28, 2005. Immediately prior to joining SACH, Mr. Moreau was the Chief Operating Officer at Hoag Memorial Hospital Presbyterian (“Hoag Hospital”) for nearly 14 years. During his tenure at Hoag Hospital, Mr. Moreau was responsible for leading the development of its renowned Centers of Excellence in cancer, heart, orthopedics and women’s services, as well as the clinical quality, safety and patient satisfaction initiatives that helped build Hoag Hospital’s reputation and success.

Prior to working at Hoag Hospital, Mr. Moreau was Chief Executive Officer of Bakersfield Regional Rehabilitation Hospital, and before that, Vice President of Facilities Development and Professional Services at Riverside Community Hospital.

Mr. Moreau received his undergraduate education at San Diego State University, earning a Bachelor of Science degree in Microbiology. He also earned a Master of Science degree in Medical Technology and Management from California State University, Dominguez Hills, and a Master of Business Administration degree from the University of Redlands.

Mr. Moreau has resigned as President and Chief Executive Officer of the Hospital effective December 1, 2010 in order to accept the position of Chief Executive Officer of St. Joseph Hospital of Orange in Orange, California. The Board of Trustees of the Hospital has appointed Vincent Leist, Senior Vice President, Operations/Chief Operating Officer, to serve as the Hospital’s Chief Executive Officer on an interim basis while an executive search is conducted for Mr. Moreau’s successor.

Vince Leist – Interim Chief Executive Officer, effective December 1, 2010 (56). Prior to being named interim chief executive officer, Mr. Leist had served as Senior Vice President and Chief Operating Officer at SACH since January 9, 2006. Prior to joining SACH, Mr. Leist was Senior Vice President Operations at Sunrise Hospital and Medical Center, a 701-bed tertiary care facility, in Las Vegas, Nevada. During his tenure at Sunrise, Mr. Leist was responsible for the development and management of all clinical ancillary and support services including Cardiology and Cardiovascular Surgery, the Nevada Neurosciences Institute and Sunrise Level II Trauma Center. Mr. Leist was also the executive in charge of facilities

construction including the Sunrise Children's Hospital, a 246-bed facility dedicated to women's and children's services.

Prior to working at Sunrise Hospital, Mr. Leist was Director of the Cardiovascular Service Line at Baptist Medical Center in Oklahoma City, Oklahoma.

Mr. Leist received his undergraduate education at Ottawa University in Ottawa, Kansas. He also earned a Master of Public Administration degree from the University of Kansas.

Roger Parsons - Senior Vice President, Finance/Chief Financial Officer (58). Roger Parsons was promoted to serve as SACH's Senior Vice President, Finance and Chief Financial Officer in August, 2004. He is responsible for all aspects of the Hospital's financial management including financial reporting and planning. He is also responsible for overseeing Business Services, Managed Care Contracting, Health Information Management, and other administrative functions, and serves as the Corporate Secretary for the Hospital Board.

Mr. Parsons has been with the Hospital for 30 years. Prior to his current position, he spent six years reporting to the Chief Executive Officer as Director, and then Vice President, Planning. Mr. Parsons served as SACH's Director of Finance from 1987 to 1997.

Mr. Parsons holds a Bachelor of Science degree in Finance from California State University, Northridge, and a Master of Business Administration degree from California State University, Fullerton.

Liz Aragon - Chief Nursing Officer (51). Liz Aragon was promoted to serve as the Hospital's Vice President, Nursing Services in July, 2004. She is responsible for overseeing all nursing related patient care services and respiratory care services. She is responsible for evaluating and improving the quality of nursing care, and managing nursing operational and capital budgets.

Ms. Aragon has 29 years of nursing experience, including the past 18 years with the Hospital. Prior to her recent promotion, Ms. Aragon was Director of Nursing Administration for six years and, prior to that, she held nursing management and staff positions in critical care, emergency medicine, and labor and delivery. Ms. Aragon has also been a nursing instructor at several local colleges.

Ms. Aragon holds a Bachelor of Science in Nursing degree from the University of Phoenix, and a Master of Health Administration degree from the University of La Verne.

Jaynie Boren - Vice President, Strategic Planning and Business Development (52). Jaynie Boren joined the Hospital's administrative team full time in January, 2006, after providing seven (7) months of consulting as the interim Vice President of Strategic Planning & Business Development. Ms. Boren is responsible for managing the implementation of the Hospital's strategic initiatives as well as leading the development and implementation of new service lines.

Ms. Boren has over 23 years of leadership relating to all areas of strategic planning, business development, communications, marketing, and physician and community relations. Ms. Boren has extensive experience evaluating and implementing service lines, increasing market share, creating new revenue opportunities, and facilitating joint ventures.

Ms. Boren received her Bachelor of Science and her Master of Business Administration degrees from the University of Redlands.

Lynn Kelly - Vice President, Human Resources (58). Lynn Kelly was appointed Vice President, Human Resources for the Hospital since September 2003. She is responsible for the Hospital’s human resource functions and she has operating responsibility for Nutritional Services and Volunteer Services. Her human resource responsibilities include management and staff recruitment, salary and benefit administration, industrial medicine, and overall employee relations.

Prior to joining the Hospital, Ms. Kelly had 35 years of experience in healthcare human resources management. She spent 19 years as Human Resources Director and then Vice President, Human Resources at Riverside Community Hospital in Riverside, California.

Ms. Kelly holds a Bachelor of Arts degree in Psychology (Cum Laude) from Kent State University and a Masters in Health Administration degree from the University of La Verne.

EMPLOYEES

The following provides selected employment statistics for the Hospital:

	<u>Employment Statistics</u>		
	<u>December 31,</u> <u>2008</u>	<u>2009</u>	<u>September 30,</u> <u>2010</u>
Total Employees	1,892	1,943	1,875
Total Full-Time Equivalent Employees	1,670	1,693	1,587
Total Full-Time Equivalent Registered Nurses	494	512	505
Average Full-Time Equivalent Registry Registered Nurses	7	7	–
Percent Registry of Total Registered Nurses	1.4%	1.4%	–
Turnover Rates for Registered Nurses	9.7%	8.7%	8.7%

Source: Hospital records

There are currently no collective bargaining units representing any of the Hospital’s employees. The 1,693 full-time equivalent (FTE) employees in 2009 included approximately 25 FTEs needed during the design, testing, and implementation of the Hospital’s new Cerner patient care systems in nursing, surgery, pharmacy, radiology, and health information management. As discussed in “SELECTED FINANCIAL INFORMATION – Management’s Discussion and Analysis of Recent Financial Performance,” the Hospital reduced its FTEs by about 100 in the first quarter of 2010.

PENSION PLAN

The Hospital has a noncontributory defined benefit pension plan (the “Plan”) that covers substantially all employees hired on or before December 31, 2005. The Plan was closed to new entrants on January 1, 2006. The retirement benefits are based on years of qualifying service and individual employee compensation. The Hospital’s policy is to make contributions sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, plus such additional amounts as management may determine to be appropriate. The market value of the pension plan’s assets increased from \$78.6 million at December 31, 2008 to \$102.2 million at December 31, 2009 due to significant increases in U.S. and international equity markets plus Hospital contributions to the Plan during 2009 of \$13.5 million. At December 31, 2009, the Plan was underfunded by \$17.6 million based on the calculated accumulated benefit obligation and by \$45.4 million based on the calculated projected benefit obligation. For the five fiscal years

2005-2009, SACH contributed \$44.9 million to the Plan. In 2010, SACH has contributed \$10.0 million to the Plan through September 30. SACH has worked with the Plan actuary to develop a five year funding plan that anticipates the Hospital making contributions to the Plan of between \$10 million and \$11 million each year from 2011 through 2015, in order to meet federal pension funding requirements. A detailed description of the Plan's assets and funded status as of December 31, 2009 can be found in Note 6 (Retirement Plans) to the Audited Consolidated Financial Statements and Other Financial Information contained in APPENDIX B to this Official Statement.

LICENSURE AND ACCREDITATIONS

The Hospital is licensed by the California Department of Public Health and is fully accredited by The Joint Commission. The Hospital's most recent Joint Commission survey was completed in August 2009, and the Hospital received a full three-year accreditation.

INSURANCE

SACH is self-insured for workers' compensation claims up to \$500,000 and maintains excess workers compensation coverage with statutory limits of liability. The Hospital also self-insures for health care claims up to \$300,000 for the active and retired employees (approximately 82% of SACH's current and retired workforce) who elect coverage under SACH's Hospital Health Care Plan. Health care claims in excess of \$300,000 are covered by claims-made insurance policies of up to approximately \$2 million per claim. SACH maintains reserves for its self-insurance obligations based on actuarial estimates made internally and evaluated by its external auditors. Reserves for losses are estimated using expected loss-reporting patterns and are discounted to their net present value. There can be no assurance that SACH's ultimate liability will not exceed such estimates.

SACH maintains comprehensive professional and general liability insurance with a limit of \$35 million per occurrence, including excess layers. The first \$5 million primary layer is purchased from California Healthcare Insurance ("CHI"), a captive liability insurance company in which SACH is a major shareholder. CHI is rated "A-" by A.M. Best. The \$30 million excess coverage is purchased from highly rated U.S. and international insurance companies. The Hospital maintains property insurance (excluding flood and earthquake) including boiler and machinery and business interruption coverages. The Hospital also maintains insurance for directors and officers, automobiles, fiduciary liability, and employee dishonesty.

LITIGATION & REGULATORY MATTERS

The Hospital is involved in various liability disputes, governmental and regulatory inspections, inquiries, investigations, proceedings and litigation matters that arise from time to time in the ordinary course of business. There is no litigation or investigation pending, or to the knowledge of management of SACH, threatened against the Hospital that, if decided adversely, would have a material adverse effect on the future operations, financial position or property of the Hospital.



AUDITED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION

San Antonio Community Hospital and Subsidiaries
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

Ernst & Young



San Antonio Community Hospital and Subsidiaries

Audited Consolidated Financial Statements
and Other Financial Information

Years Ended December 31, 2009 and 2008

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Report of Independent Auditors

Board of Trustees
San Antonio Community Hospital

We have audited the accompanying consolidated statements of financial position of San Antonio Community Hospital and subsidiaries (the Hospital) as of December 31, 2009 and 2008, and the related consolidated statements of income, 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 auditing 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 consolidated financial position of San Antonio Community Hospital and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

April 23, 2010

San Antonio Community Hospital and Subsidiaries

Consolidated Statements of Financial Position

	December 31	
	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 22,955,254	\$ 15,850,900
Current portion of assets limited as to use	5,235,396	5,039,477
Marketable securities	42,134,176	60,690,549
Accounts receivable from patients, less allowance for uncollectible accounts of \$11,550,000 in 2009 and \$9,250,000 in 2008	48,397,813	43,632,360
Amounts due from third-party payors	183,316	757,838
Inventories of drugs and supplies	3,803,034	3,034,709
Prepaid expenses and other	4,317,665	4,912,216
Total current assets	<u>127,026,654</u>	<u>133,918,049</u>
Assets limited as to use, less current portion:		
Board-designated	129,504,241	115,705,938
For self-insurance program	4,058,803	3,888,796
Under debt agreements	3,749,512	3,924,412
Total assets limited as to use	<u>137,312,556</u>	<u>123,519,146</u>
Property and equipment, net	95,435,813	88,242,014
Other assets:		
Charitable remainder trust assets	10,023,409	9,349,768
Investments restricted by donor for capital and other purchases and to provide a permanent source of income	10,431,737	9,661,609
Deferred financing costs	668,513	771,678
Other	5,406,780	5,332,832
Total other assets	<u>26,530,439</u>	<u>25,115,887</u>
Total assets	<u><u>\$ 386,305,462</u></u>	<u><u>\$ 370,795,096</u></u>

	December 31	
	2009	2008
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 12,481,994	\$ 14,785,882
Accrued compensation and related benefits	13,094,593	14,848,053
Current portion of long-term debt	4,709,570	4,457,875
Total current liabilities	<u>30,286,157</u>	<u>34,091,810</u>
Long-term liabilities:		
Long-term debt, less current portion	26,628,374	31,337,944
Self-insurance liabilities, less current portion	5,829,440	4,906,605
Pension liability and other	49,251,795	54,011,649
Liability under charitable remainder trust agreements	5,685,904	5,466,248
Other long-term liabilities	255,293	—
Total long-term liabilities	<u>87,650,806</u>	<u>95,722,446</u>
Total liabilities	<u>117,936,963</u>	<u>129,814,256</u>
Net assets:		
Unrestricted	253,599,259	227,435,710
Temporarily restricted	10,751,549	9,527,439
Permanently restricted	4,017,691	4,017,691
Total net assets	<u>268,368,499</u>	<u>240,980,840</u>
Total liabilities and net assets	<u>\$ 386,305,462</u>	<u>\$ 370,795,096</u>

See accompanying notes.

San Antonio Community Hospital and Subsidiaries

Consolidated Statements of Income

	Year Ended December 31	
	2009	2008
Unrestricted revenues, gains, and other support:		
Net patient service revenues	\$ 277,682,793	\$ 271,947,538
Investment income	14,732,757	10,372,291
Other revenue	4,640,106	4,713,239
Total unrestricted revenues, gains, and other support	297,055,656	287,033,068
Operating expenses:		
Salaries and benefits	147,125,208	138,361,885
Purchased services, supplies, and other	92,584,767	92,086,535
Provision for uncollectible accounts	26,866,289	23,077,460
Depreciation and amortization	11,403,465	10,099,100
Provision for legal settlement	(277,390)	4,750,000
Loss on abandonment of construction	–	8,671,271
Interest	1,822,405	2,055,464
Total operating expenses	279,524,744	279,101,715
Excess of unrestricted revenues, gains, and other support over expenses	17,530,912	7,931,353
Net assets released from restrictions used for purchase of property and equipment	384,087	50,800
Change in net unrealized gains (losses) on marketable securities	3,960,356	(8,246,879)
Change in additional minimum pension liability	4,288,194	(28,999,498)
Increase (decrease) in unrestricted net assets	\$ 26,163,549	\$ (29,264,224)

See accompanying notes.

San Antonio Community Hospital and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2009	2008
Unrestricted net assets:		
Excess of unrestricted revenues, gains, and other support over expenses	\$ 17,530,912	\$ 7,931,353
Net assets released from restrictions used for purchase of property and equipment	384,087	50,800
Change in unrealized gains (losses) on marketable securities	3,960,356	(8,246,879)
Change in additional minimum pension liability	4,288,194	(28,999,498)
Increase (decrease) in unrestricted net assets	26,163,549	(29,264,224)
Temporarily restricted net assets:		
Contributions	1,147,475	714,246
Investment income (loss)	930,836	(1,791,268)
Change in liability under charitable remainder trust agreements and other	(355,964)	911,435
Net assets released from restrictions	(498,237)	(85,787)
Increase (decrease) in temporarily restricted net assets	1,224,110	(251,374)
Permanently restricted net assets:		
Contributions	—	15,000
Increase in permanently restricted net assets	—	15,000
Increase (decrease) in net assets	27,387,659	(29,500,598)
Net assets at beginning of year	240,980,840	270,481,438
Net assets at end of year	\$ 268,368,499	\$ 240,980,840

See accompanying notes.

San Antonio Community Hospital and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2009	2008
Operating activities		
Increase (decrease) in net assets	\$ 27,387,659	\$ (29,500,598)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Provision for uncollectible accounts	26,866,289	23,077,460
Depreciation and amortization	11,403,465	10,099,100
Amortization of deferred financing costs	103,165	103,164
Amortization of physician income guarantees	350,184	605,539
Change in net unrealized gains on marketable securities designated as other-than-trading	(3,960,356)	8,246,879
Change in additional minimum pension liability	(4,288,194)	28,999,498
(Gain) loss on disposal of property and equipment	(17,281)	29,989
Restricted contributions	(1,147,475)	(729,246)
Changes in assets and liabilities:		
Accounts receivable from patients	(31,631,742)	(16,830,769)
Amounts due from third-party payors	574,522	(944,555)
Marketable securities	9,663,002	(2,205,074)
Inventories, prepaid expenses, and other current assets	(173,774)	(1,391,997)
Accounts payable, accrued expenses, and other current liabilities	(3,657,487)	6,036,419
Self-insurance liabilities	522,974	(852,565)
Change in pension liability	(471,660)	(218,006)
Other long-term assets and liabilities	283,779	(507,269)
Net cash provided by operating activities	31,807,070	24,017,969
Investing activities		
Purchase of investments, net designated as other-than-trading	(2,579,371)	(10,394,699)
Net additions to property and equipment	(18,579,983)	(11,948,759)
Investment in minority interest in surgicenter	(232,962)	(111,883)
Net cash used in investing activities	(21,392,316)	(22,455,341)
Financing activities		
Principal payments on long-term debt	(4,457,875)	(4,222,421)
Restricted contributions	1,147,475	729,246
Net cash used in financing activities	(3,310,400)	(3,493,175)
Increase (decrease) in cash and cash equivalents	7,104,354	(1,930,547)
Cash and cash equivalents at beginning of year	15,850,900	17,781,447
Cash and cash equivalents at end of year	\$ 22,955,254	\$ 15,850,900
Supplemental cash flow information		
Physician income guarantees (see Note 5)	\$ 316,103	\$ —
Cash paid for interest	\$ 1,366,763	\$ 1,596,026

See accompanying notes.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2009

1. Organization and Significant Accounting Policies

San Antonio Community Hospital (SACH) is organized as a not-for-profit corporation under the laws of the state of California, and is a tax-exempt organization under the provisions of the Internal Revenue Code. SACH is the sole corporate member of the San Antonio Hospital Foundation, Inc. (SAHF), a not-for-profit, tax-exempt corporation, and is also the sole shareholder of Cucamonga Health Services, Inc. (CHS), a proprietary corporation.

Basis of Consolidation

The consolidated financial statements of San Antonio Community Hospital and subsidiaries (the Hospital) include the accounts of SACH, SAHF, and CHS. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with original maturities when purchased of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Certain marketable securities held at December 31, 2009 and 2008, are designated as other-than-trading and certain marketable securities are designated as trading. The Hospital outsources the management of certain investment portfolios to third-party investment managers. For these portfolios, the Hospital holds its investment managers accountable to achieve certain benchmarks with respect to return on investments, and limits the amount of its investment portfolio that can

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

be invested in certain types of assets. The Hospital classifies investments controlled and managed by the Hospital as other-than-trading; however, the Hospital classifies the investments for which the management is outsourced as trading. Investment income (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues, gains, and other support over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments designated as other-than-trading are excluded from the excess of unrestricted revenues, gains, and other support over expenses. Realized and unrealized gains and losses on trading securities are included in investment income.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient services revenues have been adjusted to the estimated amounts expected to be received. These estimated amounts are subject to further adjustments upon review by third-party payors. Management estimates bad debt expense and the allowance for doubtful accounts based upon historical collection experience.

Property and Equipment

Property and equipment are reported on the basis of cost. Donated items are recorded based on fair market value at the date of donation, which value is subsequently considered as the cost basis. Ordinary maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives ranging from 3 to 30 years. Amortization of leasehold improvements is computed under the straight-line method over the lesser of the useful life of the related asset or the term of the related leases.

Inventories

Inventories of drugs and supplies are stated at cost (first-in, first-out method), which is not in excess of market.

Deferred Financing Costs

Deferred financing costs are being amortized over the period in which the related debt is outstanding.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care provided, measured at established rates, amounted to \$6,388,000 in 2009 and \$6,324,000 in 2008.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenues from the Medicare and Medi-Cal programs accounted for approximately 21% and 2%, respectively, of the Hospital's net patient service for the year ended December 31, 2009. Revenues from the Medicare and Medi-Cal programs accounted for approximately 20% and 3%, respectively, of the Hospital's net patient service for the year ended December 31, 2008. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

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

- Medicare. Inpatient acute care and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or visit. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- Medi-Cal. From May 2001 through September 2008, inpatient services rendered to Medi-Cal program beneficiaries were reimbursed based on a cost reimbursement methodology. The Hospital was reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medi-Cal fiscal intermediary. Outpatient services are reimbursed based upon predetermined rates. Effective October 1, 2008, the State of California reduced the Hospital's Medi-Cal reimbursement by approximately 50% as part of the State's budget reduction initiatives. The Hospital joined other similarly situated hospitals in a group lawsuit to overturn the reimbursement reduction. On April 6, 2009, the group's legal counsel was successful in obtaining a preliminary injunction and the interim reimbursement rate was increased to 90% of the original rate. Since the group's legal counsel expects for the Hospital to prevail on the lawsuit, and the Hospital has deemed it not probable that the reduction will be reinstated for the period subsequent to April 6, 2009, the Hospital has not reserved for the reimbursement reduction subsequent to April 6, 2009. The Hospital has only recognized revenue at the reduced reimbursement rate for the time period from October 1, 2008 through April 5, 2009, which was before the preliminary injunction was issued.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due the Hospital until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

During 2009, the Hospital revised its 2008 Medicare and Medi-Cal settlement estimates after completing and filing its cost reports, and recorded adjustments related to final cost report settlements for years 2005 through 2007. Revising these prior period settlement estimates increased 2009 net patient service revenue and excess of unrestricted revenue, gains, and other support over expenses by \$649,000.

During 2008, the Hospital revised its 2007 Medicare and Medi-Cal settlement estimates after completing and filing its cost reports, and recorded adjustments related to final cost report settlements for years 2005 and 2006. Revising these prior period settlement estimates reduced 2008 net patient service revenue and excess of unrestricted revenue, gains, and other support over expenses by \$195,000.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist primarily of cash and cash equivalents, assets limited to use, marketable securities, and accounts receivable. The majority of the investment portfolio is managed by professional investment managers within the guidelines established by the board of trustees, which, as a matter of policy, limit the amounts which may be invested in any one issuer. With the exception of the Medicare and Medi-Cal programs, concentrations of credit risk with respect to accounts receivable are limited due to the large number of payors comprising the Hospital's patient base.

Assets Limited as to Use

Assets limited as to use include board-designated assets for replacement and acquisitions of property and equipment, self-insurance trust funds for payment of medical malpractice claims, and assets held by a trustee under a bond indenture. Trustee-held assets include bond reserve, principal repayment, and interest payment funds. The current portion of assets limited as to use includes amounts which will be used to pay the current portion of the principal and interest on the bonds.

Self-Insurance Liabilities

The Hospital is self-insured for certain employee health care claims. The Hospital accrues health care claims including management's estimates of incurred but not reported claims based on the Hospital's claims experience. Amounts accrued totaled \$950,000 and \$1,200,000 at December 31, 2009 and 2008, respectively.

The Hospital is self-insured for workers' compensation benefits. Amounts accrued totaled \$4,562,000 and \$3,943,000 at December 31, 2009 and 2008, respectively, representing the undiscounted cost of workers' compensation losses, including an estimate for losses incurred but not reported. The estimate was prepared by the Hospital using actuarial methods and its past claims experience. The Hospital is a full participant in the California Self-Insurers Security Fund as an alternative to providing a letter of credit to assure the state of California that it will be able to meet its self-insured obligations.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The Hospital purchases medical malpractice insurance coverage from a captive insurance company (the Captive) (see Note 7) on a claims-made basis up to \$5 million per occurrence in excess of the \$50,000 per claim self-insured limit. The Hospital accrued \$2,753,000 and \$2,599,000 at December 31, 2009 and 2008, respectively, representing the undiscounted cost of medical malpractice losses not covered by insurance, including an estimate for losses incurred but not reported. Commercial insurance has been obtained for losses up to \$30 million in excess of the Captive's coverage limits.

The current portion of self-insured claims accrual, representing the cost expected to be paid in the following year, is included in accounts payable and accrued expenses. Amounts expected to be paid beyond one year from December 31 are included in self-insurance liabilities.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or restricted purpose is accomplished, temporarily restricted net assets used in operations are reclassified as unrestricted net assets and reported in the consolidated statements of income as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the consolidated statements of income.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements. Recognition of the Codification in the Hospital's consolidated financial statements was effective for interim and annual periods ending after September 15, 2009. The impact on the Hospital's consolidated financial statements only related to the references to accounting guidance disclosed in the notes to the consolidated financial statements.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

In May 2009, an accounting standard was released relating to the accounting and disclosure of events or transactions that occur after the balance sheet date, but before the financial statements are issued. There are two types of subsequent events: recognized subsequent events, which provide additional evidence about conditions that existed at the balance sheet date, and nonrecognized subsequent events, which provide evidence about conditions that did not exist at the balance sheet date, but arose before the financial statements were issued. Recognized subsequent events are required to be recognized in the financial statements, and nonrecognized subsequent events are required to be disclosed. In the preparation of the accompanying financial statements, the Hospital has evaluated subsequent events through the date of issuance, April 23, 2010.

In December 2007, an accounting standard was released that revised the guidance for accounting for noncontrolling interests. The guidance requires that a noncontrolling interest in a subsidiary be reported as net assets in the consolidated financial statements; that net income attributable to the parent and the noncontrolling interest be clearly identified; that changes in a parent's ownership interest, which the parent retains its controlling financial interest in its subsidiary, be accounted for as equity transactions; and that disclosures be expanded to clearly identify and distinguish between the interest of the parent and interests of the noncontrolling owners. The new accounting standard will be effective January 1, 2010, for the Hospital. The Hospital is currently evaluating the impact that adopting this standard will have on its consolidated financial statements.

Fair Value of Financial Instruments

Marketable securities and assets limited as to use are stated at fair value in the consolidated statements of financial position. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Hospital utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1.* Pricing inputs into the determination of fair value are generally observable inputs such as quoted prices in active markets on identical assets or liabilities. Financial assets in Level 1 include listed equities.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

- *Level 2.* Pricing inputs are 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 or liabilities.
- *Level 3.* Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below.

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

The following table provides the method used to fair value certain assets and liabilities as of December 31, 2009. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy.

	Fair Value at December 31 2009	Quoted Prices In Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a,b,c)
Cash and cash equivalents	\$ 15,460,437	\$ 15,460,437			a
Debt securities:					
U.S. government and agency	30,665,620	30,665,620			a
Corporate	126,632,687	73,911,432	52,721,255		a
Common stock	30,314,266	30,314,266			a
Interest receivable and other	2,064,264	2,064,264			a
Liabilities:					
Charitable remainder trust liabilities				\$ 5,685,904	a,c

Charitable Remainder Trusts Liabilities

Balance, beginning of year	\$ 5,466,248
Payments, settlements, and other, net	(543,548)
Change in present value	763,204
Balance, end of year	<u>\$ 5,685,904</u>

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

1. Organization and Significant Accounting Policies (continued)

All of the Hospital's investment assets are classified as Level 1, with the exception of a \$52,721,255 investment in State Street U.S. Aggregate Bond Index SL common trust fund, reported at fair value that is classified as Level 2. The Level 2 investment is a commingled fund, where the fund does not trade daily. However, the fund's holdings are comprised of units in other funds that invest in marketable securities which trade in active markets. The fair value per unit in these funds is based on the value of the underlying marketable securities at their respective quoted prices. These assets include actively traded fixed income securities and short-term money market mutual funds. Unadjusted quoted prices for these securities are provided to the Hospital by independent pricing services. The Hospital's investments also include Level 1 separate account assets consisting of an actively traded institutional pooled fixed income securities fund and several institutional equity mutual funds valued by the respective bank and mutual fund companies.

Long-Term Debt

The fair value of the Hospital's long-term debt is estimated based on current market rates for debt of the same risk and maturities. Refer to Note 4 for further discussion.

Charitable Remainder Trusts

Contributions of charitable remainder trusts (CRTs) for which the Hospital is the trustee are recorded at the current fair value of the assets received, less a liability for the present value of the expected future payments to be made to the beneficiaries. In addition, contributions of CRTs for which the Hospital is not the trustee are recorded as a receivable at the present value of the estimated future benefits the Hospital expects to receive when the trust assets are distributed. Changes in charitable remainder trust balances are reported in the consolidated statements of changes in net assets.

Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

Long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. In 2008, the Hospital recorded an \$8,671,000 loss related to the abandonment of plans to expand the Hospital. This amount is related to incurred costs that are not transferrable to the new construction project. There were no abandonment or impairment losses recognized in 2009.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Property and Equipment

Property and equipment consist of the following at:

	December 31	
	2009	2008
Buildings and improvements	\$ 113,331,753	\$ 112,887,514
Equipment	124,571,954	110,286,534
Land improvements	9,820,988	9,820,988
Leasehold improvements	2,212,669	2,208,656
Asset constructed for other <i>(Note 10)</i>	8,238,653	8,238,653
	258,176,017	243,442,345
Less accumulated depreciation and amortization	188,182,348	178,109,903
	69,993,669	65,332,442
Construction-in-progress (estimated cost to complete of \$156,836,000 at December 31, 2009)	14,751,859	13,656,926
Land	10,690,285	9,252,646
	\$ 95,435,813	\$ 88,242,014

3. Investments

Investments in marketable securities, assets limited as to use, charitable remainder trust assets, and investments restricted for the acquisition of property and equipment and to provide a permanent source of income are stated at fair value. These balances are summarized as follows:

	December 31	
	2009	2008
Cash and cash equivalents	\$ 15,460,437	\$ 73,260,196
Debt securities:		
U.S. government and agency	30,665,620	31,357,421
Corporate	126,632,687	77,583,821
Common stock	30,314,266	25,918,500
Interest receivable and other	2,064,264	140,611
	\$ 205,137,274	\$ 208,260,549

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

The investments are classified as follows in the accompanying consolidated statements of financial position:

	Year Ended December 31	
	2009	2008
Assets limited as to use (current)	\$ 5,235,396	\$ 5,039,477
Marketable securities (current)	42,134,176	60,690,549
Assets limited as to use (long term)	137,312,556	123,519,146
Charitable remainder trust (long term)	10,023,409	9,349,768
Investments restricted by donor for capital purchases and to provide a permanent source of income (long term)	10,431,737	9,661,609
	\$ 205,137,274	\$ 208,260,549

Investment income includes:

	Year Ended December 31	
	2009	2008
Interest and dividend income	\$ 8,121,037	\$ 8,851,611
Unrealized gain (loss) designated as trading	4,367,695	(3,213,704)
Realized gains	2,244,025	4,734,384
	\$ 14,732,757	\$ 10,372,291

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities designated as other-than-trading should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost. During the year ended December 31, 2009, the Hospital concluded that there was no other-than-temporary decline in the fair value of investments.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Investments (continued)

The following table summarizes investments designated as other-than-trading with unrealized losses held at December 31, 2009:

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency	-	-	-	-	-	-
Corporate	-	-	-	-	-	-
Common stock	-	-	12,727,959	(3,020,479)	12,727,959	(3,020,479)
Total	\$ -	\$ -	\$ 12,727,959	\$ (3,020,479)	\$ 12,727,959	\$ (3,020,479)

The following table summarizes investments designated as other-than-trading with unrealized losses held at December 31, 2008:

Description of Securities	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency	-	-	-	-	-	-
Corporate	-	-	-	-	-	-
Common stock	6,415,976	(2,627,860)	3,693,932	(2,921,746)	10,109,908	(5,549,606)
Total	\$ 6,415,976	\$ (2,627,860)	\$ 3,693,932	\$ (2,921,746)	\$ 10,109,908	\$ (5,549,606)

As management has the ability and intent to hold the investments to recovery of the fair value, no other-than-temporary declines were recorded during the years ended December 31, 2009 or 2008.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Long-Term Debt

Long-term debt consists of the following:

	December 31	
	2009	2008
Certificates of Participation, 1996 Series:		
Principal is payable annually in varying amounts ranging from \$2,875,000 to \$3,040,000 due through January 2011. Interest is payable semiannually at 5.70%	\$ 5,915,000	\$ 8,635,000
Certificates of Participation, 1993 Series:		
Principal is payable annually in varying amounts ranging from \$1,610,000 to \$2,400,000 due through January 2018. Interest is payable semiannually at rates ranging from 5.00% to 5.25%	17,890,000	19,420,000
Construction obligation (<i>Note 10</i>)	7,532,944	7,740,819
	31,337,944	35,795,819
Less current portion	(4,709,570)	(4,457,875)
	\$ 26,628,374	\$ 31,337,944

Maturities of long-term debt as of December 31, 2009, are as follows:

Fiscal Year:	
2010	\$ 4,709,570
2011	4,977,606
2012	2,047,090
2013	2,163,139
2014	2,280,879
Thereafter	15,159,660
	\$ 31,337,944

Pursuant to the terms of the Hospital Revenue Certificates of Participation indentures, the Hospital is required to maintain funds on deposit with a trustee to pay principal and interest and to maintain certain financial and debt service ratios.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Long-Term Debt (continued)

In January 1996, the Hospital issued \$32,265,000 principal amount of City of Upland, California, Certificates of Participation 1996 Series. The proceeds were used to retire the 1986 Series A Certificates.

Pursuant to the indenture covering the 1986 Hospital Revenue Refunding Certificates of Participation, Series A, \$33,973,000 from the 1993 Certificates of Participation issue was placed in an irrevocable trust to service \$29,180,000 of the 1988 Series Certificates of Participation until their maturity. Consequently, the 1988 Series Bonds are considered extinguished and are not included in the accompanying consolidated statements of financial position. The outstanding balance of these bonds is \$16,770,000 at December 31, 2009.

The carrying value of tax-exempt debt was \$23,805,000 at December 31, 2009. The fair value of tax-exempt debt, based on current market rates for debt of the same risk and maturities, was estimated at \$23,892,000 at December 31, 2009.

5. Commitments and Contingencies

Guarantee

The Hospital provides physician recruitment agreements to certain physicians who agree to relocate to its communities to fill a need in the Hospital's service areas and commit to remain in practice there. Under these agreements, the Hospital makes loans available to the physicians consisting of advances for amounts in excess of the earnings of their practice up to the amount stipulated in the agreement. The assistance periods range from 12-24 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically double the assistance period.

The carrying amount of the asset and liability (and future payments the Hospital expects to make under the guarantees) for the Hospital's obligations under these guarantees is approximately \$976,000 and \$255,000, respectively, as of December 31, 2009, and \$1,071,000 and \$0, respectively, as of December 31, 2008, and is reflected in other assets and other long-term liabilities in the accompanying consolidated statements of financial position. The advances made pursuant to these agreements are earned by the physicians as they fulfill their commitment period to the community; otherwise, any remaining amounts are payable back to the Hospital.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Commitments and Contingencies (continued)

Leases

The Hospital leases certain buildings and equipment under various noncancelable operating leases expiring in various years. Certain of these leases have renewal options providing for additional lease periods. Future minimum payments by year for these obligations consisted of the following as of December 31, 2009:

2010	\$ 413,182
2011	369,518
2012	107,609
2013	110,142
2014	112,751
Thereafter	386,107
	<u>\$ 1,499,309</u>

Total rental expense amounted to \$2,654,000 at December 31, 2009, and \$1,683,000 in 2008.

Technology Systems

The Hospital has entered into an agreement effective December 18, 2007, to license software and to remote host information technology systems. The estimated future licensing and remote hosting obligations are as follows:

2010	\$ 2,909,542
2011	2,027,282
2012	1,843,731
2013	1,843,731
2014	1,666,479
	<u>\$ 10,290,765</u>

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Commitments and Contingencies (continued)

Legal

The Hospital is a defendant in the following legal actions:

Raquel Rodriguez v. San Antonio Community Hospital. In 2005, class action litigation was initiated against the Hospital alleging that the Hospital's pay practice as applied to certain 12-hour shift employees was illegal and that additional compensation and penalties are due to those employees for the period of June 2001 through December 2004, when the pay practice changed. The Hospital settled this litigation in 2009. The Hospital accrued approximately \$4,750,000, net of insurance proceeds, in the statement of financial position as of December 31, 2008. In 2009, the settlement was finalized for approximately \$277,000 less than accrued. The settlement liability was accrued for in accounts payable and accrued expenses in 2008 and 2009 and the settlement payment was made in January 2010.

The Hospital is also a defendant in various other legal actions arising from the normal conduct of business. The Hospital believes that the ultimate resolution of the various proceedings will not have a material adverse effect upon the consolidated financial position, results of operations, changes in net assets, or cash flows of the Hospital.

6. Retirement Plans

Defined Contribution Plan

Effective January 1, 2006, all newly hired employees are eligible to participate in a new defined contribution pension plan. The Hospital makes contributions to the plan equal to 2.5% of the employees' base pay. Employees are eligible for additional matching once certain eligibility criteria are met. Contributions for the defined contribution plan totaled \$767,000 and \$438,000 for the years ended December 31, 2009 and 2008, respectively.

Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan covering eligible employees who work at least 1,000 hours per year and have completed one year of continuous full-time service. The benefits are based on years of service and the employee's compensation. Benefits vest after five years of service or on the attainment of age 62. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

The Hospital closed the defined benefit pension plan effective for new employees hired after December 31, 2005. The defined benefit pension plan remains in place and is available to all employees hired on or before December 31, 2005.

In addition to providing pension benefits, the Hospital provides certain health care benefits for retired employees who elect to continue coverage under the Hospital Health Care Plan. Substantially all of the Hospital's employees who retire at age 62 (with ten or more years of service) or age 59-1/2 (with 30 or more years of service) are eligible for these benefits until they reach age 65. These and similar benefits for active employees are provided through the Hospital's self-insurance program. The Hospital pays health care claims as they come due. The cost of services provided for active and retired employees, consisting of claims reported and estimates of health care services rendered but not reported through December 31, 2009 and 2008, net of related premiums paid by employees, was \$11,394,000 in 2009 and \$10,677,000 in 2008.

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost for both the pension plan and the postretirement health care benefit plan:

	Pension Benefits December 31		Other Benefits December 31	
	2009	2008	2009	2008
Change in projected benefit obligations:				
Projected benefit obligation at beginning of year	\$ 128,382,324	\$ 117,975,681	\$ 3,919,133	\$ 3,856,925
Service cost	6,839,455	6,756,329	168,845	252,794
Interest cost	8,044,405	7,787,902	187,467	285,070
Amendments	-	-	(1,084,722)	(247,981)
Actuarial gains	9,085,240	930,931	290,163	-
Benefits paid	(4,830,915)	(5,068,519)	(158,679)	(227,675)
Projected benefit obligation at end of year	<u>\$ 147,520,509</u>	<u>\$ 128,382,324</u>	<u>\$ 3,322,207</u>	<u>\$ 3,919,133</u>

	Pension Benefits December 31		Other Benefits December 31	
	2009	2008	2009	2008
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 78,646,477	\$ 96,826,124	\$ -	\$ -
Actual return on plan assets	14,842,279	(21,711,128)	31,317	-
Employer contributions	13,500,000	8,600,000	127,362	227,675
Benefits paid	(4,830,915)	(5,068,519)	(158,679)	(227,675)
Fair value of plan assets at end of year	<u>\$ 102,157,841</u>	<u>\$ 78,646,477</u>	<u>\$ -</u>	<u>\$ -</u>

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

	Pension Benefits December 31		Other Benefits December 31	
	2009	2008	2009	2008
Net amount recognized in the statement of financial position:				
Funded status	\$ (45,362,668)	\$ (49,735,847)	\$ (3,322,207)	\$ (3,919,133)

The accumulated benefit obligation for the defined benefit pension plan was \$119,813,000 and \$104,054,000 at December 31, 2009 and 2008, respectively.

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2009	2008	2009	2008
Components of net periodic benefit cost:				
Service cost	\$ 6,839,455	\$ 6,756,329	\$ 168,845	\$ 252,794
Interest cost	8,044,405	7,787,902	187,467	285,070
Expected return on plan assets	(6,529,848)	(7,807,199)	—	—
Amortization of transition obligation	—	—	—	41,000
Amortization of prior service cost	9,564	9,564	(68,384)	2,000
Recognized net actuarial losses	4,201,674	1,001,236	92,273	147,979
Net periodic benefit cost	<u>\$ 12,565,250</u>	<u>\$ 7,747,832</u>	<u>\$ 380,201</u>	<u>\$ 728,843</u>

	Pension Benefits December 31 2009	Other Benefits December 31 2009
Changes recognized in unrestricted net assets:		
Current year actuarial loss	\$ 772,809	\$ 258,846
Amortization of actuarial loss	(4,201,674)	(92,273)
Current year prior service cost	—	(1,084,722)
Amortization of prior service credit (cost)	(9,564)	68,384
Amortization of transition obligation	—	—
Total recognized in unrestricted net assets	<u>\$ (3,438,429)</u>	<u>\$ (849,765)</u>

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Amounts expected to be recognized in net periodic pension cost in the subsequent year:

	Pension Benefit		Other Benefit	
	December 31		December 31	
	2009	2008	2009	2008
Prior service cost (credit)	\$ 9,564	\$ 9,564	\$ (68,384)	\$ 2,000
Actuarial loss	3,337,161	3,805,499	84,135	62,528
Transition obligations	–	–	–	41,000
Total	\$ 3,346,725	\$ 3,815,063	\$ 15,751	\$ 105,528

	Pension Benefits		Other Benefits	
	December 31		December 31	
	2009	2008	2009	2008
Weighted-average assumptions used to determine net periodic benefit obligation as of December 31:				
Discount rate	5.63%	6.09%	5.31%	6.02%
Expected long-term return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Weighted-average assumptions used to determine net cost for year ended December 31:				
Discount rate	6.09%	6.21%	6.02%	5.99%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

The fair values of the defined benefit pension plan's assets at December 31, 2009, by asset category, are as follows:

	Fair Value at December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a,b,c)
Assets					
Short-term investment fund (cash equivalent)	\$ 992,400	\$ 992,400	\$ —	\$ —	a
Common Collective Trust Fund	101,165,441	—	101,165,441	—	a
Cash and equivalents	\$ 992,400	\$ 992,400	\$ —	\$ —	a
Debt securities:					
U.S. Government and Agency	14,495,044	—	14,495,044	—	a
Corporate	24,749,037	—	24,749,037	—	a
Common stock	61,921,360	—	61,921,360	—	a
	<u>\$ 102,157,841</u>	<u>\$ 992,400</u>	<u>\$ 101,165,441</u>	<u>\$ —</u>	

The expected rate of return on plan assets is updated annually, taking into consideration the Plan's asset allocation, historical returns on the types of assets held in the pension trust, and the current economic environment.

	December 31	
	2009	2008
Assumed health care cost trend rates at December 31:		
Health care cost trend rate assumed for next year:		
Medical	8.00%	8.00%
Dental	6.00%	6.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate):		
Medical	5.00%	5.00%
Dental	3.00%	5.00%
Year that the rate reaches the ultimate trend rate:		
Medical	2016	2014
Dental	2016	2010

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost	\$ 36,608	\$ (31,870)
Effect on postretirement benefit obligation	287,251	(255,146)

Plan Assets

The composition of plan assets at December 31, 2009 and 2008, is as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Asset category:				
U.S. stocks	40.8%	34.7%	N/A	N/A
International stocks	20.4%	17.1%	N/A	N/A
U.S. long credit bonds	24.5%	28.6%	N/A	N/A
U.S. long government bonds	14.3%	19.6%	N/A	N/A
Total	100.0%	100.0%	N/A	N/A

The Plan's investment policy sets a target for the weighted-average asset allocation of 40% U.S. stocks, 20% international stocks, 25% U.S. long credit bonds, and 15% U.S. long government bonds.

Cash Flows

Contributions

The Hospital expects to contribute \$10,000,000 to its pension plan and \$250,000 to its other postretirement benefit plan in 2010.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Retirement Plans (continued)

Estimated Future Benefit Payments

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

	Pension Benefits	Other Benefits
2010	\$ 9,054,604	\$ 221,822
2011	9,406,317	262,379
2012	10,306,955	280,701
2013	12,247,146	317,522
2014	13,470,042	315,770
2015 to 2018	75,466,911	1,870,913

7. Malpractice Captive

The Hospital's claims-made insurance coverage for malpractice losses is provided by California Healthcare Insurance Company, Inc. (the Captive), a captive insurance company, of which the Hospital is a shareholder. The Hospital's original investment in the Captive of \$525,000 is included in other assets, and is accounted for under the cost method. If the Hospital decides to cancel or not renew its policy with the Captive, the Hospital must offer its shares for redemption to the Captive and the Captive must purchase the shares at the lower of either the original purchase price paid or the fair market value at the date of sale.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	December 31	
	2009	2008
Patient care services	\$ 5,031,040	\$ 4,611,510
Buildings and equipment	5,720,509	4,915,929
	\$ 10,751,549	\$ 9,527,439

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Temporarily and Permanently Restricted Net Assets (continued)

Permanently restricted net assets of \$4,018,000 at December 31, 2009 and 2008, are restricted investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income).

Net assets totaling \$498,000 in 2009 and \$86,000 in 2008 were released from donor restrictions due to satisfying the donor's restricted purposes. Of these amounts, \$384,000 and \$51,000 were expended for capital assets.

9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Year Ended December 31	
	2009	2008
Health care services	\$ 268,555,479	\$ 258,039,566
General and administrative	10,755,624	20,701,652
Fund raising	213,641	360,497
	<u>\$ 279,524,744</u>	<u>\$ 279,101,715</u>

10. Asset Constructed for Other

In August 2004, the Hospital executed a 65-year ground lease agreement with Sierra Medical Properties, LLC (Sierra), whereby Sierra agreed to construct a medical office building (MOB) with 59,212 square feet of rentable space on the Hospital's land. The building's purpose is to provide leased space to the Hospital, physicians, and others to facilitate the treatment of patients. Under the ground lease, Sierra initially paid a nominal base rent of \$100 per calendar year to the Hospital until construction was completed and the certificate of occupancy (Rent Start Date) was issued (March 24, 2006). Since then, Sierra agreed to pay, and has paid, annual ground rent of \$89,000 for years one to five, which will then be adjusted for changes in the Consumer Price Index (CPI) in the sixth year, and each five years thereafter.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Asset Constructed for Other (continued)

The aggregate cost of the project was \$8,209,000. Other than fair value ground rental otherwise payable to the Hospital during the construction period, all construction costs were financed by Sierra. The Hospital executed a master lease agreement with Sierra in August 2004, whereby it guaranteed occupancy of up to 44,370 square feet (applicable area) at \$1.49 per foot to expire at the earlier of a five-year period commencing on the Rent Start Date, or the date the applicable area is fully leased. The Hospital executed a lease agreement in October 2005 and agreed to make rental payments of \$34,000 per month for ten years subject to annual CPI adjustment for 15,991 square feet of space in the MOB on the Rent Start Date. The leased space provides the Hospital with space for urgent care, radiology, clinical laboratory, and a community education room.

The Hospital is considered the owner of the project for financial reporting purposes because it received only a nominal amount of land rent from Sierra during the construction period thus effectively funding a portion of the construction cost. Accordingly, the Hospital has reported an asset and liability related to construction of the MOB. The construction costs are reported as asset constructed for other in property and equipment (see Note 2), and as a construction obligation in long-term debt (see Note 4) in the accompanying consolidated statements of financial position. The Hospital did not meet the criteria necessary to derecognize the asset and related obligation when construction was completed and the lease term for the facility began. The Hospital expects to meet the criteria for derecognizing the asset and liability when the occupancy guarantee has expired, a period not to exceed five years from the Rent Start Date. At the derecognition date, the Hospital will record noncash gains or loss on debt extinguishment in the consolidated statement of income.

The asset constructed for other is being amortized over the economic life of the MOB. Facility rents paid by the Hospital are recorded as debt service payments on the construction obligation, with the portion not relating to interest reducing the principal balance. Since the property is only partially occupied by the Hospital, such that the remaining portion is an operating property leased to third parties by Sierra, the Hospital is required to include the results of operations of the MOB in its consolidated statements of income as if it still owned the property. Because the operations of the property are for the benefit of Sierra, the net income or loss from the property's operations is treated as an adjustment of interest expense recognized on the financing with a corresponding credit to the construction obligation.

Minimum estimated facility payments, excluding lease guarantees and the effect of CPI adjustments, are estimated to be \$403,000 in each of the years 2009 through 2011, and \$1,141,000 thereafter.

San Antonio Community Hospital and Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Asset Constructed for Other (continued)

The following table summarizes the MOB operations:

	December 31	
	2009	2008
<u>Statements of Financial Position:</u>		
Asset constructed for others (net of accumulated depreciation of \$3,078,000 and \$2,257,000 in 2009 and 2008, respectively)	\$ 5,160,653	\$ 5,981,453
Construction obligation	(7,532,944)	(7,740,819)
Net liability	\$(2,372,291)	\$(1,759,366)
<u>Statements of Income:</u>		
Rental revenue (included in other revenue)	\$ 446,589	\$ 524,117
Operating expenses (included in purchased services, supplies and other)	(642,464)	(632,972)
Depreciation	(820,800)	(820,800)
Interest	(470,160)	(467,854)
Net loss	\$(1,486,835)	\$(1,397,509)

Other Financial Information

Report of Independent Auditors on Other Financial Information

Board of Trustees
San Antonio Community Hospital

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Ernst & Young LLP

April 23, 2010

San Antonio Community Hospital and Subsidiaries
Consolidating Statement of Financial Position

December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 22,955,254	\$ -	\$ 22,879,735	\$ 15,251	\$ 60,268
Current portion of assets limited as to use	5,235,396	-	5,235,396	-	-
Marketable securities	42,134,176	-	30,912,938	-	11,221,238
Accounts receivable from patients, less allowances for uncollectible accounts of \$11,550,000	48,397,813	-	48,397,813	-	-
Amounts due from third-party payors	183,316	-	183,316	-	-
Inventories of drugs and supplies	3,803,034	-	3,803,034	-	-
Prepaid expenses and other	4,317,665	-	4,316,865	800	-
Due from affiliates	-	(89,328)	89,328	-	-
Total current assets	<u>127,026,654</u>	<u>(89,328)</u>	<u>115,818,425</u>	<u>16,051</u>	<u>11,281,506</u>
Assets limited as to use, less current portion:					
Board-designated	129,504,241	-	129,504,241	-	-
For self-insurance program	4,058,803	-	4,058,803	-	-
Under debt agreements	3,749,512	-	3,749,512	-	-
Total assets limited as to use	<u>137,312,556</u>	<u>-</u>	<u>137,312,556</u>	<u>-</u>	<u>-</u>
Property and equipment, net	95,435,813	-	95,431,735	-	4,078
Other assets:					
Charitable remainder trust assets	10,023,409	-	-	-	10,023,409
Investment restricted by donor for capital and other purchases and to provide a permanent source of income	10,431,737	-	-	-	10,431,737
Deferred financing costs	668,513	-	668,513	-	-
Beneficial interest in SAHF	-	(25,967,498)	25,967,498	-	-
Other	5,406,780	(140,000)	5,536,900	9,880	-
Total other assets	<u>26,530,439</u>	<u>(26,107,498)</u>	<u>32,172,911</u>	<u>9,880</u>	<u>20,455,146</u>
Total assets	<u>\$ 386,305,462</u>	<u>\$ (26,196,826)</u>	<u>\$ 380,735,627</u>	<u>\$ 25,931</u>	<u>\$ 31,740,730</u>

San Antonio Community Hospital and Subsidiaries

Consolidating Statement of Financial Position (continued)

December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 12,481,994	\$ -	\$ 12,481,994	\$ -	\$ -
Accrued compensation and related benefits	13,094,593	-	13,094,593	-	-
Current portion of long-term debt	4,709,570	-	4,709,570	-	-
Due to affiliates	-	(89,328)	-	2,000	87,328
Total current liabilities	<u>30,286,157</u>	<u>(89,328)</u>	<u>30,286,157</u>	<u>2,000</u>	<u>87,328</u>
Long-term liabilities:					
Long-term debt, less current portion	26,628,374	-	26,628,374	-	-
Self-insurance liabilities, less current portion	5,829,440	-	5,829,440	-	-
Pension liability and other	49,251,795	-	49,251,795	-	-
Liability under charitable remainder trust agreements	5,685,904	-	-	-	5,685,904
Other long-term liabilities	255,293	-	255,293	-	-
Total long-term liabilities	<u>87,650,806</u>	<u>-</u>	<u>81,964,902</u>	<u>-</u>	<u>5,685,904</u>
Total liabilities	<u>117,936,963</u>	<u>(89,328)</u>	<u>112,251,059</u>	<u>2,000</u>	<u>5,773,232</u>
Net assets:					
Unrestricted	253,599,259	(11,338,258)	253,715,328	23,931	11,198,258
Temporarily restricted	10,751,549	(10,751,549)	10,751,549	-	10,751,549
Permanently restricted	4,017,691	(4,017,691)	4,017,691	-	4,017,691
Total net assets	<u>268,368,499</u>	<u>(26,107,498)</u>	<u>268,484,568</u>	<u>23,931</u>	<u>25,967,498</u>
Total liabilities and net assets	<u>\$ 386,305,462</u>	<u>\$ (26,196,826)</u>	<u>\$ 380,735,627</u>	<u>\$ 25,931</u>	<u>\$ 31,740,730</u>

San Antonio Community Hospital and Subsidiaries
Consolidating Statement of Financial Position

December 31, 2008

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 15,850,900	\$ -	\$ 15,772,840	\$ 21,484	\$ 56,576
Current portion of assets limited as to use	5,039,477	-	5,039,477	-	-
Marketable securities	60,690,549	-	51,558,493	-	9,132,056
Accounts receivable from patients, less allowances for uncollectible accounts of \$9,250,000	43,632,360	-	43,632,360	-	-
Amounts due from third-party payors	757,838	-	757,838	-	-
Inventories of drugs and supplies	3,034,709	-	3,034,709	-	-
Prepaid expenses and other assets	4,912,216	-	4,910,219	1,997	-
Due from affiliates	-	(61,119)	61,119	-	-
Total current assets	133,918,049	(61,119)	124,767,055	23,481	9,188,632
Assets limited as to use, less current portion:					
Board-designated	115,705,938	-	115,705,938	-	-
For self-insurance program	3,888,796	-	3,888,796	-	-
Under debt agreements	3,924,412	-	3,924,412	-	-
Total assets limited as to use	123,519,146	-	123,519,146	-	-
Property and equipment, net	88,242,014	-	88,236,190	-	5,824
Other assets:					
Charitable remainder trust assets	9,349,768	-	-	-	9,349,768
Investments restricted by donor for capital and other purchases and to provide a permanent source of income	9,661,609	-	-	-	9,661,609
Deferred financing costs	771,678	-	771,678	-	-
Beneficial interest in SAHF	-	(22,680,467)	22,680,467	-	-
Other	5,332,832	(140,000)	5,436,432	36,400	-
Total other assets	25,115,887	(22,820,467)	28,888,577	36,400	19,011,377
Total assets	\$ 370,795,096	\$ (22,881,586)	\$ 365,410,968	\$ 59,881	\$ 28,205,833

San Antonio Community Hospital and Subsidiaries

Consolidating Statement of Financial Position (continued)

December 31, 2008

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 14,785,882	\$ -	\$ 14,785,882	\$ -	\$ -
Accrued compensation and related benefits	14,848,053	-	14,848,053	-	-
Current portion of long-term debt	4,457,875	-	4,457,875	-	-
Due to affiliates	-	(61,119)	-	2,001	59,118
Total current liabilities	34,091,810	(61,119)	34,091,810	2,001	59,118
Long-term liabilities:					
Long-term debt, less current portion	31,337,944	-	31,337,944	-	-
Self-insurance liabilities, less current portion	4,906,605	-	4,906,605	-	-
Pension liability and other	54,011,649	-	54,011,649	-	-
Liability under charitable remainder trust agreements	5,466,248	-	-	-	5,466,248
Total long-term liabilities	95,722,446	-	90,256,198	-	5,466,248
Total liabilities	129,814,256	(61,119)	124,348,008	2,001	5,525,366
Net assets:					
Unrestricted	227,435,710	(9,275,337)	227,517,830	57,880	9,135,337
Temporarily restricted	9,527,439	(9,527,439)	9,527,439	-	9,527,439
Permanently restricted	4,017,691	(4,017,691)	4,017,691	-	4,017,691
Total net assets	240,980,840	(22,820,467)	241,062,960	57,880	22,680,467
Total liabilities and net assets	\$ 370,795,096	\$ (22,881,586)	\$ 365,410,968	\$ 59,881	\$ 28,205,833

San Antonio Community Hospital and Subsidiaries

Consolidating Statement of Income

Year Ended December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted revenues, gains, and other support:					
Net patient service revenues	\$ 277,682,793	\$ -	\$ 277,682,793	\$ -	\$ -
Investment income	14,732,757	-	12,079,942	42	2,652,773
Other revenue	4,640,106	-	4,118,578	(26,520)	548,048
Beneficial interest in SAHF	-	(1,832,146)	1,832,146	-	-
Total unrestricted revenues, gains, and other support	<u>297,055,656</u>	<u>(1,832,146)</u>	<u>295,713,459</u>	<u>(26,478)</u>	<u>3,200,821</u>
Operating expenses:					
Salaries and benefits	147,125,208	-	146,679,726	-	445,482
Purchased services, supplies, and other	92,584,767	-	92,305,849	7,471	271,447
Provision for uncollectible accounts	26,866,289	-	26,866,289	-	-
Depreciation and amortization	11,403,465	-	11,401,719	-	1,746
Provision for legal settlement	(277,390)	-	(277,390)	-	-
Interest	1,822,405	-	1,822,405	-	-
Total operating expenses	<u>279,524,744</u>	<u>-</u>	<u>278,798,598</u>	<u>7,471</u>	<u>718,675</u>
Excess (deficiency) of unrestricted revenues, gains, and other support over expenses	17,530,912	(1,832,146)	16,914,861	(33,949)	2,482,146
Net assets released from restrictions used for purchase of property and equipment	384,087	-	-	-	384,087
Change in unrealized gain on marketable securities	3,960,356	(230,775)	3,960,356	-	230,775
Change in additional minimum pension liability	4,288,194	-	4,288,194	-	-
Transfer to (from) affiliates	-	-	1,034,087	-	(1,034,087)
Increase (decrease) in unrestricted net assets	<u>\$ 26,163,549</u>	<u>\$ (2,062,921)</u>	<u>\$ 26,197,498</u>	<u>\$ (33,949)</u>	<u>\$ 2,062,921</u>

San Antonio Community Hospital and Subsidiaries

Consolidating Statement of Income

Year Ended December 31, 2008

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted revenues, gains, and other support:					
Net patient service revenues	\$ 271,947,538	\$ -	\$ 271,947,538	\$ -	\$ -
Investment income (loss)	10,372,291	-	12,594,061	66	(2,221,836)
Other revenue	4,713,239	-	4,400,948	-	312,291
Beneficial interest in SAHF	-	3,250,804	(3,250,804)	-	-
Total unrestricted revenues, gains, and other support	287,033,068	3,250,804	285,691,743	66	(1,909,545)
Operating expenses:					
Salaries and benefits	138,361,885	-	137,929,867	-	432,018
Purchases services, supplies, and other	92,086,535	-	91,824,031	5,724	256,780
Provision for uncollectible accounts	23,077,460	-	23,077,460	-	-
Depreciation and amortization	10,099,100	-	10,096,640	-	2,460
Provision for legal settlement	4,750,000	-	4,750,000	-	-
Loss on abandonment of construction	8,671,271	-	8,671,271	-	-
Interest	2,055,464	-	2,055,464	-	-
Total operating expenses	279,101,715	-	278,404,733	5,724	691,258
Excess (deficiency) of revenues, gains, and other support over expenses	7,931,353	3,250,804	7,287,010	(5,658)	(2,600,803)
Net assets released from restrictions used for purchase of property and equipment	50,800	-	-	-	50,800
Change in net unrealized gains on marketable securities	(8,246,879)	523,626	(8,246,879)	-	(523,626)
Change in additional minimum pension liability	(28,999,498)	-	(28,999,498)	-	-
Transfer (from) to affiliates	-	-	700,801	-	(700,801)
(Decrease) increase in unrestricted net assets	\$ (29,264,224)	\$ 3,774,430	\$ (29,258,566)	\$ (5,658)	\$ (3,774,430)

San Antonio Community Hospital and Subsidiaries
 Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted assets:					
Excess (deficiency) of unrestricted revenues, gains, and other support over expenses	\$ 17,530,912	\$ (1,832,146)	\$ 16,914,861	\$ (33,949)	\$ 2,482,146
Net assets released from restrictions used for purchase of property and equipment	384,087	-	-	-	384,087
Change in unrealized gains on marketable securities	3,960,356	(230,775)	3,960,356	-	230,775
Change in additional minimum pension liability	4,288,194	-	4,288,194	-	-
Transfer to (from) affiliates	-	-	1,034,087	-	(1,034,087)
Increase (decrease) in unrestricted net assets	26,163,549	(2,062,921)	26,197,498	(33,949)	2,062,921
Temporarily restricted net assets:					
Contributions	1,147,475	-	-	-	1,147,475
Investment income	930,836	-	-	-	930,836
Change in liability under charitable remainder trust agreements and other	(355,964)	-	-	-	(355,964)
Beneficial interest in SAHF	-	(1,224,110)	1,224,110	-	-
Net assets released from restrictions	(498,237)	-	-	-	(498,237)
Increase in temporarily restricted net assets	1,224,110	(1,224,110)	1,224,110	-	1,224,110
Permanently restricted net assets					
Increase in permanently restricted net assets	-	-	-	-	-
Increase (decrease) in net assets	27,387,659	(3,287,031)	27,421,608	(33,949)	3,287,031
Net assets at beginning of year	240,980,840	(22,820,467)	241,062,960	57,880	22,680,467
Net assets at end of year	\$ 268,368,499	\$ (26,107,498)	\$ 268,484,568	\$ 23,931	\$ 25,967,498

San Antonio Community Hospital and Subsidiaries
Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2008

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted assets:					
Excess of unrestricted revenues, gains, and other support over expenses	\$ 7,931,353	\$ 3,250,804	\$ 7,287,010	\$ (5,658)	\$ (2,600,803)
Net assets released from restrictions used for purchase of property and equipment	50,800	-	-	-	50,800
Change in unrealized (loss) gains on marketable securities	(8,246,879)	523,626	(8,246,879)	-	(523,626)
Change in additional minimum pension liability	(28,999,498)	-	(28,999,498)	-	-
Transfer from (to) affiliates	-	-	700,801	-	(700,801)
(Decrease) increase in unrestricted net assets	(29,264,224)	3,774,430	(29,258,566)	(5,658)	(3,774,430)
Temporarily restricted net assets:					
Contributions	714,246	-	-	-	714,246
Investment loss	(1,791,268)	-	-	-	(1,791,268)
Change in liability under charitable remainder trust agreements	911,435	-	-	-	911,435
Beneficial interest in SAHF	(85,787)	251,374	(251,374)	-	(85,787)
(Decrease) increase in temporarily restricted net assets	(251,374)	251,374	(251,374)	-	(251,374)
Permanently restricted net assets:					
Contributions	15,000	-	-	-	15,000
Beneficial interest in SAHF	-	(15,000)	15,000	-	-
Increase in permanently restricted net assets	15,000	(15,000)	15,000	-	15,000
(Decrease) increase in net assets	(29,500,598)	4,010,804	(29,494,940)	(5,658)	(4,010,804)
Net assets at beginning of year	270,481,438	(26,831,271)	270,557,900	63,538	26,691,271
Net assets at end of year	\$ 240,980,840	\$ (22,820,467)	\$ 241,062,960	\$ 57,880	\$ 22,680,467



CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS AND OTHER FINANCIAL
INFORMATION (UNAUDITED)

San Antonio Community Hospital and Subsidiaries
Nine-Month Periods Ended September 30, 2010 and 2009

Ernst & Young LLP

San Antonio Community Hospital and Subsidiaries
Condensed Audited Consolidated Financial Statements
and Other Financial Information (Unaudited)
Nine-Month Periods Ended September 30, 2010 and 2009

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San Antonio Community Hospital and Subsidiaries

Condensed Consolidated Statements of Financial Position

	September 30 2010	December 31 2009
	<i>(Unaudited)</i>	<i>(Audited)</i>
Assets		
Current assets:		
Cash and cash equivalents	\$ 30,910,446	\$ 22,955,254
Current portion of assets limited as to use	3,822,146	5,235,396
Marketable securities	57,905,376	42,134,176
Accounts receivable from patients, less allowance for uncollectible accounts (\$12,000,000 at September 30, 2010, \$11,550,000 at December 31, 2009)	46,965,175	48,397,813
Amounts due from third-party payors	-	183,316
Inventories of drugs and supplies	3,841,148	3,803,034
Prepaid expenses and other assets	3,454,876	4,317,665
Total current assets	146,899,167	127,026,654
Assets limited as to use, less current portion:		
Board-designated	131,558,791	129,504,241
For self-insurance program	3,449,097	4,058,803
Under debt agreement	3,239,088	3,749,512
Total assets limited as to use	138,246,976	137,312,556
Total property and equipment, net	94,617,471	95,435,813
Other assets:		
Charitable remainder trust assets	10,042,775	10,023,409
Investments restricted by donor for the acquisition of buildings and equipment and to provide a permanent source of income	10,865,440	10,431,737
Deferred financing costs	591,313	668,513
Other	5,430,460	5,406,780
	26,929,988	26,530,439
Total assets	\$ 406,693,602	\$ 386,305,462

	September 30	December 31
	2010	2009
	<i>(Unaudited)</i>	<i>(Audited)</i>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,655,634	\$ 12,481,994
Accrued compensation and related benefits	14,181,007	13,094,593
Amounts due to third-party payors	1,227,522	–
Current portion of long-term debt	4,852,539	4,709,570
Total current liabilities	<u>27,916,702</u>	<u>30,286,157</u>
Long-term liabilities:		
Long-term debt, less current portion	21,831,977	26,628,374
Self-insurance liabilities, less current portion	5,284,577	5,829,440
Pension liability and other	47,844,302	49,251,795
Liability under charitable remainder trust agreements	5,184,026	5,685,904
Other long-term liabilities	190,757	255,293
Total long-term liabilities	<u>80,335,639</u>	<u>87,650,806</u>
Total liabilities	<u>108,252,341</u>	<u>117,936,963</u>
Net assets:		
Unrestricted	282,717,073	253,599,259
Temporarily restricted	11,706,497	10,751,549
Permanently restricted	4,017,691	4,017,691
Total net assets	<u>298,441,261</u>	<u>268,368,499</u>
Total liabilities and net assets	<u>\$ 406,693,602</u>	<u>\$ 386,305,462</u>

See accompanying unaudited notes.

San Antonio Community Hospital and Subsidiaries

Condensed Consolidated Statements of Income and
Changes in Net Assets

	Nine Months Ended September 30	
	2010	2009
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Unrestricted revenues, gains, and other support:		
Net patient service revenues	\$ 212,857,626	\$ 207,665,850
Investment income	10,765,116	11,628,459
Other revenue	3,169,257	3,700,003
Total unrestricted revenues, gains, and other support	<u>226,791,999</u>	<u>222,994,312</u>
Operating expenses:		
Salaries and benefits	105,286,036	109,502,431
Professional fees	65,050,740	69,067,073
Provision for uncollectible accounts	20,907,424	19,687,500
Depreciation and amortization	8,505,250	7,722,642
Interest	1,221,254	1,414,592
Total operating expenses	<u>200,970,704</u>	<u>207,394,238</u>
Excess of unrestricted revenues, gains and other support over expenses	25,821,295	15,600,074
Net assets released from restrictions used for purchase of property and equipment	753,390	384,087
Unrealized gain on investments	2,543,129	3,832,488
Increase in unrestricted net assets	<u>29,117,814</u>	<u>19,816,649</u>
Assets released from restrictions, restricted contributions and other	954,948	1,253,575
Increase in net assets	<u>30,072,762</u>	<u>21,070,224</u>
Net assets at beginning of period	268,368,499	240,980,840
Net assets at end of period	<u>\$ 298,441,261</u>	<u>\$ 262,051,064</u>

See accompanying unaudited notes.

San Antonio Community Hospital and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30	
	2010	2009
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Operating activities		
Increase in net assets	\$ 30,072,762	\$ 21,070,224
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Provision for uncollectible accounts	20,907,424	19,687,500
Depreciation and amortization	8,505,250	7,722,642
Amortization of deferred financing costs	77,200	77,373
Amortization of physician guarantee	414,165	305,593
Change in net unrealized gain on marketable securities designed as other-than-trading	(2,543,129)	(3,832,488)
Gain on disposal of property and equipment	(23,303)	(18,269)
Restricted contributions	(1,229,653)	(910,101)
Change in assets and liabilities:		
Accounts receivable from patients	(19,474,786)	(19,875,161)
Accounts due from third-party payors, net	1,410,838	2,027,393
Marketable securities	(21,064,567)	(42,006,644)
Inventories, prepaid expenses and other current assets	824,675	1,078,249
Accounts payable, accrued expenses and other current liabilities	(4,455,130)	(2,818,980)
Self-insurance liability	170,321	(173,342)
Change in pension liability	(1,407,493)	(3,751,531)
Other long-term assets and liabilities	(1,156,354)	(1,108,703)
Net cash provided by (used in) operating activities	<u>11,028,220</u>	<u>(22,526,245)</u>
Investing activities		
Sale of investments, net designated as other-than-trading	7,862,257	53,715,695
Net additions to property and equipment	(7,663,605)	(15,052,125)
Investment in minority interest in surgicenter	152,095	383,262
Net cash provided by investing activities	<u>350,747</u>	<u>39,046,832</u>
Financing activities		
Principal payments on long-term debt	(4,653,428)	(4,405,906)
Restricted contributions	1,229,653	910,101
Net cash used in financing activities	<u>(3,423,775)</u>	<u>(3,495,805)</u>
Increase in cash and equivalents	7,955,192	13,024,782
Cash and equivalents at beginning of period	22,955,254	15,850,900
Cash and equivalents at end of period	<u>\$ 30,910,446</u>	<u>\$ 28,875,682</u>

See accompanying unaudited notes.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

September 30, 2010

1. Organization and Significant Accounting Policies

San Antonio Community Hospital (SACH) is organized as a not-for-profit corporation under the laws of the state of California, and is a tax-exempt organization under the provisions of the Internal Revenue Code. SACH is the sole corporate member of the San Antonio Hospital Foundation, Inc. (SAHF), a not-for-profit, tax-exempt corporation, and is also the sole shareholder of Cucamonga Health Services, Inc. (CHS), a proprietary corporation.

Basis of Consolidation

The consolidated financial statements of San Antonio Community Hospital and subsidiaries (the Hospital) include the accounts of SACH, SAHF, and CHS. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

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

Cash and Cash Equivalents

The Hospital considers all highly liquid investments with original maturities when purchased of three months or less to be cash equivalents.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the condensed consolidated statements of financial position. Fair value is established based on quoted prices from recognized securities exchanges. Certain marketable securities are designated as other-than-trading, and certain marketable securities are designated as trading. The Hospital outsources the management of certain investment portfolios to third-party investment managers. For these portfolios, the Hospital holds its investment managers accountable to achieve certain benchmarks with respect to return on

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

investments, and limits the amount of its investment portfolio that can be invested in certain types of assets. The Hospital classifies investments controlled and managed by the Hospital as other-than-trading; however, the Hospital classifies the investments for which the management is outsourced as trading. Investment income (including realized gains and losses on investments, interest, and dividends) is included in excess of revenues, gains, and other support over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments designated as other-than-trading are excluded from the excess of unrestricted revenues, gains, and other support over expenses. Realized and unrealized gains and losses on trading securities are included in investment income.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient services revenues have been adjusted to the estimated amounts expected to be received. These estimated amounts are subject to further adjustments upon review by third-party payors. Management estimates the provision and the allowance for uncollectible accounts based upon historical collection experience.

Property and Equipment

Property and equipment are reported on the basis of cost. Donated items are recorded based on fair market value at the date of donation, which value is subsequently considered as the cost basis. Ordinary maintenance and repairs are expensed as incurred.

Depreciation is computed using the straight-line method at rates calculated to amortize the cost of the assets over their estimated useful lives ranging from 3 to 30 years. Amortization of leasehold improvements is computed under the straight-line method over the lesser of the useful life of the related asset or the term of the related leases.

Inventories

Inventories of drugs and supplies are stated at cost (first-in, first-out method), which is not in excess of market.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs are being amortized over the period in which the related debt is outstanding.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue. Charity care provided, measured at established rates, for the nine months ended September 30 amounted to \$6,114,000 in 2010 and \$3,963,000 in 2009.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Revenues from the Medicare program accounted for approximately 21% and 21%, respectively, of the Hospital's net patient service for each of the nine-month periods ended September 30, 2010 and 2009. Revenues from the Medi-Cal program accounted for approximately 2% and 1%, respectively, of the Hospital's net patient service for the nine-month period ended September 30, 2010 and 2009. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

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

- Medicare. Inpatient acute care and most outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or visit. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.
- Medi-Cal. From May 2001 through September 2008, inpatient services rendered to Medi-Cal program beneficiaries were reimbursed based on a cost reimbursement methodology. The Hospital was reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medi-Cal fiscal intermediary. Outpatient services are reimbursed based upon predetermined rates. Effective October 1, 2008, the state of California reduced the Hospital's Medi-Cal reimbursement by approximately 50% as part of the state's budget reduction initiatives. The Hospital joined other similarly situated hospitals in a group lawsuit to overturn the reimbursement reduction. On April 6, 2009, the group's legal counsel was successful in obtaining a preliminary injunction and the interim reimbursement rate was increased to 90% of the original rate. Since the group's legal counsel expects the Hospital to prevail on the lawsuit, and the Hospital has deemed it not probable that the reduction will be reinstated for the period subsequent to April 6, 2009, the Hospital has not reserved for the reimbursement reduction subsequent to April 6, 2009. The Hospital has only recognized revenue at the reduced reimbursement rate for the time period from October 1, 2008 through April 5, 2009, which was before the preliminary injunction was issued.

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due the Hospital until cost reports are audited or otherwise reviewed and settled upon with the applicable administrative agencies. Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of the current year's net patient service revenue. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent review.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments which potentially subject the Hospital to concentrations of credit risk consist primarily of cash and cash equivalents, assets limited to use, marketable securities, and accounts receivable. The majority of the investment portfolio is managed by professional investment managers within the guidelines established by the board of trustees, which, as a matter of policy, limit the amounts which may be invested in any one issuer. With the exception of the Medicare and Medi-Cal programs, concentrations of credit risk with respect to accounts receivable are limited due to the large number of payors comprising the Hospital's patient base.

Assets Limited as to Use

Assets limited as to use include board-designated assets for replacement and acquisitions of property and equipment, self-insurance trust funds for payment of medical malpractice claims, and assets held by a trustee under a bond indenture. Trustee-held assets include bond reserve, principal repayment, and interest payment funds. The current portion of assets limited as to use includes amounts which will be used to pay the current portion of the principal and interest on the bonds.

Self-Insurance Liabilities

The Hospital is self-insured for certain employee health care claims. The Hospital accrues health care claims including management's estimates of incurred but not reported claims based on the Hospital's claims experience. Amounts accrued totaled \$1,400,000 and \$950,000 at September 30, 2010 and December 31, 2009, respectively.

The Hospital is self-insured for workers' compensation benefits. Amounts accrued totaled \$4,246,000 and \$4,562,000 at September 30, 2010 and December 31, 2009, respectively, representing the undiscounted cost of workers' compensation losses, including an estimate for losses incurred but not reported. The estimate was prepared by the Hospital using actuarial methods and its past claims experience. The Hospital is a full participant in the California Self-Insurers Security Fund as an alternative to providing a letter of credit to assure the state of California that it will be able to meet its self-insured obligations.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

The Hospital purchases medical malpractice insurance coverage from a captive insurance company (the Captive) (see Note 7) on a claims-made basis up to \$5 million per occurrence in excess of the \$50,000 per claim self-insured limit. The Hospital accrued \$2,789,000 and \$2,753,000 at September 30, 2010 and December 31, 2009, respectively, representing the undiscounted cost of medical malpractice losses not covered by insurance, including an estimate for losses incurred but not reported. Commercial insurance has been obtained for losses up to \$30 million in excess of the Captive's coverage limits.

The current portion of self-insured claims accrual, representing the cost expected to be paid in the following year, is included in accounts payable and accrued expenses. Amounts expected to be paid beyond one year from December 31 are included in self-insurance liabilities.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction ends or restricted purpose is accomplished, temporarily restricted net assets used in operations are reclassified as unrestricted net assets and reported in the condensed consolidated statements of income and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the condensed consolidated statements of income and changes in net assets.

Recent Accounting Pronouncements

In December 2007, an accounting standard was released that revised the guidance for accounting for noncontrolling interests. The guidance requires that a noncontrolling interest in a subsidiary be reported as net assets in the consolidated financial statements; that net income attributable to the parent and the noncontrolling interest be clearly identified; that changes in a parent's ownership interest, which the parent retains its controlling financial interest in its subsidiary, be accounted for as equity transactions; and that disclosures be expanded to clearly identify and distinguish between the interest of the parent and interests of the noncontrolling owners. The new accounting standard was effective January 1, 2010, for the Hospital. The adoption of this standard did not have a material impact to the condensed consolidated financial statements.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

In April 2009, an accounting standard was released relating to combinations of not-for-profit (NFP) entities. Under this standard, a combination may either be a merger or an acquisition, and the accounting for each is significantly different. The feature that serves to differentiate a merger from an acquisition is control. In a merger, the governing bodies of two or more NFP entities cede control of those entities to create a new entity. In an acquisition, one organization obtains control over the net assets of another organization or business. This standard amends accounting standards for goodwill and other intangible assets in which goodwill and indefinite-lived intangible assets are no longer amortized; rather, they are now subject to an impairment test at least annually. This standard was effective for the Hospital on January 1, 2010, and the adoption of this standard did not have a material impact to the condensed consolidated financial statements.

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*, which amended ASC 820, *Fair Value Measurements and Disclosures* to require new disclosures related to transfers in and out of Level 1 and Level 2 fair value measurements, including reasons for the transfers, and to require new disclosures related to activity in Level 3 fair value measurements. In addition, ASU 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of asset and liabilities and provides further detail about inputs and valuation techniques used for fair value measurement. The Hospital adopted ASU 2010-06 effective April 1, 2010 and the adoption did not have a material impact on the Hospital's condensed consolidated financial statements.

In February 2010, the FASB issued ASU 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements*, which amended ASC 855, *Subsequent Events*, requiring the evaluation of subsequent events through the date that the financial statements are issued. The adoption of ASU 2010-09 did not have a material impact on the Hospital's condensed consolidated financial statements.

In August 2010, the FASB issued ASU 2010-24, *Healthcare Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that a health care entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective for the Hospital beginning January 1, 2011 and the Hospital is currently evaluating the effect of this guidance on its condensed consolidated financial statements.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Marketable securities and assets limited as to use are stated at fair value in the condensed consolidated statements of financial position. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market for the asset or liability at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the Hospital utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1.* Pricing inputs into the determination of fair value are generally observable inputs such as quoted prices in active markets on identical assets or liabilities. Financial assets in Level 1 include listed equities.
- *Level 2.* Pricing inputs are 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 or liabilities.
- *Level 3.* Pricing inputs are generally unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below.

- a. Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

- b. Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).
- c. Income approach: Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following table provides the method used to fair value certain assets and liabilities as of September 30, 2010. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy.

	Fair Value at September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a,b,c)
Cash and cash equivalents	\$ 38,329,734	\$ 38,329,734	\$ —	\$ —	a
Debt securities:					
U.S. government and agency	32,644,714	—	32,644,714	—	a
Corporate	115,784,602	—	115,784,602	—	a
Common stock	33,159,909	33,159,909	—	—	a
Interest receivable and other	963,754	—	963,754	—	a
	<u>\$ 220,882,713</u>	<u>\$ 71,489,643</u>	<u>\$ 149,393,070</u>	<u>\$ —</u>	
Liabilities:					
Charitable remainder trust liabilities	\$ 5,184,026	\$ —	\$ —	\$ 5,184,026	a,c

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

	Charitable Remainder Trusts Liabilities
Balance, January 1, 2010	\$ 5,685,904
Payments, settlements, and other, net	(506,163)
Change in present value	4,285
Balance, September 30, 2010	<u>\$ 5,184,026</u>

The following table provides the method used to fair value certain assets and liabilities as of December 31, 2009. Only assets and liabilities measured at fair value are shown in the three-tier fair value hierarchy.

	Fair Value at December 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a,b,c)
Cash and cash equivalents	\$ 15,460,437	\$ 15,460,437	\$ —	\$ —	a
Debt securities:					
U.S. government and agency	30,665,620	30,665,620	—	—	a
Corporate	126,632,687	73,911,432	52,721,255	—	a
Common stock	30,314,266	30,314,266	—	—	a
Interest receivable and other	2,064,264	2,064,264	—	—	a
	<u>\$ 205,137,274</u>	<u>\$ 152,414,019</u>	<u>\$ 52,721,255</u>	<u>\$ —</u>	
Liabilities:					
Charitable remainder trust liabilities	\$ 5,685,904	\$ —	\$ —	\$ 5,685,904	a,c

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

	Charitable Remainder Trusts Liabilities
Balance, January 1, 2009	\$ 5,466,248
Payments, settlements, and other, net	(543,548)
Change in present value	763,204
Balance, December 31, 2009	<u>\$ 5,685,904</u>

Based on recent guidance on disclosures for fair value measurements as of September 30, 2010, the Hospital reclassified some of its U.S. Treasury securities and corporate debt securities from Level 1 to Level 2 classification. It is the Hospital's policy to record the transfers between classifications at the end of the reporting period. The Hospital held \$46,609,947 and \$52,721,255 at September 30, 2010 and December 31, 2009, respectively, in an investment in State Street U.S. Aggregate Bond Index SL common trust fund, reported at fair value that is classified as Level 2. The State Street investment is a commingled fund, where the fund does not trade daily. However, the fund's holdings are comprised of units in other funds that invest in marketable securities which trade in active markets. The fair value per unit in these funds is based on the value of the underlying marketable securities at their respective quoted prices. These assets include actively traded fixed income securities and short-term money market mutual funds. Unadjusted quoted prices for these securities are provided to the Hospital by independent pricing services. The Hospital's investments also include Level 2 separate account assets consisting of an actively traded institutional pooled fixed income securities fund and several institutional equity mutual funds valued by the respective bank and mutual fund companies.

Long-Term Debt

The fair value of the Hospital's long-term debt is estimated based on current market rates for debt of the same risk and maturities. Refer to Note 4 for further discussion.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

1. Organization and Significant Accounting Policies (continued)

Charitable Remainder Trusts

Contributions of charitable remainder trusts (CRTs) for which the Hospital is the trustee are recorded at the current fair value of the assets received, less a liability for the present value of the expected future payments to be made to the beneficiaries. In addition, contributions of CRTs for which the Hospital is not the trustee are recorded as a receivable at the present value of the estimated future benefits the Hospital expects to receive when the trust assets are distributed. Changes in charitable remainder trust balances are reported in the condensed consolidated statements of income and changes in net assets.

Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

Long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. There were no abandonment or impairment losses recognized in 2010 and 2009.

2. Property and Equipment

Property and equipment consist of the following at:

	September 30 2010	December 31 2009
Buildings and improvements	\$ 113,387,552	\$ 113,331,753
Equipment	127,721,077	124,571,954
Land improvements	9,820,988	9,820,988
Leasehold improvements	2,212,669	2,212,669
Asset constructed for other (<i>Note 10</i>)	8,238,653	8,238,653
	261,380,939	258,176,017
Less accumulated depreciation and amortization	196,427,995	188,182,348
	64,952,944	69,993,669
Construction-in-progress (estimated cost to complete of \$181,079,076 at September 30, 2010)	18,974,242	14,751,859
Land	10,690,285	10,690,285
	\$ 94,617,471	\$ 95,435,813

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

3. Investments

Investments in marketable securities, assets limited as to use, charitable remainder trust assets, and investments restricted for the acquisition of property and equipment and to provide a permanent source of income are stated at fair value. These balances are summarized as follows:

	September 30 2010	December 31 2009
Cash and cash equivalents	\$ 38,329,734	\$ 15,460,437
Debt securities:		
U.S. government and agency	32,644,714	30,665,620
Corporate	115,784,602	126,632,687
Common stock	33,159,909	30,314,266
Interest receivable and other	963,754	2,064,264
	\$ 220,882,713	\$ 205,137,274

The investments are classified as follows in the accompanying condensed consolidated statements of financial position:

	September 30 2010	December 31 2009
Assets limited as to use (current)	\$ 3,822,146	\$ 5,235,396
Marketable securities (current)	57,905,376	42,134,176
Assets limited as to use (long-term)	138,246,976	137,312,556
Charitable remainder trust (long-term)	10,042,775	10,023,409
Investments restricted by donor for capital purchases and to provide a permanent source of income (long-term)	10,865,440	10,431,737
	\$ 220,882,713	\$ 205,137,274

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

3. Investments (continued)

Investment income includes:

	Nine-Months Ended	
	September 30	
	2010	2009
Interest and dividend income	\$ 5,392,731	\$ 5,757,766
Unrealized gain designated as trading	1,772,604	882,385
Realized gains	3,599,780	4,988,308
	<u>\$ 10,765,115</u>	<u>\$ 11,628,459</u>

Management continually reviews its investment portfolio and evaluates whether declines in the fair value of securities designated as other-than-trading should be considered other-than-temporary. Factored into this evaluation are the general market conditions, the issuer's financial condition and near-term prospects, conditions in the issuer's industry, the recommendation of advisors, and the length of time and extent to which the market value has been less than cost. During the nine-month periods ended September 30, 2010 and 2009, the Hospital concluded that there was no other-than-temporary decline in the fair value of investments.

The following tables summarize investments designated as other-than-trading with unrealized losses held for the nine- and twelve-month periods ended September 30, 2010 and December 31, 2009, respectively:

Description of Securities	Less than Twelve-Months		Twelve-Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal agency	-	-	-	-	-	-
Corporate	-	-	-	-	-	-
Common stock	-	-	13,337,914	(2,530,264)	13,337,914	(2,530,264)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,337,914</u>	<u>\$ (2,530,264)</u>	<u>\$ 13,337,914</u>	<u>\$ (2,530,264)</u>

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

3. Investments (continued)

Description of Securities	Less than Twelve-Months		Twelve-Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury obligations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Federal agency	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Common stock	—	—	12,727,959	(3,020,479)	12,727,959	(3,020,479)
Total	\$ —	\$ —	\$ 12,727,959	\$ (3,020,479)	\$ 12,727,959	\$ (3,020,479)

As management has the ability and intent to hold the investments to recovery of the fair value, no other-than-temporary declines were recorded during the nine- and twelve-month periods ended September 30, 2010 and December 31, 2009.

4. Long-Term Debt

Long-term debt consists of the following:

	September 30 2010	December 31 2009
Certificates of Participation, 1996 Series: The final principal payment of \$3,040,000 is due January 2011. Interest is payable semiannually at 5.70%	\$ 3,040,000	\$ 5,915,000
Certificates of Participation, 1993 Series: Principal is payable annually in varying amounts ranging from \$1,695,000 to \$2,400,000 due through January 2018. Interest is payable semiannually at rates ranging from 5.00% to 5.25%	16,280,000	17,890,000
Construction obligation (<i>Note 10</i>)	7,364,516	7,532,944
	26,684,516	31,337,944
Less current portion	(4,852,539)	(4,709,570)
	\$ 21,831,977	\$ 26,628,374

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

4. Long-Term Debt (continued)

Pursuant to the terms of the Hospital Revenue Certificates of Participation indentures, the Hospital is required to maintain funds on deposit with a trustee to pay principal and interest and to maintain certain financial and debt service ratios.

In January 1996, the Hospital issued \$32,265,000 principal amount of City of Upland, California, Certificates of Participation 1996 Series. The proceeds were used to retire the 1986 Series A Certificates.

Pursuant to the indenture covering the 1986 Hospital Revenue Refunding Certificates of Participation, Series A, \$33,973,000 from the 1993 Certificates of Participation issue was placed in an irrevocable trust to service \$29,180,000 of the 1988 Series Certificates of Participation until their maturity. Consequently, the 1988 Series Bonds are considered extinguished and are not included in the accompanying condensed consolidated statements of financial position. The outstanding balance of these bonds is \$14,585,000 at September 30, 2010.

The carrying value of tax-exempt debt was \$19,320,000 and \$23,805,000 at September 30, 2010 and December 31, 2009, respectively. The fair value of tax-exempt debt, based on current market rates for debt of the same risk and maturities, was estimated at \$19,387,000 and \$23,892,000 at September 30, 2010 and December 31, 2009, respectively.

5. Commitments and Contingencies

Guarantee

The Hospital provides physician recruitment agreements to certain physicians who agree to relocate to its communities to fill a need in the Hospital's service areas and commit to remain in practice there. Under these agreements, the Hospital makes loans available to the physicians consisting of advances for amounts in excess of the earnings of their practice up to the amount stipulated in the agreement. The assistance periods range from 12-24 months. Such payments are recoverable from the physicians if they do not fulfill their commitment period to the community, which is typically double the assistance period.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

5. Commitments and Contingencies (continued)

The carrying amount of the asset and liability (and future payments the Hospital expects to make under the guarantees) for the Hospital's obligations under these guarantees is approximately \$562,000 and \$191,000 respectively, at September 30, 2010, and \$976,000 and \$255,000, respectively, at December 31, 2009, and is reflected in other assets and other long-term liabilities in the accompanying condensed consolidated statements of financial position. The advances made pursuant to these agreements are earned by the physicians as they fulfill their commitment period to the community; otherwise, any remaining amounts are payable back to the Hospital.

Legal

The Hospital is a defendant in the following legal actions:

Raquel Rodriguez v. San Antonio Community Hospital. In 2005, class action litigation was initiated against the Hospital alleging that the Hospital's pay practice as applied to certain 12-hour shift employees was illegal and that additional compensation and penalties are due to those employees for the period of June 2001 through December 2004, when the pay practice changed. The Hospital settled this litigation in 2009. The Hospital accrued approximately \$4,750,000, net of insurance proceeds, in the consolidated statement of financial position as of December 31, 2008. In October 2009, the settlement was finalized for approximately \$277,000 less than accrued. The settlement liability was accrued for in accounts payable and accrued expenses in 2008 and 2009 and the settlement payment was made in January 2010.

The Hospital is also a defendant in various other legal actions arising from the normal conduct of business. The Hospital believes that the ultimate resolution of the various proceedings will not have a material adverse effect upon the consolidated financial position, results of operations, changes in net assets, or cash flows of the Hospital.

6. Retirement Plans

Defined Contribution Plan

Effective January 1, 2006, all newly hired employees are eligible to participate in a new defined contribution pension plan. The Hospital makes contributions to the plan equal to 2.5% of the employees' base pay. Employees are eligible for additional matching once certain eligibility criteria are met. Contributions for the defined contribution plan totaled \$664,000 and \$447,000 for the nine-month periods ended September 30, 2010 and 2009, respectively.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

6. Retirement Plans (continued)

Defined Benefit Plan

The Hospital has a noncontributory defined benefit pension plan covering eligible employees who work at least 1,000 hours per year and have completed one year of continuous full-time service. The benefits are based on years of service and the employee's compensation. Benefits vest after five years of service or on the attainment of age 62. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The Hospital closed the defined benefit pension plan effective for new employees hired after December 31, 2005. The defined benefit pension plan remains in place and is available to all employees hired on or before December 31, 2005.

In addition to providing pension benefits, the Hospital provides certain health care benefits for retired employees who elect to continue coverage under the Hospital Health Care Plan. Substantially all of the Hospital's employees who retire at age 62 (with ten or more years of service) or age 59-1/2 (with 30 or more years of service) are eligible for these benefits until they reach age 65. These and similar benefits for active employees are provided through the Hospital's self-insurance program. The Hospital pays health care claims as they come due. The cost of services provided for active and retired employees, consisting of claims reported and estimates of health care services rendered but not reported through September 30, 2010 and 2009, net of related premiums paid by employees, was \$8,205,000 and \$9,512,000 for the nine-month periods ended September 30, 2010 and 2009, respectively.

Contributions

During the nine months ended September 30, 2010 and 2009, the Hospital contributed \$10,000,000 and \$13,500,000, respectively, to its pension plan and expects to contribute \$250,000 to its other postretirement benefit plan in 2010.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

7. Malpractice Captive

The Hospital's claims-made insurance coverage for malpractice losses is provided by California Healthcare Insurance Company, Inc. (the Captive), a captive insurance company, of which the Hospital is a shareholder. The Hospital's original investment in the Captive of \$525,000 is included in other assets, and is accounted for under the cost method. If the Hospital decides to cancel or not renew its policy with the Captive, the Hospital must offer its shares for redemption to the Captive and the Captive must purchase the shares at the lower of either the original purchase price paid or the fair market value at the date of sale.

8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>September 30</u> <u>2010</u>	<u>December 31</u> <u>2009</u>
Patient care services	\$ 5,574,303	\$ 5,031,040
Buildings and equipment	6,132,194	5,720,509
	<u>\$ 11,706,497</u>	<u>\$ 10,751,549</u>

Permanently restricted net assets of \$4,017,691 at September 30, 2010 and December 31, 2009, are restricted investments to be held in perpetuity, the income from which is expendable to support health care services (reported as operating income).

Net assets totaling \$901,000 in 2010 and \$476,000 in 2009 were released from donor restrictions due to satisfying the donor's restricted purposes. Of these amounts, approximately \$753,000 in 2010 and \$384,000 in 2009 were expended for capital assets.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

9. Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	Nine Months Ended September 30	
	2010	2009
Health care services	\$ 190,025,322	\$ 196,137,283
General and administrative	10,822,821	11,142,426
Fund raising	122,561	114,529
	<u>\$ 200,970,704</u>	<u>\$ 207,394,238</u>

10. Asset Constructed for Other

In August 2004, the Hospital executed a 65-year ground lease agreement with Sierra Medical Properties, LLC (Sierra), whereby Sierra agreed to construct a medical office building (MOB) with 59,212 square feet of rentable space on the Hospital's land. The building's purpose is to provide leased space to the Hospital, physicians, and others to facilitate the treatment of patients. Under the ground lease, Sierra initially paid a nominal base rent of \$100 per calendar year to the Hospital until construction was completed and the certificate of occupancy (Rent Start Date) was issued (March 24, 2006). Since then, Sierra agreed to pay, and has paid, annual ground rent of \$89,000 for years one to five, which will then be adjusted for changes in the Consumer Price Index (CPI) in the sixth year, and each five years thereafter.

The aggregate cost of the project was \$8,209,000. Other than fair value ground rental otherwise payable to the Hospital during the construction period, all construction costs were financed by Sierra. The Hospital executed a master lease agreement with Sierra in August 2004, whereby it guaranteed occupancy of up to 44,370 square feet (applicable area) at \$1.49 per foot to expire at the earlier of a five-year period commencing on the Rent Start Date, or the date the applicable area is fully leased. The Hospital executed a lease agreement in October 2005 and agreed to make rental payments of \$34,000 per month for ten years subject to annual CPI adjustment for 15,991 square feet of space in the MOB on the Rent Start Date. The leased space provides the Hospital with space for urgent care, radiology, clinical laboratory, and a community education room.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

10. Asset Constructed for Other (continued)

The Hospital is considered the owner of the project for financial reporting purposes because it received only a nominal amount of land rent from Sierra during the construction period thus effectively funding a portion of the construction cost. Accordingly, the Hospital has reported an asset and liability related to construction of the MOB. The construction costs are reported as asset constructed for other in property and equipment (see Note 2), and as a construction obligation in long-term debt (see Note 4) in the accompanying condensed consolidated statements of financial position. The Hospital did not meet the criteria necessary to derecognize the asset and related obligation when construction was completed and the lease term for the facility began. The Hospital expects to meet the criteria for derecognizing the asset and liability when the occupancy guarantee has expired, a period not to exceed five years from the Rent Start Date. At the derecognition date, the Hospital will record noncash gains or loss on debt extinguishment in the condensed consolidated statements of income and changes in net assets.

The asset constructed for other is being amortized over the economic life of the MOB. Facility rents paid by the Hospital are recorded as debt service payments on the construction obligation, with the portion not relating to interest reducing the principal balance. Since the property is only partially occupied by the Hospital, such that the remaining portion is an operating property leased to third parties by Sierra, the Hospital is required to include the results of operations of the MOB in its condensed consolidated statements of income and changes in net assets as if it still owned the property. Because the operations of the property are for the benefit of Sierra, the net income or loss from the property's operations is treated as an adjustment of interest expense recognized on the financing with a corresponding credit to the construction obligation.

Minimum estimated facility payments, excluding lease guarantees and the effect of CPI adjustments, are estimated to be \$403,000 in each of the years 2009 through 2011, and \$1,141,000 thereafter.

San Antonio Community Hospital and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited) (continued)

10. Asset Constructed for Other (continued)

The following table summarizes the MOB operations:

	September 30 2010	December 31 2009
Condensed consolidated statements of financial position:		
Asset constructed for others (net of accumulated depreciation of \$3,694,000 and \$3,078,000 in 2010 and 2009, respectively)	\$ 4,545,053	\$ 5,160,653
Construction obligation	(7,364,516)	(7,532,944)
Net liability	<u>\$ (2,819,463)</u>	<u>\$ (2,372,291)</u>
Condensed consolidated statements of income:		
Rental revenue (included in other revenue)	\$ 459,513	\$ 388,397
Operating expenses (included in purchased services, supplies and other)	(449,018)	(504,264)
Depreciation	(615,600)	(615,600)
Interest	(395,600)	(400,409)
Net loss	<u>\$ (1,000,705)</u>	<u>\$ (1,131,876)</u>

11. Subsequent Events

In preparation of the accompanying consolidated financial statements, the Hospital has evaluated subsequent events through the date of issuance, November 23, 2010.

Other Financial Information (Unaudited)

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Financial Position

September 30, 2010

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 30,910,446	\$ -	\$ 30,835,962	\$ 32,443	\$ 42,041
Current portion of assets limited as to use	3,822,146	-	3,822,146	-	-
Marketable securities	57,905,376	-	45,414,046	-	12,491,330
Accounts receivable from patients, less allowances for uncollectible accounts of \$12,000,000	46,965,175	-	46,965,175	-	-
Inventories of drugs and supplies	3,841,148	-	3,841,148	-	-
Prepaid expenses and other assets	3,454,876	-	3,454,676	200	-
Due from affiliates	-	(430,405)	430,405	-	-
Total current assets	146,899,167	(430,405)	134,763,558	32,643	12,533,371
Assets limited as to use:					
Board-designated	131,558,791	-	131,558,791	-	-
For self insurance program	3,449,097	-	3,449,097	-	-
Under debt agreement	3,239,088	-	3,239,088	-	-
Total assets limited as to use	138,246,976	-	138,246,976	-	-
Total property and equipment, net	94,617,471	-	94,614,707	-	2,764
Other assets:					
Charitable remainder trust assets	10,042,775	-	-	-	10,042,775
Investments restricted by donor for the acquisition of buildings and equipment and to provide a permanent source of income	10,865,440	-	-	-	10,865,440
Deferred financing costs	591,313	-	591,313	-	-
Beneficial interest in SAHF	-	(27,835,569)	27,835,569	-	-
Other	5,430,460	(180,000)	5,602,591	7,869	-
Total assets	\$ 406,693,602	\$ (28,445,974)	\$ 401,654,714	\$ 40,512	\$ 33,444,350

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Financial Position (continued)

September 30, 2010

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Liabilities and net assets					
Current liabilities:					
Accounts payable and accrued expenses	\$ 7,655,634	\$ -	\$ 7,655,634	\$ -	\$ -
Accrued compensation and related benefits	14,181,007	-	14,181,007	-	-
Amounts due to third-party payors	1,227,522	-	1,227,522	-	-
Current portion of long-term debt	4,852,539	-	4,852,539	-	-
Due to affiliates	-	(430,404)	-	5,650	424,754
Total current liabilities	27,916,702	(430,404)	27,916,702	5,650	424,754
Long-term liabilities:					
Long-term debt, less current portion	21,831,977	-	21,831,977	-	-
Self-insurance liabilities, less current portion	5,284,577	-	5,284,577	-	-
Pension liability and other	47,844,302	-	47,844,302	-	-
Liability under charitable remainder trust agreements	5,184,026	-	-	-	5,184,026
Other long-term liabilities	190,757	-	190,757	-	-
Total long term liabilities	80,335,639	-	75,151,613	-	5,184,026
Total liabilities	108,252,341	(430,404)	103,068,315	5,650	5,608,780
Net assets:					
Unrestricted	282,717,073	(12,291,382)	282,862,211	34,862	12,111,382
Temporarily restricted	11,706,497	(11,706,497)	11,706,497	-	11,706,497
Permanently restricted	4,017,691	(4,017,691)	4,017,691	-	4,017,691
Total net assets	298,441,261	(28,015,570)	298,586,399	34,862	27,835,570
Total liabilities and net assets	\$ 406,693,602	\$ (28,445,974)	\$ 401,654,714	\$ 40,512	\$ 33,444,350

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Financial Position

December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Assets					
Current assets:					
Cash and cash equivalents	\$ 22,955,254	\$ -	\$ 22,879,735	\$ 15,251	\$ 60,268
Current portion of assets limited as to use	5,235,396	-	5,235,396	-	-
Marketable securities	42,134,176	-	30,912,938	-	11,221,238
Accounts receivable from patients, less allowances for uncollectible accounts of \$11,550,000	48,397,813	-	48,397,813	-	-
Amounts due from third-party payors	183,316	-	183,316	-	-
Inventories of drugs and supplies	3,803,034	-	3,803,034	-	-
Prepaid expenses and other	4,317,665	-	4,316,865	800	-
Due from affiliates	-	(89,328)	89,328	-	-
Total current assets	<u>127,026,654</u>	<u>(89,328)</u>	<u>115,818,425</u>	<u>16,051</u>	<u>11,281,506</u>
Assets limited as to use, less current portion:					
Board-designated	129,504,241	-	129,504,241	-	-
For self-insurance program	4,058,803	-	4,058,803	-	-
Under debt agreements	3,749,512	-	3,749,512	-	-
Total assets limited as to use	<u>137,312,556</u>	<u>-</u>	<u>137,312,556</u>	<u>-</u>	<u>-</u>
Property and equipment, net	95,435,813	-	95,431,735	-	4,078
Other assets:					
Charitable remainder trust assets	10,023,409	-	-	-	10,023,409
Investment restricted by donor for the acquisition of buildings and equipment and to provide a permanent source of income	10,431,737	-	-	-	10,431,737
Deferred financing costs	668,513	-	668,513	-	-
Beneficial interest in SAHF	-	(25,967,498)	25,967,498	-	-
Other	5,406,780	(140,000)	5,536,900	9,880	-
Total assets	<u>26,530,439</u>	<u>(26,107,498)</u>	<u>32,172,911</u>	<u>9,880</u>	<u>20,455,146</u>
	<u>\$ 386,305,462</u>	<u>\$ (26,196,826)</u>	<u>\$ 380,735,627</u>	<u>\$ 25,931</u>	<u>\$ 31,740,730</u>

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Financial Position (continued)

December 31, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Liabilities and fund balances					
Current liabilities:					
Accounts payable and accrued expenses	\$ 12,481,994	\$ -	\$ 12,481,994	\$ -	\$ -
Accrued compensation and related benefits	13,094,593	-	13,094,593	-	-
Current portion of long-term debt	4,709,570	-	4,709,570	-	-
Due to affiliates	-	(89,328)	-	2,000	87,328
Total current liabilities	30,286,157	(89,328)	30,286,157	2,000	87,328
Long-term liabilities:					
Long-term debt, less current portion	26,628,374	-	26,628,374	-	-
Self-insurance liabilities, less current portion	5,829,440	-	5,829,440	-	-
Pension liability and other	49,251,795	-	49,251,795	-	-
Liability under charitable remainder trust agreements	5,685,904	-	-	-	5,685,904
Other long-term liabilities	255,293	-	255,293	-	-
Total long-term liabilities	87,650,806	-	81,964,902	-	5,685,904
Total liabilities	117,936,963	(89,328)	112,251,059	2,000	5,773,232
Net assets:					
Unrestricted	253,599,259	(11,338,258)	253,715,328	23,931	11,198,258
Temporarily restricted	10,751,549	(10,751,549)	10,751,549	-	10,751,549
Permanently restricted	4,017,691	(4,017,691)	4,017,691	-	4,017,691
Total net assets	268,368,499	(26,107,498)	268,484,568	23,931	25,967,498
Total liabilities and net assets	\$ 386,305,462	\$ (26,196,826)	\$ 380,735,627	\$ 25,931	\$ 31,740,730

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Income and Changes in Net Assets

Nine Months Ended September 30, 2010

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted revenues, gains, and other support:					
Net patient service revenues	\$ 212,857,626	\$ -	\$ 212,857,626	\$ -	\$ -
Investment income	10,765,116	-	9,614,804	17	1,150,295
Other revenue	3,169,257	-	2,893,787	(2,011)	277,481
Beneficial interest in SAHF	-	(866,632)	866,632	-	-
Total unrestricted revenues, gains, and other support	<u>226,791,999</u>	<u>(866,632)</u>	<u>226,232,849</u>	<u>(1,994)</u>	<u>1,427,776</u>
Operating expenses:					
Salaries and benefits	105,286,036	-	104,928,395	-	357,641
Professional fees	65,050,740	-	64,821,476	27,075	202,189
Provision for uncollectible accounts	20,907,424	-	20,907,424	-	-
Depreciation and amortization	8,505,250	-	8,503,936	-	1,314
Interest	1,221,254	-	1,221,254	-	-
Total operating expenses	<u>200,970,704</u>	<u>-</u>	<u>200,382,485</u>	<u>27,075</u>	<u>561,144</u>
Excess (deficiency) of unrestricted revenues, gains, and other support over expenses	<u>25,821,295</u>	<u>(866,632)</u>	<u>25,850,364</u>	<u>(29,069)</u>	<u>866,632</u>
Net assets released from restrictions used for purchase of property and equipment	753,390	-	-	-	753,390
Unrealized gain on investments	2,543,129	(46,492)	2,543,129	-	46,492
Transfer (from) to affiliates	-	(40,000)	753,390	40,000	(753,390)
Increase in unrestricted net assets	<u>29,117,814</u>	<u>(953,124)</u>	<u>29,146,883</u>	<u>10,931</u>	<u>913,124</u>
Assets released from restriction, restricted contributions and other	<u>954,948</u>	<u>(954,948)</u>	<u>954,948</u>	<u>-</u>	<u>954,948</u>
Increase in net assets	<u>30,072,762</u>	<u>(1,908,072)</u>	<u>30,101,831</u>	<u>10,931</u>	<u>1,868,072</u>
Net assets at beginning of year	<u>268,368,499</u>	<u>(26,107,498)</u>	<u>268,484,568</u>	<u>23,931</u>	<u>25,967,498</u>
Net assets at September 30, 2010	<u>\$ 298,441,261</u>	<u>\$ (28,015,570)</u>	<u>\$ 298,586,399</u>	<u>\$ 34,862</u>	<u>\$ 27,835,570</u>

San Antonio Community Hospital and Subsidiaries

Condensed Consolidating Statements of Income and Changes in Net Assets

Nine Months Ended September 30, 2009

	Consolidated	Eliminations	San Antonio Community Hospital	Cucamonga Health Services, Inc.	San Antonio Hospital Foundation, Inc.
Unrestricted revenues, gains, and other support:					
Net patient service revenues	\$ 207,665,850	\$ -	\$ 207,665,850	\$ -	\$ -
Investment income	11,628,459	-	10,008,510	37	1,619,912
Other revenue	3,700,003	-	3,256,474	210	443,319
Beneficial interest in SAHF	-	(888,859)	888,859	-	-
Total unrestricted revenues, gains and other support	222,994,312	(888,859)	221,819,693	247	2,063,231
Operating expenses:					
Salaries and benefits	109,502,431	-	109,168,152	-	334,279
Professional fees	69,067,073	-	68,872,602	6,187	188,284
Provision for uncollectible accounts	19,687,500	-	19,687,500	-	-
Depreciation and amortization	7,722,642	-	7,720,833	-	1,809
Interest	1,414,592	-	1,414,592	-	-
Total operating expenses	207,394,238	-	206,863,679	6,187	524,372
Excess (deficiency) of revenue, gains and other support over expenses	15,600,074	(888,859)	14,956,014	(5,940)	1,538,859
Net assets released from restrictions used for purchase of property and equipment	384,087	-	-	-	384,087
Unrealized gain on investments	3,832,488	(194,423)	3,832,488	-	194,423
Accrued additional min pension plan liability	-	-	-	-	-
Transfer to (from) affiliates	-	-	1,034,087	-	(1,034,087)
Increase (decrease) in unrestricted net assets	19,816,649	(1,083,282)	19,822,589	(5,940)	1,083,282
Assets released from restriction, restricted contributions and other	1,253,575	(1,253,575)	1,253,575	-	1,253,575
Increase (decrease) in net assets	21,070,224	(2,336,857)	21,076,164	(5,940)	2,336,857
Net assets at beginning of year	240,980,840	(22,820,467)	241,062,960	57,880	22,680,467
Net assets at September 30, 2009	\$ 262,051,064	\$ (25,157,324)	\$ 262,139,124	\$ 51,940	\$ 25,017,324

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Purchase Agreement, the Installment Sale Agreement, the Trust Agreement, the Master Indenture and the Supplemental Master Indenture for Obligation No. 1. This summary does not purport to be complete or definitive, is supplemental to the summary of other provisions of such documents described elsewhere in this Official Statement and is qualified in its entirety by reference to the full terms of the Purchase Agreement, the Installment Sale Agreement, the Trust Agreement, the Master Indenture and the Supplemental Master Indenture for Obligation No. 1. All capitalized terms used and not otherwise defined in this Official Statement have the meanings assigned to such terms in the Trust Agreement or, if not set forth in the Trust Agreement, in the Master Indenture.

DEFINITIONS OF CERTAIN TERMS

Accountant means any independent certified public accountant or firm of such accountants selected by the Credit Group Representative.

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

Affiliated Corporation means any corporation which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with a Credit Group Member.

Annual Debt Service means for each Fiscal Year the sum (without duplication) of the aggregate amount of principal and interest scheduled to become due and payable in such Fiscal Year on all Long-Term Indebtedness of the Credit Group then Outstanding (by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including purchase price becoming due as a result of mandatory or optional tender or put), less (1) any amounts of such principal or interest to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Government Obligations deposited in trust for the purpose of paying such principal or interest and (2) any Debt Service Subsidies payable in such Fiscal Year; provided that if an Identified Financial Product Agreement has been entered into by any Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments under an Identified Financial Product Agreement payable in such Fiscal Year minus any Financial Product Receipts under an Identified Financial Product Agreement receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service.

Authorized Denominations means the denomination of \$5,000 or any integral multiple thereof.

Balloon Indebtedness means Long-Term Indebtedness, twenty-five percent (25%) or more of the principal of which (calculated as of the date of issuance) becomes due during any period of twelve (12) consecutive months if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption prior to such 12-month period.

Bond Counsel means Orrick, Herrington & Sutcliffe LLP or another attorney-at-law, or firm of such attorneys, whose opinions in matters pertaining to the tax-exempt nature of interest represented by obligations issued by states and their political subdivisions are accepted nationally and selected by the Corporation and not objected to by the City.

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

Business Day means any day on which banks located in New York, New York, Los Angeles, California, and the city in which the Principal Office of the Trustee is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

Certificates means the certificates of participation evidencing a proportionate interest of the Holders thereof in Installment Payments to be made by the City pursuant to the Purchase Agreement.

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

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

Completion Indebtedness means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness or Interim Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared in connection with said Long-Term Indebtedness or Interim Indebtedness as certified by an Officer's Certificate.

Controlling Member means the Obligated Group Member designated by the Credit Group Representative to establish and maintain control over a Designated Affiliate.

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

Credit Group or **Credit Group Members** means all Obligated Group Members and Designated Affiliates.

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

Days of Unrestricted Cash on Hand, for any Fiscal Year, shall mean the ratio of (1) Unrestricted Cash and Investments of the Obligated Group as of the last day of such Fiscal Year to (2) total operating expenses of the Obligated Group for such Fiscal Year (excluding depreciation and amortization but including bad debt expense), in each case as shown on the Credit Group Financial Statements for such Fiscal Year, divided by the number of actual days elapsed in such Fiscal Year.

Debt Service Coverage Ratio means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

Debt Service Subsidy means direct subsidy payments payable to a Credit Group Member (or a Related Bond Issuer on behalf of a Credit Group Member) pursuant to Section 54AA of the Internal Revenue Code of 1986 with respect to Indebtedness of such Credit Group Member or Related Bonds, or any similar federal or state program providing for payment to a Credit Group Member (or a Related Bond Issuer on behalf of a Credit Group Member) of all or a portion of debt service on Indebtedness of a Credit Group Member

Default means any Event of Default or any event or condition which, with the passage of time or giving of notice or both, would constitute an Event of Default under the Master Indenture.

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

Designated Affiliate means any Person which has been so designated by the Credit Group Representative in accordance with the Master Indenture so long as such Person has not been further designated by the Credit Group Representative as no longer being a Designated Affiliate in accordance with the Master Indenture.

DTC means The Depository Trust Company, New York, New York, its successors and their assigns or, if DTC or its successor or assign resigns from its functions as Depository for the Certificates, any other Depository which agrees to follow the procedures required to be followed by a Depository in connection with the Certificates and which is selected by the City, at the direction of the Corporation.

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

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

Fair Market Value, when used in connection with Property, means the fair market value of such Property as determined by either:

(1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a "Member of the Appraisal Institute" and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert qualified in relation to the subject matter, provided that any such appraisal shall be performed by an Independent Consultant, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee;

(2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate; or

(3) an officer of the Credit Group Representative (whose determination shall be made in good faith and set forth in an Officer's Certificate filed with the Trustee) if the fair market value of such Property is less than or equal to the greater of \$5,000,000 or 2.5% of cash and equivalents as shown on the Credit Group Financial Statements.

Favorable Opinion of Bond Counsel means, with respect to any action relating to the Certificates, the occurrence of which requires such an opinion, a written legal opinion of Bond Counsel addressed to the City, the Trustee and the Corporation to the effect that such action is permitted under the Trust Agreement and will not impair the exclusion of the interest component represented by the Certificates from gross income for purposes of federal income taxation or the exemption of the interest component represented by the Certificates from personal income taxation under the laws of the State (subject to customary exceptions).

Financial Products Agreement means any interest rate exchange agreement, hedge or similar arrangement, including, *inter alia*, an interest rate swap, asset swap, a constant maturity swap, a forward or futures contract, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, direct funding transaction or other derivative, however denominated and whether entered into on a current or forward basis.

Financial Product Extraordinary Payments means any payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement in connection with the termination thereof, tax gross-up payments, expenses, default interest, and any other payments or indemnification obligations to be paid to a counterparty by an Obligated Group Member under a Financial Product Agreement, which payments are not Financial Product Payments.

Financial Product Payments means regularly scheduled payments required to be paid to a counterparty by an Obligated Group Member pursuant to a Financial Product Agreement.

Financial Product Receipts means regularly scheduled payments required to be paid to an Obligated Group Member by a counterparty pursuant to a Financial Product Agreement.

Financing Documents means the Purchase Agreement, the Sale Agreement, the Master Indenture, Supplement No. 1 and Obligation No. 1.

Fiscal Year means the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period hereafter designated by the Credit Group Representative as the fiscal year of the Credit Group.

GAAP means accounting principles generally accepted in the United States of America, consistently applied.

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

Government Obligations means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest Rating Categories of a Rating Agency; (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

Government Restriction means federal, state or other applicable governmental laws or regulations affecting any Credit Group Member and its health care facilities or other licensed facilities placing restrictions and limitations on the (i) fees and charges to be fixed, charged or collected by any Credit Group Member or (ii) the timing of the receipt of such revenues.

Gross Receivables means all of the accounts, chattel paper, instruments and general intangibles (all as defined in the UCC) of each Obligated Group Member, as are now in existence or as may be hereafter acquired and the proceeds thereof; excluding, however, all Restricted Moneys.

Guaranty means any obligation of any Credit Group Member guaranteeing, directly or indirectly, any obligation of any other Person which would, if such other Person were a Credit Group Member, constitute Indebtedness.

Identified Financial Product Agreement means a Financial Product Agreement identified to the Master Trustee in a Certificate of the Credit Group Representative as having been entered into by an Obligated Group Member with a Qualified Provider with respect to Indebtedness (which is either then-Outstanding or to be issued after the date of such Certificate) identified in such Certificate.

Immaterial Affiliates means Persons that are not Members of the Credit Group and whose combined total unrestricted net assets, as shown on their financial statements for their most recently completed fiscal year, aggregated less than 10% of the combined or consolidated unrestricted net assets of the Credit Group as shown on the Credit Group Financial Statements, plus the unrestricted net assets of such Persons as if they were Members of the Credit Group for such period, for the most recently completed Fiscal Year of the Credit Group.

Income Available for Debt Service means , unless the context provides otherwise, with respect to the Credit Group as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the Credit Group Financial Statements; provided, that no determination thereof shall take into account:

- (a) any revenue or expense of a Person which is not a Member of the Credit Group;
- (b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;
- (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards;
- (d) any gain or loss resulting from the extinguishment of Indebtedness;
- (e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business;
- (f) any gain or loss resulting from any discontinued operations;
- (g) any gain or loss resulting from pension terminations, settlements or curtailments;
- (h) any unusual charges for employee severance;
- (i) adjustments to the value of assets or liabilities resulting from changes in GAAP;
- (j) unrealized gains or losses on investments, including “other than temporary” declines in Book Value;
- (k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract;
- (l) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Product Agreement;
- (m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets; or

(n) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

Indebtedness means any Guaranty (other than any Guaranty by any Credit Group Member of Indebtedness of any other Credit Group Member) and any obligation of any Credit Group Member (a) for repayment of borrowed money, (b) with respect to finance leases or (c) under installment sale agreements; provided, however, that if more than one Credit Group Member shall have incurred or assumed a Guaranty of a Person other than a Credit Group Member, or if more than one Credit Group Member shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time. Financial Product Agreements and physician income guaranties shall not constitute Indebtedness.

Independent Consultant means a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Credit Group Member (other than the agreement pursuant to which such firm is retained), (3) is not connected with any Credit Group Member as an officer, employee, promoter, trustee, partner, director or person performing similar functions and (4) is qualified to pass upon questions relating to the financial affairs of organizations similar to the Credit Group or facilities of the type or types operated by the Credit Group and having the skill and experience necessary to render the particular opinion or report required by the provision of the Master Indenture in which such requirement appears.

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

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

Interim Indebtedness means Indebtedness with an original maturity not in excess of one year, the proceeds of which are to be used to provide interim financing for capital improvements in anticipation of the issuance of Long-Term Indebtedness. Interim Indebtedness shall be considered Long-Term Indebtedness for purposes of the Master Indenture.

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

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

(2) Federal Housing Administration debentures.

(3) The following obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America: (a) Federal Home Loan Mortgage Corporation (FHLMC); (b) Participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts)- Senior Debt obligations; (c) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives) Consolidated system-wide bonds and notes; (d) Federal Home Loan Banks (FHL Banks) Consolidated debt obligations; (e) Federal National Mortgage Association (FNMA) Senior debt obligations and Mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts); (f) Student Loan Marketing Association (SLMA) Senior debt obligations

(excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date); and (g) Financing Corporation (FICO) Debt obligations; and (h) Resolution Funding Corporation (REFCORP) Debt obligations.

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

(5) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), in banks (including the Trustee and any of its affiliates) which have capital and surplus of at least \$5,000,000.

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

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

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

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

Irrevocable Deposit means the irrevocable deposit in trust of cash in an amount, or Government Obligations, or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness, the principal of and interest on which will be an amount, and under terms sufficient to pay all or a portion of the principal of, premium, if any, and interest on, as the same shall become due, any such Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee or escrow agent authorized to act in such capacity.

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

Long-Term Indebtedness means Indebtedness other than Short-Term Indebtedness.

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

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

Material Credit Group Members means the Credit Group Members whose combined or consolidated unrestricted net assets, as shown on their financial statements for their most recently completed fiscal year, were equal to or greater than 90% of the combined or consolidated unrestricted net assets of the entire Credit Group as shown on the Credit Group Financial Statements for the most recently completed Fiscal Year of the Credit Group.

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

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

(a) (a) with respect to a Guaranty, (i) if the Credit Group Members have made a payment pursuant to such Guaranty, one hundred percent (100%) of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty shall be included in the calculation of Annual Debt Service in the year in which such payment was made and for two Fiscal Years thereafter and (ii) otherwise, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Credit Group Member (calculated as if such Person were a Credit Group Member), over the Annual Debt Service of such Person (calculated as if such Person were a Credit Group Member) (the "Ratio"). The applicable percentage of Annual Debt Service on such indebtedness shall be included in the calculation of Annual Debt Service, as follows:

<u>Ratio</u>	<u>Percentage of Annual Debt Service on such Indebtedness to be Included</u>
Less than 2.0	20%
2.0 or greater	0%

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments under an Identified Financial Product Agreement or Financial Product Receipts under an Identified Financial Product Agreement) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (ii) if such Long-Term Indebtedness (or Identified Financial Product Agreement) was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, at the election of the Credit Group Representative, either (x) an average of the SIFMA Swap Index during the twelve (12) calendar months immediately preceding the date of calculation or (y) an average of the interest rates per annum which would have been in effect for any twelve (12) consecutive calendar months during the eighteen (18) calendar months immediately preceding the date of calculation, as specified in a Certificate of the Credit Group Representative or, at the sole option of the Credit Group Representative, such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Credit Group Representative;

(c) if moneys or Government Obligations have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay all or a portion of the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, to the extent provided for, shall not be included in computations of Maximum Annual Debt Service;

(d) debt service on Long-Term Indebtedness incurred to finance capital improvements shall be included in the calculation of Maximum Annual Debt Service only in proportion to the amount of interest on such Long-Term Indebtedness which is payable in the then current Fiscal Year from sources other than proceeds of such Long-Term Indebtedness (other than proceeds deposited in debt service reserve funds) held by a trustee or escrow agent for such purpose; and

(e) with respect to Balloon Indebtedness or Interim Indebtedness, such Balloon Indebtedness or Interim Indebtedness shall be treated, at the sole option of the Credit Group Representative, as Long-Term Indebtedness bearing interest at an interest rate equal to either (i) a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer prior to the date of calculation or (ii) such interest rate as shall be specified in a written statement from an investment banking or financial advisory firm selected by the Credit Group Representative, and with substantially level debt service over a period of up to thirty (30) years (which period shall be designated by the Credit Group Representative) from the date of calculation..

Nonrecourse Indebtedness means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment acquired or constructed with the proceeds of such Indebtedness, liability for which is effectively limited to the Property, Plant and Equipment subject to such Lien with no recourse, directly or indirectly, to any other Property of any Credit Group Member.

Obligated Group means all Obligated Group Members.

Obligated Group Member means the Corporation and each other Person which is obligated hereunder to the extent and in accordance with the provisions of the Master Indenture from and after the date upon

which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture from and after the date of such withdrawal.

Obligation No. 1 means the Master Indenture Obligation issued by the Credit Group Representative in connection with the execution and delivery of the 2010 Certificates.

Officer's Certificate means a certificate signed by an Authorized Representative of the Credit Group Representative.

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

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

Parity Financial Product Extraordinary Payments means Financial Product Extraordinary Payments that (1) are with respect to a Financial Product Agreement secured or evidenced by an Obligation and (2) have been specified to be payable on a parity with Financial Product Payments in the Related Supplement authorizing the issuance of such Obligation.

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

Permitted Liens means and include:

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

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or,

with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which, are being contested or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days, or the amount or validity of which are being contested; (iii) 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 (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

(c) Any Lien described in Appendix A to the Master Indenture which is existing on the date of execution of the Master Indenture or as Appendix A may be supplemented upon addition of a Credit Group Member with respect to Liens existing on the Property of such additional Credit Group Member, provided that no such Lien (or the amount of Indebtedness or other obligations secured thereby) may be increased, extended, renewed or modified to apply to any Property of any Credit Group Member not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Lien;

(d) Any Lien in favor of the Master Trustee securing all Outstanding Master Indenture Obligations equally and ratably;

(e) Liens arising by reason of good faith deposits with any Credit Group Member in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Credit Group Member to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(f) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Credit Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;

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

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

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

(j) Liens on Property received by any Credit Group Member through gifts, grants, bequests or research grants, such Liens being due to restrictions on such gifts, grants, bequests or research grants or the income thereon, up to the Fair Market Value of such Property;

(k) Rights of the United States of America, including, without limitation, the Federal Emergency Management Agency ("FEMA"), or the State of California, including without limitation the California Emergency Management Agency, by reason of FEMA and other federal and State of California funds made available to any Member of the Obligated Group under federal or State of California statutes;

(l) Liens on Property securing Indebtedness incurred to refinance Indebtedness previously secured by a Lien on such Property, provided that (i) the amount of such new Indebtedness does not exceed the amount of such refinanced Indebtedness, (ii) the Property securing such Indebtedness is not changed, and (iii) the obligor with respect to such Indebtedness, whether direct or contingent, is not changed;

(m) Liens granted by a Credit Group Member to another Credit Group Member;

(n) Liens securing Nonrecourse Indebtedness incurred pursuant to the provisions of the Master Indenture;

(o) Liens consisting of purchase money security interests (as defined in the UCC) and lessors' interest in capitalized leases;

(p) Liens on the Obligated Group Members' accounts receivable securing Indebtedness in an amount not to exceed 30% of the Credit Group Members' net accounts receivable;

(q) Liens on revenues constituting rentals in connection with any other Lien permitted hereunder on the Property from which such rentals are derived;

(r) the lease or license of the use of a part of the Obligated Group Members' facilities for use in performing professional or other services necessary for the proper and economical operation of such facilities in accordance with customary business practices in the industry;

(s) Liens created on amounts deposited by an Obligated Group Member pursuant to a security annex or similar document to collateralize obligations of such Member under a Financial Product Agreement;

(t) Liens junior to Liens in favor of the Master Trustee;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) Uniform Commercial Code financing statements filed with the Secretary of State of the State (or such other office maintaining such records) in connection with an operating lease entered into by any Member in the ordinary course of business so long as such financing statement does not evidence the grant of a Lien other than a Permitted Lien;

(w) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Member so long as the lease arrangement is in the ordinary course of business of the Member;

(x) deposits of Property by any Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(y) deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease, and other similar obligations incurred in the ordinary course of business of a Member;

(z) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of a Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(aa) present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(bb) Any Lien on inventory that does not exceed 25% of the Value thereof;

(cc) Any Lien on Property due to the rights of third-party payors for recoupment of amounts paid to any Credit Group Member;

(dd) Any Lien existing for not more than 10 days after the Credit Group Member shall have received notice thereof; and

(ee) Any other Lien on Property provided that the Value of all Property encumbered by all Liens permitted as described in this clause (ee) does not exceed 25% of the sum of the Value of all Property of the Credit Group Members, calculated at the time of creation of such Lien.

Person means an individual, corporation, limited liability company, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

Property means any and all rights, titles and interests in and to any and all assets of any Credit Group Member, whether real or personal, tangible or intangible and wherever situated, other than donor restricted funds as determined in accordance with GAAP. For purposes of performing certain calculations under the Master Indenture, the Credit Group Representative may treat "total assets" as shown on the Credit Group's audited financial statements as the Book Value of the Credit Group's Property.

Property, Plant and Equipment means all Property of any Credit Group Member which is considered property, plant and equipment of such Credit Group Member under GAAP.

Purchase Payments means all of the payments so designated and required to be made by the Corporation pursuant to the Sale Agreement.

Qualified Provider means any financial institution or insurance company or corporation which is a party to a Financial Product Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Product Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Product Agreement.

Rating Agency means Fitch Inc., Moody's Investors Service, Inc., Standard & Poor's, a division of The McGraw-Hill Companies, and any other national rating agency then rating Master Indenture Obligations or Related Bonds.

Rating Category means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier, outlook or otherwise.

Real Property means the real estate described in exhibits to the Purchase Agreement and the Sale Agreement.

Related Bonds means the revenue bonds or other obligations (including, without limitation, installment sale or lease obligations evidenced by certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to a Credit Group Member in consideration of the execution, authentication and delivery of a Master Indenture Obligation or Master Indenture Obligations to or for the order of such Government Issuer.

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

Reserve Fund Requirement means, as of any date of calculation, the least of (1) 10% of the original principal amount of the Certificates, (2) Maximum Annual Certificate Service and (3) 100% of the average

annual payments of (a) interest falling due with respect to then Outstanding Certificates (assuming that all then Outstanding Serial Certificates are paid on their respective Certificate Payment Dates and all then Outstanding Term Certificates are paid at the times of and in amounts provided for by Mandatory Sinking Account Payments) and (b) the aggregate amount of principal components of Serial Certificates and Mandatory Sinking Account Payments required to be paid.

Restricted Moneys means the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to an object or purpose inconsistent with their use for the payment of Required Payments.

Revenues means all amounts received by the City or the Trustee for the account of the City under the Trust Agreement pursuant or with respect to the Sale Agreement or Obligation No. 1, including, without limiting the generality of the foregoing, Purchase Payments (including both timely and delinquent payments, any late charges, and regardless of source), prepayments, insurance proceeds, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Trust Agreement, but not including any Administrative Fees and Expenses or amounts received or on deposit in the Rebate Fund.

Short-Term Indebtedness means all Indebtedness (other than Interim Indebtedness) having an original maturity less than or equal to one year and not renewable at the option of a Credit Group Member for a term greater than one year from the date of original incurrence or issuance, or Indebtedness with a maturity greater than one year or renewable at the option of a Credit Group Member for a term greater than one year, if by the terms of such Indebtedness, for a period of at least twenty (20) consecutive days during each calendar year no Indebtedness is permitted to be Outstanding thereunder. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling. Interim Indebtedness shall not constitute Short-Term Indebtedness for any purpose under the Master Indenture.

SIFMA Swap Index means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available "SIFMA Swap Index" shall refer to an index selected by the Obligated Group Representative, with the advice of an investment banking or financial services firm knowledgeable in health care matters.

Subordinated Indebtedness means Long-Term Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Credit Group Members under the Master Indenture.

Total Revenues means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, premium revenue and other revenue and nonoperating gains (losses)), as shown on the Credit Group Financial Statements of the Credit Group for the most recent Fiscal Year.

Transaction Test means, with respect to any specified transaction, that (i) no Event of Default or Default then exists and (ii) if such transaction had occurred as of the first day of the second full Fiscal Year preceding such transaction, the Credit Group would be able to satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness set forth in Section 3.12(a) as of the date of such transaction.

UCC means the Uniform Commercial Code of the State of California, as amended from time to time.

Unrestricted Cash and Investments means, as of the last day of any Fiscal Year, the sum of unrestricted and unencumbered cash, cash equivalents, marketable securities and other marketable liquid investments

(including Board designated funds) as shown on the Credit Group Financial Statements for such Fiscal Year, but excluding (i) any trustee-held funds (including debt service funds (other than amounts deposited in debt service funds for the purpose of paying debt service for the ensuing twelve (12) months), debt service reserve funds and construction funds), litigation reserve funds, malpractice funds and other self insurance or captive insurer funds, and any other funds subject to a restriction that prohibits their use for operating expenses or (ii) the proceeds of Short-Term Indebtedness.

Value, when used with respect to Property, means the aggregate value of all such Property, with each component of such Property valued, at the option of the Credit Group Representative, at either its Fair Market Value or its Book Value.

PURCHASE AGREEMENT

Purchase and Sale of the Real Property

In consideration of the purchase price described below, in the Purchase Agreement the Corporation grants and conveys to the City the Real Property. The City and the Corporation agree that title to the Real Property shall immediately be deemed conveyed to and vested in the City. The City purchases the Real Property for the purchase price described below and accepts the grant and conveyance of the Real Property. The Corporation and the City agree that neither grant deeds nor any other documents evidencing such grant and conveyance shall be recorded because such grant and conveyance are incident to a financing and result (when taken together with the conveyance made in the Sale Agreement) in the Corporation having title to the Real Property both prior to and following such conveyances.

Purchase Price

The purchase price of the Real Property is one hundred twenty four million six hundred five thousand dollars (\$124,605,000) (the "principal component") plus the interest to accrue on the unpaid balance of such principal component over the term of the Purchase Agreement, all in accordance with the Installment Payment schedule attached to the Purchase Agreement. All amounts attributable to interest (the "interest component") as specified in said schedule shall be paid by the City as and constitute interest.

The City shall pay the purchase price through the Installment Payments over a period of thirty (30) years; provided, however, that the City's obligation to make the Installment Payments is limited exclusively to Revenues, and the City is not directly or indirectly or contingently or morally obligated to make Installment Payments from any other moneys or assets of the City. Subject to that limitation, the Installment Payments will be made semiannually by the City in accordance with the Installment Payment schedule.

The Installment Payments shall be made to the Trustee at the Corporate Trust Office. If the City should fail to make any of the Installment Payments required by the Purchase Agreement, then the Installment Payments so unpaid shall continue as an obligation of the City until such amount shall have been fully paid and the City agrees to pay the same with interest thereon at a rate of interest equal to the rate of interest on the unpaid principal components of such unpaid Installment Payments, payable solely from Revenues.

The Corporation will make each Purchase Payment due under the Sale Agreement directly to the Trustee in satisfaction of the City's Installment Payment obligations under the Sale Agreement. The City grants to the Corporation a security interest in the Purchase Payments for the purpose of securing the Installment Payments due from the City hereunder.

Obligations of City Unconditional

Subject to the provisions described under "Limitation on Liability of the City," the obligations of the City to make the payments required by the Purchase Agreement and to perform and observe the other agreements on its part contained in the Purchase Agreement shall be absolute and unconditional, and, until such time as all of the Installment Payments shall have been fully paid (or provision for the payment thereof shall have been made in

accordance with the Purchase Agreement), the City (i) will not suspend or discontinue any payments provided for in the Purchase Agreement, (ii) will perform and observe all of its other agreements contained in the Purchase Agreement and (iii) will not terminate the Purchase Agreement for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Health Facilities, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Purchase Agreement.

Limitation on Liability of City

Notwithstanding anything to the contrary contained in the Purchase Agreement, the City shall not be obligated to pay any Installment Payment or any portion of the purchase price or make any other payments or advance any moneys or be liable for any other costs or expenses except from Revenues. The City shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the City for all or any portion of the purchase price or for all or any portion of such other costs or expenses.

Use of Certificate Proceeds

In consideration of the purchase of the Real Property by the City hereunder, the Corporation shall construct, renovate, expand and equip the portion of the Project being financed from the proceeds of the Certificates, or cause the portion of the Project being financed from the proceeds of the Certificates to be constructed, renovated, expanded and equipped, and shall proceed with due diligence and use its best efforts to cause the construction, renovation, expansion and equipment thereof to be completed. Additionally, the Corporation shall cause the Existing Indebtedness to be refunded or refinanced.

Purchase Agreement Defaults Defined

The following shall be "Purchase Agreement Defaults" under the Purchase Agreement:

- (a) Failure by the City to pay or cause to be paid any Installment Payment required to be paid at the time specified therein;
- (b) Failure by the City to observe and perform any covenant, condition or agreement in the Purchase Agreement on its part to be observed or performed, other than as referred to in paragraph (a) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the City by the Authorized Representative of the Corporation, unless the Corporation shall agree in writing to an extension of such time; or
- (c) A Sale Agreement Default.

Remedies on Default

Whenever any Purchase Agreement Default shall have happened and be continuing, the Corporation may take any one or more of the following remedial steps:

- (a) The Corporation may, if the payment of the Certificates have been accelerated pursuant to the Trust Agreement and upon notice to the City, declare the principal component of all Installment Payments, plus all accrued and unpaid interest thereon, to be immediately due and payable, whereupon the same shall become immediately due and payable; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to the Trust Agreement, acceleration of the Installment Payments shall be rescinded and annulled, but no such rescission and annulment shall extend to or affect any subsequent default or shall impair or exhaust any right or power consequent thereto;

(b) The Corporation may exercise and enforce all or any of the rights and remedies provided for in the Sale Agreement; and/or

(c) The Corporation may take whatever action at law or in equity may appear necessary or desirable to enforce performance and observance of any obligation, condition or covenant of the City under the Purchase Agreement.

Discharge of Obligations

When

(a) all Installment Payments shall have become due and payable in accordance with the Purchase Agreement or an Order of the City to prepay all of the Installment Payments shall have been filed with the Trustee; and

(b) there shall have been deposited with the Trustee at or prior to the Payment Dates or date (or dates) specified for prepayment, in trust for the benefit of the Holders of the Certificates and irrevocably appropriated and set aside for the payment of the Installment Payments, sufficient moneys or Investment Securities required by the Trust Agreement, the principal of and interest on which when due will provide money sufficient to pay all principal components, premium, if any, and interest components of the Installment Payments to the Payment Date or prepayment date or dates so specified, as the case may be; and

(c) provision shall have been made for paying all fees and expenses of the Trustee so long as any of the Certificates shall remain unpaid;

then and in that event the right, title and interest of the Corporation and the Trustee in the Purchase Agreement and the obligations of the City under the Purchase Agreement shall thereupon cease, terminate, become void and be completely discharged and satisfied (except for the right of the Trustee and the obligation of the City to have such moneys and such Investment Securities applied to the payment of the Installment Payments). In such event, upon Request of the City, the Trustee shall cause an accounting for such period or periods as may be requested by the City to be prepared and filed with the City and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over to the Corporation, as an overpayment of Purchase Payments under the Sale Agreement, all such moneys or such Investment Securities held by it pursuant hereto (other than such moneys and such Investment Securities as are required for the payment or prepayment of the Installment Payments which moneys and Investment Securities shall continue to be held by the Trustee in trust and shall be applied by the Trustee to such payment or prepayment of the Installment Payments of the City).

INSTALLMENT SALE AGREEMENT

Installment Purchase and Sale of the Facilities

In consideration of the purchase price set forth in the Sale Agreement, in the Sale Agreement the City grants and conveys to the Corporation the Real Property and the Corporation purchases the Real Property for such purchase price and accepts conveyance of the Real Property. The City and the Corporation agree that title to the Real Property shall immediately be deemed conveyed to and vested in the Corporation, but agree that neither grant deeds nor any other document evidencing such grant and conveyance shall be executed or recorded because such grant and conveyance are incident to a financing and result (when taken together with the conveyances made in the Purchase Agreement) in the Corporation having title to the Real Property both prior to and following such conveyances.

As additional consideration for the conveyance of the Real Property to the Corporation, the Corporation agrees to issue and cause to be authenticated and delivered to the City or its designee, pursuant to the Master Indenture and Supplement No. 1, Obligation No. 1. The City agrees that Obligation No. 1 shall be registered in the name of the Trustee.

Payment Provisions

Purchase Price. The Corporation shall pay the purchase price for the Real Property by making installment payments, to be referred to herein as "Purchase Payments," in an amount sufficient for the payment in full of all obligations to the Holders of the Certificates from time to time Outstanding under the Trust Agreement, including (i) the total interest components due and payable with respect to the Installment Payments of the City under the Purchase Agreement, (ii) the total principal components of such Installment Payments, and (iii) the prepayment premium, if any, that shall be payable on the prepayment of Certificates prior to their respective stated Certificate Payment Dates; less the amount of other funds available for such payment as provided in the Trust Agreement. The Corporation shall pay the Purchase Payments to the Trustee, as assignee of the City, for deposit in the Interest Fund and Principal Fund. The Purchase Payments shall be due and payable on or prior to the Business Day next preceding each Payment Date. Each Purchase Payment shall consist of (i) the aggregate amount of interest becoming due and payable on the next Interest Payment Date with respect to all Certificates Outstanding and (ii) the aggregate amount of principal and Mandatory Sinking Account Payments required to be paid for Outstanding Certificates, in each case on the next January 1. Each Purchase Payment shall be paid in lawful money of the United States of America to the Trustee at the Principal Office and held, invested, disbursed and applied as provided in the Trust Agreement. The Corporation shall make each such Purchase Payment directly to the Trustee in satisfaction of the City's Installment Payment obligations under the Purchase Agreement. If the Corporation should fail to make any of the payments required by this Section, the installment so in default shall continue as an obligation of the Corporation until the amount in default shall have been fully paid with interest thereon at a rate of interest equal to the rate of interest on the principal components of such unpaid Purchase Payments.

Supplemental Payments. In addition to Purchase Payments, the Corporation shall also pay to the City or to the Trustee, as the case may be, "Supplemental Payments," as follows:

(a) All taxes and assessments of any type or character charged to the City or the Trustee affecting the amount available to the City or the Trustee from payments to be received hereunder or in any way arising due to the transactions contemplated by the Sale Agreement, the Purchase Agreement or the Trust Agreement (including taxes and assessments assessed or levied by any public agency or governmental authority of whatsoever character having power to levy taxes or assessments) but excluding franchise taxes based upon the capital and/or income of the City or the Trustee and taxes based upon or measured by the net income of the City or the Trustee; provided, however, that the Corporation shall have the right to protest and contest any such taxes or assessments and to require the City or the Trustee, at the Corporation's expense, to protest and contest any such taxes or assessments levied upon the City or the Trustee and that the Corporation shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Certificateholders, the City or the Trustee;

(b) The annual (or other regular) fees and expenses of the Trustee and all reasonable fees, charges and expenses of the Trustee for any extraordinary services rendered by the Trustee under the Trust Agreement, as and when the same become due and payable;

(c) The reasonable fees and expenses of such accountants, management consultants, attorneys and other experts as may be engaged by the City or the Trustee to prepare audits, financial statements, reports or opinions or to provide such other services required under any of the Financing Documents;

(d) The reasonable fees and expenses of the City in connection with the Sale Agreement, the Purchase Agreement, the Trust Agreement, the Certificates or Obligation No. 1, including, without limitation, any and all expenses incurred in connection with the authorization, sale and delivery of the Certificates or in connection with any litigation which may at any time be instituted involving the Sale Agreement, the Purchase Agreement, the Trust Agreement, the Certificates or Obligation No. 1 or any of the other documents contemplated thereby; and

(e) All other reasonable and necessary fees and expenses attributable to the Sale Agreement.

Such Supplemental Payments shall be billed to the attention of the Authorized Representative of the Corporation by the City or the Trustee from time to time. Amounts so billed shall be paid by the Corporation within thirty (30) days after receipt of such bill.

Credits for Payments. The Corporation shall receive credit against the payments required under the Sale Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) on installments of interest in an amount equal to moneys in the Interest Fund to the extent such amounts have not previously been credited against such payments;

(b) on installments of principal in an amount equal to moneys in the Principal Fund to the extent such amounts have not previously been credited against such payments; and

(c) on installments of principal and interest in an amount equal to the amount specified in the Certificate of the Authorized Representative of the Corporation filed with the Trustee in connection with the prepayment of Installment Payments. Such credits shall be made against the installments of Installment Payments specified in said Certificate of the Authorized Representative of the Corporation.

Prepayment. The Corporation shall have the right at any time or from time to time to the extent, in the manner and as permitted by the provisions of the Trust Agreement relating to the prepayment of Certificates, to prepay all or any part of the Installment Payments due from the Corporation, and the City shall accept such prepayments when the same are tendered by the Corporation.

(a) All prepayments being made from moneys derived from condemnation awards or the proceeds of hazard insurance relating to the Facilities shall be deposited in the Special Prepayment Account and used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement.

(b) All prepayments being made from Mandatory Sinking Account Payments shall be deposited in the Sinking Account and used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement.

(c) All prepayments being made by the Corporation pursuant to the optional prepayment provisions of the Trust Agreement shall be deposited in the Optional Prepayment Account and, at the request of the Authorized Representative of the Corporation, credited against Installment Payments due from the Corporation in order of their due date or used for the prepayment or purchase of Outstanding Certificates in the manner and subject to the terms and conditions set forth in the Trust Agreement. The Corporation shall also have the right to surrender to the Trustee for cancellation Certificates acquired by the Corporation in any manner whatsoever, and such Certificates, upon such surrender and cancellation, shall be deemed to be paid and retired and shall be applied as set forth in the Trust Agreement.

Notwithstanding any such prepayment or surrender of Certificates, as long as any Certificates remain Outstanding or any Installment Payments or Supplemental Payments remain unpaid, the Corporation shall not be relieved of its obligations hereunder.

Funding of Reserve Fund. If Days of Unrestricted Cash on Hand is less than 130 as of the last day of any Fiscal Year, the Corporation shall, no later than 150 days after the last day of such Fiscal Year (or if earlier, the day the Credit Group Financial Statements are filed with the Master Trustee by the Credit Group Representative pursuant to the Master Indenture), (i) file with the Trustee a written certificate stating that Days of Unrestricted Cash on Hand is less than 130 for such Fiscal Year and (ii) transfer to the Trustee for deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement. Following the filing of such written certificate with the Trustee and such funding of the Reserve Fund, the Corporation shall not be required to calculate Days of Unrestricted Cash on Hand for any purpose under this Sale Agreement, the Trust Agreement or Supplement No. 1.

If the Reserve Fund has been funded pursuant to subsection (A) above, if on any date of valuation of the Investment Securities in the Reserve Fund pursuant to the Trust Agreement the amount then on deposit in the Reserve Fund is less than the Reserve Fund Requirement, the Corporation shall, within one hundred twenty (120) days after receiving notice of such valuation, pay to the Trustee an amount sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement. Additionally, in the event of any transfer from the Reserve Fund

pursuant to the Trust Agreement for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, the Trustee shall immediately notify the Corporation of the amount of such transfer, and the Corporation shall restore the amount on deposit in the Reserve Fund to an amount equal to the Reserve Fund Requirement no later than one hundred eighty (180) days from the date of such transfer, such amount to be paid to the Trustee in six (6) substantially equal monthly installments.

Particular Covenants

Tax Covenant. The Corporation shall not take any action, or fail to take any action, if such action or failure to take action would adversely affect the exclusion from gross income for federal income tax purposes under Section 103 of the Code of the interest component payable with respect to Certificates. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Agreement.

Continuing Disclosure Covenant. The Corporation agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Sale Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not constitute a Sale Agreement Default; however, Trustee shall, at the request of any Participating Underwriter (as defined in Rule 15c2-12 promulgated by the Securities and Exchange Commission) or any Holder or any Beneficial Owner and upon receipt of indemnification acceptable to it, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under this provision.

Sale Agreement Defaults and Remedies

Sale Agreement Defaults. The following events shall be "Sale Agreement Defaults":

(a) Failure by the Corporation to pay in full any payment required under the Sale Agreement when due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Sale Agreement;

(b) If any representation or warranty made by the Corporation in the Sale Agreement or made by the Corporation in any document, instrument or certificate furnished to the Trustee or the City in connection with the execution and delivery of the Certificates shall at any time prove to have been incorrect in any material respect as of the time made;

(c) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Sale Agreement on its part to be observed or performed, other than as referred to in subsection (a) or (b) of this Section and other than as described above under the caption "Particular Covenants – Continuing Disclosure Covenant," or shall breach any warranty contained in the Sale Agreement, for a period of sixty (60) days after written notice, specifying such failure or breach and requesting that it be remedied, has been given to the Authorized Representative of the Corporation by the City or the Trustee, unless the City and the Trustee shall agree in writing to an extension of such time;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation insolvent, or adjudging the Corporation bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation or of the whole or any substantial part of the Facilities and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

(g) If any Event of Default under the Trust Agreement or a Purchase Agreement Default shall occur; or

(h) If any Event of Default as defined in and under the Master Indenture shall occur.

Remedies on Default. If a Sale Agreement Default shall occur, then, and in each and every such case during the continuance of such a Sale Agreement Default, the City or the Trustee may take any one or more of the following remedial steps:

(a) If Obligation No. 1 has been declared immediately due and payable and if the Installment Payments and the Certificates represented thereby have been declared to be due and payable immediately pursuant to the Trust Agreement and upon notice in writing to the Corporation, the City or the Trustee shall declare all installments of Purchase Payments and Supplemental Payments payable for the remainder of the term of the Sale Agreement to be immediately due and payable, whereupon the same shall be immediately due and payable, anything in the Sale Agreement to the contrary notwithstanding; "all installments" as used in this subsection shall mean an amount equal to the entire principal components of the Purchase Payments, together with any applicable prepayment premiums and all interest components of the Purchase Payments accrued or to accrue on and prior to the next succeeding prepayment date or dates on which the Certificates can be prepaid after giving notice to the Holders thereof as required by the Trust Agreement (less moneys available for such purpose then held by the Trustee) plus any other payments due or to become due hereunder, including, without limitation, any unpaid fees and expenses of the Trustee which are then due or will become due prior to the time that the Certificates are paid in full and the trust established by the Trust Agreement is terminated; provided, however, that if acceleration of the Certificates has been rescinded and annulled pursuant to of the Trust Agreement, acceleration of the Purchase Payments and the Supplemental Payments shall be rescinded and annulled.

(b) The City and the Trustee may take whatever action, at law or in equity, as may appear necessary or desirable to collect the Purchase Payments, Supplemental Payments and any other payments then due and thereafter to become due under the Sale Agreement or to enforce the performance and observance of any obligation, covenant, agreement or provision contained in the Sale Agreement to be observed or performed by the Corporation.

Any such action by the City or the Trustee, however, is subject to the condition that if, at any time after such action and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Purchase Payments the payment of which is overdue, with interest on such overdue principal component of such overdue Purchase Payments at the rate borne by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the City or the Trustee (other than in the payment of the Purchase Payments due and payable solely by reason of such action) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Trustee shall rescind and annul such action and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Discharge of Obligations

When:

(a) all Installment Payments shall become due and payable in accordance with the Sale Agreement or an Order of the Authorized Representative of the Corporation to prepay all of the Installment Payments shall have been filed with the Trustee;

(b) there shall have been deposited with the Trustee at or prior to the Certificate Payment Dates or other date (or dates) specified for prepayment, in trust for the benefit of the Holders of the Certificates and irrevocably appropriated and set aside to the payment of the Installment Payments, sufficient moneys or Defeasance Securities in accordance with the Trust Agreement, the principal of and the interest on which securities when due will provide moneys sufficient to pay all principal components and interest components of the Installment Payments to the Certificate Payment Date or prepayment date or dates so specified, as the case may be; and

(c) provisions shall have been made for paying all fees and expenses of the Trustee so long as any of the Certificates shall remain unpaid;

then and in that event the right, title and interest of the City herein and the obligations of the Corporation under the Sale Agreement shall thereupon cease, terminate, become void and become completely discharged and satisfied (except only that the right of the City to receive and the obligation of the Corporation to pay the Installment Payments shall continue, but only out of such money or securities deposited with the Trustee for such payment). In such event, upon Request of the Authorized Representative of the Corporation, the Trustee shall cause an accounting for such period or periods as may be requested by the Authorized Representative of the Corporation to be prepared and filed with the Authorized Representative of the Corporation and shall execute and deliver to the Authorized Representative of the Corporation all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over to the Corporation, as an overpayment of Installment Payments, all such moneys or such Defeasance Securities held by it pursuant hereto (other than such moneys and such Defeasance Securities as are required for the payment or prepayment of the Installment Payments, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust and shall be applied by the Trustee to such payment or prepayment of the Installment Payments of the Corporation).

TRUST AGREEMENT

Pledge and Assignment

Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth herein, in the Trust Agreement the City and the Corporation pledge, to secure the payment of the principal and interest components with respect to the Certificates in accordance with their terms and the provisions of the Trust Agreement, all of the interests of the City or the Corporation in any amounts (including proceeds of the sale of Certificates) held in any fund or account established pursuant to the Trust Agreement (other than the Rebate Fund, Administrative Fees and Expenses and any amounts paid pursuant to the sections of the Sale Agreement relating to indemnification and payment of Authority expenses). Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Trustee of the Certificates, without any physical delivery thereof or further act.

In the Trust Agreement, the City transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates, (i) all its interests in the Installment Payments, (ii) all of its interests in any amounts held in any fund or account established pursuant to the Trust Agreement, excluding the Rebate Fund, Administrative Fees and Expenses and any amounts paid pursuant to the provisions of the Sale Agreement relating to indemnification and the payment of Authority expenses, (ii) all of its right, title and interest in Obligation No. 1, and (iii) all of its right, title and interest in the Sale Agreement, excluding the right to receive any Administrative Fees and Expenses payable to the City and the rights of the City under the provisions of the Sale Agreement relating to indemnification and the payment of Authority expenses. The Corporation also transfers in trust, grants a security interest in, and assigns to the Trustee, for the benefit of the Holders from time to time of the Certificates, (i) all of its interests in any amounts held in any fund or account established pursuant to the Trust Agreement (excluding the Rebate Fund, Administrative Fees and Expenses and any amounts paid pursuant to the provisions of the Sale Agreement relating to indemnification and the payment of Authority expenses), and (ii) all of its right, title and interest in the Purchase Agreement.

The Trustee shall be entitled to and shall collect and receive all of the Installment Payments on behalf of the Certificateholders. The Trustee also shall be entitled to and shall take all steps, actions and proceedings following a Sale Agreement Default reasonably necessary in its judgment to enforce all of the rights of the City which

have been assigned to the Trustee, all of the obligations of the Corporation under the Sale Agreement and all obligations of the Members of the Obligated Group under Obligation No. 1.

Establishment and Application of Funds and Accounts

Project Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used, withdrawn and disbursed by the Trustee, as directed by Requisition of the Corporation, submitted by an Authorized Representative of the Corporation, to pay costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Delivery.

Before any payment from the Project Fund shall be made, an Authorized Representative of the Corporation shall file or cause to be filed with the Trustee a Requisition of the Corporation, which Requisition of the Corporation shall state: (i) the item number of such payment; (ii) the name of the Person to whom each such payment is due, which may be the Corporation in the case of reimbursement for Project costs theretofore paid by the Corporation; (iii) the respective amounts to be paid; (iv) the purpose by general classification for which each obligation to be paid was incurred; (v) that obligations in the stated amounts have been incurred by the Corporation and are presently due and payable and that each item thereof is a proper charge against the Project Fund and has not been previously paid from the Project Fund; (vi) that there has not been filed with or served upon the Corporation notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the amounts payable to any of the Persons named in such Requisition of the Corporation, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law; and (vii) that the balance remaining in the Project Fund after payment of such amounts, together with any investment income reasonably anticipated to be deposited in the Project Fund pursuant to the Trust Agreement and any other funds reasonably anticipated to be available therefor, will be sufficient to pay the costs of completing the Project.

Upon receipt of each such Requisition, the Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment.

When the Project shall have been completed, there shall be delivered to the Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Trustee shall, as directed by said Certificate, transfer any remaining balance in the Project Fund, less the amount of any such retention, to the Interest Fund or to Optional Prepayment Account as the Certificate shall specify and the Project Fund shall thereupon be closed.

Refunding Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Refunding Fund." The moneys in the Refunding Fund shall be used and withdrawn by the Trustee and transferred to the trustee for the Existing Indebtedness for the purpose of redeeming or prepaying the Existing Indebtedness upon Request of the Corporation. On March 1, 2011, or upon the earlier Request of the Corporation, amounts if any, remaining in the Refunding Fund shall be transferred to the Project Fund.

Interest Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Interest Fund." Moneys in the Interest Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Trust Agreement. The Trustee shall deposit the following amounts in the Interest Fund when and as such amounts are received:

- (1) the interest component of all Purchase Payments made by the Corporation pursuant to the Sale Agreement, including the interest component of all cash prepayments of Purchase Payments made pursuant to the Sale Agreement;
- (2) the interest component of all payments made pursuant to Obligation No. 1;

(3) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Interest Fund; and

(4) any other amounts received by the Trustee pursuant to the Sale Agreement or Obligation No. 1 and not required to be deposited in any other fund or account established pursuant to the Trust Agreement.

All amounts in the Interest Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the interest component of the Installment Payments of the City as the same becomes due and payable pursuant to the Purchase Agreement (including accrued interest with respect to any Certificates purchased or prepaid prior to their stated Certificate Payment Date pursuant to the Trust Agreement), which interest is payable to the Certificateholders as their respective Certificates become due and payable.

Principal Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Principal Fund." Moneys in the Principal Fund shall be held, disbursed, allocated and applied by the Trustee only as provided in the Trust Agreement. The Trustee shall deposit the following amounts in the Principal Fund when and as such amounts are received:

(1) the principal component of all Purchase Payments made by the Corporation pursuant to the Sale Agreement, excluding the principal component of all cash prepayments of Purchase Payments made pursuant to the Sale Agreement, which shall be deposited in the applicable account within the Prepayment Fund;

(2) the principal component of all payments made pursuant to Obligation No. 1, but excluding the principal component of all cash prepayments of Purchase Payments made pursuant to Obligation No. 1, which shall be deposited in the Optional Prepayment Account of the Prepayment Fund; and

(3) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Principal Fund.

All amounts in the Principal Fund, including all amounts in the Sinking Account, shall be used and withdrawn by the Trustee solely for the purpose of paying the principal component of the Installment Payments of the City as the same become due and payable pursuant to the Purchase Agreement, which principal component is payable to the Certificateholders as their respective Certificates become due and payable.

The Trustee shall establish and maintain within the Principal Fund a separate account for each Certificate Payment Date established for Term Certificates designated as the "_____ Sinking Account" (inserting therein the Certificate Payment Date for such Certificates) On each Mandatory Sinking Account Payment date, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the prepayment (or payment on their stated Certificate Payment Date, as the case may be) of Certificates with such Certificate Payment Date, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such prepayment, the Trustee may apply moneys in the Sinking Account to the purchase of Certificates with such Certificate Payment Date at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Certificates. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Certificates with moneys in the Sinking Account, or, during said period and prior to giving said notice of prepayment, the Corporation has deposited Certificates with the applicable Certificate Payment Date with the Trustee (together with a Request of the Corporation to apply such Certificates so deposited to the Mandatory Sinking Account Payment due on said date with respect to the Certificates), or Certificates with the applicable Certificate Payment Date were at any time purchased or prepaid by the Trustee from the Prepayment Fund and allocable to said Mandatory Sinking Account Payment, such Certificates so purchased or deposited or prepaid shall be applied, to the extent of the full principal component thereof, to reduce said Mandatory Sinking Account Payment. All Certificates purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Trustee. Certificates purchased from the Principal Fund, purchased or prepaid from the Prepayment Fund, or deposited by the Corporation with the Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Corporation may specify.

Prepayment Fund. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Prepayment Fund." The Trustee shall establish and maintain within the Prepayment Fund a separate Optional Prepayment Account and a separate Special Prepayment Account, such fund and accounts to be established by the Trustee when funds are available for deposit therein.

The Trustee shall deposit the following amounts in the Optional Prepayment Account when and as such amounts are received:

- (1) except as provided below, the principal component of all cash prepayments of Purchase Payments made by the Corporation pursuant to the Sale Agreement;
- (2) except as provided below, the principal component of all cash prepayments made pursuant to Obligation No. 1; and
- (3) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Optional Prepayment Account.

The Trustee shall deposit the following amounts in the Special Prepayment Account when and as such amounts are received:

- (1) the principal component of all cash prepayments of Purchase Payments made by the Corporation pursuant to the Sale Agreement which are specified in a Certificate of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the Facilities;
- (2) the principal component of all cash prepayments made pursuant to Obligation No. 1 which are specified in a Statement of the Corporation to have been derived from insurance or condemnation proceeds received with respect to the Facilities; and
- (3) upon completion of the Project, all interest, profits and other income received from the investment of moneys in the Special Prepayment Account.

All amounts deposited in the Optional Prepayment Account and in the Special Prepayment Account shall be used and withdrawn by the Trustee solely for the purpose of prepaying the principal components of the Installment Payments of the City and thereby prepaying Certificates, in the manner and upon the terms and conditions specified in the Trust Agreement, at the next succeeding date of prepayment for which notice has not been given and at the Prepayment Prices then applicable to prepayments from the Optional Prepayment Account and the Special Prepayment Account, respectively; provided that, at any time prior to giving such notice of prepayment, the Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Certificates at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Prepayment Price then applicable to the Certificates (or, if the Certificates are not then subject to prepayment, the par value of such Certificates); and provided further that in the case of the Optional Prepayment Account in lieu of prepayment at such next succeeding date of prepayment, or in combination therewith, amounts in such account may be transferred to the Principal Fund and credited against the principal components the Installment Payments in order of their due date as set forth in a Request of the Corporation. All Certificates purchased or prepaid from the Prepayment Fund shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Corporation may specify.

Reserve Fund. If the Corporation notifies the Trustee that the Reserve Fund is required to be funded pursuant to the Sale Agreement, the Trustee shall establish, maintain and hold in trust a separate fund designated as the "Reserve Fund." The Reserve Fund shall not be initially funded, but shall only be funded from funds transferred to the Trustee by the Corporation if required pursuant to the provisions of the Sale Agreement. All amounts in the Reserve Fund shall be used and withdrawn solely by the Trustee solely for the purpose of making up

any deficiency in the Interest Fund or the Principal Fund or (together with any other moneys available therefor) for the payment or prepayment of all Certificates then Outstanding.

In the event of any transfer from the Reserve Fund for the purpose of making up any deficiency in the Interest Fund or the Principal Fund, the Trustee shall immediately notify the Corporation of the amount of such transfer, and the Corporation shall restore the amount on deposit in the Reserve Fund to an amount equal to the Reserve Fund Requirement no later than one hundred eighty (180) days from the date of such transfer, such amount to be paid to the Trustee in six (6) substantially equal monthly installments.

All Investment Securities held on deposit in the Reserve Fund shall be valued by the Trustee at their market value and marked to market at least annually on or before January 1, commencing January 1, 2012 (or more frequently as may be reasonably requested by the Corporation) and such valuation shall be reported immediately to the Corporation. Any amount in the Reserve Fund in excess of the Reserve Fund Requirement shall be transferred to the Interest Fund; provided, however, that the Trustee shall incur no liability for any sale of investments, or the consequences thereof, caused by the sale of an investment on deposit in the Reserve Fund in order to make such transfer.

Investment of Moneys in Funds and Accounts. Subject to the limitations provided in the Trust Agreement, all moneys in any of the funds and accounts established pursuant to the Trust Agreement shall be invested by the Trustee at the written direction of the Corporation solely in Investment Securities. Moneys in the Reserve Fund shall be invested in Investment Securities maturing not later than five years from the date of investment. Moneys in all other funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in this Trust Agreement. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Trustee may deliver such Investment Securities for repurchase under such agreement. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in the Project Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in the Reserve Fund shall be deposited when received (i) prior to completion of the Project, in the Project Fund and (ii) thereafter in the Interest Fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to this Trust Agreement (i) prior to completion of the Project shall be deposited when received in the Project Fund and (ii) thereafter shall be deposited when received in such fund or account.

Particular Covenants

Extension of Payment of Certificates. Neither the Corporation nor the City shall directly or indirectly extend or assent to the extension of the payment dates of any of the Installment Payments or the Certificates represented thereby or the time of payment of any of the claims for interest represented thereby by the purchase or funding of such Certificates or claims for interest or by any other arrangement and if the payment dates of any of the Installment Payments or Certificates represented thereby or the time of payment of any such claims for interest shall be extended, such Certificates or claims for interest shall not be entitled, in case of any default under the Trust Agreement, to the benefits of the Trust Agreement, except subject to the prior payment in full of the principal component of all of the Installment Payments or Certificates represented thereby then Outstanding and of all claims for interest with respect thereto which shall not have been so extended.

Against Encumbrances. The City shall not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned pursuant to the Trust Agreement while any of the Certificates are Outstanding, except the pledge and assignment created by the Trust Agreement.

Accounting Records and Financial Statements. The Trustee shall at all times keep, or cause to be kept, proper books of record and account prepared in accordance with sound corporate trust industry practice, in which complete and accurate entries shall be made of all transactions made by the Trustee relating to the receipt, investment, disbursement, allocation and application of the proceeds of the Certificates, the Purchase Agreement, the Sale Agreement, Obligation No. 1 and all funds and accounts established pursuant to the Trust Agreement. Such

books of record and account shall be available for inspection by the City, the Authorized Representative of the Corporation and any Certificateholder, or their agent or representative duly authorized in writing, at reasonable hours and under reasonable circumstances upon reasonable notice.

The Trustee shall file and furnish to the City (if requested in a Request of the City) and to each Certificateholder, upon such Certificateholder's written request and at such Certificateholder's cost, on or before February 1 of each year, a statement (which need not be audited) covering receipts, disbursements, allocation and application of any moneys (including proceeds of Certificates) in any of the funds and accounts established pursuant to the Trust Agreement (a "Trustee Statement") for the Certificate Year ended on the preceding January 1; provided, however, during each month during the term of the Trust Agreement, the Trustee shall furnish to the Authorized Representative of the Corporation, and if requested by the City, the City, a Trustee Statement for the then preceding month.

Tax Covenant. The City and the Corporation shall at all times do and perform all acts and things permitted by law and the Trust Agreement which are necessary or desirable in order to assure that the interest components represented by the Certificates (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the City and the Corporation agree to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Certificates.

Enforcement of Sale Agreement and Obligation No. 1. The Trustee shall promptly collect all amounts due pursuant to the Sale Agreement and shall enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of all of the obligations of the Corporation in and under the Sale Agreement which have been assigned to the Trustee pursuant to the Trust Agreement and all obligations of the Members of the Obligated Group under Obligation No. 1.

Continuing Disclosure. Pursuant to the Sale Agreement, the Corporation has undertaken all responsibility for compliance with continuing disclosure requirements, and the City shall have no liability to the Holders of the Certificates or any other Person with respect to such disclosure matters. The Corporation and the Trustee covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement and the Sale Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the Corporation or the Trustee to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default; however, the Trustee shall, at the request of any Participating Underwriter (as defined in Rule 15c2-12 promulgated by the Securities and Exchange Commission) or any Holder or any Beneficial Owner and upon receipt of indemnification acceptable to it, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its obligations under the Sale Agreement or to cause the Trustee to comply with its obligations under the continuing disclosure provisions of the Trust Agreement.

Further Assurances. The City and the Corporation shall make, execute and deliver any and all such further trust agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Trust Agreement and for the better assuring and confirming unto the Holders of the Certificates of the rights and benefits provided in the Trust Agreement.

Events of Default and Remedies

Events of Default. The term "Event of Default" as used in the Trust Agreement means any of the following:

- (a) default in the due and punctual payment of the principal or Prepayment Price or interest with respect to the Certificates when and as the same shall become due and payable;
- (b) default by the City or the Corporation in the observance of any of the other covenants, agreements or conditions on its part in the Trust Agreement contained, other than described above under "Particular Covenants – Continuing Disclosure," if such default shall have continued for a period of sixty (60) days after written

notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the City and the Authorized Representative of the Corporation by the Trustee, or to the City and the Authorized Representative of the Corporation and the Trustee by the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Certificates at the time Outstanding; or

- (c) a Purchase Agreement Default or a Sale Agreement Default.

Upon actual knowledge by the Trustee at its Principal Office of the existence of any Event of Default, the Trustee shall notify the Authorized Representative of the Corporation, the City and the Master Trustee in writing as soon as practicable; provided, however, that the Trustee need not provide notice of any Sale Agreement Default if the Corporation has expressly acknowledged the existence of such Sale Agreement Default in a writing delivered to the Trustee, the City and the Master Trustee.

Acceleration of Maturities. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and upon the written direction of the Holders of a majority in aggregate principal amount of the Certificates then Outstanding, shall, upon notice in writing to the Authorized Representative of the Corporation and the City, declare the principal component of all of the Installment Payments and the Certificates by which they are represented then Outstanding, and the interest accrued with respect thereto, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, there shall be deposited with the Trustee a sum sufficient to pay all Installment Payments the payment of which is overdue, with interest represented by such overdue principal component of such overdue Installment Payments at the rate represented by the respective Certificates, and the reasonable charges and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of the Installment Payments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount with respect to the Certificates then Outstanding, by written notice to the Authorized Representative of the Corporation, the City and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Holders of all of the Certificates, rescind and annul such declaration and its consequences and waive such default; provided that no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon. In the case of any such rescission and annulment, the Corporation, the City, the Trustee and the Holders shall be restored to their former positions and rights under the Trust Agreement.

Notwithstanding any other provision of the Trust Agreement or any right, power or remedy existing at law or in equity or by statute, the Trustee shall not under any circumstance in which an Event of Default has occurred declare the entire unpaid aggregate principal amount of the Certificates Outstanding to be immediately due and payable except in the event that the Master Trustee shall have declared the principal amount of Obligation No. 1 and all interest due thereon immediately due and payable in accordance with the Master Indenture.

Application of Funds After Default. If an Event of Default shall occur and be continuing, all funds then held or thereafter received by the Trustee under any of the provisions of the Trust Agreement (excluding amounts, if any, on deposit in the Rebate Fund) shall be applied by the Trustee as follows and in the following order:

- (1) To the payment of any expenses or charges necessary in the opinion of the Trustee to protect the interests of the Holders of the Certificates and payment of reasonable fees, charges and expenses and other amounts owed to the Trustee hereunder or under the Sale Agreement (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Trust Agreement; and
- (2) To the payment of the principal or Prepayment Price of and interest then due with respect to the Certificates (upon presentation of the Certificates to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Trust Agreement as follows:

(a) Unless the principal component of the Installment Payments shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or Prepayment Price with respect to any Certificates which shall have become due, whether on their stated Certificate Payment Date or Certificate Payment Dates or by call for prepayment, in the order of their due dates, with interest represented by the overdue principal at the rate represented by the respective Certificates, and, if the amount available shall not be sufficient to pay in full all the Certificates due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Prepayment Price due on such date to the Persons entitled thereto, without any discrimination or preference.

If the principal component of the Installment Payments shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid with respect to the Certificates, with interest represented by the overdue principal at the rate represented by the respective Certificates, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Certificate over any other Certificate, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Trustee to Represent Certificateholders. The Trustee is irrevocably appointed (and the successive respective Holders of the Certificates, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Certificates for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Certificates, the Trust Agreement, the Purchase Agreement, the Sale Agreement, Obligation No. 1, and applicable provisions of any applicable law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Certificateholders, the Trustee in its discretion may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Certificates then Outstanding and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Trust Agreement, the Purchase Agreement, the Sale Agreement, Obligation No. 1, the Act or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the assets pledged under the Trust Agreement, pending such proceedings. If more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Certificates then Outstanding in excess of twenty-five percent (25%). All rights of action under the Trust Agreement or the Certificates or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Certificates, subject to the provisions of the Trust Agreement.

Certificateholders' Direction of Proceedings. Anything in the Trust Agreement to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Certificates then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, and upon indemnifying the Trustee to its satisfaction therefor, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Trust Agreement, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Holders not parties to such direction or would otherwise subject the Trustee to personal liability.

Limitation on Certificateholders' Right to Sue. No Holder of any Certificate shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Trust Agreement, the Purchase Agreement, the Sale Agreement, Obligation No. 1, or any applicable law with respect to such Certificate, unless: (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Trustee from the Holders, the Trustee shall follow the written request executed by the Holders of the greater percentage of Certificates then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Trustee reasonable indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared in the Trust Agreement, in every case, to be conditions precedent to the exercise by any Holder of Certificates of any remedy hereunder or under law; it being understood and intended that no one or more Holders of Certificates shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Trust Agreement or the rights of any other Holders of Certificates, or to enforce any right under the Trust Agreement, the Purchase Agreement, the Sale Agreement, Obligation No. 1 or applicable law with respect to the Certificates, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Certificates, subject to the provisions of the Trust Agreement.

Notwithstanding any other provision in the Trust Agreement, each Certificateholder shall have the right to receive payment of the principal and interest represented by said Certificateholder's Certificate at the respective dates on which the same become due and payable in accordance with the terms, from the source and in the manner provided in such Certificate and in the Trust Agreement, and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Certificateholder.

Modification or Amendment of Trust Agreement, Purchase Agreement and Sale Agreement

Amendments Permitted. The Trust Agreement, the Purchase Agreement and the Sale Agreement, and the rights and obligations of the City, the Corporation, the Holders of the Certificates and the Trustee may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, as applicable, which the City, the Corporation and the Trustee, as applicable, may enter into when the written consent of the Holders of at least a majority in aggregate principal amount of the Certificates then Outstanding shall have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Certificates of any particular stated Certificate Payment Date remain Outstanding, the consent of the Holders of such Certificates shall not be required and such Certificates shall not be deemed to be Outstanding for the purpose of any calculation of Certificates Outstanding.

No such modification or amendment shall (1) extend the stated Certificate Payment Date of any Certificate, or reduce the amount of principal represented thereby, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided in the Trust Agreement for the payment of any Certificate, or reduce the rate of interest with respect thereto, or extend the time of payment of interest with respect thereto, without the written consent of the Holder of each Certificate so affected, or (2) reduce the aforesaid percentage of Certificates the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the assets pledged under the Trust Agreement prior to or on a parity with the lien created by the Trust Agreement, or deprive the Holders of the Certificates of the lien created by the Trust Agreement on such assets (except as expressly provided in the Trust Agreement), without the consent of the Holders of all of the Certificates then Outstanding. For such consent to be effective, it shall not be necessary that the Certificateholders approve the particular form of any Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, but it shall be sufficient if the Certificateholders shall approve the substance thereof. Promptly after the execution by the City, the Corporation and the Trustee, as applicable, of any Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, , the Trustee

shall mail (at the expense of the Corporation) a notice, first class postage prepaid, setting forth in general terms the substance of such Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement, to each Rating Agency then rating the Certificates, and to the Holders at the addresses listed on the registration books kept by the Trustee pursuant to the Trust Agreement. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Trust Agreement, Supplemental Purchase Agreement or Supplemental Sale Agreement.

The Trust Agreement, the Purchase Agreement and the Sale Agreement and the rights and obligations of the City, the Corporation, the Trustee and the Holders of the Certificates may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, Supplemental Sale Agreement or Supplemental Purchase Agreement, respectively, which the City, the Corporation and the Trustee, as applicable, may enter into for any one or more of the following purposes without the necessity of obtaining the consent of any Certificate holders:

(1) to add to the covenants and agreements of the City or the Corporation contained in the Trust Agreement, the Purchase Agreement or the Sale Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Certificates (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the City or the Corporation;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Trust Agreement, the Purchase Agreement or the Sale Agreement, or in regard to matters or questions arising under the Trust Agreement, the Purchase Agreement or the Sale Agreement, as the City, the Corporation or the Trustee may deem necessary or desirable and not inconsistent with the Trust Agreement, the Purchase Agreement or the Sale Agreement, as applicable;

(3) to modify, amend or supplement the Trust Agreement in such manner as to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, if required by such act or statute, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(4) to provide any additional procedures, covenants or agreements to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Installment Payments, the Purchase Agreement or the Certificates;

(5) to facilitate (i) the transfer of Certificates from one Depository to another Depository, or (ii) the withdrawal from a Depository of Certificates held in a Book-Entry System and the execution and delivery of replacement Certificates in fully registered form to Persons other than a Depository;

(6) to authorize different Authorized Denominations of the Certificates and to make correlative amendments and modifications to the Trust Agreement regarding exchangeability of Certificates of different Authorized Denominations, prepayments of portions of Certificates of particular Authorized Denominations and similar amendments and modifications of a technical nature;

(7) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Certificates; or

(8) to modify, alter, amend or supplement the Trust Agreement, the Purchase Agreement or the Sale Agreement in any other respect which is not materially adverse to the Certificateholders.

Defeasance

Discharge of Trust Agreement. When the obligations of the City under the Purchase Agreement shall cease pursuant to the Purchase Agreement (except for the right of the Trustee and the obligation of the City to have the money and Defeasance Securities mentioned therein applied to the payment of Installment Payments as

therein set forth), then and in that case, the obligations created by the Trust Agreement shall thereupon cease, terminate and become void, except for the right of the Trustee to apply such moneys and Defeasance Securities to the payment of the Certificates as herein set forth, and the Trustee shall turn over to the Authorized Representative of the Corporation, as an overpayment of Purchase Payments, any balances remaining in any of the funds or accounts established hereunder (except the Rebate Fund, which shall be governed by the Tax Agreement) other than moneys and Defeasance Securities held for the payment of the Certificates on their stated Certificate Payment Date or Certificate Payment Dates or upon prepayment, which moneys and Defeasance Securities shall continue to be held by the Trustee in trust for the benefit of the Certificateholders and shall be applied by the Trustee to the payment, when due, of the principal and interest represented by the Certificates, and after such payment, the Trust Agreement shall become void. Upon Request of the City and the Corporation, the Trustee shall cause an accounting for such period or periods as may be requested by the City and the Corporation to be prepared and filed with the City and the Corporation and shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Purchase Agreement and the Trust Agreement.

Deposit of Money or Securities with Trustee. Whenever in the Trust Agreement, the Purchase Agreement or the Sale Agreement it is provided or permitted that there be deposited with or held in trust by the Trustee money or securities in the necessary amount to pay or prepay any Certificates, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Trust Agreement (excluding the Rebate Fund) and shall be:

(a) lawful money of the United States of America in an amount equal to the principal amount of such Certificates and all unpaid interest with respect thereto to their stated Certificate Payment Date or Certificate Payment Dates, except that, in the case of Certificates which are to be prepaid prior to their stated Certificate Payment Date or Certificate Payment Dates and in respect of which notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Prepayment Price with respect to such Certificates and all unpaid interest with respect thereto to the prepayment date; or

(b) Defeasance Securities (not callable by the issuer thereof prior to maturity), the principal represented by and interest represented by which when due will provide money sufficient to pay the principal or Prepayment Price and all unpaid interest to their stated Certificate Payment Date or Certificate Payment Dates or to the prepayment date, as the case may be, represented by the Certificates to be paid or prepaid, as such principal or Prepayment Price and interest become due, provided that, in the case of Certificates which are to be prepaid prior to their stated Certificate Payment Date or Certificate Payment Dates, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice;

provided, in each case, that the Trustee shall have been irrevocably instructed (by the terms of the Trust Agreement and the Purchase Agreement or by Order of the City and the Corporation) to apply such money to the payment of such principal or Prepayment Price and interest with respect to such Certificates, and provided further, that with respect to the deposit of Defeasance Securities pursuant to subsection (b) above, the Trustee shall have received a report from a firm of independent certified public accountants or other financial services firm acceptable to the Trustee to the effect that the amount deposited is sufficient to make the payments specified therein.

Payment of Certificates After Discharge of Trust Agreement. Notwithstanding any provisions of the Trust Agreement, but subject to the unclaimed property laws of the State, any moneys held by the Trustee in trust for the payment of the principal, Prepayment Price, or interest with respect to any Certificates and remaining unclaimed for two (2) years (or, if shorter, and to the extent permitted by law, one (1) day before such moneys would escheat to the State under then applicable State law) after the principal and interest with respect to any of the Certificates have become due and payable (whether on their stated Certificate Payment Date or Certificate Payment Dates or upon call for prepayment or by acceleration as provided in the Trust Agreement), if such moneys were so held at such date, or two (2) years (or, if shorter, and to the extent permitted by law, then one (1) day before such moneys would escheat to the State under then applicable State law) after the date of deposit of such moneys if deposited after said date when all of the Certificates became due and payable, shall be repaid to the Authorized Representative of the Corporation free from the trusts created by the Trust Agreement, and all liability of the Trustee with respect to such moneys shall thereupon cease; provided, however, that before the repayment of such moneys to

the Corporation as aforesaid, the Authorized Representative of the Corporation or the Trustee, as the case may be, may (at the cost of the Corporation) first mail a notice, in such form as may be deemed appropriate by the Trustee, to the Holders of the Certificates so payable and not presented and with respect to the provisions relating to the repayment to the Authorized Representative of the Corporation of the moneys held for the payment thereof at the addresses shown on the registration books maintained by the Trustee. In the event of the repayment of any such moneys to the Corporation as aforesaid, the Holders of the Certificates with respect to which such moneys were deposited shall thereafter be deemed to be general unsecured creditors of the Corporation for amounts equivalent to the respective amounts deposited for the payment of such Certificates and so repaid to the Corporation (without interest thereon), subject to any applicable statute of limitations.

MASTER INDENTURE

General

The Master Indenture authorizes the issuance of Master Indenture Obligations. Each Master Indenture Obligation is stated in the Master Indenture to be a joint and several obligation of each Member of the Obligated Group.

Authorization and Issuance of Obligations

Authorization of Obligations. Subject to the terms, limitations and conditions established in the Master Indenture or in a Related Supplement, the Credit Group Representative may authorize the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations by entering into a Related Supplement. The Master Indenture Obligation or the Master Indenture Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Each Related Supplement authorizing the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations shall specify the purposes for which such Master Indenture Obligation or Series of Master Indenture Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Master Indenture Obligations; the date or dates of maturity or other final expiration of the term of such Master Indenture Obligations; the date of issuance of such Master Indenture Obligations; and any other provisions deemed advisable or necessary by the Credit Group Representative. Each Related Supplement authorizing the issuance of a Master Indenture Obligation shall also specify and determine the principal amount of such Master Indenture Obligation for purposes of calculating the percentage of Holders of Master Indenture Obligations required to take actions or give consents pursuant to the Master Indenture (which, if such Master Indenture Obligation does not evidence or secure Indebtedness, shall be equal to zero, except with respect to any action which requires the consent of all of the Holders of Master Indenture Obligations). The designation of zero as a principal amount of a Master Indenture Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Master Indenture Obligation.

Conditions to the Issuance of Master Indenture Obligations. The issuance, authentication and delivery of any Master Indenture Obligation or Series of Master Indenture Obligations shall be subject to the following specific conditions:

- (a) The Credit Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Master Indenture Obligations and the repayment thereof; and
- (b) The Master Trustee receives an Officer's Certificate to the effect that:
 - (i) each Obligated Group Member is in full compliance with all warranties, covenants and agreements set forth in the Master Indenture and in any Related Supplement; and

(ii) neither an Event of Default nor any event which with the passage of time or the giving of notice or both would become an Event of Default has occurred or would occur upon issuance of such Master Indenture Obligations and is continuing under the Master Indenture or any Related Supplement; and

(iii) all requirements and conditions, if any, to the issuance of such Master Indenture Obligations set forth in the Related Supplement have been satisfied; and

(c) The Master Trustee receives an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee, subject to customary qualifications and exceptions, to the effect that:

(i) such Master Indenture Obligations and Related Supplement have been duly authorized, executed and delivered by the Credit Group Representative on behalf of the Obligated Group and constitute valid and binding obligations of the Obligated Group, enforceable in accordance with their terms; and

(ii) such Master Indenture Obligations are not subject to registration under federal or state securities laws and such Related Supplement is not subject to registration under the Trust Indenture Act of 1939, as amended (or that such registration, if required has occurred);

(d) The Credit Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request; and

(e) If such Master Indenture Obligation constitutes or secures Indebtedness, the requirements of the Master Indenture relating to the incurrence of Indebtedness are satisfied.

Particular Covenants of the Members

Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly all Required Payments at the place, on the dates and in the manner provided in the Master Indenture, or in any Related Supplement or Master Indenture Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Master Indenture Obligations. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Master Indenture Obligation.

The obligation of each Obligated Group Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to any Obligated Group Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in them by the Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(b) the liability of any other Obligated Group Member under the Master Indenture ceasing for any cause whatsoever, including the release of any other Obligated Group Member pursuant to the provisions of the Master Indenture or any Related Supplement; or

(c) any Obligated Group Member's failing to become liable as, or losing eligibility to become, an Obligated Group Member with respect to a Master Indenture Obligation.

Subject to the provisions of the Master Indenture permitting withdrawal from the Obligated Group, the obligation of each Obligated Group Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid or deemed paid in full in accordance with the Master Indenture. All moneys from time to time received by the Credit Group Representative or the Master Trustee to reduce liability

on Master Indenture Obligations, whether from or on account of the Obligated Group Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Obligated Group Members to claim the benefit of any moneys so received until the whole of the amounts owing on Master Indenture Obligations has been paid or satisfied and so that in the event of any such Obligated Group Member's filing bankruptcy, the Credit Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Master Indenture Obligations Outstanding as to which the liability of such Obligated Group Member has become fixed.

Each Master Indenture Obligation shall be a primary obligation of the Obligated Group Members and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each Obligated Group Member hereunder shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Credit Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Obligated Group Member under the Master Indenture and to enforce the making of Required Payments. Each Obligated Group Member authorizes each of the Credit Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Obligated Group Members under the Master Indenture and to make any arrangement or compromise with any Obligated Group Member or Obligated Group Members as the Credit Group Representative or the Master Trustee may deem appropriate, consistent with the Master Indenture and any Related Supplement. Each Obligated Group Member waives in favor of the Credit Group Representative and the Master Trustee all rights against the Credit Group Representative, the Master Trustee and any other Obligated Group Member, insofar as is necessary to give effect to any of the provisions of this provision.

Transfers from Designated Affiliates. Each Controlling Member covenants and agrees that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Obligated Group Members to comply with the provisions of the Master Indenture including without limitation the payment of Required Payments; provided, however, that nothing herein shall be construed to require any Controlling Member to cause its Designated Affiliate to pay, loan or otherwise transfer to the Credit Group Representative any amounts that constitute Restricted Moneys.

Designation of Designated Affiliates. The Credit Group Representative by resolution of its Governing Body may from time to time designate Persons as Designated Affiliates. In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate an Obligated Group Member to serve as the Controlling Member for such Designated Affiliate. The Credit Group Representative shall at all times maintain an accurate and complete list of all Persons designated as Designated Affiliates (and of the Controlling Members for such Designated Affiliates) and file such list with the Master Trustee and any Related Bond Issuer that shall request such list in writing annually on or before July 1 of each year.

Each Controlling Member shall cause each of its Designated Affiliates to provide to the Credit Group Representative a resolution of its Governing Body accepting such Person's designation as a Designated Affiliate and acknowledging the provisions of the Master Indenture which affect the Designated Affiliates. So long as such Person is designated as a Designated Affiliate, the Controlling Member of such Designated Affiliate shall either (i) maintain, directly or indirectly, control of such Designated Affiliate to the extent necessary to cause such Designated Affiliate to comply with the terms of the Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise or (ii) execute and have in effect such contracts or other agreements which the Credit Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Designated Affiliate to comply with the terms of the Master Indenture.

Each Controlling Member agrees that it will cause each of its Designated Affiliates to comply with any and all directives of the Controlling Member given pursuant to the provisions of the Master Indenture.

Any Person may cease to be a Designated Affiliate (and thus not subject to the terms of the Master Indenture) provided that prior to such Person ceasing to be a Designated Affiliate the Master Trustee receives:

(i) a resolution of the Governing Body of the Credit Group Representative declaring such Person no longer a Designated Affiliate; and

(ii) an Officer's Certificate to the effect that immediately following such Person ceasing to be a Designated Affiliate neither a Default nor an Event of Default would exist.

Covenants of Corporate Existence, Maintenance of Properties, Etc. Each Obligated Group Member agrees, and each Controlling Member agrees to cause each of its Designated Affiliates:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification; provided, however, that nothing in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or useful in the conduct of its business or affairs.

(b) At all times to cause its Property, Plant and Equipment to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any immaterial portion of its Property, Plant and Equipment, (ii) prevent it from ceasing to operate any material portion of its Property, Plant and Equipment if in its judgment it is advisable not to operate the same, and within a reasonable time endeavors to effect disposition of such material portion of its Property, Plant and Equipment, or (iii) obligate it to retain, preserve, repair, renew or replace any Property, Plant and Equipment no longer used or useful in the conduct of its business.

(c) To procure and maintain all necessary licenses and permits necessary, in the judgment of its Governing Body, to the operation of its health care Property and the status of its health care Property (other than that not currently having such status or not having such status on the date a Person becomes a Member of the Credit Group) as providers of health care services eligible for payment under those third party payment programs which its Governing Body determines are appropriate; provided, however, that it need not comply with this subsection if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(d) Not take any action, including any action which would result in the alteration or loss of its status as a Tax Exempt Organization, which, or fail to take any action which failure, in the Opinion of Bond Counsel, would adversely affect the exclusion of interest on any Related Bond from gross income for federal income tax purposes. The foregoing notwithstanding, any Member of the Credit Group that is a Tax-Exempt Organization may take actions which could result in the alteration or loss of its status as a Tax Exempt Organization if (i) prior thereto there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that such action would not adversely affect the validity of any Related Bond, would not adversely affect the exclusion of interest on any Related Bond from gross income for federal income tax purposes and would not adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member of the Credit Group and (ii) prior thereto there is delivered to the Master Trustee either (A) an Opinion of Counsel for such Member of the Credit Group to the effect that such actions would not subject any Related Bond or any Master Indenture Obligation to registration under the Securities Act of 1933, as amended, or any state securities law, or require the qualification of any Related Bond Indenture, loan document or the Master Indenture or any Supplement under the Trust Indenture Act of 1939, as amended, or any state securities law, or (B) an Opinion of Counsel that such Related Bond or Master Indenture Obligation has been so registered and such Related Bond Indenture, loan document or Master Indenture or Supplement has been so qualified.

Gross Receivables Pledge. To secure their obligation to make Required Payments and their other obligations, agreements and covenants to be performed and observed under the Master Indenture, each Obligated Group Member grants to the Master Trustee security interests in the Gross Receivables. The Master Indenture shall be deemed a "security agreement" for purposes of the UCC.

The Master Trustee's security interest in the Gross Receivables shall be perfected, to the extent that such security interest may be so perfected, by the filing of financing statements which comply with the requirements of the UCC. Each Member agrees to execute and cause to be filed, in accordance with the requirements of the UCC, financing statements in form and substance satisfactory to the Master Trustee; and, from time to time thereafter, shall execute and deliver such other documents (including, but not limited to, continuation statements as required by the UCC) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain perfected such security interests or give public notice thereof.

Upon written request from the Credit Group Representative, the Master Trustee agrees to take all procedural steps necessary to effect the subordination of its security interest in the Gross Receivables granted herein to security interests constituting Permitted Liens.

Each Obligated Group Member agrees to notify the Master Trustee of any change of name and change of address of its chief executive office to enable a new appropriate financing statement or an amendment to be filed in accordance with the requirements of the UCC, in order to maintain the perfected security interest granted herein.

Against Encumbrances. Each Obligated Group Member agrees that it will not, and each Controlling Member agrees that it will not permit any of its Designated Affiliates to, create or suffer to be created or permit the existence of any Lien upon Property now owned or hereafter acquired by it other than Permitted Liens. Each Obligated Group Member, respectively, further agrees that if such a Lien (other than a Permitted Lien) is nonetheless created by someone other than an Obligated Group Member or Designated Affiliate and is assumed by any Obligated Group Member or Designated Affiliate, the Credit Group Representative will make or cause to be made effective a provision whereby all Master Indenture Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

Upon written request of the Credit Group Representative, the Master Trustee shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements or other instruments as may be reasonably requested by the Credit Group Representative in connection with (1) the disposition of Property in accordance with the provisions of the Master Indenture and the applicable provisions of any Related Supplement, (2) the withdrawal of a Member pursuant to the provisions of the Master Indenture and the applicable provisions of any Related Supplement and (3) the granting by a Credit Group Member of any Lien which constitutes a Permitted Lien hereunder, as certified to the Master Trustee in writing by the Credit Group Representative.

Debt Service Coverage. Each Obligated Group Member agrees to manage its business such that the combined or consolidated Income Available for Debt Service of the Credit Group, calculated at the end of each Fiscal Year, commencing with the first full Fiscal Year following the execution of the Master Indenture, will not be less than 1.10 times Annual Debt Service.

If for any Fiscal Year the Income Available for Debt Service is not sufficient to satisfy the requirements of the preceding paragraph, the Credit Group Representative agrees to retain an Independent Consultant to make recommendations to increase Income Available for Debt Service in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. The Credit Group Representative agrees to transmit a copy thereof to the Master Trustee within twenty (20) days of the receipt of such recommendations. Each Obligated Group Member shall, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law and to a good faith determination by the Governing Body of the Obligated Group Representative that such recommendations are in the best interest of the Obligated Group, take such action as shall be in substantial conformity with such recommendations. In no event may the ratio of Income Available for Debt Service to the Annual Debt Service for any Fiscal Year be less than 1.00.

If the Credit Group substantially complies with the recommendations of the Independent Consultant, the Credit Group will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the ratio of Income Available for Debt Service to the Annual Debt Service shall be less than 1.1:1.0; provided, however, that the Debt Service Coverage Ratio shall not be reduced to less than 1.0:1.0 for any Fiscal Year. Notwithstanding the foregoing, the Credit Group Members shall not be excused from taking any

action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions of this paragraph.

If a report of an Independent Consultant is delivered to the Master Trustee and the Related Bond Issuers, which report shall state that Government Restrictions or Industry Restrictions have been imposed which make it impossible for the Income Available for Debt Service to satisfy the requirement described above, then the required amount of Income Available for Debt Service shall be reduced to the maximum coverage permitted by such Government Restrictions or Industry Restrictions but in no event less than an amount to pay the debt service on all Indebtedness of the Credit Group for such Fiscal Year; but in no event may the ratio of Income Available for Debt Service to the Debt Service Requirement for any Fiscal Year be less than 1.00.

Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of services or the use of its Property without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status or the tax-exempt status of its Property, Plant and Equipment or its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

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

- (a) After giving effect to the Merger Transaction,
 - (i) the successor or surviving entity (hereinafter, the "Surviving Entity") is an Obligated Group Member, or
 - (ii) the Surviving Entity shall
 - (A) be a corporation or other entity organized and existing under the laws of the United States of America or any state thereof; and
 - (B) become an Obligated Group Member pursuant to the Master Indenture and, pursuant to the Related Supplement, shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member hereunder; and
- (b) The Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;
- (c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation; and
- (d) The Master Trustee receives an Opinion of Counsel to the effect that (i) all conditions described under this caption relating to the Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Corporation meets the conditions set forth under this caption and all Master Indenture Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Master Indenture Obligations then Outstanding, and (iii) the Merger Transaction will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and
- (e) The Surviving Corporation shall be substituted for its predecessor in interest in all Master Indenture Obligations and agreements then in effect which affect or relate to any Master Indenture Obligation, and the Surviving Corporation shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution, the Surviving Corporation shall be treated as though it were an Obligated Group Member as of the date of the execution of the Master Indenture and shall thereafter have the right to participate in transactions hereunder relating to Master Indenture Obligations to the same extent as the other Obligated Group Members. All Master Indenture Obligations issued hereunder on behalf of a Surviving Corporation shall have the same legal rank and benefit under the Master Indenture as Master Indenture Obligations issued on behalf of any other Obligated Group Member.

Membership in Obligated Group. Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture; and

(b) a Related Supplement executed by the Credit Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member:

(i) agrees to become an Obligated Group Member, and

(ii) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Master Indenture Obligations, and

(iii) irrevocably appoints the Credit Group Representative as its agent and attorney-in-fact and grants to the Credit Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Master Indenture Obligations or Series of Master Indenture Obligations and to execute and deliver Master Indenture Obligations, and

(c) an Opinion of Counsel to the effect that (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of the Master Indenture, (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel in form and substance satisfactory to the Master Trustee, to the effect that the addition of the proposed new Obligated Group Member will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation.

Withdrawal from Obligated Group. Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, and any Obligated Group Member may be redesignated as a Designated Affiliate, provided that prior to such withdrawal or redesignation the Master Trustee receives:

(a) an Officer's Certificate to the effect that the Credit Group Representative has approved the withdrawal of such Obligated Group Member (and, if applicable, redesignation of such Obligated Group Member as a Designated Affiliate);

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel to the effect that (i) the withdrawal (or redesignation) of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (ii) the withdrawal (or redesignation) of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Limitation on Disposition of Assets. Each Obligated Group Member agrees that it will not, and each Controlling Member agrees that it will not permit any of its Designated Affiliates to, sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than in the ordinary course of business or as part of a disposition of all or substantially all of its assets) with a net book value in excess of 10% of the Value of the Property of the Credit Group, unless prior to said disposition:

(i) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Credit Group Members; or

(ii) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and such disposition will not impair the structural soundness, efficiency or economic value of the remaining Property and does not materially adversely affect the operations of the Credit Group; or

(iii) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Person who is not an Obligated Group Member if such Person shall become a Member pursuant to the provisions of the Master Indenture coincidental to such transfer; or

(iv) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is being transferred to a Governmental Issuer solely to accommodate a sale or lease transaction as described in the definition of "Related Bonds;" or

(v) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

Notwithstanding the foregoing, nothing shall prohibit any disposition of assets among Credit Group Members nor shall prohibit the Credit Group Members from: (1) making loans, including, without limitation, employee relocation loans, physician recruitment loans or other credit/funding extensions, provided that such loans or other credit/funding extensions are in writing and the Master Trustee receives an Officer's Certificate to the effect that (x) such loans are in furtherance of the exempt purposes of the Credit Group Members or (y) the Credit Group Members reasonably expect such loans to be repaid and such loans bear interest at a reasonable rate of interest and on commercially reasonable terms; or (2) transferring gifts restricted to a purpose inconsistent with their use for the payment of debt service on Master Indenture Obligations or operating expenses to an Affiliated Corporation which has the purpose to receive and disburse such restricted gifts.

Limitation on Indebtedness. Each Obligated Group Member covenants that it will not, and each Controlling Member covenants that it will not permit any of its Designated Affiliates to, incur any Indebtedness except that the Credit Group Members may incur the following Indebtedness:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(i) the Debt Service Coverage Ratio for the most recent Fiscal Year for which Credit Group Financial Statements are available with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.1:1.0; or

(ii) (A) the Debt Service Coverage Ratio for the most recent Fiscal Year (excluding the additional Long-Term Indebtedness to be incurred) was not less than 1.2:1.0 and (B) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the facilities to be financed by the Indebtedness to be incurred with respect to all Long-Term Indebtedness projected to be outstanding (including the additional Long-Term Indebtedness to be incurred but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected to be not less than 1.2:1.0. Notwithstanding the foregoing, if the Master Trustee receives a report of an Independent Consultant to the effect that Government Restrictions or Industry Restrictions prevent the Credit Group Members from generating the required levels of Income Available for Debt Service sufficient to result in a Debt Service Coverage Ratio of not less than 1.2:1.0, the 1.2:1.0 ratio requirement described in this subsection (a)(ii) shall be reduced to a ratio of not less than 1.0:1.0; or

(iii) the forecasted Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the two complete Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.30:1.0, as shown by forecasted statements of revenues and expenses for each such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion Indebtedness without limitation provided that an Officer's Certificate is delivered to the Master Trustee stating that the Credit Group Representative reasonably expected the aggregate principal amount of Long-Term or Interim Indebtedness originally issued to finance the construction or equipping of the project for which such Completion Indebtedness is being incurred, together with other funds reasonably anticipated to be available for such purposes, to be fully sufficient to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness or Interim Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

(c) Short-term Indebtedness provided that the provisions described in subsection (a) above are satisfied calculated as if such Short-term Indebtedness was Long-Term Indebtedness or an Officer's Certificate is delivered to the Master Trustee stating that:

(i) the total amount of such Short-term Indebtedness shall not exceed twenty-five percent (25%) of Total Revenues; and

(ii) In every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-term Indebtedness (excluding Short-Term Indebtedness consisting of commercial paper which is intended to be refinanced with additional commercial paper) is reduced to an amount which shall not exceed five percent (5%) of Total Revenues.

(d) Nonrecourse Indebtedness without limitation, provided that an Officer's Certificate is delivered to the Master Trustee stating that the proceeds of Nonrecourse Indebtedness in the aggregate shall not be used to acquire or construct inpatient acute care hospital facilities.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued or incurred to refund Long-Term Indebtedness and the Master Trustee receive an Officer's Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than ten percent (10%).

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that an Officer's Certificate is delivered to the Master Trustee stating that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions of subsection (c), does not, as of the date of incurrence, exceed 25% of Total Revenues.

(h) Reimbursement or other repayment obligations under reimbursement agreements or similar agreements relating to credit facilities and/or liquidity facilities which provide credit support and/or liquidity for Indebtedness or Financial Products Agreements.

Preparation and Filing of Financial Statements, Reports and Other Information.

(a) Each Member agrees that it will keep adequate records and books of accounts in which complete and correct entries shall be made (said books shall be subject to the inspection of the Master Trustee during regular business hours after reasonable notice and under reasonable circumstances).

(b) The Credit Group Representative agrees that it will furnish to the Master Trustee and any Related Bond Issuer that shall request the same in writing:

(i) As soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 2010, one or more financial statements which, in the aggregate, shall include the Material Credit Group Members. Such financial statements:

(A) may consist of (1) consolidated or combined financial results including one or more Credit Group Members and one or more other Persons required to be consolidated or combined with such Credit Group Member(s) under GAAP or (2) special purpose financial statements including only Credit Group Members;

(B) shall be audited by an Accountant as having been prepared in accordance with GAAP (except, in the case of special purpose financial statements, for required consolidations);

(C) shall include a consolidated or combined balance sheet, statement of operations and changes in net assets; and

(D) if more than one financial statement is delivered to the Master Trustee pursuant to this subsection (b)(i), or if a single financial statement is delivered that includes Persons other than Credit Group Members and Immaterial Affiliates, each such financial statement shall contain, as "other financial information," a combining or consolidating schedule from which financial information solely relating to the Credit Group Members and Immaterial Affiliates may be derived.

(ii) (A) If a single financial statement containing information solely related to the Credit Group Members (which may, but need not, include any Immaterial Affiliates) is delivered pursuant to clause (b)(i) above, such financial statement shall constitute the "Credit Group Financial Statements."

(B) If a single financial statement containing information related solely to the Credit Group Members and, at the option of the Credit Group Representative, any Immaterial Affiliates is not delivered pursuant to clause (b)(i) above, the Credit Group Representative shall prepare an unaudited balance sheet and statement of operations for such Fiscal Year. The unaudited financial statements shall be prepared as soon as practicable, but in no event more than 150 days after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 2010, and shall be based on the accompanying unaudited combining or consolidating schedules delivered with the audited financial statements described in clause (b)(i)(D) above. The unaudited financial statements prepared in accordance with this clause (ii)(B) shall be the "Credit Group Financial Statements."

(C) The Credit Group Financial Statements:

(1) shall include all Material Credit Group Members;

(2) at the option of the Credit Group Representative, may, but need not, include one or more Immaterial Affiliates as provided in subsection (c) below;

(3) at the option of the Credit Group Representative, may exclude one or more Credit Group Members that are not Material Credit Group Members; and

(4) shall exclude all combined or consolidated entities that are neither Credit Group Members nor Immaterial Affiliates.

(iii) At the time of the delivery of the Credit Group Financial Statements, a certificate of the chief financial officer of the Credit Group Representative, stating that no event which constitutes an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Members to cure such Event of Default.

(c) Notwithstanding the foregoing, the results of operation and financial position of Immaterial Affiliates need not be excluded from financial statements delivered to the Master Trustee pursuant to this Section, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Credit Group Members for all purposes of the Master Indenture notwithstanding the inclusion of the results of operation and financial position of such Immaterial Affiliates. The Master Trustee shall have no duty to review, verify or analyze such financial statements and shall hold such financial statements solely as a repository for the benefit of the Holders. The Master Trustee shall not be deemed to have notice of any information contained in such financial statements or event of default which may be disclosed therein in any manner.

Events of Default and Remedies

Events of Default. Event of Default under the Master Indenture include:

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

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Master Indenture Obligation) for a period of sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Credit Group Representative by the Master Trustee or to the Credit Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Master Indenture Obligations (provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Credit Group Representative shall diligently proceed to remedy the failure).

(c) Any Credit Group Member shall default in the payment of Indebtedness (other than (1) Subordinated Indebtedness, (2) Nonrecourse Indebtedness, and (3) Indebtedness secured by a Master Indenture Obligation, which shall be governed by subsection (a) described above) in an aggregate outstanding principal amount greater than three percent (3%) of Total Revenues of the Credit Group, and any grace period for such payment shall have expired; provided, however, that such default shall not constitute an Event of Default if, within sixty (60) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (1) any Obligated Group Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) A court having jurisdiction shall enter a decree or order for relief in respect of any Obligated Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(e) Any Obligated Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver,

liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Obligated Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any agreement with the insurer of any Related Bonds or Master Indenture Obligations.

The Credit Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Credit Group Representative shall notify the Master Trustee of any event which is an Event of Default hereunder which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Acceleration; Annulment of Acceleration. 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 a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall, by notice to the Credit Group Representative, declare all Outstanding Master Indenture Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Master Indenture Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Master Indenture Obligations issued pursuant to such Related Supplement, the Master Indenture Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Master Indenture Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Master Indenture Obligations.

At any time after the Master Indenture Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(i) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Master Indenture Obligations (other than payments then due only because of such declaration); and

(ii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due; and

(iii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group hereunder; and

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Master Indenture Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Additional Remedies and Enforcement of Remedies. 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 a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Credit Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders hereunder by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Master Indenture Obligations;

- (ii) Civil action upon all or any part of the Master Indenture Obligations;
- (iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Master Indenture Obligations to account as if it were the trustee of an express trust for the Holders of Master Indenture Obligations;
- (iv) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Master Indenture Obligations;
- (v) Civil action to obtain a writ of mandate against the Corporation or any other Credit Group Member that is a political subdivision, or against any officer or member of the Governing Body of the Corporation or such political subdivision, to compel performance of any act specifically required by the Master Indenture or any Master Indenture Obligation; and
- (vi) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request. Nothing in the Master Indenture shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment, or composition affecting the Master Indenture Obligations or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

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

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

First: To the payment of all Required Payments then due on the Master Indenture Obligations (including Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation and Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Required Payments due on the same date, then to the payment thereof ratably, according to the amount Required Payments due on such date, without any discrimination or preference;

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

- (b) If all Outstanding Master Indenture Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of the Master Indenture):

First: To the payment of all Required Payments then due on the Master Indenture Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation and (ii) Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority, according to the amounts due respectively, without any discrimination or preference; and

Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Product Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full all such Financial Product Extraordinary Payments, then to the payment thereof ratably, without any discrimination or preference.

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

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

Remedies Vested in the Master Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Master Indenture Obligations may be enforced by the Master Trustee without the possession of any of the Master Indenture Obligations or the production thereof in any proceeding relating thereto. Any proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining any Holders as plaintiffs or defendants. Any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Master Indenture Obligations.

Master Trustee to Represent Holders. The Master Trustee is irrevocably appointed as trustee and attorney in fact for the Holders for the purpose of exercising on their behalf the rights and remedies available to the Holders under the provisions of the Master Indenture, the Master Indenture Obligations, any Related Supplement and applicable provisions of law. The Holders, by taking and holding the Master Indenture Obligations, shall be conclusively deemed to have so appointed the Master Trustee.

Holders' Control of Proceedings. If an Event of Default has occurred and is continuing, notwithstanding anything herein to the contrary, the Holders of at least a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms of the Master Indenture. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing in this provision shall impair the right of the Master Trustee to take any other action authorized by the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Waiver of Event of Default. No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement

of any other remedy hereunder. Upon the written request of the Holders of at least a majority in aggregate principal amount of Outstanding Master Indenture Obligations, the Master Trustee shall waive any Event of Default and its consequences; provided, however, that, except under the circumstances described in the Master Indenture, the failure to pay the principal of, premium, if any, or interest on any Master Indenture Obligation when due may not be waived without the written consent of the Holders of all Outstanding Master Indenture Obligations. In case of any waiver by the Master Trustee of an Event of Default, the Obligated Group Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Master Indenture Obligations to be due and payable, (b) after declaring the Master Indenture Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Obligated Group Members (without the necessity of notice to any Obligated Group Member or any other Person), with such powers as the court making such appointment shall confer. Each Obligated Group Member consents, and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Obligated Group Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Supplements and Amendments

Supplements Not Requiring Consent of Holders. The Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

- (i) To correct any ambiguity or formal defect or omission in the Master Indenture;
- (ii) To correct or supplement any provision which may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising under the Master Indenture;
- (iii) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Group Members;
- (iv) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;
- (v) To create and provide for the issuance of a Master Indenture Obligation or Series of Master Indenture Obligations as permitted under the Master Indenture;
- (vi) To obligate a successor to any Obligated Group Member; or
- (vii) To add a new Obligated Group Member; or
- (viii) To make any other change which does not materially and adversely affect the interests of the Holders..

Supplements Requiring Consent of Holders. Other than Related Supplements referred to in the preceding section, the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations shall have the right to consent to and approve the execution by the Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained herein; provided, however, that nothing shall permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Master Indenture Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on or reduce any other Required Payment on any Master Indenture Obligation without the consent of the Holder of such Master Indenture Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions of the Master Indenture so as to affect the right of the Holders of any Master Indenture Obligations in default to compel the Master Trustee to declare the principal of all Master Indenture Obligations to be due and payable, without the consent of the Holders of all Outstanding Master Indenture Obligations; or

(iii) Reduce the aggregate principal amount of Outstanding Master Indenture Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Master Indenture Obligations then Outstanding.

SUPPLEMENTAL MASTER INDENTURE FOR OBLIGATION NO. 1

General

Supplement No. 1 provided for the issuance of Obligation No. 1 pursuant to the Master Indenture and provides the terms and form thereof. Obligation No. 1 further secures the obligation of the Corporation arising under and pursuant to the Sale Agreement.

Payments on Obligation; Credits

Principal, interest and any applicable redemption premium on Obligation No. 1 are payable, in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts, on the dates and in the amounts required to be paid by the Corporation pursuant to the Sale Agreement. Payments of the principal of and premium, if any, and interest on Obligation No. 1 shall be made by the Corporation (i) depositing or causing to be deposited the same with or to the account of the Trustee at or prior to the opening of business on the day such payments shall become due or payable, and (ii) giving a notice to the Master Trustee and the Trustee of each payment of principal, interest or premium on Obligation No. 1, that specifies the amount paid, identifies such payment as a payment on Obligation No. 1, and identifies the Obligated Group Members on whose behalf such payment is made.

The Corporation shall receive credit for payment on Obligation No. 1, in addition to any credits resulting from payment of prepayment from other sources as follows:

(a) On installments of interest on Obligation No. 1 in an amount equal to moneys deposited in the Interest Fund created under the Trust Agreement, to the extent such amounts have not previously been credited against payments on Obligation No. 1;

(b) On installments of principal on Obligation No. 1 in an amount equal to moneys deposited in the Principal Fund created under the Trust Agreement, to the extent such amounts have not been previously credited against payments on Obligation No. 1; and

(c) On installments of principal and interest on Obligation No. 1 in an amount equal to principal of the amount specified in the Certificate of the Corporation filed with the Trustee pursuant to the provisions of the Sale Agreement in connection with a prepayment of Purchase Payments.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

City of Upland
Upland, California

\$124,605,000
Certificates of Participation
Evidencing Proportionate Interests of the Holders
Thereof in Installment Payments to be Paid by the
City of Upland in Accordance with the Purchase Agreement with
San Antonio Community Hospital
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the City of Upland, a municipal corporation and general law city of the State of California (the "City"), in connection with the execution and delivery of \$124,605,000 aggregate principal amount of certificates of participation (the "Certificates"), each evidencing undivided ownership interests of the registered holders thereof in the rights to receive certain installment payments (the "Installment Payments") made by the City pursuant to a Purchase Agreement, dated as of January 1, 2011 (the "Purchase Agreement"), between the City and San Antonio Community Hospital, a nonprofit public benefit corporation (the "Corporation"), such rights to receive Installment Payments having been assigned without recourse by the Corporation to U.S. Bank National Association, as trustee (the "Trustee"). The Certificates have been executed by the Trustee pursuant to the terms of a Trust Agreement, dated as of January 1, 2011 (the "Trust Agreement"), among the City, the Corporation and the Trustee. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Purchase Agreement; the Sale Agreement; the Trust Agreement; the Tax Agreement; opinions of counsel to the City, the Corporation and the Trustee; certificates of the City, the Corporation, the Trustee and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Ropes & Gray LLP, counsel to the Corporation, regarding, among other matters, the current qualifications of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of the Certificates in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest components of the Installment Payments made by the City under the Purchase Agreement and received by the Holders of the Certificates being included in gross income for federal income tax purposes, possibly from the date of delivery of the Certificates.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Purchase Agreement and the Certificates has concluded with their delivery, and we disclaim any obligation to update this letter.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of the Installment Payments to be included in gross income for federal income tax purposes.

We call attention to the fact that the rights and obligations under the Certificates, the Purchase Agreement, the Sale Agreement, the Trust Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Purchase Agreement, the Sale Agreement or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy,

completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Purchase Agreement, the Sale Agreement and the Trust Agreement have been duly executed and delivered by, and constitute valid and binding obligations of, the City.

2. The obligation of the City to make the Installment Payments during the term of the Purchase Agreement constitutes a valid and binding obligation of the City, payable solely from Revenues. The obligation of the City to make the Installment Payments does not constitute a debt of the City or of the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction and does not constitute an obligation for which the City or the State of California or any political subdivision thereof is obligated to levy or pledge any form of taxation or for which the City or the State of California or any political subdivision thereof has levied or pledged any form of taxation.

3. The Trust Agreement creates a valid pledge, to secure the payment of the principal and interest components of the Installment Payments, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Trust Agreement, except the Rebate Fund, subject to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement. Assuming due authorization, execution and delivery by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The interest component of the Installment Payments made by the City under the Purchase Agreement and received by the Holders of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. The interest component of the Installment Payments made by the City under the Purchase Agreement and received by the Holders of the Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes; although we observe that the interest component of Installment Payments paid by the City under the Purchase Agreement and received by the Holders of the Certificates is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding any other tax consequences related to the ownership or disposition of the Certificates or the accrual or receipt of the interest component of the Installment Payments made by the City under the Purchase Agreement.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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The following is the form of Continuing Disclosure Agreement which is expected to be executed and delivered contemporaneous with the execution and delivery of the Certificates.

CONTINUING DISCLOSURE AGREEMENT

between

SAN ANTONIO COMMUNITY HOSPITAL

and

U.S BANK NATIONAL ASSOCIATION,
as Dissemination Agent

Dated January __, 2011

relating to

City of Upland
Certificates of Participation
Evidencing Undivided Ownership Interests of the Holders Thereof in Installment Payments
to be Made by the City of Upland from Purchase Payments to be Received from
San Antonio Community Hospital

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered on January __, 2011, by San Antonio Community Hospital (the “Obligated Group Representative” or the “Hospital”), on behalf of itself and any future Obligated Group Member(s) (each a “Member” and collectively the “Obligated Group”) and U.S. Bank National Association (the “Dissemination Agent”) in connection with the sale of \$124,605,000 Certificates of Participation (the “Certificates”) which are being executed and delivered pursuant to a Trust Agreement, dated as of January 1, 2011 (the “Trust Agreement”), between the City of Upland (the “City”) and U.S. Bank National Association, as trustee (the “Trustee”). The Obligated Group and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Obligated Group and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Obligated Group pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Certificates, including persons holding such Certificates through nominees, depositories or other intermediaries.

“Disclosure Representative” shall mean the Chief Financial Officer of the Obligated Group Representative or his or her designee, or such other officer or employee as the Obligated Group Representative shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Dissemination Agent, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Group Representative and which has filed with the Dissemination Agent a written acceptance of such designation.

“Holders” shall mean the registered owners of the Certificates.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. (Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic

Municipal Market Access (“EMMA”) website of the MSRB, currently located at <http://emma.msrb.org>.)

“Participating Underwriter” shall mean the original underwriter(s) of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

“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; Quarterly Reporting.

(a) The Obligated Group shall, or shall cause the Dissemination Agent to, not later than 150 days after the end of the Obligated Group’s Fiscal Year (which currently is December 31), commencing with the report for the Fiscal Year ending December 31, 2010, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Obligated Group may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Obligated Group’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f). The Obligated Group shall also provide such Annual Report at the same time as the filing with the MSRB to any Beneficial Owner of the Certificates that requests such information at least sixty (60) days after the end of each Fiscal Year (such request to remain in effect for subsequent filings until changed or revoked by such Beneficial Owners).

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Obligated Group shall provide the Annual Report to the Dissemination Agent and the Trustee (if Trustee is not the Dissemination Agent). If by such date the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Disclosure Representative to determine if the Annual Report has been provided to the MSRB.

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as EXHIBIT A.

(d) The Dissemination Agent shall, upon providing the Annual Report to the MSRB, file a report with the Disclosure Representative and, if the Dissemination Agent is not the Trustee, the Trustee, certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided.

(e) In addition to the Annual Report required to be filed pursuant to subsection (a), the Obligated Group shall, or shall cause the Dissemination Agent to, not later than sixty (60) days after the end of the first three quarters of each Fiscal Year of the Obligated

Group (presently March 31, June 30 and September 30), commencing with the quarter ending March 31, 2011, provide to the MSRB quarterly unaudited financial information prepared by the Obligated Group. The Obligated Group shall also provide such unaudited financial information at the same time as the filing with the MSRB to any Beneficial Owner of the Certificates that requests such information at least sixty (60) days after the end of each such quarter (such request to remain in effect for subsequent filings until changed or revoked by such Beneficial Owners). The unaudited financial information shall include a balance sheet and a statement of operations and changes in net assets of the Obligated Group.

SECTION 4. Content of Annual Reports. The Obligated Group's Annual Report shall contain or include by reference the following:

(a) The audited consolidated financial statements of the Hospital and its affiliates for the immediately preceding Fiscal Year, prepared in accordance with Generally Accepted Accounting Principles, as well as consolidated statements of financial position, income and changes in net assets. If the audited consolidated financial statements are not available by the time the Annual Report is required to be filed pursuant to subsection 3(a), the Annual Report shall contain unaudited consolidated financial statements in a format similar to the consolidated financial statements contained in the final Official Statement and the audited consolidated financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Updated versions of the following financial information and operating data contained in the Official Statement, for the applicable Fiscal Year, under the following captions:

i. The table appearing under "HOSPITAL SERVICES - Bed Distribution" within APPENDIX A - "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL" to the Official Statement;

ii. The table appearing under "HOSPITAL SERVICES - Historical Utilization" within APPENDIX A - "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL" to the Official Statement;

iii. The table entitled "Major Payer Categories Percent of Gross Revenues" appearing under "SELECTED FINANCIAL INFORMATION - Sources of Patient Service Revenue" within APPENDIX A - "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL" to the Official Statement;

iv. The table appearing under "SELECTED FINANCIAL INFORMATION - Liquidity" within APPENDIX A - "INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL" to the Official Statement;

v. The table appearing under "SELECTED FINANCIAL INFORMATION - Capitalization" within APPENDIX A - "INFORMATION

CONCERNING SAN ANTONIO COMMUNITY HOSPITAL” to the Official Statement; and

vi. The table appearing under “SELECTED FINANCIAL INFORMATION - Debt Service Coverage” within APPENDIX A - “INFORMATION CONCERNING SAN ANTONIO COMMUNITY HOSPITAL” to the Official Statement.

(c) Any or all of the items listed within Section 4(a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Obligated Group or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Obligated Group shall clearly identify each such other document so included by reference.

(d) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(e) If an amendment is made to the accounting principles to be followed by the Obligated Group in preparing its financial statements, the Annual Report for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 5. Reporting of Notice Events.

(a) Pursuant to the provisions of this Section 5 and subsection (b)(5)(i)(C) of the Rule, the Obligated Group shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates:

- i. principal and interest payment delinquencies;
- ii. non-payment related defaults, if material;
- iii. unscheduled draws on debt service reserves reflecting financial difficulties;
- iv. unscheduled draws on any credit enhancements reflecting financial difficulties;
- v. substitution of any credit or liquidity provider or their failure to perform;

- vi. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the Certificates, or other material events affecting the tax-exempt status of the Certificates;
- vii. modifications to rights of Certificateholders, if material;
- viii. bond calls; if material, and tender offers;
- ix. defeasances;
- x. release, substitution or sale of property securing repayment of the Certificates, if material;
- xi. rating changes;
- xii. bankruptcy, insolvency, receivership or similar event of an Obligated Group Member;¹
- xiii. the consummation of a merger, consolidation, or acquisition involving an Obligated Group Member or the sale of all or substantially all of the assets of an Obligated Group Member, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and or the sale of all or substantially all of the assets of an Obligated Group Member, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- xiv. appointment of a successor or additional trustee or the change of name of a trustee, if material.

¹ For the purposes of the event identified in clause (xii) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Group Member in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of an Obligated Group Member, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of an Obligated Group Member.

The Listed Events described in Section 5(a)(ii), (vii), (viii), (x), (xiii), and (xiv) are each referred to as a “Materiality Listed Event.”

(b) The Dissemination Agent shall, within one (1) business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative, inform such person of the event and, in the case of any Materiality Listed Event, request that the Obligated Group promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f) below.

(c) Whenever the Obligated Group obtains knowledge of the occurrence of a Materiality Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Obligated Group shall as soon as possible determine if such event is material under applicable federal securities laws.

(d) If (i) the Obligated Group has determined that the occurrence of a Materiality Listed Event is material under applicable federal securities laws or (ii) the Obligated Group obtains knowledge of the occurrence of any Listed Event which is not a Materiality Listed Event, the Disclosure Representative shall notify the Dissemination Agent, in writing, in a timely manner not to exceed nine (9) business days after the occurrence of such Listed Event. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If the Obligated Group determines that a Materiality Listed Event is not material under applicable federal securities laws, the Disclosure Representative shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Disclosure Representative to report the occurrence of a Listed Event, the Dissemination Agent shall, in a timely manner not in excess of ten (10) business days after the occurrence of the Listed Event, file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The Obligated Group’s and the Dissemination Agent’s obligations under this Disclosure Agreement shall terminate upon legal defeasance under Article X of the Trust Agreement, prior redemption or payment in full of all of the Certificates. If such termination occurs before the final maturity of the Certificates, the Obligated Group shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The Obligated Group may discharge the Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the Disclosure Representative. If at any time there is not any other designated Dissemination Agent, whether due to the discharge or resignation of any successor Dissemination Agent, the Trustee, if it shall agree, shall serve as the Dissemination Agent until such time as a new Dissemination Agent is

designated and if the Trustee shall not so agree, the Obligated Group Representative shall serve as the Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Obligated Group and the Dissemination Agent may amend this Disclosure Agreement (and, to the extent that any such amendment does not materially change or increase its obligations hereunder, the Dissemination Agent shall agree to any amendment so requested by the Obligated Group), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Holders, or (ii) does not, in the opinion of the Dissemination Agent or nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Obligated Group shall describe such amendment in the next Annual Report as provided in Section 4(d) or Section 4(e) above, as applicable.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Obligated Group from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Obligated Group chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Obligated Group shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Obligated Group or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of the Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Certificates, shall), or any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Group or Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure

Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or any other agreement entered into by the Hospital in connection with the Certificates, and the sole remedy under this Disclosure Agreement in the event of any failure of the Obligated Group or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Current Compliance with the Rule. The Obligated Group represents and warrants to the Participating Underwriter that, as of the date hereof, it has been in compliance during the past five (5) years with all undertakings entered into by it prior to the date hereof with respect to any other issue of obligations subject to the Rule.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the Obligated Group has provided such information to the Dissemination Agent as required by this Disclosure Agreement. The Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Dissemination Agent shall have no duty or obligation to review or verify any information, disclosures or notices provided to it by the Obligated Group and shall not be deemed to be acting in any fiduciary capacity for the Obligated Group, Holders or Beneficial Owners of the Certificates or any other party. The Dissemination Agent shall have no responsibility for the Obligated Group's failure to report to the Dissemination Agent a Listed Event or a duty to determine the materiality thereof. The Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the Obligated Group has complied with this Disclosure Agreement. The Dissemination Agent may conclusively rely upon certifications of the Obligated Group and the Obligated Group Representative at all times.

THE OBLIGATED GROUP AGREES TO INDEMNIFY AND SAVE THE DISSEMINATION AGENT AND ITS RESPECTIVE OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS, HARMLESS AGAINST ANY LOSS, EXPENSE AND LIABILITIES WHICH THEY MAY INCUR ARISING OUT OF OR IN THE EXERCISE OR PERFORMANCE OF THEIR 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 GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

The obligations of the Obligated Group under this Section shall survive resignation or removal of the Dissemination Agent and defeasance, redemption or payment of the Certificates.

(b) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 13. MSRB Filing.

(a) Unless otherwise required by the MSRB, all notices, documents and information provided to the MSRB shall be provided to the MSRB's Electronic Municipal Markets Access (EMMA) system, the current Internet Web address of which is www.emma.msrb.org.

(b) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 14. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Obligated Group (including any particular Obligated Group Member):	San Antonio Community Hospital 999 San Bernardino Road Upland, California 91786 Attention: Chief Financial Officer Telephone: 909-920-4711 Facsimile: 909-949-1774
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To the Dissemination Agent:	U.S. Bank National Association 633 West Fifth Street, 24 th Floor Los Angeles, California 90071 Attention: Alicia Estrada Telephone: 213-615-6018 Facsimile: 213-615-6199 E-mail: alicia.estrada@usbank.com
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Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Obligated Group, the Disclosure Representative, the Dissemination Agent, the Participating Underwriter and the Holders and the Beneficial Owners from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 16. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 17. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

[Remainder of page left blank intentionally]

IN WITNESS WHEREOF, this Agreement has been executed on behalf of the Obligated Group and the Dissemination Agent by their duly authorized representatives as of the date first written above.

SAN ANTONIO COMMUNITY HOSPITAL
as Obligated Group Representative,
on behalf of itself and all other future Obligated
Group Members

By: _____
Name: _____
Title: _____

U.S. BANK NATIONAL ASSOCIATION
as Dissemination Agent

By: _____
Name: _____
Title: _____

EXHIBIT A

FORM OF NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Name of Issue: City of Upland
Certificates of Participation
Evidencing Undivided Ownership Interests of the Holders Thereof in
Installment Payments to be Made by the City of Upland from Purchase
Payments to be Received from San Antonio Community Hospital

Date of Issuance: January __, 2011

NOTICE IS HEREBY GIVEN that San Antonio Community Hospital (the "Obligated Group Representative"), on behalf of itself and any future Obligated Group Member(s) (each a "Member" and collectively the "Obligated Group") has not provided an Annual Report with respect to the above-named Certificates as required by Sections 3 and 4 of the Continuing Disclosure Agreement dated January __, 2011. The Obligated Group anticipates that the Annual Report will be filed by _____.

Dated: _____

U.S. BANK NATIONAL ASSOCIATION
as Dissemination Agent

By [form only; no signature required] _____

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as maybe requested by an authorized representative of DTC. One fully-registered certificate will be issued for each interest rate and stated certificate payment date of the Certificates, as set forth on the inside cover of this Official Statement, and will be deposited with DTC.

The description that follows is based solely on information furnished by DTC. **Neither the City, the Corporation, the Trustee nor the Underwriters assume any responsibility for the accuracy or adequacy of the information included in such description.**

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“*Direct Participants*”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“*DTCC*”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their

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

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

Prepayment notices shall be sent to DTC. If less than all of the Certificates are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

Principal, premium, prepayment proceeds, distributions and interest payments due with respect to the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on each 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 City, 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 City and 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 securities depository with respect to the Certificates at any time by giving reasonable notice to the City and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the City takes no responsibility for the accuracy thereof.

The Corporation, the City and the Trustee cannot and do not give any assurances that DTC will distribute to Participants or that Participants or others will distribute to the Beneficial Owners payments of principal and interest and premium, if any, on the Certificates paid or any prepayment or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the Corporation, the City or the Trustee is responsible or liable for the failure of DTC or any Direct Participant or Indirect Participants to make any payments or give any notice to a Beneficial Owner with respect to the Certificates or any error or delay relating thereto.

None of the Corporation, the City or the Trustee will have any responsibility or obligation to Direct Participants, to Indirect Participants or to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC, any Direct Participant, or any Indirect Participant; (ii) the payment by DTC or any Direct Participant or Indirect Participant of any amount with respect to the principal of or premium, if any, or interest on the Certificates; (iii) any notice that is permitted or required to be given to Holders under the Trust Agreement; (iv) the selection by DTC, any Direct Participant or any Indirect Participant of any person to receive payment in the event of a partial prepayment of the Certificates; (v) any consent given or other action taken by DTC as securities depository for the Certificates; or (vi) any other procedures or obligations of DTC, Direct Participants or Indirect Participants under the book-entry system.

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**SAN ANTONIO
COMMUNITY HOSPITAL**



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