

**REOFFERING-NOT A NEW ISSUE**  
**BOOK-ENTRY ONLY**

**Ratings†**

Concurrently with the original issuance and delivery of the Bonds, Sidley Austin LLP, Bond Counsel, delivered its opinion to the effect that as of the date of issuance of the Bonds under then-existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Bonds would not be includable in the gross income of the owners of the Bonds for federal income tax purposes. Upon the conversion of the Bonds, Sidley Austin LLP will deliver an opinion to the Issuer, the Bond Trustee and the Remarketing Agents identified below, to the effect that the conversion of the Bonds to the Long-Term Interest Rate will not, in and of itself, cause interest on the Bonds to be included in the gross income of the holders thereof for federal income tax purposes. No opinion will be expressed as to whether interest on any of the Bonds is currently excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, any of the Bonds. See "TAX MATTERS" herein.

**\$90,000,000**



**Catholic Healthcare West**

**California Statewide Communities Development Authority**  
**Insured Health Facility Revenue Bonds**  
**(Catholic Healthcare West)**  
**2007 Series K and L**

**Dated: Date of Original Issuance**

**Due: As shown on the inside cover**

This Reoffering Circular is to be used for the purpose of providing information in connection with the conversion of the California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2007 Series K and L (the "Bonds") to bonds bearing interest at Long-Term Interest Rates to their respective maturities. Each Series of the Bonds is outstanding in the principal amount set forth on the inside cover page. Each Series of the Bonds is dated the date of its original issuance, April 26, 2007, and assuming satisfaction of certain conditions, will be converted to bear interest at Long-Term Interest Rates to maturity commencing on May 16, 2008 (the "Conversion Date"). Interest on the Bonds will be payable on January 1 and July 1 of each year commencing July 1, 2008.

The Bonds are being delivered upon conversion as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchase of beneficial interests in any Series of Bonds will be made in book-entry-only form (without physical certificates) in denominations of \$5,000 and any integral multiple thereof and, under limited circumstances, will be exchangeable for physical certificates, as more fully described herein. For so long as DTC or its nominee, Cede & Co., is the registered owner of any of the Bonds, (i) payments of the principal and premium, if any, and interest on the Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption shall be mailed only to Cede & Co. See Appendix D — "BOOK-ENTRY SYSTEM" herein.

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

Payment of the principal of and interest on the Bonds when due are guaranteed by a bond insurance policy issued by Assured Guaranty Corp. ("Assured Guaranty") simultaneously with the delivery of the Bonds.

**ASSURED  
GUARANTY**

The Bonds are limited obligations of the California Statewide Communities Development Authority (the "Issuer"), secured under the provisions of the Indenture and Loan Agreement relating to the Bonds as described herein. The Bonds are payable from Loan Repayments (described herein) made by Catholic Healthcare West (the "Corporation") under the Loan Agreement, and from certain funds held under the Indenture. The obligation of the Corporation to make Loan Repayments is evidenced and secured by Obligation No. 93-B issued under the Master Indenture described herein. Under the Master Indenture, the Corporation and certain of its affiliates (collectively, the "Obligated Group Members") jointly and severally are obligated to make payments on Obligation No. 93-B in amounts sufficient to pay principal of and premium, if any, and interest on the Bonds when due.

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE ISSUER, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE ISSUER SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 93-B AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. NEITHER THE ISSUANCE NOR THE CONVERSION OF THE BONDS SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

*This cover page contains information for general reference only. It is not intended as a summary of these transactions. Investors are advised to read the entire Reoffering Circular to obtain information essential to making an informed investment decision.*

**SEE MATURITY SCHEDULE ON INSIDE FRONT COVER**

It is expected that the Bonds in definitive form will be available for delivery through The Depository Trust Company in New York, New York, on or about May 16, 2008.

**Citi**

**JPMorgan**

May 2, 2008

† See the caption "RATINGS" herein for the ratings on the Bonds.

## MATURITY SCHEDULE

**\$54,000,000**  
**California Statewide Communities Development Authority**  
**Insured Health Facility Revenue Bonds**  
**(Catholic Healthcare West)**  
**2007 Series K**

<b>Maturity Date (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP*</b>
2041	\$54,000,000	5.500%	5.170%	102.370	130795TV9

**\$36,000,000**  
**California Statewide Communities Development Authority**  
**Insured Health Facility Revenue Bonds**  
**(Catholic Healthcare West)**  
**2007 Series L**

<b>Maturity Date (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP*</b>
2041	\$36,000,000	5.250%	5.220%	100.209	130795TW7

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This Reoffering Circular does not constitute an offer to sell the Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, 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 Bonds, and, if given or made, such information or representation must not be relied upon.

The Issuer has not reviewed or participated in the preparation of this Reoffering Circular. All information set forth herein has been obtained from the Corporation, the other Obligated Group Members and other sources (other than the Issuer) that are believed to be reliable. The adequacy, accuracy or completeness of such information is not guaranteed by, and is not to be construed as a representation of, the Issuer or either of the Remarketing Agents. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of The Depository Trust Company, the Corporation or the other Obligated Group Members since the date hereof.

The Remarketing Agents have provided the following sentence for inclusion in this Reoffering Circular. The Remarketing Agents have reviewed the information in this Reoffering Circular in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of these transactions, but the Remarketing Agents do not guarantee the accuracy or completeness of this information.

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**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING  
STATEMENTS IN THIS REOFFERING CIRCULAR**

Certain statements included or incorporated by reference in this Reoffering Circular 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 “FINANCING PLAN,” “HEALTHCARE INDUSTRY RISK FACTORS,” and Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP—Management’s Discussion and Analysis of Financial Performance” in this Reoffering Circular. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

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## REOFFERING CIRCULAR

**\$90,000,000**  
**California Statewide Communities Development Authority**  
**Insured Health Facility Revenue Bonds**  
**(Catholic Healthcare West)**  
**2007 Series K and L**

### INTRODUCTION

#### General

This Reoffering Circular, including the cover page and Appendices hereto (the “Reoffering Circular”), is provided to furnish information with respect to the conversion of the California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2007 Series K and L (the “Bonds”) to bonds bearing interest at Long-Term Rates to their respective maturities. The Bonds were originally issued as bonds bearing interest determined by periodic auctions and will be converted to bear interest at fixed rates of interest on May 16, 2008 (the “Conversion Date”), subject to the satisfaction of certain conditions.

#### The Bonds

The Bonds were issued pursuant to an indenture, dated as of April 1, 2007 (the “Indenture”), between the California Statewide Communities Development Authority (the “Issuer”) and The Bank of New York Trust Company, N.A., as trustee (the “Trustee”). The proceeds of the Bonds were loaned to the Corporation pursuant to a loan agreement, dated as of April 1, 2007 (the “Loan Agreement”), between the Issuer and the Corporation. The proceeds of such loan were used along with other available funds to (i) refund certain prior obligations, (ii) finance certain improvements and additions to the health facilities of the Corporation and its affiliates in California and (iii) pay certain costs of issuing the Bonds.

#### The Master Indenture and the Obligated Group

The Bonds are secured under the provisions of the Indenture and Loan Agreement and will be payable from payments required to be made by the Corporation under the Loan Agreement, from payments made by the Obligated Group Members (as defined below) on Obligation No. 93-B (the “Obligation No. 93-B”) issued by the Corporation under the Master Indenture (as defined below) and from certain funds held under the Indenture. Obligation No. 93-B was issued by the Corporation on behalf of the Obligated Group Members under and pursuant to the terms of the Master Indenture. Under the Master Indenture, the Obligated Group Members jointly and severally are obligated to make payments on Obligation No. 93-B according to the terms thereof when due, in an amount sufficient to pay when due the principal of and premium, if any, and interest on the Bonds. See “SECURITY FOR THE BONDS.”

### THE BONDS

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

#### General

The Bonds were issued on April 26, 2007. Commencing on the Conversion Date, the Bonds will accrue interest as bonds bearing interest at fixed rates to maturity at the rates per annum shown on the inside cover of this Reoffering Circular. The Bonds were issued pursuant to the Indenture and are currently outstanding in the aggregate principal amount set forth on the inside cover of this Reoffering Circular. The Bonds are payable as to principal, subject to the redemption provisions set forth herein, on the dates and in the amounts set forth on the inside cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Indenture and are 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 Bonds. Ownership interests in the Bonds may be purchased in book entry form only, in denominations of \$5,000 and any integral multiple thereof. See Appendix D — “BOOK-ENTRY SYSTEM.”

Following the Conversion Date, interest on the Bonds will be payable on January 1 and July 1 of each year commencing July 1, 2008, to the person whose name appears on the bond 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 month immediately preceding an interest payment date) for each interest payment date (except with respect to interest in default, for which a special record date shall be established). So long as Cede & Co. is the registered owner of a Series of Bonds, principal of and premium, if any, and interest on that Series of Bonds are payable by wire transfer by the Trustee to Cede & Co., as nominee for DTC, which, in turn, will remit such amounts to DTC Participants (as defined herein) for subsequent disbursement to the Beneficial Owners. See Appendix D — “BOOK-ENTRY SYSTEM.”

Payment of interest on the Bonds will be made by check or draft mailed on each interest payment date to each holder (initially DTC) at its address as it appears on the bond registration books maintained by the Trustee or, at the written request, prior to the Record Date, of any holder of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer. Payment of the principal or redemption price of Bonds will be payable upon presentation and surrender thereof at the corporate trust office of the Trustee.

## **Redemption**

**Optional Redemption.** Each Series of Bonds is subject to redemption prior to the respective stated maturity, at the option of the Issuer, upon Request of the Corporation, from any source of available funds, including money deposited in the Optional Redemption Account established under the Indenture, on any date on or after July 1, 2017, as a whole or in part and by lot, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium.

**Special Redemption from Insurance and Condemnation Proceeds.** The Bonds of any Series shall also be subject to redemption prior to their respective stated maturity at the option of the Issuer, upon Request of the Corporation, as a whole or in part on any date and by lot, from certain moneys derived from hazard insurance or condemnation proceeds received with respect to facilities of the Obligated Group deposited in the Redemption Fund pursuant to the Loan Agreement, at the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium.

**Extraordinary Redemption.** The Bonds are also subject to redemption prior to their respective stated maturities, at the option of the Issuer, upon Request of the Corporation, as a whole (but not in part) on any date from moneys deposited in the Redemption Fund pursuant to the Loan Agreement, at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, if (1) any Obligated Group Member, by reason of final judicial, legislative or administrative action, either is legally required by reason of being party to the Master Indenture or the Loan Agreement or as a condition of continued eligibility for reimbursement under a federal or state program, to operate in any manner that such Obligated Group Member in good faith believes to be contrary to the Ethical and Religious Directives or the principles and beliefs of the Roman Catholic Church, or (2) any Obligated Group Member in good faith believes that there is a substantial threat of it being required to operate contrary to the Ethical and Religious Directives or the principles and beliefs of the Roman Catholic Church, or (3) as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by any Obligated Group Member that (a) the Master Indenture has become void or unenforceable or impossible to perform or (b) unreasonable burdens or excessive liabilities have been imposed on such Obligated Group Members, including without limitation, federal, state or other ad valorem property, income or other taxes not being imposed on the date of issuance of the Bonds.

**Mandatory Sinking Account Redemption — 2007 Series K Bonds.** The 2007 Series K Bonds are also subject to redemption prior to their stated maturity on any July 1 on or after July 1, 2039, in part (by lot) from Mandatory Sinking Account Payments deposited in the applicable Sinking Account, in the amounts set forth below,



on the dates set forth below, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b>Mandatory Sinking Account Payment Date (July 1)</b>	<b>Mandatory Sinking Account Payments</b>
2039	\$18,000,000
2040	\$18,000,000
2041*	\$18,000,000

\*Maturity

**Mandatory Sinking Account Redemption — 2007 Series L Bonds.** The 2007 Series L Bonds are also subject to redemption prior to their stated maturity on any July 1 on or after July 1, 2039, in part (by lot) from Mandatory Sinking Account Payments deposited in the applicable Sinking Account, in the amounts set forth below, on the dates set forth below, at a redemption price equal to the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, as follows:

<b>Mandatory Sinking Account Payment Date (July 1)</b>	<b>Mandatory Sinking Account Payments</b>
2039	\$12,000,000
2040	\$12,000,000
2041*	\$12,000,000

\*Maturity

**Notice of Redemption of the Bonds; Effect of Redemption.** Notice of redemption of the Bonds shall be mailed by first-class mail by the Trustee not less than 30 nor more than 60 days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee and to such securities depositories and/or securities information services designated by the Corporation.

Failure by a Trustee to give notice to any one or more of the securities information services and/or securities depositories designated by the Corporation or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by a Trustee to mail notice of redemption as described herein to any one or more of the respective Holders of any Bonds designated for redemption shall not affect the sufficiency of the proceedings for redemption with respect to the Holders to whom such notice was mailed. Notice of redemption of Bonds shall be given by the Trustee, at the expense of the Corporation. Notice of redemption having been given as described in the preceding paragraph, on the date of redemption indicated in such notice, interest on the Bonds so called for redemption shall cease to accrue from and after the date fixed for redemption thereof, if, on the date fixed for redemption, sufficient moneys for the redemption of such Bonds, together with interest to the date fixed for redemption, are held by the Trustee for such purposes. The Bonds so called for redemption shall cease to be entitled to any benefit or security under the Indenture after the date of redemption, and Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the date fixed for redemption from funds held by the Trustee for such payment.

Any notice of redemption (other than notices of redemption from Mandatory Sinking Account Payments, if any) 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 redemption. 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 redemption was given.

**Selection of Bonds for Redemption.** Whenever provision is made in the Indenture for the redemption of less than all of the Bonds of any Series, or any given portion thereof, the Trustee shall select the Bonds to be redeemed from all the Bonds of that Series subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion shall deem appropriate and fair.

## **CONTINUING DISCLOSURE**

### **The Obligated Group**

Under an agreement (the “Continuing Disclosure Agreement”) with U.S. Bank National Association, as successor master trustee (the “Master Trustee”), acting as Dissemination Agent (the “Dissemination Agent”), dated as of May 1, 1996, the Corporation, acting as Obligated Group Representative, has agreed to provide to the Dissemination Agent certain financial information and operating data for each of the Obligated Group’s Fiscal Years in accordance with the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the “SEC”) under the Securities and Exchange Act of 1934, as amended (the “Rule”). The Obligated Group executed a Continuing Disclosure Certificate for the Bonds concurrently with the issuance of the Bonds (the “Continuing Disclosure Certificate”), designating the Continuing Disclosure Agreement as its written undertaking under paragraph (b)(5) of the Rule. The financial information and operating data will be provided with respect to the CHW System (as defined in The Obligated Group below) during the Fiscal Years to which such information and data relate and will consist of the following:

### **Audited Financial Statements**

The audited financial statements of the CHW System will be prepared in accordance with generally accepted accounting principles on a comparative basis for the two Fiscal Years immediately preceding the date of the Continuing Disclosure Annual Report. Additional information accompanying these financial statements will include additional information for the Obligated Group which has been subjected to auditing procedures applied in the audits of the basic financial statements.

### **Financial Information**

The financial information will consist of (i) a summary of income (previously referred to as summary of revenue and expenses); and (ii) a summary of sources of revenue, each for the Fiscal Year immediately preceding the date of the Continuing Disclosure Annual Report.

### **Operating Data**

The operating data will consist of aggregate operating data for the Obligated Group or the CHW System, as applicable, of the type included in the Continuing Disclosure Certificate which is the approximate number of (i) operating beds, (ii) acute admissions, (iii) acute patient days, (iv) acute average length of stay and Medicare PPS acute average length of stay, (v) licensed acute beds, (vi) CHW System employees, and (vii) CHW System employees which are represented by labor organizations.

The Corporation from time to time may deliver to the Dissemination Agent a new Continuing Disclosure Certificate (a “Replacement Continuing Disclosure Certificate”) which (i) shall specify other types of financial information or operating data to be contained in the Annual Reports prepared subsequent to the delivery of such Continuing Disclosure Certificate (the “Future Annual Reports”) which shall be in addition to, or in lieu of, the types of financial information and operating data described above (collectively, the “Prior Information”) specified in the Continuing Disclosure Certificate or (ii) shall specify that certain types of Prior Information shall be deleted from the Future Annual Reports.

Any Replacement Continuing Disclosure Certificate shall (a) identify the Prior Information which shall no longer be included in the Future Annual Reports; (b) state that the deletion of the Prior Information is being made in connection with a change in (1) the identity, nature or status of any Member of the Obligated Group, (2) the types of business conducted by the Members of the Obligated Group and/or (3) the laws applicable to the Members of the

Obligated Group; and (c) be accompanied by an opinion of nationally recognized disclosure counsel (which may also act as counsel to one or more Members of the Obligated Group) to the effect that the Obligated Group Representative's undertaking pursuant to the Continuing Disclosure Agreement (taking into account the types of financial information and operating data identified in the Replacement Continuing Disclosure Certificate for inclusion in the Future Annual Reports) would have complied with the Rule as in effect on the date of the first offering of the Bonds, taking into account any amendment or interpretation of the Rule by the SEC or any adjudication of the Rule by a final decision of a court of competent jurisdiction which may have occurred subsequent to the execution and delivery of the Continuing Disclosure Agreement.

In addition, a determination by a party unaffiliated with any Obligated Group Member or any Issuer of a Related Bond (such as nationally recognized bond counsel or any Related Bond Trustee) that the substitution of the Substituted Information for Prior Information or the deletion of Prior Information will not adversely affect the Holders in any material respect, or the consent of the majority of the Holders to such substitution or deletion, will be required in connection with such Replacement Continuing Disclosure Certificate.

The Replacement Continuing Disclosure Certificate also shall explain, in narrative form, the reasons for the Replacement Continuing Disclosure Certificate and the impact of the change in the type of operating data or financial information being provided.

However, such opinions or consents may no longer be required in connection with a Replacement Continuing Disclosure Certificate if (i) an amendment or interpretation of the Rule by the SEC has occurred, or (ii) an adjudication of the Rule by a final decision of a court of competent jurisdiction has occurred, or (iii) an opinion of nationally recognized disclosure counsel (which may also act as counsel to one or more Members of the Obligated Group) has been given, in each case, to the effect that such items shall no longer be deemed to be required in order for the Continuing Disclosure Agreement to comply with the Rule.

The Continuing Disclosure Agreement requires the Corporation to provide such financial information and operating data to the Dissemination Agent not later than the last day of the sixth calendar month after the end of the Obligated Group's Fiscal Year. Pursuant to the Continuing Disclosure Agreement, the Dissemination Agent agrees to provide such information and data within five business days after receipt thereof to each nationally recognized municipal securities information repository ("NRMSIR") designated by the SEC and to the state information depository ("SID"), if any, operated or designated by the State of California and recognized as such by the SEC. On the date hereof, there is no such state information repository.

Pursuant to the Continuing Disclosure Agreement, the Dissemination Agent is required to give notice to each NRMSIR and each SID, if any, if the Corporation fails to provide such financial information and operating data within the time period specified in the preceding paragraph.

The Continuing Disclosure Agreement also requires the Corporation to provide to the Dissemination Agent, on a timely basis, for dissemination within three business days by the Dissemination Agent to each NRMSIR and each SID, if any, notice of the occurrence of any of the following events if such event is material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Modifications to rights of Holders;
- (4) Optional, contingent or unscheduled redemption of Bonds;
- (5) Defeasances;
- (6) Rating changes;
- (7) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

- (8)      Unscheduled draws on debt service reserves reflecting financial difficulties;
- (9)      Unscheduled draws on credit enhancements reflecting financial difficulties;
- (10)     Substitution of credit or liquidity providers, or their failure to perform; and
- (11)     Release, substitution or sale of property securing repayment of the Bonds.

The Continuing Disclosure Agreement will remain in effect as long as any Bonds or any other Series of Related Bonds (issued after July 1, 1995 and not exempt from the provisions of Rule 15c2-12) remain Outstanding and shall require the Corporation to provide the above-described financial information and operating data for a Person as long as such Person is a Member of the Obligated Group during the fiscal years to which such information and data relate. The Continuing Disclosure Agreement was entered into for the benefit of the Holders and Beneficial Owners of the Bonds and the Holders and Beneficial Owners of any other Series of such Related Bonds. The Continuing Disclosure Agreement may be specifically enforced by the Dissemination Agent or any Holder or Beneficial Owner of the Bonds and shall be specifically enforced by the Dissemination Agent at the direction of the Holders or Beneficial Owners of at least 25% in aggregate principal amount of all of the Related Bonds then Outstanding. All capitalized terms used and not defined in this section have the meanings set forth in the Continuing Disclosure Agreement.

### **Quarterly Reports**

In the Continuing Disclosure Certificate relating to the Bonds, the Corporation has agreed to deliver quarterly unaudited financial information for the CHW System for each of the first three fiscal quarters of the Fiscal Year no later than 75 days following the close of such quarters.

The Corporation has never failed to comply in all material respects with any previous undertakings with regard to Rule 15c2-12 to provide such financial information and operating data or notices of material events.

### **The Issuer**

Because the Bonds are limited obligations of the Issuer, the Issuer has not undertaken to provide the Master Trustee, owners of the Bonds or any other Person with any additional information regarding it or the Bonds after the date of issuance or conversion.

## **SECURITY FOR THE BONDS**

### **General**

The Bonds will be limited obligations of the Issuer, payable solely from the Revenues pledged under the Indenture. Revenues consist primarily of Loan Repayments required to be made by the Corporation pursuant to the Loan Agreement in amounts sufficient to pay the principal of and premium, if any, and interest on the Bonds when due. The Issuer will assign its right, title and interest in the Loan Agreement (except for any deposits to the Rebate Fund, the right of the Issuer to receive any administrative fees and expenses to the extent payable to the Issuer and the right of the Issuer to be indemnified) and Obligation No. 93-B, as described below, to the Trustee.

THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY SUCH POLITICAL SUBDIVISION, OTHER THAN THE ISSUER, BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED THEREFOR. NEITHER THE STATE OF CALIFORNIA NOR THE ISSUER SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS OR THE INTEREST THEREON, EXCEPT FROM THE FUNDS PROVIDED UNDER THE LOAN AGREEMENT, OBLIGATION NO. 93-B AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. NEITHER THE ISSUANCE NOR

THE CONVERSION OF THE BONDS SHALL DIRECTLY OR INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

### **The Master Indenture**

**Joint and Several Obligations.** Under the Master Indenture, the Corporation is authorized to incur, for itself and on behalf of the other Members of the Obligated Group, Obligations to evidence or secure Indebtedness. All Obligated Group Members are jointly and severally liable with respect to the payment of each Obligation incurred under the Master Indenture, including Obligation No. 93-B. The Obligated Group Members are required to make payments on Obligation No. 93-B in amounts sufficient to pay when due the principal of and premium, if any, and interest on the Bonds. For a more detailed discussion of entry to or withdrawal from the Obligated Group, see Appendix C — “SUMMARY OF PRINCIPAL DOCUMENTS — Master Indenture — Particular Covenants of Each Obligated Group Member — Joining the Obligated Group” and “ — Withdrawal From the Obligated Group.” The Corporation may not withdraw from the Obligated Group. All capitalized terms used and not defined in this section have the meanings listed in Appendix C — “SUMMARY OF PRINCIPAL DOCUMENTS — Definitions.”

**Pledge of Gross Revenues.** The Obligated Group Members agree in the Master Indenture that, so long as any Obligations remain Outstanding, all of the Gross Revenues of the Obligated Group Members shall be deposited as soon as practicable upon receipt in a fund designated as the “Gross Revenue Fund” which the Obligated Group Members agree to establish and maintain, subject to the following provisions, in one or more accounts at such banking institution or institutions as the Corporation, as Obligated Group Representative, shall from time to time designate in writing to the Master Trustee for such purpose (the “Depository Bank(s)”). Subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, each Obligated Group Member, to the extent permitted by law, has granted a security interest to the Master Trustee in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the payments on the Obligations and the performance by the Obligated Group Members of their other obligations under the Master Indenture. The Corporation has agreed to execute, deliver and cause to be filed, as applicable, such financing statements, notices and other documents necessary under applicable law to perfect or maintain as perfected or give public notice of the Master Trustee’s security interest in the Gross Revenues and the Gross Revenue Fund. Each Obligated Group Member has covenanted that it will file such financing statements or amendments to or terminations of existing financing statements which shall be necessary to comply with applicable law or as required due to changes in the Obligated Group.

Amounts in the Gross Revenue Fund may be used and withdrawn by any Obligated Group Member at any time for any lawful purpose, except as provided in the Master Indenture. If any installment of principal of or interest on any Obligation or other amount as is so required to be paid shall not be paid when due and payable, the Master Trustee shall notify the Obligated Group Representative of such delinquency, and, unless such delinquent installment is paid, or provision for payment is duly made, in a manner satisfactory to the Master Trustee, within five days after receipt of such notice, the Obligated Group Representative shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Master Trustee. All Gross Revenues of the Obligated Group shall continue to be deposited in the Gross Revenue Fund until amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all such delinquent payments in default and all other Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such delinquent installments or cure such defaults) shall be returned promptly to the name and credit of the appropriate Obligated Group Members. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Master Trustee shall use and withdraw amounts in said fund from time to time to make such delinquent installments as such installments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such installments due on any date, then to the payment of debt service on Obligations ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interest of the Holders without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Obligated Group Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated



Group unless and to the extent that the Master Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Obligated Group Members; provided, however, that the Obligated Group Members shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Obligated Group. Each Obligated Group Member has agreed to execute and deliver all instruments as may be required to implement the foregoing provisions. Each Member has further agreed that the failure to comply with the terms of the foregoing provisions shall cause irreparable harm to the Holders and shall entitle the Master Trustee, with or without notice, to take immediate action to compel specific performance of the obligations of the Obligated Group Members as provided in the foregoing provisions.

**Covenant Against Liens.** Each Obligated Group Member has agreed in the Master Indenture that it will not create, assume or suffer to be created or permit the existence of any Lien upon any of its Property (owned or thereafter acquired) or Gross Revenues, unless all Obligations shall be secured prior to or equally and ratably with any Indebtedness or other obligation secured by such Lien, and each Obligated Group Member has further agreed that if such a Lien is created or assumed by an Obligated Group Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally with such Indebtedness or other obligation secured by such Lien; provided, however, that notwithstanding the foregoing provisions and without securing Obligations, each Obligated Group Member may create, assume or suffer to exist Permitted Liens. See Appendix C — “SUMMARY OF PRINCIPAL DOCUMENTS — Master Indenture — Particular Covenants of Each Obligated Group Member — Limitations on Liens.”

### **Security and Enforceability**

**Bankruptcy.** In the event of the bankruptcy of an Obligated Group Member, the rights and remedies of the Bondholders are subject to various provisions of the federal Bankruptcy Code. If an Obligated Group Member were to file a petition in bankruptcy, payments made by that Obligated Group Member during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Obligated Group Member’s liquidation. Security interests and other liens granted to a Trustee or the Master Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. A bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Member 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 and the Master Trustee. If the bankruptcy court so ordered, the property of the Member, including Gross Revenues, could be used for the financial rehabilitation of the Member despite any security interest of the Trustee or the Master Trustee in the property. The rights of the Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

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

In addition, the obligations of the Corporation under the Loan Agreement and the Members under the Master Indenture are not secured by a lien on or security interest in any assets or revenues of any Member, other than the lien on Gross Revenues described under the caption “Pledge of Gross Revenues.” Except with respect to the lien on Gross Revenues, in the event of a bankruptcy of any Member, Bondholders would be unsecured creditors and would be in an inferior position to any secured creditors and, generally speaking, on a parity with all other unsecured creditors.

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

**Enforceability of the Master Indenture, the Loan Agreement and Obligation No. 93-B.** The legal right and practical ability of the Trustee for the Bonds to enforce rights and remedies under the Loan Agreement and of the Master Trustee to enforce its rights and remedies under the Master Indenture and Obligation No. 93-B may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. The state of insolvency, fraudulent conveyance and bankruptcy laws relating to the enforceability of guaranties or obligations issued by one corporation in favor of another corporation's creditors or of an Obligated Group Member's obligation to make debt service payments on behalf of another Obligated Group Member is unsettled. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent conveyance laws if the obligation is incurred without "fair" and/or "fairly equivalent" consideration to the obligor and the incurrence of the obligation renders the Obligated Group Member insolvent. The standards for determining the fairness of consideration and the manner of determining insolvency are not clear and may vary under the Federal Bankruptcy Code, state fraudulent conveyance statutes and applicable cases. Consequently, the Trustees' and the Master Trustee's ability to enforce the rights and remedies under the Loan Agreement, the Master Indenture and Obligation No. 93-B against any Obligated Group Member that would be rendered insolvent thereby could be subject to challenge. 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, including fraudulent conveyance or moratorium and other similar laws.

The joint and several obligation described herein of each Member of the Obligated Group to pay debt service on Obligation No. 93-B may not be enforceable against a Member under any of the following circumstances:

- (i) to the extent payments on Obligation No. 93-B are requested to be made from assets of such Member which are donor-restricted or which are subject to a direct, express or charitable trust that does not permit the use of such assets for such payments;
- (ii) if the purpose of the debt created and evidenced by Obligation No. 93-B is not consistent with the charitable purposes of such Member, or if the debt was incurred or issued for the benefit of an entity other than a nonprofit corporation that is exempt from federal income taxes under sections 501(a) and 501(c)(3) of the Code and is not a "private foundation" as defined in section 509(a) of the Code;
- (iii) to the extent payments on Obligation No. 93-B would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member; or
- (iv) if and to the extent payments are requested to be made pursuant to any loan violating applicable usury laws.

These limitations on the enforceability of the joint and several obligations of the Members of the Obligated Group on Obligation No. 93-B also apply to their obligations on all Obligations. If the obligation of a particular Member of the Obligated Group to make payment on an Obligation is not enforceable and payment is not made on such Obligation when due in full, then Events of Default will arise under the Master Indenture.

There exists common law authority and authority under certain statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

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

**Perfection of a Security Interest.** Each Member of the Obligated Group has granted a security interest in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group (to the extent permitted by law) and has agreed to perfect the grant of a security interest in the Gross Revenue Fund to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code. The grant of a security interest in Gross Revenues may be subordinated to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, and (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and payments under the Medicare and Medicaid programs, including governmental programs such as the Arizona Health Care Cost Containment System) prior to actual receipt by any Member for deposit in the Gross Revenue Fund.

In the case of Mercy Senior Housing, Inc., the pledge of its Gross Revenues is subordinate to a prior pledge of Mercy Senior Housing, Inc.'s Gross Revenues granted to secure Mercy Senior Housing Inc.'s obligation to make loan repayments sufficient to pay debt service on the California Statewide Communities Development Authority Revenue Bonds (Mercy Senior Housing), 1993 Series A, issued in the original principal amount of \$9,360,000 of which \$5,445,000 is currently outstanding. Mercy Senior Housing, Inc.'s loan repayments are also secured by a deed of trust on its properties.

## **BOND INSURANCE**

The scheduled payment of the principal of and interest on the Bonds when due are guaranteed under a bond insurance policy (the "Bond Insurance Policy") issued concurrently with the delivery of the Bonds by Assured Guaranty Corp. ("Assured Guaranty"). The following information has been furnished by Assured Guaranty for use in this Reoffering Circular. Reference is made to Appendix G for a specimen of the Bond Insurance Policy.

***The Assured Guaranty Bond Insurance Policy.*** Assured Guaranty has issued the Bond Insurance Policy relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Bond Insurance Policy, Assured Guaranty will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the Bonds that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Bond Insurance Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal of the Bonds, the stated maturity date thereof, or the date on which such Bonds shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest on such Bonds, means the stated dates for payment of interest.

"Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment on the Bonds. It is further understood that the term Nonpayment in respect of a Bond also includes any amount previously distributed to the Holder (as such term is defined in the Bond Insurance Policy) of such Bond in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final,



nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

Assured Guaranty will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which Assured Guaranty shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Bond Insurance Policy.

Assured Guaranty shall be fully subrogated to the rights of the Holders of the Bonds to receive payments in respect of the Insured Payments to the extent of any payment by Assured Guaranty under the Bond Insurance Policy.

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

***Assured Guaranty.*** Assured Guaranty is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct financial guaranty insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. Assured Guaranty commenced operations in 1988. Assured Guaranty is a wholly owned, indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO.” AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of Assured Guaranty or any claims under any insurance policy issued by Assured Guaranty.

Assured Guaranty is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit Assured Guaranty’s business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and surplus requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by Assured Guaranty, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which Assured Guaranty is subject also require the approval of policy rates and forms.

Assured Guaranty’s financial strength is rated “AAA” by Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”), “AAA” by Fitch, Inc. (“Fitch”) and “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of Assured Guaranty should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by Assured Guaranty. Assured Guaranty does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

***Capitalization of Assured Guaranty Corp.*** As of December 31, 2007, Assured Guaranty had total admitted assets of \$1,361,538,502 (unaudited), total liabilities of \$961,967,238 (unaudited), total surplus of \$399,571,264 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$982,045,695 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2006, Assured Guaranty had total admitted assets of \$1,248,270,663 (audited), total liabilities of \$962,316,898 (audited), total surplus of \$285,953,765 (audited) and total statutory capital (surplus plus contingency reserves) of \$916,827,559 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) in making such determinations.

***Incorporation of Certain Documents by Reference.*** The portions of the following documents relating to Assured Guaranty are hereby incorporated by reference into this Reoffering Circular and shall be deemed to be a part hereof:

- The Annual Report on Form 10-K of AGL for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the “SEC”) on February 29, 2008); and
- The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to Assured Guaranty.

All consolidated financial statements of Assured Guaranty and all other information relating to Assured Guaranty included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Reoffering Circular and prior to the termination of the offering of the Bonds shall be deemed to be incorporated by reference into this Reoffering Circular and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading “BOND INSURANCE” shall be modified or superseded for purposes of this Reoffering Circular to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

Copies of the consolidated financial statements of Assured Guaranty incorporated by reference herein and of the statutory financial statements filed by Assured Guaranty with the Maryland Insurance Administration are available upon request by contacting Assured Guaranty at 1325 Avenue of the Americas, New York, New York 10019 or by calling Assured Guaranty at (212) 974-0100. In addition, the information regarding Assured Guaranty that is incorporated by reference in this Reoffering Circular that has been filed by AGL with the SEC is available to the public over the Internet at the SEC’s web site at <http://www.sec.gov> and at AGL’s web site at <http://www.assuredguaranty.com>, from the SEC’s Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Assured Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, Assured Guaranty has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Reoffering Circular or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding Assured Guaranty supplied by Assured Guaranty and presented under the heading “BOND INSURANCE.”

## **THE OBLIGATED GROUP**

For information regarding the Obligated Group Members, see Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP.” Other entities affiliated with the Corporation are not Members of the Obligated Group and are not obligated under the Master Indenture or with respect to the Bonds or Obligation No. 93-B (the Obligated Group Members and such corporations are referred to herein as the “CHW System”).

## **FINANCING PLAN**

### **General**

At the request of the Corporation, a number of governmental issuers have, from time to time, issued revenue bonds for the benefit of the Corporation and the Obligated Group Members bearing interest at variable rates of interest established by the application of auction procedures. As of April 1, 2008, bonds of this type for which the Corporation and the Obligated Group were committed to paying debt service were outstanding in an aggregate principal amount of approximately \$1.72 billion (the “Auction Rate Bonds”). With the recent market turmoil in the

auction bond markets, the Corporation has determined to convert Auction Rate Bonds outstanding in an aggregate principal amount of approximately \$1.36 billion to different interest rate modes, either directly under existing bond Indenture or by the issuance of bonds in exchange for certain of the Auction Rate Bonds and cancellation of such Auction Rate Bonds. In addition to such conversions and exchange transactions, approximately \$26.5 million of the Auction Rate Bonds were retired on April 25, 2008, and approximately \$328.7 million of the Auction Rate Bonds will continue to bear interest at auction rates. It is expected that the financing plan will be accomplished through a series of transactions scheduled to be completed in May 2008.

The financing plan has been revised by the Corporation from time to time in response to market developments and other factors, and may be revised by the Corporation subsequent to the date of this Reoffering Circular or the issuance of the Bonds. In addition to the conversion of the Bonds to fixed interest rates to maturity, the primary components of the financing plan as of the date hereof are described in this section.

### **Conversion of Interest Rate Modes**

The Corporation intends to convert the interest rate mode of the \$90 million of Bonds to fixed interest rates to maturity as described in this Reoffering Circular.

### **Bond Exchange Transactions**

The Corporation intends to enter into bond exchange transactions with the Issuer, the California Health Facilities Financing Authority and the Arizona Health Facilities Authority. The Corporation expects that \$1.27 billion aggregate principal amount of bonds will be issued by the issuers in exchange for Auction Rate Bonds. Upon acquisition of the Auction Rate Bonds, the respective issuers will surrender such Auction Rate Bonds to the respective trustees for such Auction Rate Bonds for cancellation. The financing plan contemplates that approximately \$745.9 million of these bonds will be issued initially bearing interest at weekly interest rates and approximately \$525 million of these bonds will be issued bearing fixed rates to maturity. The newly-issued bonds issued as variable rate demand obligations will be backed by bank letters of credit. Such letters of credit will be provided through a bank syndicate led by Bank of America, N.A. pursuant to an amended credit agreement between the syndicate and the Corporation with a term through October 2010, which will provide for capacity for up to \$850 million of letters of credit and \$350 million of revolving lines of credit. Upon completion of the bond exchange transactions, the Bonds will be the only bonds Outstanding under the Indenture.

### **Retirement of Bonds**

The Corporation retired approximately \$26.5 million of Auction Rate Bonds on April 25, 2008, with proceeds of a drawing under a taxable line of credit or other funds of the Corporation.

### **Bonds Remaining as Auction Rate Securities**

The Corporation expects that approximately \$328.7 million of Auction Rate Bonds will continue to bear interest at auction rates. A portion of these Auction Rate Bonds have auctions determined in 35-day auction periods and have not received sufficient clearing bids in recent auctions, resulting in “failed” auctions. Under the terms of the Indenture pursuant to which such Auction Rate Bonds were issued, the interest rate on these Auction Rate Bonds have been established at maximum rates calculated at a percentage of an index. The remainder of these Auction Rate Bonds, in the approximate aggregate principal amount of \$240 million, are insured by Financial Security Assurance Inc. and to date have received sufficient clearing bids, resulting in successful auctions.

## **HEALTHCARE INDUSTRY RISK FACTORS**

The purchase of the Bonds involves investment risks that are discussed throughout this Reoffering Circular. Prospective purchasers of the Bonds should evaluate all of the information presented in this Reoffering Circular. This section on Healthcare Industry Risk Factors focuses primarily on the general risks associated with hospital or health system operations; whereas Appendix A describes the Catholic Healthcare West Obligated Group specifically. These should be read together.

## **General**

Except as noted under “SECURITY FOR THE BONDS,” the Bonds are payable solely from and secured by Loan Repayments made pursuant to the Loan Agreement and payments made pursuant to Obligation No. 93-B. No representation or assurance can be made that revenues will be realized by the Corporation or other Obligated Group Members in amounts sufficient to make the payments under the Loan Agreement or Obligation No. 93-B and, thus, to pay principal of, premium, if any, and interest on the Bonds.

The Obligated Group is subject to a wide variety of federal and state regulatory actions and legislative and policy changes by those governmental and private agencies that administer Medicare, Medicaid and other payors and is subject to actions by, among others, the National Labor Relations Board, The Joint Commission, the Centers for Medicare and Medicaid Services (“CMS”) of the U.S. Department of Health and Human Services (“DHHS”), and other federal, state and local government agencies. The future financial condition of the Obligated Group could be adversely affected by, among other things, changes in the method and amount of payments to the Obligated Group by governmental and nongovernmental payors, the financial viability of these payors, increased competition from other health care entities, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, 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 healthcare professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by the Corporation and the Obligated Group under the Loan Agreement and Obligation No. 93-B and, consequently, on the Bonds.

## **Turmoil in U.S. Bond Markets**

In recent months the U.S. financial markets have experienced significant turmoil, including dislocations in the hospital tax-exempt bond markets. Accompanying the downgrading of certain bond insurers and concerns about the ongoing stability of others, obligations insured by these insurers have been negatively impacted. In particular, auction rate securities (“ARS”) insured by these insurers have been dramatically impacted, with reports of many ARS auctions failing and with interest rates on ARS bonds increased significantly. In addition, interest rate swaps, which are now in relatively common use in the tax-exempt bond markets, have experienced unexpected negative trading patterns, causing many to cease to function effectively to hedge variable rate exposure.

Currently, the Obligated Group has approximately \$1.72 billion of ARS debt, and approximately \$1.16 billion of variable rate bond obligations subject to interest rate swaps intended to hedge variable rate interest exposure. While the Obligated Group intends to substantially reduce its ARS exposure through a series of transactions described herein (see “Financing Plan”), there can be no assurance that this remediation plan will succeed, nor can there be any assurance that continued turmoil in the financial and bond markets will not negatively impact other CHW debt obligations or the remediation effort.

## **Investments**

The Obligated Group has significant holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations may be and historically have been at times material. Due to the current volatility in the U.S. securities markets, certain securities have become less actively traded. The Corporation’s management relies on pricing methodologies through its custodian bank to value securities. Securities that are not actively traded may be more difficult to value and the liquidity of the portfolio may be influenced by the current market conditions. For a discussion of the Corporation’s investments and recent declines, see Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE — Effect of Markets on Recent Financial Performance” and “ — Liquidity and Investment Policy.”

## **Significant Risk Areas Summarized**

Certain of the primary risks associated with the operations of the Obligated Group are briefly summarized in general terms below, and are explained in greater detail in subsequent sections. The occurrence of one or more of

these risks could have a material adverse effect on the financial conditions and results of operations of one or more Members of the Obligated Group and, in turn, the ability of the Obligated Group to make payments under the Loan Agreement and Obligation No. 93-B.

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

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

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

**Nonprofit Healthcare Environment.** Recently, an increasing number of the operations or practices of nonprofit healthcare providers have been challenged or questioned with respect to whether they are consistent with the tax-exemption benefits conferred on such providers. Areas which 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 others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures, the press and patients, and in a variety of forums, including hearings, audits and litigation. These challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could materially change the operating environment for nonprofit providers and have a material adverse effect on the Corporation and the Obligated Group.

**Capital Needs vs. Capital Capacity.** Hospital operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. In California, seismic requirements mandated by the State of California may require that many hospital facilities be substantially modified, replaced or closed. Nearly all hospitals in California are affected. Estimated construction costs are substantial and actual costs of compliance may exceed estimates. Total capital needs may outstrip capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of recent credit market dislocations. It is uncertain how long those conditions may persist, and it is possible that capital capacity may be negatively affected over the long term for reasons related to the credit markets.

**Government "Fraud" Enforcement.** "Fraud" in government funded health care programs is a significant concern of DHHS, CMS and many states, and is one of the federal government's prime law enforcement priorities. The federal government, and to a lesser degree, state governments, impose a wide variety of extraordinarily complex and technical requirements intended to prevent over-utilization based on economic inducements, misallocation of expenses, overcharging and other forms of "fraud" in the Medicare and Medicaid programs, as well as other state and federally-funded health care programs. This body of regulation impacts a broad spectrum of hospital



commercial activity, including billing, accounting, recordkeeping, medical staff oversight, physician contracting and recruiting, cost allocation, clinical trials, discounts and other functions and transactions.

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

Violations carry significant 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 payments from the Medicare or Medicaid programs, or exclusion from those programs. Aggressive investigation tactics, negative publicity and threatened penalties can be, and often are, used to force settlements, payment of fines and prospective restrictions that may have a materially adverse impact on hospital operations, financial condition, results of operations and reputation. Multi-million dollar fines and settlements are common. These risks are generally uninsured. Government enforcement and private whistleblower suits may increase in the hospital sector. Most large hospital systems are likely to be adversely impacted.

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

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

**Costs and Restrictions from Governmental Regulation.** Nearly every aspect of hospital operations is regulated, in some cases by multiple agencies of government. The level and complexity of regulation 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. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/or lower paying patient populations. These new sources of competition may have a material adverse impact on hospitals, particularly where a group of a hospital’s principal physician admitters may curtail their use of a hospital service in favor of competing facilities.

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

**State Medicaid Programs.** While state Medicaid and other state health care programs are rarely as important to hospital financial results as Medicare, they nevertheless constitute an important payor source to many hospitals. These programs often pay hospitals and physicians at levels that may be below the actual cost of the care provided. As Medicaid is partially funded by states, the financial condition of states may result in lower funding levels and/or payment delays. These could have material adverse impact on hospitals.

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

**Medical Liability Litigation and Insurance.** Medical liability litigation is subject to public policy determinations and legal 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 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 systems are highly dependent on the condition and functionality of their physical facilities. Damage from earthquake, floods, fire, other natural causes, deliberate acts of destruction, or various facilities system failures may have material adverse impact on operations, financial conditions and results of operations.

## **Nonprofit Healthcare Environment**

As nonprofit tax-exempt organizations, the Members of the Obligated Group are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operation, including their operation for religious and charitable purposes. At the same time, the Members of the Obligated Group conduct large-scale complex business transactions and are often the major employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex, multi-state healthcare organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the tax exemption benefits conferred on such providers or the regulatory requirements for nonprofit tax-exempt organizations. These challenges, in some cases, are broader than concerns about compliance with federal and state statutes and regulations, and instead in many cases are examinations of core business practices of the healthcare organizations. An overarching concern is that nonprofit hospitals may not confer community benefits that exceed or are equal to the benefit received from their tax-exempt status. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, providing and reporting community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures, the press, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

**Congressional Hearings.** In recent years, three Congressional Committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health agencies. The House Committee on Energy and Commerce (the "House Committee") launched a nationwide investigation of hospital billing and collection practices and prices charged to uninsured patients. Twenty large hospital and healthcare systems (including the CHW System) were requested by the House Committee to provide detailed historical charge and billing practice information for acute care services.

The Senate Finance Committee (the "Senate Committee") also conducted hearings on required reforms to the nonprofit sector and released a staff discussion draft on proposals for reform in the area of tax-exempt organizations, including a proposal for a five-year review of tax-exempt status by the Internal Revenue Service requesting information from a number of nonprofit hospitals and hospital systems regarding their charitable activities, patient billing and ventures with for-profit corporations and hospitals.

The House Committee on Ways and Means has held several hearings to examine the tax-exempt sector and hospital tax-exemption and the use of tax-preferred bond financing. It is uncertain what action, if any, these Committees may take as a result of these hearings.

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

**Litigation Relating to Billing and Collection Practices.** Lawsuits have been filed in both federal and state courts alleging, among other things, that hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients. Some of these cases have since been dismissed by the courts and some hospitals and health systems have entered into substantial settlements. A number of cases are still pending in various courts around the country.

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

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

**Charity Care and Financial Assistance.** A newly enacted California law requires California 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"). California hospitals are also required to follow specified billing and collection procedures.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on one or more Members of the Obligated Group and, in turn, their ability to make payments under the Loan Agreement and Obligation No. 93-B.

## **Healthcare Reform Initiatives**

Healthcare reform has been identified as a priority by business leaders, public advocates, political leaders and candidates for office at the federal, state and local levels. Proposals include: (1) establishing universal healthcare coverage or purchasing pools; (2) modifying how hospitals, physicians and other healthcare providers are paid; and (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems. Although California's recent universal healthcare coverage proposal failed to pass the legislature, similar reform efforts may be proposed again in the future by legislation or voter initiative.

## **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/or 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.

For the fiscal years ended June 30, 2006 and June 30, 2007, Medicare payments represented approximately 33% and 32%, respectively, of the Obligated Group's gross patient service revenue, excluding Medicare managed care, which was approximately 2% and 1%, respectively, of the Obligated Group's gross patient service revenue for each fiscal year. See Appendix A — "INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — HISTORICAL FINANCIAL INFORMATION — Summary of Income."

**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.

**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 Obligated Group Members' facilities applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

**Medical Education Payments.** Medicare currently pays for a portion of the costs of medical education at hospitals that have teaching programs. These payments are vulnerable to reduction or elimination.

**Recovery Audit Contractors Demonstration Project.** In addition to periodic annual audits of Medicare payments, in 2005, CMS announced a new demonstration project using recovery audit contractors ("RACs") as part of CMS' further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to healthcare providers in prior years and that were not detected through existing CMS program integrity efforts. The RACs use their own software and their knowledge of Medicare to determine what areas to review. Once a RAC identifies a potentially improper claim as a result of an audit, it makes an assessment from the provider's Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. The project is currently operating in five states (including California), with a nationwide rollout in phases which began in March 2008 and is scheduled to be completed in 2010. Such audits may have the effect of slowing future Medicare payments to providers pending an evolving appeals process with the RACs.

**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 and other state health care program spending. The Bush administration proposed a \$25.7 billion cut in Medicaid spending over the next five years. This reduction in federal funding, and any reduction in state funding, will likely negatively impact provider reimbursement under the various programs.

For the fiscal years ended June 30, 2006 and June 30, 2007, Members of the Obligated Group received approximately 16% of gross patient service revenues from state Medicaid programs, excluding Medicaid capitated managed care, which was approximately 1% of gross patient service revenues each fiscal year. See Appendix A —

“INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — HISTORICAL FINANCIAL INFORMATION — Summary of Income.”

**California Medi-Cal.** Medi-Cal is the California Medicaid program. The State of California selectively contracts with general acute care hospitals 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. Except in areas of the state that have been excluded from contracting, a general acute care hospital generally will not qualify for payment for non-emergency acute inpatient services rendered to a Medi-Cal beneficiary unless it is a contracting hospital. Typically, either party may terminate such contracts on 120 days’ notice or the state may terminate without notice under certain circumstances. No assurances can be made that hospitals will be awarded Medi-Cal contracts or that any such contracts will reimburse hospitals for the cost of delivering services.

**Arizona Health Care Cost Containment System.** The Arizona Health Care Cost Containment System (“AHCCCS”) is Arizona’s alternative to the Medicaid program. AHCCCS awards contracts to private health care plans (“AHCCCS Plans”) to arrange for the provision of hospitals on a prepaid managed care basis to indigent, medically needy and certain other categories of eligible individuals. The AHCCCS Plans, in turn, subcontract with hospitals, physicians and other health care providers to provide services. AHCCCS Plans generally reimburse hospitals for inpatient services on a tiered per diem basis, and for outpatient services on a hospital-specific overall cost to charge ratio. These rates generally represent a substantial discount to usual charges, and, depending on the cost structure of a particular hospital, may not cover the cost of providing services.

The Arizona legislature has enacted legislation in the past resulting in reductions in payments to AHCCCS providers with respect to various services, and can be expected to propose similar legislation in the future. There is no assurance that the Obligated Group’s patient service revenues from its Arizona facilities will not be adversely affected by any future amendments or revisions to the AHCCCS program. In addition, the Corporation is a 50% co-owner of an AHCCCS Plan, and, as such, could be susceptible to additional adverse effect due to any changes in the AHCCCS program.

**The Nevada Medicaid Program.** Nevada’s Medicaid reimbursement methodology provides reimbursement for inpatient hospital service based on all-inclusive prospective rates per diem by type of admission. Certain “per admission” rates are established for categories of services. There is no assurance that these rates will cover the costs incurred by hospitals to care for Nevada Medicaid patients.

**Disproportionate Share Payments.** The federal Medicare, the California Medi-Cal, the Arizona AHCCCS and Nevada’s State Plan for Medicaid programs each provide additional payment for hospitals that serve a disproportionate share of certain low income patients. Certain Members of the Obligated Group qualify as disproportionate share hospitals and are expected to qualify from time to time in future years, but there can be no assurance that such Members will qualify for disproportionate share status in the future. There also can be no assurance that payments for disproportionate share will not be decreased or eliminated in the future, particularly under the Medi-Cal and AHCCCS programs. Disproportionate share payments are frequently the target of proposed Medi-Cal and AHCCCS payment reductions.

**State Budgets.** Many states, including Arizona, Nevada and California, face significant financial challenges, including erosion of general fund tax revenues, falling real estate values, slowing economic growth and higher unemployment. In some states, these factors have resulted in a shortfall between revenue and spending demands.

Both Arizona and California face significant gaps between the expected level of tax revenues and projected expenditures for the fiscal year 2008-09. In California, Governor Schwarzenegger’s budget proposal for the 2008-09 fiscal year includes a 10% cut in provider reimbursement rates under Medi-Cal. The Arizona legislature is also considering a proposal that would accelerate reductions in certain payments to AHCCCS providers enacted in 2007.

The financial challenges facing states may negatively affect hospitals in a number of ways, including, but not limited to, a greater number of indigent, uninsured or underinsured patients who are unable to pay for their care

or access primary care facilities and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates.

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

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

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

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

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

Failure to maintain contracts could have the effect of reducing the Members’ 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) the hospitals face.

Defined broadly, for the fiscal years ended June 30, 2006 and June 30, 2007, managed care payments (including capitated Medicaid and Medicare contracts and all capitated and non-capitated managed care) constituted approximately 44% and 45%, respectively, of gross patient service revenues of the Obligated Group for each fiscal year. See Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — HISTORICAL FINANCIAL INFORMATION — Summary of Income.”

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

Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as “score cards,” “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as the Obligated Group 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 set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

## **Regulatory Environment**

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

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

Laws governing fraud and abuse may apply to a hospital and to nearly all individuals and entities with which a hospital does business. Fraud investigations, settlements, prosecutions and related publicity can have a catastrophic effect on hospitals. See “Enforcement Activity”, below. Major elements of these often highly technical laws and regulations are generally summarized below. See also Appendix A – “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP – OPERATING INFORMATION – Regulatory Compliance – Pending Matters.”

**False Claims Act.** The False Claims Act (“FCA”) makes it illegal to submit or present a false, fictitious or fraudulent claim to the federal government, and may include claims that are simply erroneous. FCA investigations and cases have become common in the health care field and may cover a range of activity from intentionally inflated billings, to highly technical billing infractions, to allegations of inadequate care. Violation or alleged violation of the FCA most often results in settlements that require multi-million dollar payments and compliance agreements. The FCA also permits individuals to initiate civil actions on behalf of the government in lawsuits called “qui tam” actions. Qui tam plaintiffs, or “whistleblowers,” can share in the damages recovered by the government or recover independently if the government does not participate. The FCA has become one of the government’s primary 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/or exclusion from the Medicare and Medicaid programs. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program), or an “assessment” of three times the amount claimed may be imposed.

**Stark Referral Law.** The federal “Stark” statute prohibits the referral of Medicare and Medicaid patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and radiation and other imaging services) to entities with which 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 new Stark regulations effective December 2007 and the CMS comments preceding them have made the Stark 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. Although Stark does not have an extensive enforcement history, potential repayments to CMS, settlements, fines or exclusion for a Stark violation or alleged violation could have a material adverse impact on a hospital.

In September 2007, CMS sent a “Disclosure of Financial Relationships Report” (“DFRR”) to approximately 500 specialty and acute-care hospitals that required the hospitals to report on their physician investment, ownership and compensation relationships. The DFRR included questions relating to (i) disclosure of all hospital ownership interests (both physician and non-physician), (ii) disclosure by all investing physicians concerning their ownership interests (including loans or loan guarantees), (iii) disclosure of all leases or “under arrangement” relationships with physicians or their family members and (iv) disclosure of other compensation arrangements between physicians and the hospital, including leases, medical director agreements, on-call stipends, non-monetary compensation arrangements and charitable donations. The DFRR also requires hospitals to provide supporting documentation, including verification of the fair market value of certain arrangements. It is anticipated that further reporting may be mandated for all Medicare participating hospitals thereby opening up additional arrangements to scrutiny and investigation.

**HIPAA.** The Health Insurance Portability and Accountability Act of 1996 (“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.

**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, even within a large hospital system. In addition, exclusion of hospital employees under Medicare or Medicaid may be another source of potential liability for hospitals based on services provided by those excluded employees.

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

**Compliance with Conditions of Participation.** CMS, in its role of monitoring participating providers’ compliance with conditions of participation in the Medicare program, may determine that a provider is not in



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

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

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

Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above, and therefore penalties or settlement amounts often are compounded. Generally these risks are not covered by insurance. Enforcement actions may involve multiple hospitals in a health system, as the government often extends enforcement actions regarding health care fraud to other hospitals in the same organization. Therefore, Medicare fraud related risks identified as being materially adverse as to a hospital could have materially adverse consequences to a health system taken as a whole.

**Liability Under State “Fraud” and “False Claims” Laws.** Hospital providers in California, Arizona and Nevada 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.

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

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

**EMTALA.** The Emergency Medical Treatment and Active Labor Act (“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 could reduce hospital utilization or revenues, or a hospital’s ability to operate all or a portion of its facilities.

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

Hospitals 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/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with the environmental laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; and may result in investigations, administrative proceedings, civil litigation, criminal prosecution, penalties or other governmental agency actions; and may not be covered by insurance.

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

**Integrated Physician Groups.** Hospitals and hospital systems often own, control, or have affiliations with relatively large physician groups. See Appendix A — “THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — THE OBLIGATED GROUP.” Generally, the sponsoring hospital or health system will be the primary capital and funding source for such alliances and may have an ongoing financial commitment to provide growth capital and support operating deficits.

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

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

**Physician Financial Relationships.** In addition to the physician integration relationships referred to above, hospitals and hospital systems frequently have various additional business and financial relationships with physicians and physician groups. These are in addition to hospital-physician contracts for individual services performed by physicians in hospitals. They potentially include: joint ventures to provide a variety of outpatient services; recruiting arrangements with individual physicians and/or physician groups; loans to physicians; medical office leases; equipment leases from or to physicians; and various forms of physician practice support or assistance. These and other financial relationships with physicians (including hospital-physician contracts for individual services) may involve financial and legal compliance risks for the hospitals and systems involved. From a compliance standpoint, these types of financial relationships may raise federal and state “anti-kickback” and federal “Stark” issues (see “Regulatory Environment”, above), tax-exemption issues (see “Tax-Exempt Status and Other Tax Matters”, below), as well as other legal and regulatory risks, and these could have a material adverse impact on hospitals.

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

Under existing Arizona law, hospitals are required to file proposed increases in rates and charges with the Arizona Department of Health Services (“ADHS”). No increase may become effective until ADHS review is completed or 60 days have elapsed, although ADHS is not empowered to prevent an increase.

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

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

**Physician Supply.** Sufficient community-based physician supply is important to hospitals and health systems. Changes to physician compensation formulas by CMS could lead to physicians locating their practices in communities with lower Medicare populations. Hospitals and health systems may be required to invest additional resources for recruiting and retaining physicians, or may be required to increase the percentage of employed physicians in order to continue serving the growing population base and maintain market share. The physician-to-population ratio in Arizona and Nevada is well below the national average, and the shortage of physicians could become a significant issue for hospitals in those states.

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

Specialty hospital developments that attract away an important segment of an existing hospital's admitting specialists may be particularly damaging. For example, some large hospitals may have significant dependence on 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 specialty hospital operator or promoter) 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 to prohibit such investments. Nonetheless, a prior governmental moratorium on certain specialty hospitals has been lifted, and therefore specialty hospitals may continue to represent a competitive challenge for full-service hospitals.

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

**Antitrust.** While enforcement of the antitrust laws against hospitals has been less intense in recent years, antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor



contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, as well as other areas of activity. The application of the federal and state antitrust laws to health care is evolving, and therefore not always clear. Currently, the most common areas of potential liability are joint action among providers with respect to payor contracting and medical staff credentialing disputes.

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

**Employer Status.** Hospitals are major employers, with mixed technical and non-technical workforces. Labor costs, including salary, benefits and other liabilities associated with the workforce, have significant impacts on hospital operations and financial condition. Developments affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on one or more Members of the Obligated Group and, in turn, their ability to make payments with respect to the Bonds.

**Labor Relations and Collective Bargaining.** Hospitals are large employers with a wide diversity of employees. Increasingly, various labor unions repeatedly attempt to organize employees at hospitals and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation.

Certain Obligated Group Member employees are covered by collective bargaining agreements. See Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — OPERATING INFORMATION — 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 and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements. A major class action decided or settled adversely to the Corporation or the Obligated Group could have a material adverse impact on their financial conditions and results of operations.

**Health Care Worker Classification.** Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The Internal Revenue Service (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. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the financial conditions and results of operations of hospitals.

California imposes mandatory nurse staffing ratios for all hospital patient care areas. The nurse to patient ratio standards increased as of January 1, 2008. The impact on California hospitals will vary by facility, but the

required staffing, in aggregate, is more costly than prior staffing patterns. See Appendix A — “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP — OPERATING INFORMATION — Nurse Staffing.”

**Arizona Employment Eligibility.** Pursuant to the Legal Arizona Workers Act effective on January 1, 2008, Arizona employers, including the Obligated Group’s Arizona hospitals, are required not to employ undocumented workers and to utilize a federal government program providing on-line verification of employment eligibility. An employer who “knowingly” or “intentionally” employs unauthorized workers may have its business licenses (including any hospital or other health care licenses) suspended, or, for a second violation, revoked. Compliance with the new law may cause additional employment costs and could jeopardize the licensure of Arizona hospitals.

**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.

Beginning in October 2008, CMS will not reimburse hospitals for medical costs arising from certain “never events,” which will include specific preventable medical errors such as performing surgery on the wrong body part. It is anticipated that HMOs and other private insurers may follow suit. The occurrence of “never events” may be more likely to be publicized and may negatively impact a hospital’s reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

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.

**Other Class Actions.** Hospitals 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 hospitals and health systems. These class action suits have most recently focused on hospital billing and collections practices, 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 hospitals and health systems in the future.

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

**Maintenance of the Tax-Exempt Status of Obligated Group Members.** The tax-exempt status of the Bonds depends upon the maintenance by each Obligated Group Member that receives or benefits from the proceeds of the Bonds (a “Benefiting Member”), of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is dependent on compliance by such Benefiting Member 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 Obligated Group Members participate in a variety of joint ventures and transactions with physicians either directly or indirectly. Management believes that the joint ventures and transactions to which the Obligated Group Members are a party are consistent with the requirements of the Code as to tax-exempt status, but, as noted above, there is uncertainty as to the state of the law.

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

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

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 have entered into settlement agreements requiring the hospital to make substantial payments to the IRS. Given the size of the Obligated Group, the wide range of complex transactions entered into by the Members, and potential exemption risks, Members could be at risk for incurring monetary and other liabilities imposed by the IRS.

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

**State and Local Tax Exemption.** Until recently, the states of California and Arizona have 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 also possible in Arizona that legislation that would result in further regulation and supervision of nonprofits generally, including nonprofit health systems, will again be brought before the Arizona legislature. It is likely that the loss by an Obligated Group Member of federal tax exemption would also trigger a challenge to its state tax-exemption. Depending on the circumstances, such event could be material and adverse to that Obligated Group Member and the Obligated Group as a whole.

State, county and local taxing authorities undertake audits and reviews of the operations of tax-exempt health care providers with respect to their real property tax exemptions. In some cases, particularly where authorities are dissatisfied with the amount of services provided to indigents, the real property tax-exempt status of the health care providers has been questioned. The majority of the real property of the Obligated Group Members is currently treated as exempt from real property taxation. Although the real property tax exemption of the Obligated

Group Members with respect to their core hospital facilities has not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemption of the Obligated Group Members.

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

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

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector, 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 interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, more will be sent to additional nonprofit organizations. In addition to such questionnaires, the IRS has commenced a number of examinations of hospital tax-exempt bond issuances with wide-ranging focus similar to the questionnaires described above. One aspect of these examinations may be to determine if certain bond issuances qualify for their tax-exempt status.

On March 21, 2008, the Arizona Health Facilities Authority received a letter from the IRS notifying it that the IRS has selected its \$74,675,000 Insured Health Facilities Revenue Bonds, Series 2005A (the "Arizona 2005A Bonds") for examination and requesting information in connection therewith. The notification states that the IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements, and the Corporation currently has no reason to believe that the IRS's opening of this examination is based on any specific compliance issues relating to the Arizona 2005A Bonds. The IRS recently contacted the Corporation and requested documents regarding this matter. The Corporation intends to cooperate fully in the examination. Although the Corporation cannot predict the outcome of the examination, the Corporation's management has no reason to believe that the examination of the Arizona 2005A Bonds by the IRS is other than a random examination and is unaware of any basis for challenging the tax-exempt status of the Arizona 2005A Bonds. The Corporation believes that the outcome of the examination of the Arizona 2005A Bonds will not have an adverse impact on the Obligated Group's operations or financial position.

The IRS has also added a new Schedule H to IRS Form 990 – Return of Organizations Exempt From Income Tax, on which hospitals and health systems will be asked to report how they provide community benefit and to specify certain billing and collection practices. The new schedule also requests detailed information related to all outstanding bond issues of nonprofit borrowers, including information regarding operating, management and research contracts as well as private use compliance.

There can be no assurance that responses by Obligated Group Members to an IRS examination or questionnaire, or Form 990, will not lead to an IRS review that could adversely affect the tax-exempt status or the market value of the Bonds or of other outstanding tax-exempt indebtedness of the Obligated Group. Additionally,



the Bonds or other tax-exempt obligations issued for the benefit of the Obligated Group Members, may be, from time to time, subject to examinations by the IRS. See “TAX MATTERS” for a discussion of an IRS audit of existing Arizona Health Facilities Authority Health Facility Revenue Bonds (Catholic Healthcare West), Series 2005A.

Bond counsel will render an opinion with respect to the tax-exempt status of the Bonds, as described under the caption “TAX MATTERS.” No ruling with respect to the tax-exempt status of the Bonds 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 Bonds will not adversely affect the Bonds.

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

#### **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 multiple hospitals of one or more Obligated Group Members.

California law requires each acute care hospital in the state to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008. California law allows three types of extensions of the January 1, 2008 deadline. First, the compliance deadline can be extended if a hospital shows that capacity lost in the closure of a facility may not 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 above 2013 deadline to be delayed up to an additional two years if the hospital is under construction at the time of the extension request, has submitted building plans, permits, timelines and status reports to OSHPD by the requisite deadlines, and is making reasonable progress in meeting its timeline. The third type of extension allows an acute care hospital that serves an otherwise underserved community and that qualified for the 2013 to further delay the deadline to 2020 upon satisfaction of stated progress timelines set out in the statute. In addition, OSHPD has been directed to review the previously established seismic performance categories for hospital buildings using a software program, “HAZUS.” Submission for requests for re-evaluation under HAZUS may result in buildings being re-categorized so that they will not be required to meet seismic standards until 2030.

**Risks Related to Outstanding Variable Rate Obligations.** Certain outstanding securities secured by Obligations issued under the Master Indenture are variable rate obligations, the interest rates on which could rise. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is limited, however, because the Corporation would be required to continue to pay interest at the variable rate until it is permitted to convert the obligations to a fixed rate pursuant to the terms of the applicable transaction documents. Recent credit market turmoil in the auction rate markets and dislocation among various bond insurers triggered suddenly high interest costs to many healthcare organizations.

The Corporation has previously entered into interest rate swap agreements and expects to maintain those interest rate swap agreements relating to a portion of the California Variable Rate Bonds (the “Swaps”). The Swaps are and will be subject to periodic “mark-to-market” valuations and at any time may have a negative value to the Corporation. The Swaps counterparties may terminate the Swaps upon the occurrence of certain “termination events” or “events of default.” The Corporation may terminate the Swaps at any time. If either the counterparty to

the Swaps or the Corporation terminates any of the Swaps during a negative value situation, the Corporation may be required to make a termination payment to such Swaps counterparty, and such payment could be material.

Pursuant to certain of the Swaps, the counterparty will be obligated to make payments to the Corporation based on a floating rate index and the applicable notional amount, which payments may be more or less than the variable rates the Corporation is required to pay with respect to a comparable principal amount of the related bonds, as the case may be. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in variable rate payments. See Appendix A – “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE – Other Treasury-Related Commitments – Swap Arrangements.”

The Swaps are secured under the Master Indenture. The Corporation may in the future enter into interest rate swap agreements or other financial products and hedge devices that are also secured under the Master Indenture.

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

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

- (a) Adoption of legislation that would establish a national or statewide single-payor health program or that would establish national, statewide or otherwise regulated rates applicable to hospitals and other health care providers.
- (b) Reduced demand for the services of the Members that might result from decreases in population.
- (c) Bankruptcy of an indemnity/commercial insurer, managed care plan or other payor.
- (d) Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety and outpatient care, or comparable regulations or attempts by third-party payors to control or restrict the operations of certain health care facilities.
- (e) The occurrence of a natural or man-made disaster that could damage the Members’ facilities, interrupt utility service to the facilities, result in an abnormally high demand for health care services or otherwise impair the Members’ operations and the generation of revenues from the facilities.
- (f) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

## LITIGATION

There is no controversy or litigation of any nature now pending against the Obligated Group or, to the knowledge of the officers of the Corporation, threatened, restraining or enjoining the issuance or conversion of the Bonds or in any way contesting or affecting (i) the validity of the Bonds, or (ii) any proceedings of the Corporation taken concerning the Loan Agreement or Obligation No. 93-B or the collection of Revenues pledged under the Indenture.

As with most health care providers, the Members of the Obligated Group are subject to certain legal actions that, in whole or in part, are not or may not be covered by insurance because of the type of action or amount or types

of damages requested (e.g., punitive damages), because of a reservation of rights by an insurance carrier, or because the action has not proceeded to a stage that permits full evaluation. Management of the Corporation does not anticipate that any such suits will ultimately result in damage awards or judgments that would materially adversely affect the operations or financial condition of the Obligated Group, other than matters that have been disclosed in Appendix A. See Appendix A – “INFORMATION CONCERNING THE CATHOLIC HEALTHCARE WEST OBLIGATED GROUP – OPERATING INFORMATION – Regulatory Compliance – Pending Matters.”

Except as disclosed in Appendix A, there is no litigation of any nature now pending against the Members of the Obligated Group or, to the knowledge of the Corporation’s officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Obligated Group.

## **TAX MATTERS**

Concurrently with the original issuance and delivery of the Bonds, Sidley Austin LLP, Bond Counsel, delivered its opinion to the effect that as of the date of issuance of the Bonds under then-existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”), interest on the Bonds would not be includable in the gross income of the owners of the for federal income tax purposes. Upon the conversion of the Bonds, Sidley Austin LLP will deliver an opinion to the Issuer, the Bond Trustee and the Remarketing Agents, to the effect that the conversion of the Bonds to the Long-Term Interest Rate will not, in and of itself, cause interest on the Bonds to be included in the gross income of the holders thereof for federal income tax purposes. No opinion will be expressed as to whether interest on any of the Bonds is currently excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, any of the Bonds.

Consistent with customary procedures involving conversion of interest rate mode on outstanding bonds, Bond Counsel has not been asked to conduct, and has not conducted, any review of facts and circumstances relating to the tax status of interest on the Bonds and expresses no opinion as to whether interest on the Bonds is currently excluded from gross income for federal income tax purposes.

Bond Counsel is of the further opinion that interest on the Bonds is not an item of tax preference for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that interest on the Bonds may be included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel is of the further opinion that interest on the Bonds is exempt from present State of California personal income taxation.

Ownership of, or the receipt of interest on, tax exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral consequences.

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. On November 5, 2007, the United States Supreme Court heard oral argument in connection with its review of a decision of the Court of Appeals of Kentucky which held that the Commerce Clause of the United States Constitution prohibits the Commonwealth of Kentucky from exempting interest on bonds issued by Kentucky and its localities and authorities from Kentucky state income tax while subjecting interest on bonds issued by other states and their localities and authorities to Kentucky state income tax. If the Kentucky decision is affirmed by the United States Supreme Court, it could require states such as the State of California to eliminate the disparity between the tax treatment of out-of-state bonds, notes and other obligations and the tax treatment of in-state bonds, notes and other

obligations, including bonds, notes or other obligations issued by the Issuer. The impact of this decision may also affect the market price for, or the marketability of, the Bonds.

### **Backup Withholding**

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner’s taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner’s federal income tax liability so long as the required information is furnished to the IRS.

### **APPROVAL OF LEGALITY**

Legal matters incident to the conversion of the Bonds are subject to the approving opinion of Sidley Austin LLP, San Francisco, California, Bond Counsel. Certain other legal matters will be passed upon for the Corporation and the Obligated Group Members by their counsel, Paul, Hastings, Janofsky & Walker LLP, San Francisco, California, for the Corporation with respect to Nevada law matters by its counsel, Lionel, Sawyer & Collins, Las Vegas, Nevada, for the Corporation with respect to Arizona law matters by its counsel, Fennemore Craig, P.C., Phoenix, Arizona and for the Corporation and the Obligated Group Members by Derek Covert, Esq., Senior Vice President, Legal Services and General Counsel of the Corporation. Certain legal matters will be passed upon for the Remarketing Agents by their counsel, Orrick, Herrington & Sutcliffe LLP.

### **RATINGS**

The Corporation has received the following ratings on the Bonds, based on the issuance of the insurance policy with respect to the Bonds: “Aaa”, “AAA” and “AAA”, respectively, from Moody’s Investors Service, Inc. (“Moody’s”), Standard & Poor’s Ratings Services, a division of The McGraw Hill Companies (“Standard & Poor’s”) and Fitch Ratings (“Fitch”) for the Bonds.

The Corporation has received ratings for the Bonds of “A2”, “A” and “A+”, respectively, from Moody’s, Standard & Poor’s Ratings Services and Fitch, based solely on its own credit. The Corporation has furnished to Moody’s, Standard & Poor’s and Fitch certain information and materials concerning the Bonds and the Obligated Group. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds. Any explanation of the significance of such ratings may only be obtained from the rating agency furnishing the same. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that they might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. Any such downward change in or withdrawal of the ratings might have an adverse effect on the market price or marketability of the Bonds.

### **REMARKETING**

The Bonds are being remarketed by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. (together, the “Remarketing Agents”), for a remarketing fee of \$486,372, pursuant to the Remarketing Agreement. The Remarketing Agents reserve the right to join with other dealers and agents in offering the Bonds to the public. The obligation of the Remarketing Agents to accept delivery of the Bonds is subject to various conditions contained in the Remarketing Agreement.



## **INDEPENDENT AUDITORS**

The consolidated financial statements of Catholic Healthcare West and Subordinate Corporations and the additional information of the Catholic Healthcare West Obligated Group as of and for the years ended June 30, 2007, 2006 and 2005, included in Appendix B of this Reoffering Circular, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports included in Appendix B appearing herein.

## **FINANCIAL ADVISOR**

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

## **MISCELLANEOUS**

The foregoing and subsequent summaries and descriptions of provisions of the Bonds, the Indenture, the Loan Agreement, the Master Indenture, the Supplemental Master Indenture and Obligation No. 93-B and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof, and reference is made to said documents for full and complete statements of their provisions. The appendices attached hereto are a part of this Reoffering Circular. Copies, in reasonable quantity, of the Indenture, the Loan Agreement, the Master Indenture and Obligation No. 93-B may be obtained during the offering period upon request directed to the Remarketing Agents.

This Reoffering Circular has been approved by the Corporation. This Reoffering Circular is not to be considered as a contract or agreement between the Corporation and the purchasers or Holders of any of the Bonds.

CATHOLIC HEALTHCARE WEST

By           /s/ Michael Blaszyk            
Executive Vice President/  
Chief Financial Officer

**APPENDIX A**

**INFORMATION CONCERNING  
THE CATHOLIC HEALTHCARE WEST  
OBLIGATED GROUP**

**The information contained herein has been prepared by  
Catholic Healthcare West.**

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## **BACKGROUND ON CATHOLIC HEALTHCARE WEST AND THE CHW SYSTEM**

### **History**

Catholic Healthcare West (“CHW”) is a California nonprofit public benefit corporation headquartered in San Francisco, California. CHW, together with its subsidiary corporations, comprise the Catholic Healthcare West System (“CHW System”), which is one of the largest not-for-profit acute healthcare delivery systems in the United States as measured by annual revenue. The CHW System operates 41 hospitals throughout major California markets and in the Phoenix, Arizona and Las Vegas and Reno, Nevada metropolitan markets. The CHW System’s facilities currently include approximately 9,000 licensed acute care beds and approximately 1,000 licensed skilled nursing beds. The CHW System maintains prominent market shares in many of its service areas and many of its hospitals rank among the finest in the nation. With a significant presence in Sacramento, San Francisco, Southern California, San Joaquin Valley, Central Coast, Central California, Northern California and Santa Cruz, the CHW System’s California operations are well dispersed throughout the state.

The hospital activities of the sponsors of the CHW System date back to 1856. The CHW System was founded in 1986, when two religious congregations brought together the 10 facilities they sponsored at the time. Since then, the CHW System has grown significantly in size, through mergers, affiliations and development of expanded markets. Today, the CHW System includes many facilities that are community sponsored as well as those that are religiously sponsored.

### **Mission**

The CHW System is dedicated to providing acute inpatient hospital care, outpatient care and related healthcare services. Inspired by the vision of its founders and community partners and the dedication of its employees and physicians, the CHW System is committed to enhancing the health and well being of the individuals and families within the communities it serves by adapting its structures and services to the needs of these communities. It is also attentive to the spiritual dimension of life. As a not-for-profit acute healthcare system, CHW’s mission is to:

- Deliver compassionate, high quality, affordable health services,
- Serve and advocate for those who are poor and disenfranchised, and
- Partner with others in the community to improve the quality of life of the individuals in the communities it serves.

## **THE OBLIGATED GROUP**

The CHW System undertakes most of its borrowing activities under a Master Indenture. Under the Master Indenture, a group composed of CHW and certain other corporations in the CHW System (each a “Member” of the “Obligated Group”) have agreed to be jointly and severally obligated for debt incurred under the Master Indenture. Please see pages A-4 and A-5 for a chart of the Members of the Obligated Group. Other entities affiliated with CHW are not Members of the Obligated Group (the “Non-Member Entities”). Only the corporations that are Members of the Obligated Group are jointly and severally obligated under the Master Indenture. None of the Non-Member Entities have assumed any financial obligation related to payment of or security for the Bonds or any other obligations incurred under the Master Indenture. The Non-Member Entities in the CHW System represented approximately 1% of the consolidated revenue and 4-5% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2007, 2006 and 2005, as shown in the audited financial statements for those years.

CHW has “membership” rights and powers exercised either directly or indirectly with respect to each of the other Obligated Group Members. Generally, these membership powers include the right of CHW to approve budgets, capital expenditures, liens and encumbrances, changes in corporate charter documents, certain asset acquisitions and sales, and mergers and dissolutions, among other things. Generally, CHW also has the right to approve the appointment of the CEO of each other Obligated Group Member, and generally the CEO is an employee of CHW.

In total, there are seven Obligated Group Members — CHW, which directly owns and operates 35 acute care hospitals, of which two hospital facilities are leased to CHW until 2049, one hospital facility is leased to CHW until 2033 and one is leased until 2056, plus six subsidiary corporations. Of the six subsidiary corporations that are Obligated Group Members, four operate hospitals. These four subsidiary Obligated Group Members operate four acute care hospitals. In total, in the Obligated Group, there are 39 licensed acute care hospitals that are covered by 36 licenses (in three situations, a single license covers two inpatient locations). The remaining Obligated Group Members are the CHW Medical Foundation, which operates an integrated multi-site medical clinic in the Sacramento, Woodland, Stockton, Santa Cruz and Redwood City, California areas and has professional services agreements with six professional corporations that employ approximately 330 physicians and extenders, and Mercy Senior Housing, Inc., which provides low-cost senior housing in a 118-unit facility in Sacramento, California.

Included in the count of 41 CHW System hospitals, but not included in the Obligated Group, are two licensed acute care facilities: Mark Twain St. Joseph's Healthcare Corporation, which owns and operates a 48-bed hospital and is a subsidiary of CHW, but governed jointly with a public healthcare district, and Oak Valley Hospital, with 150 licensed beds, which is managed under contract by CHW.

Each of the subsidiary Obligated Group Members is governed by a board of directors comprised of persons drawn from the community, medical staff (where applicable), management, and, in some cases, the sponsoring congregations. The CHW Board of Directors appoints all or a majority of the directors of each of the other Obligated Group Member boards. The exceptions are Community Hospital of San Bernardino and Sierra Nevada Memorial-Miners Hospital ("Sierra Nevada"), where CHW does not have unrestricted control with respect to the appointment of a majority of the board of each.

In certain cases, a hospital medical staff or local community group may have certain limited appointment or *ex officio* rights with respect to one or more board seats of the subsidiary Obligated Group Members, or may have certain nomination rights as to one or more board seats, in each case, involving a minority of the board seats (except as expressly stated above). With respect to certain of these subsidiary Obligated Group Members, particularly non-Catholic community hospitals, certain aspects of the contracts by which they affiliated with the CHW System remain in force. These contracts may confer certain rights on a local community group or may limit the authority of CHW to take certain actions, such as to sell the hospital facility or close certain core services (such as an emergency room). One hospital, Sierra Nevada, has certain limited withdrawal rights, based on triggering events that CHW management considers to be unlikely of occurrence, and rights to capital project loans from CHW if it meets certain CHW-mandated financial tests.

Previously, Sequoia Healthcare District ("District") had certain rights to appoint members to the board of directors of Sequoia Health Services ("SHS") and had other rights with respect to that corporation. In December 2007, CHW entered into a development agreement with the District whereby the District relinquished all control over SHS and agreed to provide funding of \$75.0 million toward the modernization, upgrading and seismic retrofitting of Sequoia Hospital. In return for the funding commitment, the District is entitled to 50% of Sequoia Hospital's annual Operating EBIDA exceeding a 9.3% annual Operating EBIDA Margin for 40 years. Operating EBIDA is defined as operating income adjusted for certain excluded items. CHW has committed to funding \$150.0 million toward the construction project and approximately \$15.0 million in additional funding is anticipated from philanthropic gifts. This transaction is subject to certain reporting requirements to the District as well as certain oversight and enforcement rights by the District. The construction project broke ground in September 2007 and is expected to be completed in 2011. However, if the construction does not conform to certain agreed upon specifications or is not completed by January 1, 2013, the District has the right to require the return of its \$75.0 million contribution. CHW management expects to meet the required construction specifications and timeline.

Pursuant to a system reorganization plan initiated in 2001, a number of affiliated corporations were merged into CHW to streamline the organization and operations of the CHW System. Most of the reorganization plan was accomplished in 2001. Additional affiliate mergers that have occurred within the past three years, consistent with the plan, are:

- On January 1, 2008, SHS merged into CHW, and Sequoia Hospital became directly owned and operated by CHW.
- On June 30, 2006, Mater Misericordiae Hospital (“Mercy Medical Center Merced”) merged into CHW, and the two hospitals, one leased and one owned, both operated by Mercy Medical Center Merced became directly owned, leased and operated by CHW.
- On December 31, 2005, Mercy Healthcare Sacramento (“MHS”) merged into CHW, and the three hospitals owned and operated by MHS became directly owned and operated by CHW. In addition, Sierra Nevada, which was a subsidiary of MHS, became a direct subsidiary of CHW.

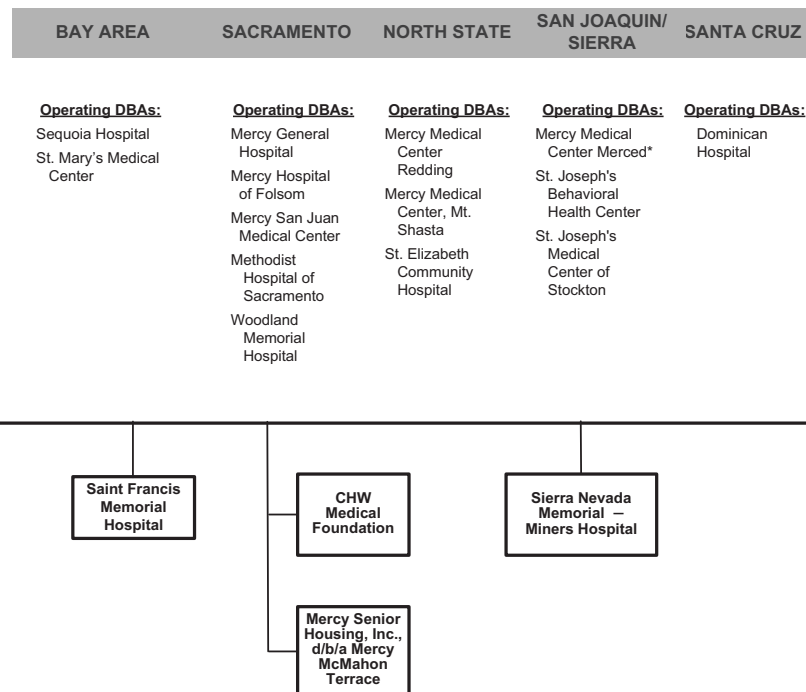
Additional acquisition, disposition and cessation of operations activity during the past three years is discussed on page A-8.

The CHW System operates under a single operating company model utilizing a variety of common corporate services. The CHW System also utilizes a common accounting system, common accounting practices and a single internal audit firm, Catholic Healthcare Audit Network, LLC. A single corporate financial planning model, budget process and capital allocation process is in place. CHW utilizes centralized debt compliance monitoring and unified debt management on behalf of the CHW System. Daily cash management is also under common administration, as is pooled investment management.

The chart on the next two pages shows the current Obligated Group Members and their relationship to each other. The table on page A-38 lists the Obligated Group Members, the facilities operated by each Obligated Group Member (as of the date of this Official Statement), and the type, location and approximate bed capacity of each healthcare facility.

## Obligated Group

### Catholic Healthcare West



\* Operates two inpatient locations.

Note: See audited consolidated financial statements in Appendix B for discussion of assets and liabilities of the Obligated Group.



**Obligated Group**

**Catholic Healthcare West**

BAKERSFIELD	CENTRAL COAST	SOUTHERN CALIFORNIA	ARIZONA	NEVADA
<p><b>Operating DBAs:</b>                      Mercy Hospital*</p>	<p><b>Operating DBAs:</b>                      Arroyo Grande Community Hospital                      French Hospital Medical Center                      Marian Medical Center*                      St. John's Pleasant Valley Hospital                      St. John's Regional Medical Center</p>	<p><b>Operating DBAs:</b>                      California Hospital Medical Center – Los Angeles                      Glendale Memorial Hospital and Health Center                      Northridge Hospital Medical Center                      St. Bernardine Medical Center                      St. Mary Medical Center</p>	<p><b>Operating DBAs:</b>                      Chandler Regional Hospital                      Mercy Gilbert Medical Center                      St. Joseph's Hospital and Medical Center</p>	<p><b>Operating DBAs:</b>                      Saint Mary's Regional Medical Center                      St. Rose Dominican Hospital Rose de Lima Campus                      St. Rose Dominican Hospital San Martin Campus                      St. Rose Dominican Hospital Siena Campus</p>

Bakersfield Memorial Hospital

Community Hospital of San Bernardino

## OPERATING INFORMATION

### Historical Utilization

The following table shows utilization statistics for the acute care hospitals operated by the Obligated Group Members for the fiscal years ended June 30, 2007, 2006 and 2005:

	Fiscal Year Ended June 30 <sup>(3)</sup>		
	2007	2006	2005
Licensed Acute Beds <sup>(1)(2)</sup>	8,503	7,994	7,889
Acute Admissions <sup>(1)</sup>	385,550	362,858	357,384
Acute Patient Days <sup>(1)</sup>	1,723,521	1,623,689	1,593,633
Acute Average Length of Stay (days) <sup>(1)</sup>	4.5	4.5	4.5
Medicare PPS Acute Average Length of Stay (days)	5.1	5.1	5.1
Outpatient Revenue as a % of Total Patient Service Revenue	29%	29%	28%

<sup>(1)</sup> Acute care statistics include psychiatric and rehabilitation beds.

<sup>(2)</sup> Licensed beds include beds in suspense status.

<sup>(3)</sup> Amounts for all periods are stated or have been restated to exclude statistics for facilities that have been closed and/or disposed of as further discussed on page A-8. They also exclude healthcare services by the CHW System that are outside the Obligated Group. Saint Mary's Regional Medical Center is included beginning January 1, 2007.

### Licensure, Certification and Accreditation

Each of the hospitals operated by an Obligated Group Member is appropriately licensed for the level of care it delivers and is certified to participate in the Medicare program and its state's Medicaid program, and each is accredited by The Joint Commission. Each skilled nursing facility unit operated by an Obligated Group Member is certified to participate in the Medicare and Medicaid programs. The residential care facility for the elderly operated by Mercy Senior Housing, Inc. is certified by the California Department of Social Services.

### Medical Staff

Each hospital has its own medical staff. The Hospital Community Boards for facilities directly operated by CHW and the Boards of Directors of each CHW subsidiary corporation that operates a hospital have the responsibility for approving appointments to the medical staff and for handling other matters related to their credentialing and recredentialing, as well as for oversight of the quality assurance and performance improvement efforts of the medical staff in the hospitals.

### Employees

As of January 1, 2008, the CHW System employed approximately 53,000 employees. Approximately 57% of CHW System hospital employees as of March 1, 2008, were covered under collective bargaining arrangements, primarily with the California Nurses Association ("CNA") and the Service Employees International Union ("SEIU"). Contracts are currently in place with the CNA at 27 facilities through June 2009, and first contract negotiations are currently underway at two other facilities. Contracts are currently in place with the SEIU at 27 facilities in California through April 2008 and at three facilities in Nevada through June 2008. Negotiations are underway for both the California and Nevada SEIU contracts; if new agreements are not finalized prior to expiration of the California contract, CHW management expects to continue to operate under existing contract terms while negotiations continue. No assurance can be made as to the outcome of negotiations.

The management of CHW commits to bargaining in good faith and views these negotiations as an opportunity to strengthen the relationship with the labor unions that represent CHW employees. CHW seeks bargaining agreements that reflect competitive, market-driven wages and benefits in order to maintain CHW's status as an employer of choice.

## Nurse Staffing

Generally, the markets in which the CHW System operates are experiencing nursing shortages. To address the nursing shortage, the CHW System collaborates with local colleges as well as its unions to expand the supply of nurses. CHW has implemented several systemwide initiatives to meet the ongoing recruitment needs. These include: training hiring managers and recruitment staff in effective sourcing and recruiting methods, implementing new tools for web-based recruitment, developing a new employment brand with creative advertising to attract both entry level and experienced applicants and redesigning the CHW Careers website. CHW's additional strategy is to focus on the retention of current nursing employees through career development initiatives, reward programs and restructured retirement benefits and other programs that address work environment issues. The CHW System also relies on the use of registry (temporary agencies for nurses) but is actively focused on controlling use of this costly resource. During the fiscal years ended June 30, 2007, 2006 and 2005, the CHW System spent approximately \$99 million, \$96 million and \$97 million, respectively, on registry in nursing areas. The CHW System has entered into systemwide contracts to procure registry resources at more competitive rates.

The State of California has implemented regulations mandating specific nurse staffing ratios for all acute patient care areas. These regulations were updated in 2005 to require one nurse for every five patients on medical surgical units. Effective January 1, 2008, telemetry units were required to have one-to-four staffing rather than one-to-five staffing, and requirements for definitive observation units increased from one-to-four staffing to one-to-three staffing. Included in these regulations is the requirement that the ratios be maintained at all times, even when licensed staff take meal and other breaks. Management estimates that the additional annual cost to comply with the regulations that became effective January 1, 2008, is approximately \$16 million. To promote recruitment and retention in CHW hospitals in Arizona and Nevada, nursing areas in those hospitals are staffed following similar ratios although without implementation of the "at all times" provision.

## Insurance

**Self-Insurance Programs** — CHW maintains two major self-insurance programs:

- **General, Professional and Employment Practices Liability** — CHW maintains a trust for self-insurance for hospital general and professional liability risks for all CHW hospitals up to \$5 million per claim for claims made on or after December 1, 2002, and up to \$3 million per claim on claims made prior to that time. For claims made in Arizona and Nevada on or after December 1, 2004, the limit is increased to \$6 million per claim. The trust also covers employment practices liabilities and retains losses up to \$1 million per claim and \$2.5 million for mass employment practices tort claims. Reinsurance is obtained through a wholly-owned captive insurance company that purchases excess coverage from major commercial insurers for coverage up to an annual aggregate amount of \$120 million in excess of the \$5 million and \$6 million limits discussed above for general and professional liability, and \$85 million in excess of the \$1 million and \$2.5 million limits discussed above for employment practices liability. The \$85 million in excess limits for employment practices liability is part of the aggregate limit of \$120 million in excess limits for general and professional liability. It is CHW's policy to fund the trust so that, over time, assets held equal the liabilities for claims made and estimated future claims servicing costs. As of June 30, 2007, assets held in the trust and the captive insurance company were \$232.6 million and estimated liabilities for claims and future servicing costs were \$226.2 million.
- **Workers' Compensation** — A trust for self-insured workers' compensation claims is maintained for all CHW hospitals. The trust's self-insured retention limit is currently \$1 million per occurrence. Lower amounts are in effect for occurrences prior to September 1, 2003. Excess coverage is purchased from major insurers and covers statutory limits per claim. It is CHW's policy to place funds in the trust such that, over time, assets held equal the liabilities for claims incurred and estimated future claims servicing costs. As of June 30, 2007, assets held in the trust were \$306.0 million and estimated liabilities for claims and future servicing costs were \$233.8 million.

Actuarial estimates of self-insured losses, including estimates for claims incurred but not reported, are prepared by independent consulting actuaries and are reevaluated at least semiannually. Revisions to estimates of losses incurred in prior years are recorded in the year that the estimate changes. Actual results may vary from estimates.

**Commercial Insurance Coverages** — In addition to the excess coverage for the self-insured programs discussed above, CHW purchases commercial policies for property, crime, directors' and officers' liability, automobile liability and fiduciary liability with varying amounts of coverage and deductibles which CHW evaluates periodically in light of current insurance pricing and availability. CHW currently has earthquake insurance coverage for its facilities in the amount of \$100 million for each seismic event in annual aggregate in excess of a \$200 million self-insured retention for locations in California and a \$1 million self-insured retention for locations in Arizona and Nevada. The policy expires December 1, 2008. CHW will consider whether or not to purchase earthquake insurance beyond these dates.

### **Affiliation, Acquisition, Disposition and Disaffiliation Activities**

CHW plans for, evaluates and pursues potential acquisition and affiliation candidates as appropriate opportunities arise. Also, CHW evaluates and pursues potential closures, changes of use, dispositions and disaffiliations where strategic and market conditions warrant. Negotiations and discussions are conducted from time to time regarding these matters and it is likely that entities will join or depart from the CHW System and/or the CHW Obligated Group in the future. CHW retains the right to approve the entry in or withdrawal from the Obligated Group, subject to compliance with the terms of the Master Indenture.

The following is a summary of CHW's acquisition, disposition and cessation of operations activities since July 1, 2004:

#### **Acquisitions —**

- On January 1, 2007, Saint Mary's Regional Medical Center ("SMRMC") merged into CHW. SMRMC operates a 380-bed hospital located in Reno, Nevada. In connection with the merger, SMRMC's seven subsidiary corporations became subsidiaries of CHW. These subsidiaries included at that date a licensed health maintenance organization with approximately 27,000 covered members, a licensed indemnity insurance carrier with approximately 7,000 covered members, a surgical center, several outpatient clinics and a fundraising foundation. Because the transaction was structured as a merger, CHW assumed all of the assets and liabilities of SMRMC and its subsidiaries.
- As of January 1, 2008, Sequoia Health Services ("SHS"), a subsidiary Obligated Group Member, merged with CHW. See the discussion regarding SHS under the caption "THE OBLIGATED GROUP" above.

#### **Dispositions and Cessations of Operations —**

- In December 2007, CHW sold substantially all land, buildings and equipment of San Gabriel Valley Medical Center, a 273-bed facility located in San Gabriel, California to an unrelated party. Aggregate proceeds were \$60.1 million.
- In December 2006 and February 2007, the second location of Bakersfield Memorial Hospital, a 60-bed psychiatric facility, was sold to an unrelated party in a two-part transaction for a combined sales price of \$5.9 million.
- In November 2004, CHW ceased operations at Northridge Hospital Medical Center – Sherman Way, a 209-bed facility located in Van Nuys, California. Under the terms of a three-party transaction, patient services were transitioned and hospital equipment was sold to one unrelated party and the land and the building were sold to another unrelated party for a combined sales price of \$13.4 million. The sales closed in July and August 2005.
- In October 2004, CHW sold St. Dominic's Hospital, a 77-bed facility located in Manteca, California, to an unrelated party for \$30.0 million.

- In August 2004, CHW ceased operations at Mercy Westside Hospital, an 84-bed facility in Taft, California.

CHW has entered into agreements with third parties to start up certain new outpatient operations, such as outpatient surgery centers. These transactions are intended to reduce the CHW System's capital commitments and operating risks in these facilities. The transactions are also intended to assure greater efficiency in the operation of these outpatient facilities, as CHW has selected to work with third parties that have recognized operating expertise.

### Community Benefit

The CHW System operates healthcare facilities that provide healthcare to patients regardless of their ability to pay. In addition to providing charity care, the CHW System provides other programs and services that benefit the poor and the broader community.

The CHW System uses four categories to identify the resources utilized to benefit persons who are poor and for the broader community:

- (1) Traditional charity care includes the cost of services provided to persons who cannot afford healthcare because of inadequate resources and/or who are uninsured or underinsured. The CHW System has had a policy for many years of providing payment assistance to such individuals. In 2004, the policy was expanded to provide assistance for individuals whose income is up to 500% of the Federal Poverty Level.
- (2) Unpaid costs of public programs represent the unreimbursed cost of services provided to persons covered by public programs for the poor, such as Medicaid and other indigent care programs.
- (3) Costs of other programs for the poor include programs intentionally directed at serving the poor of the community. In addition to underwriting of programs and outright grants, CHW makes below market rate loans to nonprofit community-based organizations that promote the total health of their communities; only the interest rate differential is included in the amounts below.
- (4) Costs of programs for the broader community include unreimbursed costs of programs and services for persons and groups who need special services and support but may not qualify as poor. Examples are the elderly, substance abusers, victims of child abuse and persons with AIDS. They also include broader populations who benefit from community health initiatives, such as health promotion and education, health screenings, medical research and training of health professionals.

The following is a summary of the net cost to the CHW System of providing programs and services for the poor and for the broader community for fiscal 2007 (based on costs rather than charges). The summary has been prepared in accordance with the Catholic Health Association of the United States' policy document, *A Guide for Planning and Reporting Community Benefit* (in thousands).

Traditional charity care	\$120,829
Unpaid costs of Medicaid and other public programs	266,963
Other programs for the poor	32,228
Programs for the broader community	<u>81,420</u>
Total community benefits	\$501,440
Unpaid costs of Medicare	<u>420,693</u>
Total community benefits including unpaid costs of Medicare	<u>\$922,133</u>



## **Regulatory Compliance**

The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by healthcare providers. See HEALTHCARE INDUSTRY RISK FACTORS for more information regarding the regulatory environment.

**Compliance Program** — CHW has a corporate compliance officer and maintains a CHW System corporate compliance program intended to be consistent with laws and government guidance relating to compliance programs in healthcare entities. The program includes education of employees and managers about certain significant legal and regulatory requirements applicable to the CHW System and includes steps to monitor and promote compliance with these requirements. All employees are provided a copy of the CHW Standards of Conduct, a booklet describing the program, and sign a document acknowledging they have received the booklet and understand that it reflects CHW policy. A “hotline” is available to all employees and physicians to report any areas of potential concern. In addition, CHW has adopted policies designed to address specific risk areas and has instituted processes to correct problems it identifies through the hotline or its other compliance activities.

**HIPAA Compliance** — The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) is a law that, among other things, mandates and standardizes the electronic exchange of certain healthcare data including health claims, enrollment, eligibility, payments and referral authorizations. HIPAA also set a number of expanded privacy and data security standards applicable to patient health information. CHW has worked with its vendors and trading partners to make changes to its computer systems and processes to address compliance with the healthcare electronic data exchange standards, including the National Provider Identifier rule which became effective May 23, 2007. CHW has also developed policies and procedures for complying with the privacy standards and has provided employees with broad education on the topic. Management believes that the CHW System is substantially in compliance with HIPAA and is not subject to any HIPAA-related claims that management considers material.

**Physician Business and Financial Relationships** — CHW and the Obligated Group Members have a wide variety of business and financial relationships with physicians and physician groups. These often represent important strategic, operational, community benefit and/or economic relationships. They include common hospital-physician contracts for services performed by physicians in hospitals, physician recruiting arrangements (including related loans), typical managed care contracting relationships and medical office leases. With respect to these and most other types of common physician-hospital relationships that are subject to relatively well-defined regulatory compliance guidelines, CHW management believes that its regulatory compliance policies are highly effective. Certain other financial and business relationships with physicians are more complex and may be subject to regulatory standards that are less clearly defined. These include certain joint ventures to provide a variety of outpatient services; certain loans to physicians or physician groups; and various forms of physician integration and practice management and support, ranging from fully integrated “foundation model” medical practice relationships to “MSO model” practice support arrangements with independent physicians and groups. CHW also maintains compliance policies and procedures covering these matters, which it believes to be effective. However, these relationships remain subject to the various risks identified under HEALTHCARE INDUSTRY RISK FACTORS, and specifically under the subsections entitled “Physician Financial Relationships” and “Integrated Physician Groups.”

## **Pending Matters**

**Medicare Investigations** — CHW and certain Obligated Group Members have resolved several government claims of improper cost reimbursement, improper claims for physicians’ services, improper claims for hospital services and possible violations of the anti-kickback and anti-referral laws. These settlements resulted in payments of approximately \$45,000, \$0 and \$313,000 in fiscal 2007, 2006 and 2005, respectively.

CHW facilities are currently under investigation by the Department of Justice and Office of Inspector General for false or otherwise improper claims in connection with Medicare cost reporting, as well as claims for reimbursement of hospital and administrative services. Currently, the information CHW has received from the government is largely confined to the information requests CHW has received, and as yet, the government has not made any specific charges, nor has it suggested the amount of any repayments or other penalties. Information exchange and discussions are ongoing. In addition, on January 22, 2008, the Department of Justice notified CHW that one of its California facilities is under investigation for false claims in connection with Medicare outlier reimbursement.

Given the current status of these matters and based on the limited information received to date from the government, CHW management does not presently have information indicating that these investigations or their resolution will have a material adverse effect on the CHW System. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not adversely affect the financial condition or results of operations of the CHW System. See HEALTHCARE INDUSTRY RISK FACTORS — Regulatory Environment — “Fraud” and “False Claims,” and — Enforcement Activity.

**Recovery Audit Contractors Demonstration Project** – In 2005, CMS announced a new demonstration project using recovery audit contractors (RACs) as part of CMS’ further efforts to assure accurate payments. The project uses the RACs to search for potentially improper Medicare payments that may have been made to healthcare providers and that were not detected through existing CMS program integrity efforts. The RACs use their own software and procedures to determine what areas to review. Once a RAC identifies a claim the RAC believes is improper, it makes an assessment from the provider’s Medicare reimbursement in an amount estimated to equal the overpayment. The project is currently operating in five states (including California) with a nationwide rollout in phases beginning in March 2008 to be completed by 2010.

Currently, approximately 23 CHW facilities have been audited by RACs with a total estimated net assessment of approximately \$30 million. Amounts assessed under the RAC audits are deducted from revenue on CHW’s financial statements at the time that notice is received. The program includes a multistep appeals process. CHW is pursuing appeals of the assessments where it has grounds to do so, and expects to recover a significant portion of the assessments. Additional RAC assessments against CHW hospitals are anticipated, particularly when the project is expanded to include Nevada and Arizona. Consequently, there can be no assurance that the results of the audits will not adversely affect the financial condition or results of operations of the CHW System.

**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 and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements.

On February 4, 2008, a lawsuit was filed against CHW alleging violations of California state wage and hour laws and regulations. The lawsuit is fashioned as a class action on behalf of nurses and medical technicians employed at CHW’s California facilities during the previous four years. CHW is evaluating the lawsuit and its implications. It is too early to assess any liability exposure from the lawsuit, but lawsuits of this nature have the potential for a material adverse impact on the financial condition or results of operations of the CHW System.

**Charity Care for the Uninsured and Underinsured** – CHW periodically reviews its policies and procedures to ensure they are consistent with and in furtherance of CHW’s mission. In May 2004, CHW modified its systemwide Patient Financial Assistance Policy (“Policy”) to provide discounted care to eligible uninsured and underinsured patients in a more uniform manner. The Policy was subsequently updated to reflect further developments. See the information under the caption “OPERATING INFORMATION — “Community Benefit” above regarding the resources that the CHW System dedicates to providing healthcare for the poor.

Over the past several years, there has been extensive public focus on the practices of hospitals regarding amounts charged to patients who are uninsured or underinsured. Lawsuits have been filed against many hospitals and health systems challenging their practices. In October 2005, two lawsuits were filed against CHW in California state courts. The lawsuits generally charge CHW with inappropriate billing and collection practices of the uninsured and allege, among other things, claims for breach of contract, breach of the implied covenant of good faith and fair dealing and unfair business practices. Each suit is purportedly fashioned as a class action.

In November 2006, the San Francisco Superior Court granted preliminary approval of a settlement agreement between CHW and plaintiffs in one of the October 2005 lawsuits, which received final approval in January 2007. Under the settlement agreement, class members had until March 8, 2007, to submit claims. The final settlement had been appealed to the California Appellate Court by one of the class member claimants, who is also a plaintiff in the lawsuit which was not covered by the settlement. No claims could be paid pending resolution of the appeal. On January 22, 2008, CHW and the plaintiff in the lawsuit not previously settled entered into a settlement agreement whereby the plaintiff agreed to withdraw its appeal to the California Appellate Court and dismiss the non-settled lawsuit. The estimated costs associated with implementing and administering both settlements have been accrued as current liabilities in CHW's financial statements (see Appendix B).

CHW management believes that the Policy, in combination with its other charitable activities, demonstrates that it operates in full compliance with the laws and regulations that are at issue in the lawsuits arising in this area. However, like other hospitals and health systems, CHW or one or more of its constituent hospitals can, at any time, be sued in individual or class action lawsuits such as those described above, or potentially by the government or other parties. Potential lawsuits in this area could also include allegations related to balance billing of patients where the insurer has made payment, placing liens on tort recoveries of patients, collection practices or errors by collection agencies, and similar matters. In some such situations, CHW would expect to use the Policy as well as the settlement, as a means to defend and/or otherwise resolve any such action in a manner favorable to the CHW System. Nevertheless, there can be no certainty that such future action, or actions, might not arise and result in material adverse impact to the financial condition or results of operations of the CHW System.

**Americans with Disabilities Act Class Action** – The Americans with Disabilities Act and the California disability laws (collectively “ADA”) require, among other things, that public accommodations be accessible to the disabled. In February 2006, CHW was served with a summons and complaint, filed in the U.S. District Court for the Eastern District of California, Sacramento Division, alleging that one of its California facilities failed to comply with ADA. In July 2006, the plaintiff filed a motion, which the court has subsequently granted, to certify the case as a class action on behalf of all disabled persons who use CHW facilities. The class action covers all facilities operated, owned or controlled by CHW.

CHW management has evaluated the claim and determined that while the ADA rules in some areas are subject to interpretation, there are instances of non-compliance at CHW facilities. CHW subsequently entered into negotiations with the plaintiffs on a settlement agreement and mutually acceptable plan for remediation of all CHW facilities.

Following extensive negotiation, the plaintiffs and CHW management have tentatively agreed upon a plan whereby, over the course of the next six to eight years, each of CHW's hospital facilities will be inspected by experts in state and federal disability accommodation law. The settlement agreement will take the form of a consent decree and will include procedures for negotiating remediation plans for inspected facilities and dispute resolution procedures to be performed under supervision of the court. Following approval of the remediation plan for each facility, CHW will have three years to complete the facility modifications. The proposed consent decree is subject to review and approval by the court.

The identified plaintiffs and representatives of the class seek injunctive relief but they do not seek damages. The injunctive relief requested is the facility modification identified above together with a posted procedure for communicating concerns about access for disabled persons. Management currently estimates that the cost of conducting the inspection process and performing the remediation, which will be a combination of repair costs and capital expenditures, will not be material, though no assurance can be given that developments might not lead to a material adverse impact.

**IRS Examination of Certain Prior Bonds** – On March 21, 2008, the Arizona Health Facilities Authority received a letter from the IRS notifying it that the IRS has selected the \$74,675,000 Arizona Health Facilities Authority Insured Health Facilities Revenue Bonds (Catholic Healthcare West), 2005 Series A Bonds (“the Arizona 2005A Bonds”) for examination and requesting information in connection therewith. The notification states that the IRS routinely examines municipal debt issuances to determine compliance with federal tax requirements, and CHW currently has no reason to believe that the IRS’s opening of this examination is based on any specific compliance issues relating to the Arizona 2005A Bonds. The IRS recently contacted CHW and requested documents regarding this matter. CHW intends to cooperate fully in the examination. Although CHW cannot predict the outcome of the examination, CHW’s management has no reason to believe that the examination of the Arizona 2005A Bonds by the IRS is other than a random examination and is unaware of any basis for challenging the tax-exempt status of the Arizona 2005A Bonds. CHW believes that the outcome of the examination of the Arizona 2005A Bonds will not have an adverse impact on the CHW Obligated Group’s operations or financial position.

## **Strategic Plan**

CHW’s far-reaching strategic plan, “Horizon 2010,” which was adopted in 2005, represents an organizational roadmap to fulfilling CHW’s mission over the five-year period. The plan provides a broad directional framework that CHW management believes will allow CHW to improve access to high quality care throughout its multi-state service area.

The following areas of strategic focus have been identified:

**Growth** – Growth captures CHW’s intent to increase access to care and serve more people. Over the five-year period, CHW management expects to increase the level of service in traditional and diversified settings, including ambulatory care and other aspects of the continuum of health care services, reflecting the pace of technology and emerging patient preferences. In recognition of the core value of collaboration, CHW is designing and implementing physician alignment strategies, strategic associations with health plans and community partnerships, all of which are intended to ensure greater access to high quality care.

Over the past two years, CHW has continued to progress on its growth objectives through expansion of its portfolio of health care facilities.

- CHW has strengthened its core acute care business with the construction and opening of two new hospitals and a major expansion at an existing hospital. Mercy Gilbert Medical Center in Gilbert, Arizona opened with 92 beds in June 2006, and has grown to 182 beds as of March 2008. For the month of March 2008 occupancy was 71%. An additional expansion of 28 beds is planned to be completed in April 2009. Current areas of programmatic expansion include orthopedics, neurosurgery, pediatrics and cardiac research. The hospital has also demonstrated significant improvements in productivity management. St. Rose Dominican Hospital San Martin Campus in Las Vegas, Nevada opened with 111 beds in November 2006 and has grown to 147 beds. For the month of March 2008, occupancy was 63%. This hospital is in the midst of programmatic expansion in cardiovascular, oncology and women’s services, a focused marketing and awareness campaign for its emergency services and physician recruitment to handle increased inpatient volume. Market share grew from 14% to 18% in the first year of operation, and the hospital has demonstrated a steady growth in both volume and financial performance. Additionally, improved vendor contracts and productivity have contributed to lower costs. At St. Joseph’s Hospital and Medical Center in Phoenix, Arizona, a new Barrow Neurological Institute tower with seven floors and 144 beds was opened in July 2006. Occupancy rates in the new tower are at 85%. In Merced, CHW is in the process of building a new 185-bed hospital to be completed in fiscal 2010. This new hospital will replace the existing Mercy Medical Center Merced – Community Campus. Saint Mary’s Regional Medical Center in Reno, Nevada joined CHW in January 2007. Since then, new senior leadership has been hired, which has led to demonstrated improvements in productivity, supply chain and revenue cycle. Furthermore, construction is underway to update and expand the emergency room to improve functionality and attract additional volume.



- CHW is continuously exploring opportunities to engage physicians. Recently, CHW initiated the development of a “Physician Services Center,” which is intended to be a decentralized, 100% CHW-owned operation that supports locally-driven physician engagement strategies. It will be a vehicle for CHW hospitals to provide administrative services and practice management to employed, independent, group-model and community physicians.
- CHW continues to diversify by expanding into ambulatory settings. Currently, there are more than 30 ambulatory care centers (ambulatory surgery and imaging centers) in which the CHW System has either a whole or partial interest, with more than nine additional projects identified for the remainder of fiscal 2008.

**Innovation** – Innovation captures CHW’s intent to make fundamental operational changes and become a recognized leader with respect to quality and service delivery. In order to achieve this goal, CHW has accelerated the distribution and integration of best practices, both internal to the organization and from a variety of external sources, with the goal of achieving “breakthrough” performance at all levels of the organization. Moreover, CHW is increasing its investment in clinical and information technologies to assist clinicians with the information to diagnose, treat and manage patients with the goal of exceeding expected clinical outcomes. In support of the commitment to quality in all settings, CHW is building upon its unique mission of addressing the physical, emotional and spiritual needs of patients and their families.

- CHW has developed an Intellectual Innovation Network (CHWiin) to facilitate the translation of intellectual property conceived or developed by CHW employees or other individuals associated with CHW into healthcare related products and services. Examples of intellectual innovation activities are – (1) St. Joseph’s Hospital and Medical Center and GE Healthcare entered into six-year comprehensive research agreements for MRI and CT establishing an alliance in medical research which is expected to advance personalized healthcare, and (2) CHW facilities have been beta testing sites for a number of advanced technologies, especially in the area of electronic image transmission. CHW has identified and filed for patent protection on more than a dozen inventions, from devices to technologies, with one patent having been issued. Licensing discussions are ongoing with various potential partners.
- CHW continuously identifies best practices and technologies, and distributes them to the provider environment. In many cases, innovative technologies and care delivery systems are being developed and funded with the help of private equity and venture capital investments. CHW has chosen to further cultivate innovation by using its investment program to invest in healthcare-focused private equity ventures. In December 2007, the Investment Committee of the CHW Board of Directors approved \$15 million in investments in two private equity funds geared specifically toward hospital and health system investors. Target investments are focused on healthcare technologies or service providers with whom hospitals and health systems may want to do business.

**Leadership** – Leadership is fundamental to how each of CHW’s employees can directly impact the successful implementation of the overall strategy. CHW intends to continue the focus on workforce development, workplace quality and development of the next generation of leaders. CHW has developed competency programs as a part of a learning institute designed to enhance the skills of its executives and managers and to provide appropriate succession planning. Enhancing the commitment to communities is another form where leadership will have an impact. In particular, CHW plans to remain a voice of positive change for the communities the CHW System serves by supporting community benefit programs and increasing advocacy on behalf of the poor and disenfranchised.

- The CHW Learning Institute continues to provide training and development opportunities aimed at promoting competency and skill development within CHW. Currently, the Learning Institute offers approximately 30 classes focused on a wide variety of topics such as financial management, leadership development (e.g., inspiring and motivating others, leading change and innovation), and behavioral interviewing.

- In order to further develop leadership skill sets and to build bench strengths, 20 competency models are in place at CHW (e.g., Director of Strategy, Human Resources Leader, Hospital Chief Financial Officer, Hospital Controller). Competency models represent the foundation and building blocks that define a job, helping to identify top talent for succession and assessing CHW's overall bench strength.
- CHW has taken a leadership role in healthcare reform and advocacy at the local, state and federal levels through its reform principles of universal access, stable financing, enhanced quality and improved accountability. The CHW Healthcare Leadership Summit was designed in part as a platform to enhance CHW's role in shaping the national debate and expanding its network of relationships with national health reform parties. In addition, CHW is participating directly in the efforts of the Catholic Health Association of the United States and the Partnership for Quality Care (PQC), a newly formed organization co-founded by CHW, Kaiser and SEIU, to advocate for reform. CHW continues to remain active in its advocacy efforts to address and minimize the adverse impact of federal and state budgets on CHW.

### **Capital Planning and Seismic Upgrade Activities**

CHW's capital plan reflects the strategic initiatives of the CHW System. As part of the ongoing strategic and community need planning process, management regularly assesses near-term and long-term capital requirements for each of the acute care hospitals including both growth opportunities and replacement needs. Management also assesses strategic opportunities beyond the existing facilities for growth and in order to improve access to care in the communities the CHW System serves.

The State of California has issued seismic safety standards, which call for more stringent structural building standards to be in place by 2008 for buildings remaining in acute care service beyond that date. This deadline has been extended to 2013 for 25 of the CHW System's hospitals. An additional two-year extension may be granted for facilities that are in construction but unable to meet the 2013 deadline due to circumstances beyond the facilities' control. All other facilities already meet the standards, are not subject to the standards, or will not be used for acute care services beyond 2013.

The Office of Statewide Health Planning and Development has been directed to review the previously established seismic performance categories for acute care hospital buildings using a software program, HAZUS, developed by the Federal Emergency Management Agency. This evaluation will take into account the earthquake hazard in specific locations and also vulnerabilities of different building structure types in order to predict stability of a building after an earthquake. CHW has submitted requests for re-evaluation of certain of its buildings and CHW management anticipates that this review will result in certain buildings being recategorized so that they will not be required to meet seismic standards by 2013. CHW management also expects that the HAZUS review, when completed, will result in fewer and less costly renovations required at CHW acute care buildings. Remediation cost estimates have also been modified by CHW management to include an inflation component based on industry indices and local experience. Current estimates are that the minimum remediation costs to meet the standards in effect until 2030 will be approximately \$650 million to \$850 million; this estimated range is approximately \$150 million lower than CHW management estimates from 2007. The HAZUS evaluations have not been completed as of this date.

The capital plan investment for all of the CHW System, including physician alignment, outpatient expansion, routine equipment replacement, adoption of new technologies and certain related expenses, is estimated to be \$8.8 billion for fiscal years 2007 through 2016. It contemplates that certain seismic issues will be addressed by a combination of retrofit, replacement or withdrawal from use and that there will be further regulatory relief. Before any individual project is commenced or significant capital costs are incurred, it is evaluated internally to determine financial feasibility.

CHW management presently expects that the sources of funding for capital projects for fiscal years 2007 through 2016 will be cash from operations, investment earnings and philanthropic donations, with the remaining expenditures funded by unspent bond proceeds and other future borrowings secured under the Master



Indenture. To the extent that available funds are not sufficient to pay for projected capital and seismic improvement expenditures through 2016, capital projects will be postponed or reduced in scope.

## HISTORICAL FINANCIAL INFORMATION

### General

The following financial information reflects the operating results and financial condition of the CHW System derived from the CHW System's audited consolidated financial statements. The financial information for the three fiscal years presented also includes data for entities that are not Members of the Obligated Group. These entities represented approximately 1% of the consolidated revenue and 4-5% of consolidated unrestricted net assets of the CHW System for the fiscal years ended June 30, 2007, 2006 and 2005.

In addition to the following summarized financial information, the audited consolidated financial statements for Catholic Healthcare West and Subordinate Corporations (the same entities as the "CHW System") for the years ended June 30, 2007, 2006 and 2005, including the footnotes, should be read in order to evaluate the CHW System's operating results and financial position. These financial statements appear as Appendix B. The Additional Information for the Obligated Group appears at the end of Appendix B following the footnotes.

The information in the following summary and in the audited consolidated financial statements for the years ended June 30, 2007, 2006 and 2005, was prepared after determination that San Gabriel Valley Medical Center would be sold. Therefore, in conjunction with issuance of the audited financial statements for fiscal year 2007, statements for the years ended June 30, 2006 and 2005, were restated to reclassify operations of San Gabriel Valley Medical Center from continuing operations to discontinued operations.

The CHW System's financial information, including quarterly information and investor web-casts, is available on its corporate website [www.chwhealth.org](http://www.chwhealth.org) by selecting the heading "Financial Information" from the "Home" page under the section "About Us" and agreeing to the terms of access set forth there. The audited consolidated financial statements are also filed with the NRMSIRs in accordance with CHW's continuing disclosure undertaking discussed under the caption "CONTINUING DISCLOSURE" in this Official Statement. *The information contained on the website is not a part of this Official Statement, and only the information contained herein may be relied upon with respect to the purchase of the Bonds.*

Under the Master Indenture, the organizations that compose the Obligated Group may change from time to time. In certain circumstances, the revenues and assets of all Obligated Group Members may not be available for realization upon enforcement of the security interest and remedies granted by the Master Indenture and the Obligations issued thereunder. See "SECURITY FOR THE BONDS — The Master Indenture — Enforceability of the Master Indenture" in this Official Statement.

### Summary of Income

The following table contains a summary of the consolidated income (excess of revenues over expenses) of the CHW System for each of the fiscal years ended June 30, 2007, 2006 and 2005, and for the six months ended December 31, 2007 and 2006. The financial information for the fiscal years ended June 30, 2007, 2006 and 2005, is derived from the audited consolidated financial statements included in Appendix B. The financial information for the six months ended December 31, 2007 and 2006, has been derived by CHW management from unaudited interim condensed financial statements which include all adjustments which CHW management considers necessary to present such information in conformity with generally accepted accounting principles and on a basis consistent with the audited financial statements. The results of operation for the six months ended December 31, 2007, are not necessarily indicative of the operating results to be expected for the entire fiscal year ending June 30, 2008.

	Fiscal Year Ended June 30 (000's)			Six Months Ended December 31 (000's)	
	2007	2006	2005	2007	2006
	Unaudited				
Unrestricted revenues and other support:					
Net patient revenue	\$ 6,723,481	\$ 6,008,211	\$ 5,490,843	\$ 3,632,691	\$ 3,252,385
Premium revenue	418,021	335,902	310,620	250,887	175,277
Revenue from health-related joint ventures, net	104,314	63,253	37,773	41,501	51,410
Other operating revenue	202,741	187,247	171,736	95,031	103,884
Contributions	28,387	22,642	18,822	11,424	10,771
Total unrestricted revenues and other support	<u>7,476,944</u>	<u>6,617,255</u>	<u>6,029,794</u>	<u>4,031,534</u>	<u>3,593,727</u>
Expenses:					
Salaries and benefits	3,739,427	3,314,457	3,023,620	2,011,392	1,799,446
Supplies	1,098,499	972,636	906,389	592,949	517,460
Provision for bad debts	551,045	534,149	489,264	318,213	306,567
Purchased services and other	1,319,204	1,148,563	1,059,725	736,532	626,290
Depreciation	298,723	233,983	231,818	166,816	133,023
Interest, net	149,677	124,496	108,403	76,902	71,629
Market adjustments on swaps, net	3,925	(552)	1,039	13,707	(2,869)
Loss on early extinguishment of debt	16,779	21,668	386	-	33
Special charges	-	-	-	21,424	-
Total expenses	<u>7,177,279</u>	<u>6,349,400</u>	<u>5,820,644</u>	<u>3,937,935</u>	<u>3,451,579</u>
Operating income	299,665	267,855	209,150	93,599	142,148
Other income:					
Investment income, net	591,593	175,082	147,778	106,837	118,229
Excess of revenues over expenses	<u>\$ 891,258</u>	<u>\$ 442,937</u>	<u>\$ 356,928</u>	<u>\$ 200,436</u>	<u>\$ 260,377</u>

The CHW System derives its patient service revenue for all services from Medicare, state Medicaid programs, contracted rate payors (including health maintenance organizations and preferred provider organizations), commercial insurers, self-paying patients and other sources. The following table sets forth combined gross patient service revenues by general payor classification for the CHW System for the fiscal years ended June 30, 2007, 2006 and 2005:

	Fiscal Year Ended June 30		
	2007	2006	2005
Medicare	32%	33%	34%
Medicare capitated	1	2	2
Medicaid	16	16	16
Medicaid capitated	1	1	1
Contracted rate payors	41	39	39
Commercial capitated	2	2	2
Commercial insurance, self-pay and other	7	7	6
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

## Managed Care and Medicaid Contracting

CHW conducts centralized contracting and contract management for managed care and for Medicaid programs that purchase hospital services through contract. CHW monitors the performance of these contractual relationships and reviews, negotiates and, in appropriate instances, terminates agreements. Some contracts are multi-year arrangements and others are annual. In the case of multi-year capitation contracts, the arrangements generally contain provisions for CHW to opt to convert, on an annual basis, to pre-established fee-for-service rates for the remainder of the contract term.

## California Disproportionate Share Payments

Certain CHW hospitals in California qualify for and have received additional funding as “disproportionate share hospitals” due to their relative proportions of low-income patients. The amounts received for fiscal years 2007, 2006 and 2005 were \$66.1 million for 10 hospitals, \$70.9 million for nine hospitals and \$76.2 million for nine hospitals, respectively. These amounts are included in net patient revenue. The disproportionate share program is generally thought to be vulnerable to being cut from the state budget or substantially reduced, and therefore there is no certainty that these revenues will be continued in the future.

## Obligated Group Coverage of Maximum Annual Debt Service Requirement

The table below sets forth the Obligated Group’s coverage of the Maximum Annual Debt Service Requirement on Long-Term Indebtedness for the fiscal years ended June 30, 2007 and 2006 (both as defined in the Appendix to this Official Statement entitled “SUMMARY OF PRINCIPAL DOCUMENTS”), assuming debt restructuring described under the caption “FINANCING PLAN” took place on June 30, 2007. The coverage calculations below do not reflect any expenses to be incurred or revenues realized in connection with such restructuring, however CHW management expects the loss on restructuring to be approximately \$55.0 million.

	Fiscal Years Ended June 30	
	(000's)	
	2007	2006 <sup>1</sup>
Excess of Revenues over Expenses <sup>2</sup>	\$859,199	\$430,662
Plus: Depreciation	295,359	230,651
Plus: Interest	147,781	121,328
Plus: Loss on Early Extinguishment of Debt	16,442	21,668
Income Available for Debt Service <sup>◆</sup>	\$1,318,781	\$804,309
Maximum Annual Debt Service Requirement <sup>3 ◆</sup>	\$276,164	\$208,696
Coverage of Maximum Annual Debt Service Requirement (times)	4.78x	3.85x
Maximum Annual Debt Service Requirement, as adjusted	\$279,300	N/A
Coverage of Maximum Annual Debt Service, as adjusted	4.72x	N/A

<sup>1</sup> As discussed on page A-16, amounts for fiscal 2006 have been restated to reclassify operations of San Gabriel Valley Medical Center from continuing operations to discontinued operations.

<sup>2</sup> Excess of revenues over expenses for fiscal 2007 includes cumulative net unrealized holding gains from current and prior years of \$341.354 million recorded in investment income due to an accounting change.

<sup>3</sup> For purposes of calculating the Maximum Annual Debt Service Requirement, the annual interest rate on various types of variable rate indebtedness was based on market data for the relevant fiscal years. The actual interest rates could vary from these assumptions and have the effect of increasing or decreasing the Maximum Annual Debt Service Requirement.

◆ See Appendix C to this Official Statement entitled “SUMMARY OF PRINCIPAL DOCUMENTS” for the definitions of “Income Available for Debt Service” and “Maximum Annual Debt Service Requirement.”

## Obligated Group Capitalization

The following table sets forth the consolidated capitalization of the Obligated Group for the fiscal year ended June 30, 2007. The capitalization figures below do not reflect any expenses to be incurred or revenues realized in connection with the debt restructuring described under the caption “FINANCING PLAN” in this Official Statement, however CHW management expects the loss on restructuring to be approximately \$55.0 million.

The debt restructuring described in the front of this Official Statement under the caption “FINANCING PLAN” is not expected to affect the principal amount of the total long-term debt of the Obligated Group. See information below under “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE” under each of the captions “ – Effect of Markets on Recent Financial Performance” and “ – Results for Six Months Ended December 31, 2007,” for further discussion of subsequent events and the effect on the Obligated Group’s unrestricted net assets.

	<b>June 30, 2007</b> <b>(000’s)</b>
Outstanding — Bond Debt and Senior Secured Notes	\$ 4,011,625
— Notes Payable	2,406
— Capital Leases	51,504
Subtotal	\$4,065,535
Less: Current Portion of the Long-Term Debt	25,578
Net Long-Term Debt	\$4,039,957
Unrestricted Net Assets	3,332,967
Total Capitalization	\$7,372,924
Percent Long-Term Debt to Capitalization	54.8%

## MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

The following discussion of results of operations and financial condition should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements based on current expectations that involve risks and uncertainties. Actual results and the timing of certain events may differ significantly from those projected in such forward-looking statements due to a number of factors, including those discussed in the section entitled, “HEALTHCARE INDUSTRY RISK FACTORS.”

### Selected Accounting Policies

**Certain Critical Accounting Policies and Estimates** — The preparation of the CHW System’s consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The CHW System bases its estimates on historical experience and various other assumptions that it believes are reasonable under the particular facts and circumstances.

**Consolidation** — The consolidated financial statements of the CHW System include the accounts of CHW and all subsidiary corporations after elimination of inter-company transactions. The financial statements do not include the accounts of the seven Catholic sponsors and their non-healthcare activities.

**Patient Accounts Receivable** — CHW has agreements with third party payors that provide for payments at amounts different from each hospital’s established rates. Patient accounts receivable and net patient service

revenue are reported at the net realizable amount from patients, third party payors, and others for services rendered. A reserve for uncollectible accounts has been established and is netted against patient accounts receivable in the consolidated balance sheets.

**Asset Impairment** — CHW periodically evaluates the carrying value of its long-lived assets and goodwill for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized.

**Fair Value of Financial Instruments** — The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and due to/from government agencies, approximate fair value.

**Ownership Interests in Health-Related Activities** — Generally, when the ownership interest in health-related activities is more than 50%, the activities are consolidated and a minority interest is recorded. When the ownership interest is at least 20% but not more than 50%, it is accounted for under the equity method and the income or loss is reflected in net revenue. Activities with less than 20% ownership are carried at the lower of cost or estimated net realizable value.

**Performance Indicator** — Management considers excess of revenues over expenses to be the CHW System's performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for loss from discontinued operations, net change in unrealized gains and losses on investments, net assets released from restrictions for the purchase of property and equipment, the change in additional minimum pension liability, the change in fair value of interest rate swaps, donated property and equipment, and the cumulative effect of changes in accounting principles.

See other significant accounting policies at pages 8-13 of Appendix B — AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS.

### **Effect of Markets on Recent Financial Performance**

Subsequent to reporting periods covered in the discussions below, unusual events in the financial markets occurred that have impacted the CHW System's financial performance. During the three-month period ended March 31, 2008, the CHW System incurred approximately \$8.0 million of incremental interest costs as compared to the preceding quarter related to the disruption of the auction rate securities market.

Related to the market value of swaps, during the quarter, the net additional liability associated with the portfolio of the CHW System's swaps increased by approximately \$39.0 million, all of which will be recorded on the statement of operations for the quarter ended March 31, 2008. The market value of swaps at March 31, 2008 was (\$78.2) million, but as of April 25, 2008 had improved by \$31.3 million to (\$46.9) million.

The CHW System's investment portfolios have experienced net unrealized gains/(losses) between December 31, 2007 and March 31, 2008 amounting to approximately (\$129.0) million, which will be recorded in investment earnings/(losses), along with \$30 million of interest income, dividends and realized earnings, for a total of (\$99.0) million for the quarter ended March 31, 2008. The CHW System's preliminary investment performance for the quarter of approximately (2.2%) compares with the S&P 500 Index of (9.5%) and the Lehman Bond Aggregate Index of 2.2%. The CHW System's investment portfolio is invested approximately one-half in equities and one-half in fixed income. The total impact of the items noted above is approximately (\$146.0) million for the quarter ended March 31, 2008, of which (\$142.0) million will be reflected as a charge to income on the statement of operations and (\$4.0) million will be recorded as capitalized interest.

Due to current volatility in the U.S. securities markets, certain securities have become less actively traded. CHW management relies on pricing methodologies through its custodian bank to value securities. Securities that are not actively traded may be more difficult to value and the liquidity of the portfolio may be influenced by the current market conditions.

## Results for Six Months ended December 31, 2007

The CHW System reported consolidated operating income of \$93.6 million for the six months ended December 31, 2007, compared to consolidated operating income of \$142.1 for the six months ended December 31, 2006. The decrease was primarily the result of the mold remediation effort discussed below.

Operating results for the six months ended December 31, 2007, include activities of St. Rose Dominican Hospital San Martin Campus as construction was completed and the facility began receiving patients in November 2006. Also included beginning January 1, 2007, are the activities of Saint Mary's Regional Medical Center which merged into CHW on that date.

During August 2007, CHW implemented a planned closure of one facility for 10 days for mold remediation resulting in \$21.4 million of special charges during the six months ended December 31, 2007. These charges include costs related to shutting down the facility, performing the remediation, then reopening the facility and ramping up activity, consisting of legal, consulting, insurance, moving, fumigation, staffing and repair and maintenance costs. In addition to these special charges, lost net patient revenue estimated at approximately \$13.0 million significantly impacted operating results for the period, resulting in total closure related costs of approximately \$34.4 million during the six months ended December 31, 2007. The facility regained normal patient volumes in October 2007.

Revenues increased 12.2% in the six months ended December 31, 2007, compared to the six months ended December 31, 2006. Adjusted patient days increased 7.3% in the six months ended December 31, 2007, compared to the six months ended December 31, 2006. Net patient and premium revenue per adjusted patient day increased 5.6% in the six months ended December 31, 2007, compared to the six months ended December 31, 2006, primarily the result of managed care contract renewals and renegotiations and improvements in revenue services procedures, but was also unfavorably affected by the implementation of a discount policy for uninsured patients in late fiscal 2007 that had the impact of reporting certain amounts as revenue deductions instead of bad debt expense. Revenues from health-related joint ventures, net, during the six months ended December 31, 2007, included \$11.9 million of income related to CHW's interest in the increase in unrestricted net assets of Scripps Health compared to \$29.5 million in the prior year. Under the terms of an affiliation agreement with Scripps Health, CHW has certain rights and interests, as further discussed in the audited consolidated financial statements in Appendix B, and accordingly, CHW's interest in unrestricted net assets of Scripps Health is accounted for under the equity method. Other operating revenue decreased for the six months ended December 31, 2007, compared to the six months ended December 31, 2006, primarily as a result of gains on sales of assets during the six months ended December 31, 2006.

Salaries and benefits expense increased 11.8% in the six months ended December 31, 2007, compared to the six months ended December 31, 2006, or 4.2% per adjusted patient day. This was primarily due to increased wage and benefit costs and staffing level increases.

Supply costs increased 14.6% in the six months ended December 31, 2007, compared to the six months ended December 31, 2006, or 6.8% per adjusted patient day. Increased costs related primarily to higher costs of prosthetics, particularly in orthopedic implants and new technology advancements in spine implants, which have increased 37.4% per adjusted patient day, and surgical supplies.

Provision for bad debts, as a percentage of net patient and premium revenues, decreased to 8.2% in the six months ended December 31, 2007, from 8.9% in the six months ended December 31, 2006. The decline was primarily the result of the implementation of a discount policy for uninsured patients in late fiscal 2007 which had the impact of reporting certain amounts as revenue deductions instead of bad debt expense as discussed above.

Purchased services and other (primarily consisting of contract services, professional fees, provider costs associated with capitation arrangements, repairs and maintenance, rents and leases, utilities, and insurance) increased \$110.2 million, or 17.6%, to \$736.5 million for the six months ended December 31, 2007, from \$626.3 million during the six months ended December 31, 2006. Purchased services per adjusted patient day increased 9.6%, primarily related to additional provider costs associated with capitation arrangements related to the health plan activity associated with Saint Mary's Regional Medical Center, administrative and coverage fees paid to physicians



and repair and maintenance costs, offset by decreases in self-insured professional liability expenses related to revisions to prior years' actuarially determined estimated liabilities.

Depreciation expense was \$166.8 million in the six months ended December 31, 2007, compared to \$133.0 million in the six months ended December 31, 2006. The increase was associated with the addition of the new facilities discussed above and increases in capital expenditures.

Interest expense, net of capitalized interest, increased to \$76.9 million in the six months ended December 31, 2007, from \$71.6 million in the six months ended December 31, 2006. The increase was primarily the result of the issuance of additional debt in April 2007 and less capitalization of interest expense as construction projects have been placed into service.

Market adjustments on swaps was \$13.7 million of expense during the six months ended December 31, 2007, compared to \$2.9 million of income during the six months ended December 31, 2006, as a result of the recent disruption in the variable rate debt market. The majority of the negative adjustment is related to the ineffective portion of various hedges, which increased as the spread between LIBOR and tax-exempt variable rates widened.

Net investment income was \$106.8 million in the six months ended December 31, 2007, compared to \$118.2 million in the six months ended December 31, 2006. The decrease was primarily the result of the accounting change made at June 30, 2007, to classify the investment portfolio as trading which resulted in recording \$31.1 million of net unrealized losses on investments as investment income during the six months ended December 31, 2007, instead of directly to net assets as in prior years. In addition, investment income was adversely impacted by the credit market crisis and a weakening of the U.S. economy.

**Liquidity and Capital Resources**—Liquidity (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$3.2 billion at December 31, 2007, and at June 30, 2007. The increase in liquidity from improved operating results and investment returns was offset by working capital needs and investments in plant and equipment.

### **Results for Six Months ended December 31, 2006**

The CHW System reported consolidated operating income of \$142.1 million for the six months ended December 31, 2006, compared to consolidated operating income of \$126.6 million for the six months ended December 31, 2005. The improvement was primarily a result of revenue growth that outpaced cost increases.

Operating results for the six months ended December 31, 2006, include activities of St. Rose Dominican Hospital San Martin Campus beginning in November 2006, and Mercy Gilbert Medical Center beginning in June 2006, at which time construction was completed and the facilities began receiving patients.

Revenues increased 9.7% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005. Adjusted patient days increased 2.7% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005. Net patient and premium revenue per adjusted patient day increased 6.0% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005, primarily as a result of continued efforts in renegotiating and renewing certain managed care contracts on more favorable terms with increased rates. Revenues from health-related joint ventures, net, in the six months ended December 31, 2006, included \$29.5 million of income related to CHW's interest in the increase in unrestricted net assets of Scripps Health compared to \$23.1 million in the prior year. Other operating revenue increased for the six months ended December 31, 2006, compared to the six months ended December 31, 2005, primarily as a result of sales of property.

Salaries and benefits expense increased 11.1% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005, or 8.2% per adjusted patient day. The increase was primarily due to increases in staffing levels and wage and benefit cost increases.

Supply expense increased 8.2% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005, or 5.4% per adjusted patient day. Increased costs related primarily to increases associated with petroleum based products and transportation costs.

Provision for bad debts, as a percentage of net patient and premium revenues, decreased to 8.9% in the six months ended December 31, 2006, from 9.5% in the six months ended December 31, 2005. The decline was primarily the result of improvements in the identification of patients who qualify under CHW's financial assistance program.

Purchased services increased 11.4% in the six months ended December 31, 2006, compared to the six months ended December 31, 2005, due to increases in administrative and coverage fees to physicians, repair and maintenance expenses, lease expenses, consulting and legal costs and various other categories of expenses.

Depreciation expense was \$133.0 million in the six months ended December 31, 2006, compared to \$113.8 million in the six months ended December 31, 2005. The increase was associated with increases in capital expenditures, and in particular, placement into service of two facilities within the last year.

Interest expense, net of capitalized interest, increased to \$71.6 million in the six months ended December 31, 2006, from \$59.8 million in the six months ended December 31, 2005. The increase was due primarily to new debt issued in November 2005 and an increase in variable interest rates for the six months ended December 31, 2006, compared to the six months ended December 31, 2005.

Net investment income was \$118.2 million in the six months ended December 31, 2006, compared to \$76.5 million in the six months ended December 31, 2005. The increase was due mainly to higher investment balances, market conditions, and the higher realization of gains on sales of investments.

**Liquidity and Capital Resources**—Liquidity (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$2.8 billion at December 31, 2006, as compared to \$2.7 billion at June 30, 2006. The increase in liquidity was primarily related to improved operating results and investment returns, partially offset by working capital needs.

## **2007 Operating Results**

The CHW System reported consolidated operating income of \$299.7 million for fiscal 2007 as compared to consolidated operating income of \$267.9 million for fiscal 2006. The improvement was primarily a result of revenue growth that outpaced cost increases.

Operating results for fiscal 2007 include activities of Saint Mary's Regional Medical Center beginning January 1, 2007, the merger date. Operating results include a full year of activity for Mercy Gilbert Medical Center (operating activity began in June 2006, at which time construction was completed and the facility began accepting patients). Further, operating results include a partial year of activity for St. Rose Dominican Hospital San Martin Campus (operating activity began in November 2006, at which time construction was completed and the facility began accepting patients).

Revenues increased 13.0% in fiscal 2007 as compared to fiscal 2006. Adjusted patient days increased 5.8% in fiscal 2007 compared to fiscal 2006 due primarily to the addition of the facilities discussed above. Net patient and premium revenue per adjusted patient day increased 6.4% in fiscal 2007 compared to fiscal 2006, primarily as a result of continued efforts in renegotiating and renewing certain managed care contracts on more favorable terms as well as improvement in revenue cycle procedures. Revenue from health-related joint ventures, net, included \$57.3 million of income related to CHW's interest in the increase of unrestricted net assets of Scripps Health compared to \$23.1 million in fiscal 2006. Fiscal 2007 other operating revenue increases were primarily a result of sales of property and various other revenues.

Salaries and benefits expense increased 12.8% in fiscal 2007 compared to fiscal 2006, or 6.6% per adjusted patient day. The increase was due to wage and benefit cost increases and staffing level increases.

Supply expense increased 12.9% in fiscal 2007 compared to fiscal 2006, or 6.8% per adjusted patient day. Increased costs relate primarily to prosthetics and pharmaceuticals.

Provision for bad debts, as a percentage of net patient and premium revenues, was 7.7% in fiscal 2007, compared to 8.4% in fiscal 2006. The decrease relates primarily to implementation of a discount policy for uninsured patients in fiscal 2007 which had the impact of reporting certain amounts as revenue deductions instead of bad debt expense.

Purchased services increased 14.9% in fiscal 2007 compared to fiscal 2006. This increase was primarily related to additional provider costs associated with capitation arrangements related to the health plan activity of Saint Mary's Regional Medical Center, increases in administrative and coverage fees to physicians, and repairs and maintenance, partially mitigated by decreases in self-insured professional liability expense related to revisions to prior years' actuarially determined estimated liabilities.

Depreciation expense was \$298.7 million in fiscal 2007 compared to \$234.0 million in fiscal 2006. The increase was associated with the addition of the new facilities discussed above and increases in capital expenditures.

Interest expense, net of capitalized interest, increased to \$149.7 million in fiscal 2007 from \$124.5 million in fiscal 2006. The increase in fiscal 2007 was due primarily to increases in variable interest rates, additional debt issued in April 2007, additional debt assumed as part of the merger of Saint Mary's Regional Medical Center, and less interest expense capitalized as projects have been placed in service.

Losses on early extinguishment of debt of \$16.8 million were recorded in fiscal 2007. Of this, \$12.8 million related to the refunding in advance of \$389.1 million of previously outstanding bond obligations. The remainder of \$4.0 million related to early extinguishment of debt of other amounts refinanced, defeased or repurchased during fiscal 2007.

Net investment income was \$591.6 million in fiscal 2007 compared to \$175.1 million in fiscal 2006. The increase was due mainly to the reclassification at June 30, 2007 of the investment portfolio to a trading portfolio from available-for-sale. As a result of this reclassification, cumulative net unrealized gains from current and prior years of \$341.4 million were recorded in investment income at the date of change. In prior years, unrealized gains and losses were recorded in unrestricted net assets.

**Liquidity and Capital Resources**—Liquidity (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$3.2 billion at June 30, 2007, compared to \$2.7 billion at June 30, 2006. The increase in liquidity was primarily related to improved operating results and investment returns.

## **2006 Operating Results**

The CHW System reported consolidated operating income of \$267.9 million for fiscal 2006 compared to consolidated operating income of \$209.2 million for fiscal 2005. The improvement was primarily a result of revenue growth that outpaced cost increases.

Operating results for fiscal 2006 include activities of Mercy Gilbert Medical Center beginning in June 2006, at which time construction was completed and the facility began receiving patients.

Revenues increased 9.7% in fiscal 2006 as compared to fiscal 2005. Adjusted patient days increased 1.8% in fiscal 2006 compared to fiscal 2005. Net patient and premium revenue per adjusted patient day increased 7.4% in fiscal 2006 compared to fiscal 2005, primarily as a result of continued efforts in renegotiating and renewing certain managed care contracts on more favorable terms as well as improvement in revenue cycle procedures. Revenue from health-related joint ventures, net, included \$23.1 million of income related to CHW's interest in the increase of unrestricted net assets of Scripps Health compared to \$13.3 million in fiscal 2005. Fiscal 2006 other operating revenue included approximately \$28.0 million in lawsuit settlements and fiscal 2005 included a gain on cancellation of an insurance arrangement of \$8.5 million.

Salaries and benefits expense increased 9.6% in fiscal 2006 compared to fiscal 2005, or 7.6% per adjusted patient day. The increase was due to wage and benefit cost increases.

Supply expense increased 7.3% in fiscal 2006 compared to fiscal 2005, or 5.4% per adjusted patient day. Increased costs relate primarily to prosthetics, with the emergence of new technologies and increased use of high-cost items continuing to impact expense.

Provision for bad debts, as a percentage of net patient and premium revenues, was 8.4% in fiscal 2006, which was the same as in fiscal 2005.

Purchased services increased 8.4% in fiscal 2006 compared to fiscal 2005 due to increases in administrative and coverage fees to physicians, repairs and maintenance, collection agency fees and various other categories of expenses.

Depreciation expense was \$234.0 million in fiscal 2006 compared to \$231.8 million in fiscal 2005. The increase was associated with increases in capital expenditures.

Interest expense, net of capitalized interest, increased to \$124.5 million in fiscal 2006 from \$108.4 million in fiscal 2005. The increase was due primarily to the addition of new debt in the fall of 2005.

Losses on early extinguishment of debt of \$21.7 million were recorded in fiscal 2006. Of this, \$21.0 million related to the refunding in advance of \$441.8 million of previously outstanding bond obligations. The remainder of \$0.7 million related to early extinguishment of debt due to change-in-use remediation for certain tax-exempt bonds.

Net investment income was \$175.1 million in fiscal 2006 compared to \$147.8 million in fiscal 2005. The increase was due mainly to an increase in the size of the investment portfolio.

**Liquidity and Capital Resources**—Liquidity (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$2.7 billion at June 30, 2006, as compared to \$2.2 billion at June 30, 2005. The increase in liquidity was primarily related to improved operating results and investment returns.

## **2005 Operating Results**

The CHW System reported consolidated operating income of \$209.2 million for fiscal 2005 compared to consolidated operating income of \$128.9 million for fiscal 2004. The improvement was primarily a result of revenue growth that outpaced cost increases.

Operating results for fiscal 2005 include a full year of operations of French Hospital Medical Center and Arroyo Grande Community Hospital, which were purchased June 1, 2004.

Revenue increased 11.6% in fiscal 2005 as compared to fiscal 2004. Adjusted patient days increased 0.9% in fiscal 2005 compared to fiscal 2004. Net patient and premium revenue per adjusted patient day increased 10.9% in fiscal 2005 compared to fiscal 2004, primarily as a result of continued efforts in renegotiating and renewing certain managed care contracts on more favorable terms as well as improvement in revenue cycle procedures. Revenue from health-related joint ventures, net, included \$13.3 million of income related to CHW's interest in the increase in unrestricted net assets of Scripps Health compared to \$9.2 million in fiscal 2004. Fiscal 2005 other operating revenue included a gain on cancellation of an insurance arrangement of \$8.5 million, and fiscal 2004 other operating revenue included \$35.5 million related to gains on sales of 15 medical office buildings and \$5.7 million related to the gain on sale of an outpatient surgery center.

Salaries and benefits expense increased 10.3% in fiscal 2005 as compared to fiscal 2004, or 9.3% per adjusted patient day. The increase was due to wage and benefit cost increases and increases in staffing levels in

California to meet the mandated nurse staffing ratio regulations that went into effect on January 1, 2004, and that became more stringent as of January 1, 2005.

Supply expense increased 11.5% in fiscal 2005 as compared to fiscal 2004, or 10.5% per adjusted patient day. Increased costs related primarily to prosthetics, with the emergence of new technologies and increased use of high-cost items.

Provision for bad debts, as a percentage of net patient and premium revenues, increased to 8.4% in fiscal 2005 from 7.7% in fiscal 2004. The increase reflected the continuing shift of more of the financial responsibility to patients.

Purchased services increased 10.8% in fiscal 2005 compared to fiscal 2004 due to increases in administrative and coverage fees to physicians and various other categories of expenses.

Depreciation expense was \$231.8 million in fiscal 2005 compared to \$230.8 million in fiscal 2004. The increase was associated with increases in capital expenditures.

Interest expense, net of capitalized interest, increased to \$108.4 million in fiscal 2005 from \$98.3 million in fiscal 2004. The increase was due primarily to the addition of new debt in the spring of 2004.

Net investment income was \$147.8 million in fiscal 2005 compared to \$100.0 million in fiscal 2004. The increase was due mainly to an increase in the size of the portfolio and the realization of gains on sales of investments.

**Liquidity and Capital Resources**—Liquidity (consisting of cash and cash equivalents, short-term investments and Board-designated assets for capital projects) amounted to \$2.2 billion at June 30, 2005, as compared to \$1.7 billion at June 30, 2004. The increase in liquidity was primarily related to improved operating results and investment returns.

### **Revaluation of Assets**

Under generally accepted accounting principles, assets must be evaluated for possible impairment with a write-down of assets required to reflect reasonable value in light of the circumstances, based either on historical performance or the impact known events will have on future performance. Given the challenging operating environment in healthcare generally as well as significant regulatory factors which may encourage future facility consolidation (e.g., seismic standards as described above), management considers it likely that the CHW System will continue to be subject to asset revaluations in the future and that such valuations may result in significant asset write-downs and associated charges to income. For the fiscal years ended June 30, 2007 and 2006, no asset write-downs were recorded and in fiscal 2005, \$0.7 million of asset write-downs were recorded within losses from discontinued operations in the consolidated statement of changes in net assets.

### **Liquidity and Investment Policy**

The CHW System had approximately \$3.2 billion of total liquidity, consisting of cash and cash equivalents, short-term investments, and Board-designated assets for capital projects, at June 30, 2007. This, in addition to defined benefit plans and restricted investment reserves (which encompassed additional investment balances of \$1.9 billion at June 30, 2007), is managed according to an investment policy adopted by CHW's Board of Directors. CHW's Investment Committee, a standing committee of the Board of Directors, provides direct oversight. Implementation of CHW's investment policy is provided through a centralized investment program overseen by CHW's management. Pursuant to this policy, strategic asset allocation models guide the investment of the funds. Since September 2003, the model allocated 54% to equities and 46% to fixed income securities. In January 2008, the allocation model was changed to allocate 52% to equities and 48% to fixed income securities. Professional outside investment managers have been retained to manage specific asset classes, in accordance with the model.



CHW's ability to generate investment income is dependent in large measure on market conditions and the composition of its investment portfolio. The value of the investment portfolio has fluctuated significantly from time to time and is expected to continue to fluctuate significantly from time to time in the future.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. At June 30, 2007, CHW reclassified its investment portfolio to a trading portfolio from available-for-sale. As such, cumulative unrealized holding gains of \$381.5 million and losses of \$40.1 million from current and prior years were recorded in investment income in fiscal 2007. In future periods, all unrestricted unrealized holding gains and losses will be recorded in investment income in the period in which they occur.

Prior to June 30, 2007, CHW's investment portfolio was classified as available-for-sale. As such, upon determination that the carrying value of securities was other-than-temporarily impaired, adjustments were made to revalue the securities to current market value. Any adjustments required by this policy for unrestricted assets were charged to investment loss and for restricted assets were charged to the appropriate net assets category. During fiscal 2007, 2006 and 2005, certain securities were determined to be other-than-temporarily impaired which resulted in an impairment charge of \$2.9 million, \$0.4 million and \$0.8 million, respectively, which is included in investment income, net.

### Securities Lending Program

CHW participates in securities lending transactions with its custodian whereby CHW lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by brokers is maintained at levels of at least 100% of the fair value of the securities on loan and is adjusted for market fluctuations. CHW maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The market value of collateral held for loaned securities is reported as cash and cash equivalents held under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. The amounts on loan as of June 30, 2007, 2006 and 2005, were \$414.8 million, \$310.0 million and \$266.6 million, respectively.

### Cash Management

CHW maintains a centralized cash management program that pools the working capital funds of the CHW System for short-term investment.

### Long-Term Debt

The CHW System had long-term debt as of June 30, 2007, as follows (in thousands):

Under the Master Indenture:	
Fixed rate revenue bonds	\$ 1,186,575
Auction rate securities	1,716,425
Variable rate demand obligations	459,900
Variable rate revenue bonds	175,000
Uninsured put revenue bonds	95,800
Senior secured notes	375,000
Notes payable to banks under credit agreements	2,925
Other:	
Various notes payable and other debt	12,193
Capitalized lease obligations	51,571
Total	<u>\$4,075,389</u>



Of the \$2,351.3 million of variable rate debt, \$1,161.1 million is effectively converted to fixed rates through swap arrangements, as further discussed on page A-29.

See further discussions at pages 23-29 of Appendix B – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS.

See further discussions regarding debt outstanding as of June 30, 2007, that will be refinanced or restructured under the caption “FINANCING PLAN” in this Official Statement.

### **Bank Credit and Liquidity Facilities**

As of June 30, 2007, CHW had bank credit and liquidity facilities as follows:

- A five-year \$350.0 million syndicated credit facility. This facility is available for working capital, letters of credit, capital expenditures and other general corporate purposes. Letters of credit issued under this facility were \$6.0 million as of June 30, 2007; no amounts had been drawn as of that date. Line of credit amounts outstanding under this facility were \$2.9 million as of June 30, 2007. The facility expires in October 2010. In April 2008, this credit facility was increased to approximately \$1.2 billion, but the amount will be reduced to \$350.0 million plus the value of any outstanding letters of credit on or before December 31, 2008.
- A three-year \$320.0 million syndicated term loan which is included in the \$375 million of senior secured notes under the caption “Long-Term Debt” above. The proceeds of the loan were used to defease \$310.1 million of previously outstanding bond obligations. This loan matures in October 2008.
- A five-year \$203.0 million syndicated direct-pay letter of credit to provide credit enhancement and liquidity support for \$200.0 million of uninsured variable rate demand bonds. This facility expires in October 2010.
- A five-year \$152.3 million syndicated direct-pay letter of credit to provide credit enhancement and liquidity support for \$150.0 million of uninsured variable rate demand bonds. This facility expires in October 2010.
- A five-year \$34.5 million syndicated direct-pay letter of credit to provide credit enhancement and liquidity support for \$34.0 million of uninsured variable rate demand bonds. This facility expires in October 2010.
- A five-year \$20.0 million single bank line of credit. This facility is available for letters of credit. Letters of credit issued under this facility were \$11.2 million as of June 30, 2007, but no amounts had been drawn as of that date. This facility expires in October 2010.
- A bank liquidity facility for the \$75.9 million of insured variable rate demand bonds to ensure the availability of funds to purchase any bonds tendered that the re-marketing agent is unable to re-market. The bank liquidity facility expires in June 2018.

In conjunction with the restructuring activities described under the caption “FINANCING PLAN” in this Official Statement, CHW intends to refinance its \$375 million of senior secured notes with a private placement transaction with a term of at least 5 years beginning in 2008.

### **Other Treasury-Related Commitments**

**Swap Arrangements** — CHW has entered into a variety of swap arrangements covering a notional amount of \$1,463.3 million as of June 30, 2007. These include interest rate swaps covering an outstanding notional amount as of June 30, 2007, of \$1,161.1 million which effectively convert variable rate debt to fixed rates; these swaps have

been designated as hedges. CHW has entered into a swaption with an outstanding notional amount as of June 30, 2007, of \$86.0 million to effectively convert fixed rate debt to variable rate; the counterparty has exercised its option to suspend payments under the swaption. In addition to the above, total return swaps covering an outstanding notional amount of \$216.2 million as of June 30, 2007, effectively convert the index on certain variable rate bonds; these swaps are not designated as hedges.

Estimated fair values of interest rate swap instruments are determined using available market information and valuation methodologies, primarily discounted cash flows. Changes in fair value of interest rate swap instruments that have not been designated as hedges are included in market adjustment on swaps, net, in the consolidated statements of operations and changes in net assets. Changes in fair value of interest rate swap instruments that have been designated as hedges are included as adjustments directly to unrestricted net assets to the extent amounts qualify as “effective” under accounting rules, and otherwise are recorded in the same manner as adjustments on swaps that have not been designated as hedges.

See further discussions at pages 23-29 of Appendix B – AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS.

**Off-Balance Sheet Financing** — CHW has not entered into any synthetic leases or other off-balance sheet arrangements.

**Operating Leases** — CHW leases various equipment and facilities under non-cancelable operating leases. Net future minimum lease payments under operating leases as of June 30, 2007, are as follows (in thousands):

2008	\$ 58,206
2009	47,500
2010	38,415
2011	31,150
2012	24,526
Thereafter	<u>63,797</u>
Total	<u>\$263,594</u>

**Guarantees** — CHW and certain subsidiary corporations have guaranteed the indebtedness of other organizations in the amount of \$25.9 million, \$28.5 million, and \$23.8 million as of June 30, 2007, 2006 and 2005, respectively.

### **Pension and Retiree Medical Plans**

Pension and retiree medical costs and obligations are dependent on assumptions used in calculating such amounts using historical data. These assumptions include discount rates, expected return on plan assets, rates of compensation increase and other factors. In accordance with accounting principles generally accepted in the United States of America, actual results that differ from the assumptions are accumulated and amortized over future periods for purposes of calculating expenses. For the CHW System plans, the amortization period generally is twelve years. Actual results are reflected in the employer’s assets and liabilities on a current basis with the adjustment recorded directly to net assets. While management believes that the assumptions used are appropriate and that liabilities are fairly stated, differences in actual experience or changes in assumptions may impact future obligations and expenses.

Most employees of the CHW System are participants in defined benefit retirement plans maintained by the CHW System. Defined benefit pension plans for the CHW System have significant holdings in a broad range of investments. Historically, retirement fund assets and obligations have been valued, or measured, on March 31 of each year. This valuation forms the basis of the CHW System’s retirement expense for the next fiscal year commencing on July 1.

Selected actuarial assumptions used for calculations of expense and funding for the CHW System’s defined benefit pension plans, applicable to each fiscal year, have been as follows:

	<b>Fiscal Year Ended June 30</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
Discount rate	6.00%	6.10%	6.50%
Expected rate of return on plan assets	8.00%	8.00%	8.50%

The combination of these assumptions, actual return on assets, and various other assumptions have resulted in retirement expense for the CHW System defined benefit pension plans of \$147.0 million, \$127.2 million and \$101.6 million, respectively, in fiscal 2007, 2006 and 2005.

Certain CHW facilities offer post-retirement healthcare benefits to certain employee groups. Expense under these programs in fiscal 2007, 2006 and 2005 was \$9.2 million, \$5.2 million and \$4.9 million, respectively.

CHW also maintains defined contribution plans for most employees, and for a small number of other employees, participates in a multi-employer plan, union plans or other arrangements. Employer expense for those plans was \$31.0 million, \$34.8 million and \$29.4 million for fiscal 2007, 2006 and 2005, respectively.

New accounting rules related to pension and post-retirement healthcare benefit plans took effect for CHW on June 30, 2007. The rules require, among other things, recognition on an employer's balance sheet of a liability for a plan's underfunded status as calculated by using the "projected benefit obligation," which is a more comprehensive calculation of estimated future payment amounts than was previously required. In conjunction with the change, additional assets and liabilities were recorded on the balance sheet of CHW as of June 30, 2007, resulting in a net reduction to net assets of the CHW System of \$381.7 million. In addition, in fiscal 2009, the CHW System will be required to adopt other provisions of the new accounting rule which will require changing the measurement date from March 31 to June 30. Management estimates the impact of this change will be a \$45.0 million reduction in reported net assets of the CHW System.

Amounts recognized on the balance sheet of the CHW System as of June 30, 2007, related to its defined benefits retirement plan and retiree medical plans were (in thousands):

	<u>Retirement Plans</u>	<u>Retiree Medical</u>
Other long-term assets	\$ 28,502	\$ -
Current liabilities	(204,670)	(3,726)
Long-term liabilities	(311,624)	(72,796)
	<u>\$ (487,792)</u>	<u>\$ (76,522)</u>

The CHW System's defined benefit pension plans are governed under a Church Plan Exemption, and as such are not subject to ERISA funding requirements. This exemption provides flexibility in funding of the plans. It is CHW management's intent to fund the annual additional accrual plus a portion of the unfunded liability each year, determined on an economic basis (i.e., using a discount rate equivalent to the long-term expected earnings rate). Management's estimate of the unfunded liability calculated on this basis is approximately \$117.0 million as of June 30, 2007, and current plans are to fund the unfunded amount over a period of approximately five years.

## **SPONSORSHIP, GOVERNANCE AND MANAGEMENT**

### **Sponsorship**

CHW is sponsored by seven Catholic religious communities: the Regional Community of the Sisters of Mercy of Auburn, based in Auburn, California; the Regional Community of the Sisters of Mercy of Burlingame, based in Burlingame, California; the Sisters of St. Dominic Congregation of the Most Holy Rosary, based in Adrian, Michigan; the Sisters of the Third Order of St. Dominic, Congregation of the Most Holy Name, based in San Rafael, California; the Sisters of Charity of the Incarnate Word, based in Houston, Texas; the Dominican Sisters of St. Catherine of Siena of Kenosha, Wisconsin; and the Sisters of St. Francis of Penance and Christian Charity, based in Redwood City, California (collectively, the "Sponsors").

Each Sponsor holds a separate class of corporate membership with the right to appoint one corporate member each. The corporate members are organized into a single membership body (the “Corporate Members”) under the CHW bylaws.

The Corporate Members and the Sponsors have certain reserved rights as set forth in the CHW bylaws, including the right to approve sales or dispositions of all or substantially all assets of acute care facilities, and the right to approve sales, disposition, mortgages or encumbrances of “Property Subject to the Norms of Church Law.”

Pursuant to the CHW bylaws, each of the seven corporate members also serves as a director of CHW. The Board Development Committee of the Corporate Members nominates individuals, other than corporate members, to serve as directors of CHW.

## **Governance**

Subject to the rights reserved to Sponsors and Corporate Members, CHW is currently governed by a sixteen-member Board of Directors. The Board of Directors, in turn, approves the election of the governing bodies for each of the Obligated Group Members, except that CHW’s powers to approve directors are subject to restrictions in certain cases as noted above under the caption “THE OBLIGATED GROUP.” The Board of Directors is currently comprised of the seven corporate members and the President/Chief Executive Officer of CHW, and all other members are independent directors without any other formal relationship with CHW or its affiliates.

The Board of Directors has established “Hospital Community Boards” for the acute care facilities that are directly owned and operated by CHW. The Hospital Community Boards are delegated certain local oversight responsibilities for quality of care and medical staff matters, and serve as advisory bodies to the CHW Board of Directors with respect to strategic business planning for local facilities, local operational issues and facility level implementation of community benefit programs. The CHW Board of Directors as well as the Board’s Finance Committee must approve all material debt, borrowings, loans, guarantees, encumbrances or liens for the CHW System. The governance of the separately incorporated Obligated Group Members that are subsidiaries of CHW is described above under the caption “THE OBLIGATED GROUP.”

The current members of the CHW Board of Directors and their professional affiliations are listed below:

<u>Name</u>	<u>Professional Affiliation</u>	<u>Years Served</u>	<u>Term Expires</u>
Jarrett Anderson, Esq.	Partner–Attorney Melby & Anderson	6	April 2009
Sheila Browne, RSM <sup>(1)</sup>	President Sisters of Mercy – Auburn, CA	9	N/A
Judith Cannon, RSM <sup>(1)</sup>	Institute Integration Team Sisters of Mercy of the Americas	1	N/A
Morgan Clayton	President Tel-Tec, Inc.	0	April 2009
Caretha Coleman	Principal Coleman Consulting	1	April 2011
Adrienne Crowe	Retired Executive Bank of America	9	April 2008
Lloyd H. Dean <sup>(1)</sup>	President/Chief Executive Officer Catholic Healthcare West	7	N/A
Mark DeMichele	Chairman & Chief Executive Officer Urban Realty Partners	6	April 2009
	Retired President & Chief Executive Officer Arizona Public Services Company		
James Givens	Retired Executive, Investment Counselor	2	April 2009
Tessie Guillermo	President & Chief Executive Officer Community Technology Foundation of California	5	April 2010
Peter G. Hanelt, CPA	President PGH Consulting, Inc.	1	April 2011
Lillian Anne Healy, CCVI <sup>(1)</sup>	Congregational Leader Sisters of Charity of the Incarnate Word, Houston, TX	1	N/A
Kenneth Mills, MD	Private Practice–Internal Medicine	6	April 2009
Patricia Rayburn, OSF <sup>(1)</sup>	First Councilor Sisters of St. Francis of Penance and Christian Charity, Redwood City, CA	1	N/A
Judy Rimbey, OP <sup>(1)</sup>	General Councilor/Administrator Adrian Dominican Sisters, Adrian, MI	3	N/A
Patricia Simpson, OP <sup>(1)</sup>	Prioress General Dominican Sisters of San Rafael, San Rafael, CA	1	N/A
Susan Snyder, OP <sup>(1)</sup>	Prioress Dominican Sisters of Kenosha, Wisconsin, Kenosha, WI	1	N/A

<sup>(1)</sup> Ex officio members of the Board of Directors.

The bylaws of CHW provide for seven standing committees: the Executive Committee, Compensation and Benefits Committee, Quality Committee, Finance Committee, Audit and Compliance Committee, Planning and Strategy Committee and Investment Committee. The bylaws also permit the Board of Directors to create additional committees from time to time.

**Executive Committee** — The Executive Committee consists of the Chairperson, the Vice Chairperson, the Secretary, the President/Chief Executive Officer, the Chairperson of the Finance Committee and up to three directors who are also corporate members. The Executive Committee may exercise the authority of the Board only in the intervals between meetings of the Board, and subject to any limitations imposed by resolution of the Board, the articles of incorporation, the bylaws or applicable law. The Executive Committee conducts the annual performance review of the President/Chief Executive Officer.

**Compensation and Benefits Committee** — The Compensation and Benefits Committee consists of those directors appointed from time to time by the Board. The Committee exercises the full authority of the Board to review and approve: (a) the compensation and benefits of the President/Chief Executive Officer and those executives reporting directly to him or her; (b) the aggregate compensation and benefits philosophy and plans for employees of CHW and its subsidiaries; and (c) the total work force strategy for CHW and its subsidiaries, including recruitment, retention, labor relations, diversity and work place environment.

**Quality Committee** — The Quality Committee is composed of at least one director, who serves as Chairperson of the Committee, and such other persons as are appointed by the Board. The Quality Committee is responsible for: (a) making recommendations to the Board regarding the quality of healthcare at the hospitals and other healthcare facilities licensed to or operated by the CHW System; (b) evaluating and resolving operational and patient care quality issues; (c) approving policies and procedures with respect to quality improvement, clinical process improvement, patient quality of care initiatives, patient safety, workers' safety and other quality issues related to hospital operations; (d) establishing and maintaining systems for monitoring compliance with such policies; and (e) monitoring the activities of Institutional Review Boards.

**Finance Committee** — The Finance Committee is composed of at least eight persons appointed by the Board, one of whom is a director who serves as Chairperson of the Committee. The Finance Committee is responsible for making recommendations to the Board regarding: (a) the review and approval of financial policies; (b) the approval, monitoring and evaluation of a capital development plan; (c) oversight of CHW's capital structure; (d) the review and approval of capital and operating budgets; (e) review of large capital projects and retrospective evaluation of them; and (f) the review of financial performance of CHW. In addition, the Finance Committee has the authority: (a) to approve business transactions and joint ventures entered into between CHW and physicians, as set forth in corporate policies adopted by the Board; and (b) to direct action to minimize compliance risks associated with such transactions.

**Audit and Compliance Committee** — The Audit and Compliance Committee is composed of persons appointed by the Board, including at least one director who serves as Chairperson of the Committee. None of the members of the Audit and Compliance Committee may be employees of CHW. The Committee is responsible for reviewing and overseeing the corporate integrity programs and internal audit function of CHW and its subsidiary corporations, including adoption of necessary and appropriate compliance and other policies and procedures and the mechanisms by which such policies and procedures shall be adopted by management. The Audit and Compliance Committee is responsible for overseeing the integrity of the financial reporting process of CHW, including adequacy and effectiveness of accounting and financial controls. The Committee makes recommendations to the Board regarding the selection of CHW's independent auditors; the Board may approve or disapprove, but not change, the recommendations of the Committee. The Committee is also responsible for reviewing the auditors' performance, the results and scope of the annual audit, and the auditors' annual management letter. The Committee reviews, approves and provides oversight to CHW's internal audit program.

**Planning and Strategy Committee** — The Planning and Strategy Committee consists of those persons appointed by the Board from time to time. The Committee is responsible for making recommendations to the Board regarding (a) the formulation of planning policy and standards for CHW and its subsidiaries; (b) the development, monitoring and evaluation of a strategic plan for CHW and its subsidiaries; and (c) the review of annual and long range plans of CHW and its subsidiaries for conformance with the vision, mission, goals and objectives of CHW.



**Investment Committee** — The Investment Committee consists of at least two directors (one of whom is a member of the Finance Committee, who serves as the Chairperson of the Committee) and such other persons as appointed by the Board. The Investment Committee is responsible for direction, oversight and monitoring of the investments of CHW. The Committee is responsible for reviewing and evaluating reports and recommendations regarding portfolio performance, performance of investment advisors, fund managers and related consultants, asset allocation, and similar items. Furthermore, the Investment Committee is responsible for developing and approving investment screens, shareholder action plans and proxy voting guidelines as part of CHW's corporate responsibility programs. In support of CHW's mission to provide benefit to the community, the Investment Committee is responsible for approving recommendations for community grants and community investments within parameters set by the Board.

## **Management**

A management team with significant healthcare experience leads CHW. Lloyd Dean was hired in June 2000, as the President and CEO of CHW and is primarily responsible for initiating many of the operational improvements evident in CHW. Michael Blaszyk was hired in January 2001, and brought a high level of financial discipline to CHW. Michael Erne was appointed chief operating officer in April 2002, bringing further focus and discipline to hospital operations performance. On average, each member of the executive management team has over 20 years of experience in the healthcare industry. Certain members of CHW's management team are currently on the Board of other healthcare organizations, which has added to their diverse experience, as well as depth and knowledge of the industry.

The current executive management team of CHW, and their background and responsibilities, are set forth below:

**Lloyd H. Dean, President/Chief Executive Officer (57)** — Lloyd H. Dean is President/Chief Executive Officer of Catholic Healthcare West. In this executive management role, Mr. Dean is responsible for overall management, strategy and direction of CHW's integrated healthcare system of acute care hospitals, ancillary services, home healthcare and physician groups in California, Arizona and Nevada. Prior to joining CHW, Mr. Dean was Executive Vice President and Chief Operating Officer of Advocate Healthcare in Oakbrook, Illinois. He holds a bachelor's degree in communications and a master's degree in education from Western Michigan University in Kalamazoo, Michigan. He also was an assistant professor in the School of Business at Western Michigan University and taught in the Kalamazoo public school system.

**Michael D. Blaszyk, Executive Vice President and Chief Financial Officer (55)** — Michael D. Blaszyk is Executive Vice President and Chief Financial Officer for Catholic Healthcare West. In this executive management role, Mr. Blaszyk oversees all financial operations for the healthcare system, as well as other corporate operations responsibilities. Prior to joining CHW, Mr. Blaszyk served as Senior Vice President and Chief Financial Officer for University Hospitals Health System in Cleveland, Ohio, one of the largest academic-based healthcare systems in the country. He completed his undergraduate studies in life sciences at Wayne State University in Detroit, Michigan and received his master's degree in health services administration from the School of Business at the University of Colorado at Denver.

**Michael H. Erne, Executive Vice President and Chief Operating Officer (63)** — Michael H. Erne is Executive Vice President and Chief Operating Officer for Catholic Healthcare West. In this executive management role, Mr. Erne is responsible for all healthcare operations throughout the CHW System. Mr. Erne joined CHW in 1997 as President and Chief Executive Officer for Mercy Healthcare Sacramento, formerly a regional health system of Catholic Healthcare West with operations in Sacramento, Yolo and Nevada counties. Prior to his current position, he was Senior Vice President of Operations and President of CHW's operations in Arizona and Nevada. Mr. Erne holds a bachelor's degree in political science from the University of California, Santa Barbara and a master's degree in business and public administration from San Diego State University. Mr. Erne has announced his retirement effective October 2008. It is anticipated that his replacement will be announced prior to his departure.

**Derek F. Covert, Senior Vice President and General Counsel (56)** — Derek F. Covert is Senior Vice President and General Counsel of Catholic Healthcare West. Mr. Covert advises the CHW Board and management in legal matters and directs the 25 lawyer legal department, which is located in six offices throughout the

organization. He specializes in tax, corporate and business law, with extensive experience in the development of integrated delivery systems, corporate restructuring, joint ventures, debt transactions, maintenance of tax exemption and compliance with anti-kickback and self-referral laws. He also oversees the operation of CHW's professional liability claims management. Prior to joining CHW, Mr. Covert was with a major international accounting firm. He received his Juris Doctor degree and his bachelor's in accounting from the University of Akron. He is a certified public accountant and member of the California Bar.

**Charles P. Francis, Senior Vice President and Chief Strategy Officer (53)** — Charles P. Francis is Senior Vice President and Chief Strategy Officer for Catholic Healthcare West. In this executive role, Mr. Francis is responsible for strategic development, positioning and growth. He oversees strategic planning, public policy and advocacy, marketing, communications and system development. Prior to joining Catholic Healthcare West in February 2001, Mr. Francis was Senior Vice President, Business Development for Advocate Healthcare. Mr. Francis received a bachelor's degree from Dennison University and a master's degree in management from Northwestern University's Graduate School of Management.

**Bernita McTernan, Senior Vice President, Sponsorship, Mission Integration and Community Benefits (62)** — Bernita McTernan is the Senior Vice President of Sponsorship, Mission Integration and Community Benefits for Catholic Healthcare West. In this executive management role, Ms. McTernan directs systemwide initiatives involving CHW's religious sponsors, mission services, community benefit programs and fund development. Ms. McTernan was previously Senior Vice President at Mercy Healthcare Sacramento in a role similar to her current position, with the addition of ecology and spiritual care. Ms. McTernan received her bachelor's degree in religious studies and biological sciences and her master's degree in counseling and psychology from the University of San Francisco.

**Elizabeth Shih, Senior Vice President and Chief Administrative Officer (59)** — Elizabeth Shih serves as the Senior Vice President and Chief Administrative Officer for Catholic Healthcare West. In this executive role, Ms. Shih identifies new opportunities for system integration, and oversees governance support, and construction, real estate and energy. She also supports the senior leadership team, in particular the Chief Executive Officer and Chief Operating Officer. Ms. Shih previously served as the Executive Vice President for the Eastern Division for Sutter Health in Sacramento, where she was responsible for the operations of 16 acute care hospitals in Northern California and Hawaii. Ms. Shih holds a Bachelor of Arts degree and a Master's of Social Work degree from the University of Texas at Austin.

**Ernest H. Urquhart, Senior Vice President and Chief Human Resources Officer (58)** — Ernest H. Urquhart is Senior Vice President and Chief Human Resources Officer for Catholic Healthcare West. In this executive management role, Mr. Urquhart is responsible for overall development and leadership of human resources strategies for the 53,000 employees of CHW's integrated healthcare system. Mr. Urquhart joined CHW from Harcourt, Inc., a leading global provider of learning products and services through its 13,000 employees in 23 countries. He was a member of the executive team as Senior Vice President Human Resources Worldwide. Mr. Urquhart holds a Bachelor of Arts degree in history from Pennsylvania State University. Mr. Urquhart has announced his retirement effective January 2009. It is anticipated that his replacement will be announced prior to his departure.

**Robert L. Wiebe, M.D., Senior Vice President and Chief Medical Officer (53)** — Robert L. Wiebe, MD is Senior Vice President and Chief Medical Office for Catholic Healthcare West. In this executive management role, Dr. Wiebe oversees care management, risk services and HIPAA implementation and compliance throughout the CHW System. Prior to joining CHW, Dr. Wiebe was the Director of the Veteran Integrated Service Network 21 in San Francisco reporting to the Undersecretary of Health for the Veteran's Health Administration, an agency of the U.S. Department of Veteran Affairs. Dr. Wiebe holds an MD from the University of Missouri, Columbia School of Medicine, a Master of Public Health from the University of California, Berkeley, and an MBA from Stanford University. Dr. Wiebe is certified by the American Board of Internal Medicine and holds medical licenses in the states of California and Nevada. Dr. Wiebe will begin working for CHW in May 2008.

**John M. Wray, Senior Vice President — Managed Care (48)** — John M. Wray is Senior Vice President of Managed Care for Catholic Healthcare West. In this executive management role, Mr. Wray is responsible for providing leadership and direction to develop and implement CHW's systemwide and local managed care strategies.

He also is responsible for managing relationships with third-party payors and supporting quality and revenue management practices for the system. Prior to coming to CHW, Mr. Wray was Senior Vice President-Managed Care for MedPartners, Inc., Long Beach, California. Mr. Wray is a graduate of Indiana University and Indiana University School of Law where he graduated cum laude and was editor of the law journal.

### **Incentive Programs**

In order to link the financial and quality care goals of the CHW System to the financial interests of employees, CHW provides certain formal incentive programs to management and certain other employees. Awards are based on pre-established targets in the areas of financial performance, quality care indicators and leadership.

### **Corporate Ethical Standards**

In addition to the ethical standards which are a part of CHW's compliance program, CHW has adopted policies and procedures designed to promote ethical conduct and ensure that its financial statements, claims and other important information and data are accurate and fairly reflect CHW's operations. While not subject to Sarbanes-Oxley, CHW has modified and/or adopted certain policies and procedures designed to promote consistency with the principles articulated in Sarbanes-Oxley.

**LIST OF OBLIGATED GROUP MEMBERS  
AND HEALTHCARE FACILITIES**

<u>Obligated Group Member/Facilities</u>	<u>Type of Facility</u>	<u>Location</u>	<u>Licensed Beds</u>
<b>Catholic Healthcare West</b> .....	N/A.....	San Francisco, CA .....	
Arroyo Grande Community Hospital.....	Acute Care .....	Arroyo Grande, CA .....	65
California Hospital Medical Center – Los Angeles .....	Acute Care .....	Los Angeles, CA.....	316
Chandler Regional Hospital.....	Acute Care .....	Chandler, AZ .....	225
Dominican Hospital .....	Acute Care .....	Santa Cruz, CA .....	379
French Hospital Medical Center .....	Acute Care .....	San Luis Obispo.....	112
Glendale Memorial Hospital and Health Center.....	Acute Care .....	Glendale, CA .....	334
Marian Medical Center (two locations) .....	Acute Care .....	Santa Maria, CA .....	262
Mercy General Hospital.....	Acute Care .....	Sacramento, CA.....	342
Mercy Gilbert Medical Center .....	Acute Care .....	Gilbert, AZ.....	182
Mercy Hospital (two locations) .....	Acute Care .....	Bakersfield, CA .....	269
Mercy Hospital of Folsom .....	Acute Care .....	Folsom, CA.....	85
Mercy Medical Center Merced (two locations) .....	Acute Care .....	Merced, CA .....	287
Mercy Medical Center, Mt. Shasta .....	Acute Care .....	Mt. Shasta, CA.....	80
Mercy Medical Center Redding.....	Acute Care .....	Redding, CA .....	273
Mercy San Juan Medical Center.....	Acute Care .....	Carmichael, CA .....	260
Methodist Hospital of Sacramento.....	Acute Care .....	Sacramento, CA.....	333
Northridge Hospital Medical Center.....	Acute Care .....	Northridge, CA .....	411
Saint Mary’s Regional Medical Center.....	Acute Care .....	Reno, NV .....	380
Sequoia Hospital .....	Acute Care .....	Redwood City, CA.....	301
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<b>Mercy Senior Housing, Inc.</b> <sup>(1)</sup> .....	N/A .....	Sacramento, CA.....	N/A
<b>CHW Medical Foundation</b> <sup>(2)</sup> .....	N/A .....	Various .....	N/A
<b>Saint Francis Memorial Hospital</b> .....	Acute Care .....	San Francisco, CA .....	356
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NOTE: A portion of the beds listed for certain acute care facilities consists of skilled nursing beds. The numbers above reflect the total number of beds that the healthcare facilities are permitted to operate under state law, but may not reflect the number of beds actually operated by each healthcare facility at the present time.

(1) Operates a residential care facility.

(2) Operates medical clinics pursuant to professional service agreements with physician groups.

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**APPENDIX B**

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF  
CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS AND ADDITIONAL  
INFORMATION OF CATHOLIC HEALTHCARE WEST OBLIGATED GROUP AS OF AND FOR THE  
YEARS ENDED JUNE 30, 2007, 2006 AND 2005**



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**CATHOLIC HEALTHCARE  
WEST AND SUBORDINATE  
CORPORATIONS**

**Consolidated Financial Statements and  
Obligated Group Additional Information as of  
and for the Years Ended June 30, 2007, 2006 and 2005,  
and Independent Auditors' Reports**

# CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Catholic Healthcare West  
San Francisco, California

We have audited the accompanying consolidated balance sheets of Catholic Healthcare West and Subordinate Corporations ("Catholic Healthcare West" or "CHW") as of June 30, 2007, 2006 and 2005, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Catholic Healthcare West's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Catholic Healthcare West's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Catholic Healthcare West and Subordinate Corporations as of June 30, 2007, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, effective June 30, 2007, Catholic Healthcare West adopted the recognition provisions of Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which changed its method of accounting for its defined benefit pension plans.

As discussed in Note 2 to the consolidated financial statements, effective June 30, 2007, Catholic Healthcare West changed its classification of investment securities from available-for-sale to trading securities.

*Deloitte + Touche LLP*

September 21, 2007

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED BALANCE SHEETS JUNE 30, 2007, 2006 and 2005 (in thousands)

Assets	2007	2006	2005
Current assets:			
Cash and cash equivalents	\$ 496,312	\$ 484,427	\$ 443,461
Short-term investments	468,444	294,573	191,252
Cash and cash equivalents held under securities lending program	424,796	315,206	272,930
Assets limited as to use	144,814	153,643	214,024
Patient accounts receivable, net	1,079,495	918,518	866,344
Other current assets	<u>340,853</u>	<u>288,070</u>	<u>210,563</u>
Total current assets	<u>2,954,714</u>	<u>2,454,437</u>	<u>2,198,574</u>
Assets limited as to use:			
Board-designated assets for:			
Capital projects	2,276,567	1,927,557	1,518,981
Workers' compensation	305,960	299,907	302,387
Hospital professional and general liability	232,570	222,304	192,320
Under bond indenture agreements for:			
Capital projects	855,357	434,241	162,956
Debt service	53,182	56,257	97,982
Bond reserves	46,256	77,349	87,161
Donor-restricted	393,707	354,474	301,819
Other	61,659	50,892	52,823
Less amount required to meet current obligations	<u>(144,814)</u>	<u>(153,643)</u>	<u>(214,024)</u>
Net assets limited as to use	<u>4,080,444</u>	<u>3,269,338</u>	<u>2,502,405</u>
Property and equipment, net	2,945,174	2,515,410	2,163,772
Ownership interests in health-related joint ventures	308,230	216,494	180,820
Assets held for sale	24,825	25,512	42,103
Other long-term assets	<u>206,890</u>	<u>156,600</u>	<u>131,176</u>
Total assets	<u>\$ 10,520,277</u>	<u>\$ 8,637,791</u>	<u>\$ 7,218,850</u>

(Continued)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED BALANCE SHEETS JUNE 30, 2007, 2006 and 2005 (in thousands)

Liabilities and Net Assets	2007	2006	2005
Current liabilities:			
Current portion of long-term debt	\$ 25,745	\$ 23,214	\$ 57,612
Accounts payable	323,380	299,024	255,043
Payable under securities lending program	424,796	315,206	272,930
Due to government agencies	23,632	28,513	16,966
Accrued salaries and benefits	363,515	330,038	298,304
Accrued workers' compensation	41,380	44,296	50,977
Accrued hospital professional and general liability	45,585	44,102	61,124
Pension and other postretirement liabilities	209,728	134,980	110,499
Other accrued liabilities	<u>231,504</u>	<u>206,941</u>	<u>217,342</u>
Total current liabilities	<u>1,689,265</u>	<u>1,426,314</u>	<u>1,340,797</u>
Other liabilities:			
Workers' compensation	192,465	197,422	186,531
Hospital professional and general liability	180,640	198,050	185,600
Pension and other postretirement liabilities	385,150	110,263	181,935
Other	<u>144,406</u>	<u>131,592</u>	<u>94,049</u>
Total other liabilities	<u>902,661</u>	<u>637,327</u>	<u>648,115</u>
Long-term debt, net of current portion	<u>4,049,644</u>	<u>3,302,757</u>	<u>2,554,976</u>
Total liabilities	<u>6,641,570</u>	<u>5,366,398</u>	<u>4,543,888</u>
Net assets:			
Unrestricted	3,492,519	2,925,458	2,380,314
Temporarily restricted	300,562	260,586	215,991
Permanently restricted	<u>85,626</u>	<u>85,349</u>	<u>78,657</u>
Total net assets	<u>3,878,707</u>	<u>3,271,393</u>	<u>2,674,962</u>
Total liabilities and net assets	<u>\$ 10,520,277</u>	<u>\$ 8,637,791</u>	<u>\$ 7,218,850</u>

(Concluded)

See notes to consolidated financial statements.



## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2007, 2006 and 2005 (in thousands)

	2007	2006	2005
Unrestricted revenues and other support:			
Net patient revenue	\$ 6,723,481	\$ 6,008,211	\$ 5,490,843
Premium revenue	418,021	335,902	310,620
Revenue from health-related joint ventures, net	104,314	63,253	37,773
Other operating revenue	202,741	187,247	171,736
Contributions	<u>28,387</u>	<u>22,642</u>	<u>18,822</u>
Total unrestricted revenues and other support	<u>7,476,944</u>	<u>6,617,255</u>	<u>6,029,794</u>
Expenses:			
Salaries and benefits	3,739,427	3,314,457	3,023,620
Supplies	1,098,499	972,636	906,389
Provision for bad debts	551,045	534,149	489,264
Purchased services and other	1,319,204	1,148,563	1,059,725
Depreciation	298,723	233,983	231,818
Interest, net	149,677	124,496	108,403
Market adjustment on swaps, net	3,925	(552)	1,039
Loss on early extinguishment of debt	<u>16,779</u>	<u>21,668</u>	<u>386</u>
Total expenses	<u>7,177,279</u>	<u>6,349,400</u>	<u>5,820,644</u>
Operating income	299,665	267,855	209,150
Other income:			
Investment income, net	<u>591,593</u>	<u>175,082</u>	<u>147,778</u>
Excess of revenues over expenses	<u>\$ 891,258</u>	<u>\$ 442,937</u>	<u>\$ 356,928</u>

(Continued)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2007, 2006 and 2005 (in thousands)

	2007	2006	2005
Unrestricted net assets:			
Excess of revenues over expenses	\$ 891,258	\$ 442,937	\$ 356,928
Effect of changes in accounting principles	(381,745)	(21,514)	-
Net assets acquired in merger	154,128	-	-
Change in net unrealized (gains) losses on investments	(194,369)	5,136	36,782
Net assets released from restrictions used for purchase of property and equipment	19,362	10,000	8,101
Change in additional minimum pension liability	51,739	64,102	(85,778)
Gain (loss) from discontinued operations	820	(6,687)	(24,089)
Change in fair value of interest rate swaps	13,052	39,995	(12,952)
Donated property and equipment	14,372	11,935	10,801
Other	<u>(1,556)</u>	<u>(760)</u>	<u>(287)</u>
Increase in unrestricted net assets	<u>567,061</u>	<u>545,144</u>	<u>289,506</u>
Temporarily restricted net assets:			
Contributions	40,380	40,734	31,527
Net assets acquired in merger	10,551	-	-
Net realized and unrealized gains on investments	7,182	2,930	4,296
Net assets released from restrictions	(44,260)	(22,785)	(17,487)
Change in interest in net assets of unconsolidated foundations	27,998	23,207	26,334
Other	<u>(1,875)</u>	<u>509</u>	<u>(5,532)</u>
Increase in temporarily restricted net assets	<u>39,976</u>	<u>44,595</u>	<u>39,138</u>
Permanently restricted net assets:			
Contributions	716	3,315	389
Net assets acquired in merger	3,810	-	-
Net realized and unrealized gains on investments	61	675	749
Change in interest in net assets of unconsolidated foundations	717	3,597	577
Other	<u>(5,027)</u>	<u>(895)</u>	<u>(620)</u>
Increase in permanently restricted net assets	<u>277</u>	<u>6,692</u>	<u>1,095</u>
Increase in net assets	607,314	596,431	329,739
Net assets, beginning of year	<u>3,271,393</u>	<u>2,674,962</u>	<u>2,345,223</u>
Net assets, end of year	<u>\$ 3,878,707</u>	<u>\$ 3,271,393</u>	<u>\$ 2,674,962</u>

(Concluded)

See notes to consolidated financial statements.

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007, 2006 and 2005 (in thousands)

	2007	2006	2005
Cash flows from operating activities:			
Change in net assets	\$ 607,314	\$ 596,431	\$ 329,739
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Loss on early extinguishment of debt	16,779	21,668	386
Depreciation, including discontinued operations	301,183	238,505	236,902
Amortization	10,882	13,528	8,976
Equity in earnings of equity method investments	(91,196)	(35,674)	(29,878)
(Gain) loss, net, on disposal of assets, including discontinued operations	(6,487)	2,300	(11,615)
Restricted contributions and investment income	(45,194)	(47,851)	(36,329)
Change in additional minimum pension liability	(51,739)	(64,102)	83,375
Undistributed portion of change in net assets of unconsolidated foundations	(28,715)	(26,804)	(26,911)
Change in net realized and unrealized gains on investments	(279,706)	(87,322)	(123,724)
Effect of changes in accounting principles	381,745	21,514	-
Change in fair value of interest rate swaps	(13,052)	(39,995)	12,952
Net assets associated with merger	(168,489)	-	-
Changes in certain assets and liabilities:			
Accounts receivable, net	(124,856)	(52,174)	(41,925)
Accounts payable	10,490	43,981	32,582
Workers' compensation and hospital professional and general liabilities	(31,597)	(362)	52,217
Accrued liabilities	106,372	85,809	53,717
Other, net	(119,335)	(65,874)	30,125
Cash provided by operating activities	474,399	603,578	570,589
Cash flows from investing activities:			
Purchase of investments	(3,242,093)	(2,852,239)	(2,183,006)
Proceeds from sale of investments	2,633,677	2,180,412	2,193,866
Cash proceeds on disposal of assets	24,474	4,938	4,749
Proceeds from disposal of discontinued operations	-	12,365	29,995
Net assets associated with merger	23,759	-	-
Additions to operating property and equipment	(546,047)	(577,359)	(437,932)
Increase in securities lending collateral	(109,590)	(42,276)	(175,293)
Other, net	13,396	(26,603)	(10,751)
Cash used in investing activities	(1,202,424)	(1,300,762)	(578,372)

(Continued)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007, 2006 and 2005 (in thousands)

	2007	2006	2005
Cash flows from financing activities:			
Borrowings	1,276,643	1,219,815	185
Repayments	(659,769)	(531,547)	(53,459)
Increase in payable under securities lending program	109,590	42,276	175,293
Restricted contributions and investment income	45,194	47,851	36,329
Deferred financing costs	<u>(31,748)</u>	<u>(40,245)</u>	<u>(464)</u>
Cash provided by financing activities	<u>739,910</u>	<u>738,150</u>	<u>157,884</u>
Net increase in cash and cash equivalents	11,885	40,966	150,101
Cash and cash equivalents at beginning of year	<u>484,427</u>	<u>443,461</u>	<u>293,360</u>
Cash and cash equivalents at end of year	<u>\$ 496,312</u>	<u>\$ 484,427</u>	<u>\$ 443,461</u>
Components of cash and cash equivalents and investments at end of year:			
Cash and cash equivalents	\$ 496,312	\$ 484,427	\$ 443,461
Short-term investments	468,444	294,573	191,252
Board-designated assets for capital projects	<u>2,276,567</u>	<u>1,927,557</u>	<u>1,518,981</u>
Total	<u>\$ 3,241,323</u>	<u>\$ 2,706,557</u>	<u>\$ 2,153,694</u>
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	<u>\$ 159,880</u>	<u>\$ 131,449</u>	<u>\$ 102,650</u>
Assets acquired through capital lease	<u>\$ 2,256</u>	<u>\$ 3,447</u>	<u>\$ 2,959</u>
Donated property and equipment	<u>\$ 14,372</u>	<u>\$ 11,935</u>	<u>\$ 10,801</u>

(Concluded)

See notes to consolidated financial statements.

# CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2007, 2006 and 2005 (in thousands)

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### 1. ORGANIZATION

Catholic Healthcare West (“CHW”) is a California nonprofit public benefit corporation exempt from federal and state income taxes. CHW is co-sponsored by seven congregations that have specific governance rights and responsibilities, including the appointment of CHW’s corporate members. The co-sponsors are as follows:

- Auburn Regional Community of the Sisters of Mercy, Auburn, California
- Burlingame Regional Community of the Sisters of Mercy, Burlingame, California
- Sisters of St. Dominic, Congregation of the Most Holy Rosary, Adrian, Michigan
- Sisters of the Third Order of St. Dominic, Congregation of the Most Holy Name, San Rafael, California
- Congregation of the Sisters of Charity of the Incarnate Word, Houston, Texas
- Congregation of the Dominican Sisters of St. Catherine of Siena of Kenosha, Kenosha, Wisconsin
- Sisters of St. Francis of Penance and Christian Charity, St. Francis Province, Redwood City, California

CHW owns and operates hospitals in California, Arizona and Nevada, and is the sole corporate member (parent corporation) of other primarily nonprofit healthcare corporations in California, Arizona and Nevada, which are exempt from federal and state income taxes. CHW provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, subacute and home healthcare services, as well as physician services through CHW Medical Foundation and affiliated medical groups.

As part of a system-wide corporate financing plan, CHW established an Obligated Group to access the capital markets and make loans to its members. Obligated Group members are jointly and severally liable for the long-term debt outstanding under the Master Trust Indenture. None of the other CHW subordinate corporations have assumed any financial obligation related to payment of debt service on obligations issued under the Master Trust Indenture. A list of Obligated Group members and other subordinate corporations is included in Note 14. The Obligated Group’s unrestricted net assets represent approximately 95 percent of the consolidated unrestricted net assets of CHW and subordinate corporations at June 30, 2007, 96 percent at June 30, 2006, and 95 percent at June 30, 2005.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Consolidation** – The accompanying consolidated financial statements include the accounts of CHW and all subordinate corporations after elimination of intercompany transactions and balances. These financial statements do not include the accounts of the seven co-sponsors and their nonhealthcare activities.

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

**Cash and Cash Equivalents** – For purposes of the consolidated financial statements, cash and cash equivalents consist primarily of cash and highly liquid marketable securities with an original maturity of three months or less.

**Securities Lending Program** - CHW participates in securities lending transactions with its custodian whereby CHW lends a portion of its investments to various brokers in exchange for collateral for the securities loaned,

usually on a short-term basis. Collateral provided by brokers is maintained at levels of at least 100% of the fair value of the securities on loan and is adjusted for market fluctuations. CHW maintains effective control of the loaned securities through its custodian during the term of the arrangement in that they may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The market value of collateral held for loaned securities is reported as cash and cash equivalents held under securities lending program, and a corresponding obligation is reported for repayment of such collateral upon settlement of the lending transaction. At June 30, 2007, 2006 and 2005, the market value of the securities on loan was \$414.8 million, \$310.0 million and \$266.6 million, respectively, and is recorded in Board-designated assets in the accompanying consolidated balance sheets.

***Patient Accounts Receivable*** – CHW has agreements with third-party payors that provide for payments at amounts different from each hospital's established rates. Patient accounts receivable and net patient service revenue are reported at the net realizable amount from patients, third-party payors, and others for services rendered.

As part of CHW's mission to serve the community, CHW provides care to patients even though they may lack adequate insurance or may participate in programs with negotiated or regulated amounts. CHW manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances.

***Inventory*** - Inventories are stated at the lower of cost or market value, determined using the first-in, first-out method.

***Investments*** – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. At June 30, 2007, CHW reclassified its investment portfolio to a trading portfolio from available-for-sale. As such, cumulative unrealized holding gains and losses from current and prior years of \$381.5 million and \$40.1 million, respectively, were recorded in investment income in 2007. In future periods, all unrestricted unrealized holding gains and losses will be recorded in investment income in the period in which they occur (Note 6).

Prior to June 30, 2007, CHW's investment portfolio was classified as available-for-sale. As such, upon determination that the carrying value of securities was other-than-temporarily impaired, adjustments were made to revalue the securities to current market value. Any adjustments required by this policy for unrestricted assets were charged to investment loss and for restricted assets were charged to the appropriate net assets category. During 2007, 2006 and 2005, certain securities were determined to be other-than-temporarily impaired which resulted in an impairment charge of \$2.9 million, \$0.4 million and \$0.8 million, respectively, which is included in investment income, net.

Investment income or loss (including realized gains and losses on investments, interest and dividends in 2006 and 2005, and also including unrealized gains and losses in 2007) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

***Board-Designated Assets for Capital Projects*** – The Board of Directors has a policy of funding depreciation, to the extent that funds are available, to be used for replacement, expansion and improvement of operating property and equipment.

***Deferred Financing Costs and Original Issue Discounts/Premiums on Bond Indebtedness*** – CHW amortizes deferred financing costs and original issue discounts/premiums on bond indebtedness on a straight-line basis over 10 years, which is the estimated average period the related bonds will be outstanding. These costs are included in other long-term assets. Original issue discounts/premiums are recorded with the related debt.

***Property and Equipment*** – Property and equipment are stated at cost, if purchased, and at fair market value, if donated. Depreciation of property and equipment is provided using the straight-line method for financial statement purposes. Amortization of capital leases is included in depreciation expense. Estimated useful lives by classification are as follows:



Land improvements	2 to 40 years
Buildings	3 to 65 years
Equipment	2 to 30 years

**Asset Retirement Obligations** – Beginning June 30, 2006, CHW recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with SFAS No. 143, “Accounting for Asset Retirement Obligations” (“SFAS 143”) and Financial Accounting Standards Board (“FASB”) Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations” (“FIN 47”), if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, CHW capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations and changes in net assets.

**Asset Impairment** – CHW routinely evaluates the carrying value of its long-lived assets and goodwill for impairment. The evaluations address the estimated recoverability of the assets’ carrying value, which is principally determined based on projected undiscounted net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, an asset impairment is recognized. No asset impairment charges were recorded in 2007 and 2006. Asset impairment adjustments of \$0.7 million are included in discontinued operations in 2005.

**Fair Value of Financial Instruments** – The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and due to/from government agencies, approximate fair value. The fair value of investments is disclosed in Note 6 and the fair value of debt is disclosed in Note 11.

**Ownership Interests in Health-Related Joint Ventures** – Generally, when the ownership interest in health-related joint ventures is more than 50 percent, the joint ventures are consolidated and a minority interest is recorded. When the ownership interest is at least 20 percent but not more than 50 percent, it is accounted for under the equity method and the income or loss is reflected in revenue from health-related joint ventures, net. Joint ventures with less than 20 percent ownership are carried at the lower of cost or estimated net realizable value. Other than the investment in Scripps Health (See Note 9), these ownership interests are not significant to the consolidated financial statements.

**Other Accrued Liabilities** – Other accrued liabilities includes amounts related to interest, rent and other expenses.

**Self-Insurance Plans** – CHW and certain subordinate corporations have established self-insurance programs for workers’ compensation benefits for employees and for hospital professional and general liability risks. CHW and certain subordinate corporations are also self-insured for certain employee medical benefits.

- **Workers’ Compensation and Hospital Professional and General Liabilities** – Annual self-insurance expense and funding under these programs are based on past claims experience and projected losses. Insurance coverage, in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for workers’ compensation and professional and general liabilities. Assets have been placed in separate trusts and a wholly-owned captive insurance company to be used for payment of claims, related expenses and the cost of administering the plans. Actuarial estimates of uninsured losses for each program, using a 70 percent confidence level and discounted at 5.5 percent at June 30, 2007, 2006 and 2005, have been accrued as liabilities and include an estimate for claims incurred but not reported. Self-insurance expense was decreased by \$81.6 million, \$52.0 million and \$16.4 million in 2007, 2006 and 2005, respectively, related to revisions to prior years’ actuarially estimated liabilities and changes in actuarial assumptions.

- *Medical Benefits* – The liability for payment of incurred and unpaid claims is included in other accrued liabilities.

**Net Patient Revenue** – Gross patient revenue is recorded on the basis of usual and customary charges. Gross patient revenue was \$26.2 billion, \$23.0 billion and \$21.0 billion in 2007, 2006 and 2005, respectively. The percentage of inpatient and outpatient services is as follows:

	2007	2006	2005
Inpatient services	71%	71%	72%
Outpatient services	29%	29%	28%

The following table reflects the estimated percentage of gross patient revenues by major payor groups:

	2007	2006	2005
Medicare	32%	33%	34%
Medicare capitated	1%	2%	2%
Medicaid	16%	16%	16%
Medicaid capitated	1%	1%	1%
Contracted rate payors	41%	39%	39%
Commercial capitated	2%	2%	2%
Commercial insurance, self pay or other payors	7%	7%	6%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

CHW has agreements with third-party payors that provide for payments to CHW at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, per diem payments, discounted charges and reimbursed costs. Net patient revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated settlements under reimbursement agreements with third-party payors. Settlements with third-party payors are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined.

Inpatient acute care services, outpatient services and skilled nursing services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology.

Medicaid and contracted-rate payors are paid on a per diem, per discharge, modified cost or capitated basis, or a combination of these.

In 2007, 2006 and 2005, net patient revenue included \$32.4 million, \$52.4 million and \$49.0 million, respectively, relating to prior years' reimbursement settlements from Medicare, Medicaid and other programs.

Certain CHW hospitals qualified for and received Medi-Cal funding as disproportionate-share hospitals from the State of California in 2007, 2006 and 2005. The amount received was \$66.1 million, \$70.9 million and \$76.2 million, respectively, and is included in net patient revenue. Amounts to be received in future years are subject to annual determination.

**Premium Revenue** – CHW has at-risk agreements with various payors to provide medical services to enrollees. Under these agreements, CHW receives monthly payments based on the number of enrollees, regardless of services actually performed by CHW. CHW accrues costs when services are rendered under these contracts, including estimates of incurred but not reported (“IBNR”) claims and amounts

receivable/payable under risk-sharing arrangements. The IBNR accrual includes an estimate of the costs of services for which CHW is responsible, including out-of-network services.

**Other Operating Revenue** – Other operating revenue includes net gains and losses on the sale of assets, cafeteria revenues, rental revenues and other nonpatient-care revenues. In 2006, other operating revenue also includes approximately \$28 million in lawsuit settlements.

**Contributions** – Gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Unconditional promises to give cash and other assets to CHW are recorded at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are recorded at fair value upon receipt of the gift.

Included in donor restricted assets limited as to use are unconditional promises to give which are recorded using a discount rate ranging from 4.0 percent to 6.0 percent and are due as follows as of June 30, 2007 (in thousands):

Less than one year	\$ 11,029
One to five years	9,841
More than five years	2,110
Less: allowance for uncollectible contributions receivable	<u>(1,779)</u>
Total contributions receivable	<u>\$ 21,201</u>

**Interest Expense** – Interest expense on debt issued for construction projects, net of income earned on the funds held pending use related to specific borrowings, is capitalized until the projects are placed in service.

Interest components include the following (in thousands):

	2007	2006	2005
Total interest expense	\$ 170,588	\$ 148,470	\$ 122,642
Capitalized interest expense	<u>(20,911)</u>	<u>(23,974)</u>	<u>(14,239)</u>
Net interest expense	<u>\$ 149,677</u>	<u>\$ 124,496</u>	<u>\$ 108,403</u>

**Income Taxes** – CHW has established its status as an organization exempt from income taxes under the Internal Revenue Code Section 501(c)(3) and the laws of the states in which it operates. Certain subsidiaries are subject to income taxes; such amounts are not significant to the consolidated financial statements.

**Performance Indicator** – Management considers excess of revenues over expenses to be CHW’s performance indicator. Excess of revenues over expenses includes all changes in unrestricted net assets except for gain/(loss) from discontinued operations, net assets acquired in merger, net assets released from restrictions for the purchase of property and equipment, change in additional minimum pension liability, change in fair value of interest rate swaps, donated property and equipment, and the effect of changes in accounting principles. Additionally, in 2006 and 2005, the change in net unrealized gains and losses on investments were excluded from the performance indicator as investments were classified as available-for-sale.

**Transactions between Related Organizations** – Certain Obligated Group members have a policy whereby assets are periodically transferred as charitable distributions to nonprofit corporations that are subordinate corporations of CHW but are not members of the Obligated Group. The subordinate corporations conduct charitable healthcare, educational and religious activities and support subordinate nonprofit healthcare organizations. These transfers are accounted for as direct charges to the Obligated Group members’ unrestricted net assets. It is anticipated that Obligated Group members will continue to make asset transfers to the subordinate corporations.

Elder Care Alliance and its subordinate corporations (collectively “ECA”) are nonprofit corporations providing assisted living, skilled nursing, rehabilitation and social services to the aged. The Burlingame Regional Community of the Sisters of Mercy is a co-sponsor of both CHW and ECA. CHW has made certain loans to ECA and guarantees outstanding debt of certain ECA projects. Total guarantees as of June 30, 2007, 2006 and 2005 are \$21.1 million, \$21.3 million and \$21.3 million, respectively. CHW would be required to perform under these guarantees in the event ECA or its subordinate corporations defaulted on the guaranteed bond payments. No amount has been included in total liabilities on the accompanying consolidated balance sheets related to these guarantees. Notes receivable from ECA as of June 30, 2007, 2006 and 2005, total \$24.5 million, \$24.5 million and \$22.8 million, respectively, and are included in other long-term assets on the accompanying consolidated balance sheets. Principal and interest payments are receivable in monthly installments through 2038. Interest rates ranged from 2.48 percent to 5.95 percent in 2007, 2006 and 2005.

**Recent Accounting Pronouncements** – In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“FAS 159”). This statement permits entities to choose to measure many financial instruments and certain other items at fair value, mitigating volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective for CHW beginning July 1, 2008, however early adoption is allowable with certain provisions. CHW is still evaluating the effect of adopting this statement.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans* (“FAS 158”). This statement requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status through changes in unrestricted net assets in the year in which the changes occur.

CHW adopted this change effective June 30, 2007, and recorded additional prepaid pension amounts of \$2.9 million and pension payable amounts of \$384.7 million for a net effect of change in accounting principle of \$381.7 million.

FAS 158 also requires employers to measure plan assets and benefit obligations as of the date of the employer’s fiscal year-end statement of financial position, thus eliminating the alternative of an earlier measurement date. The effective date for this change is fiscal years ending after December 15, 2008. CHW anticipates adopting this aspect of FAS 158 in 2009.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“FAS 157”). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement is effective for CHW for 2009, however early adoption is allowable with certain provisions. CHW is still evaluating the effect of adopting this statement.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (“FIN 48”). This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measure attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. CHW will adopt this interpretation in 2008. Adoption is not expected to have a material effect on CHW’s financial position or results of operations.

**Reclassifications** – Certain reclassifications and changes in presentation were made in the 2006 and 2005 consolidated financial statements to conform to the 2007 presentation.

### 3. MERGERS, ACQUISITIONS AND DIVESTITURES

**Mergers and Acquisitions** - On January 1, 2007, Saint Mary's Regional Medical Center ("SMRMC") merged into CHW. SMRMC operates a 380-bed hospital located in Reno, Nevada. In connection with the merger, SMRMC's seven subsidiary corporations became subsidiaries of CHW. These subsidiaries include a licensed health maintenance organization with approximately 27,000 covered members, a licensed indemnity insurance carrier with approximately 7,000 covered members, a surgical center, several outpatient clinics and a fundraising foundation. As the transaction was structured as a merger, CHW assumed all assets and liabilities of SMRMC and accounted for the transaction similar to a pooling-of-interest with all assets and liabilities carried over at their historical cost basis. Prior periods have not been restated to include the results of operations or financial position of SMRMC. The results of operations of SMRMC have been included in CHW's consolidated financial statements from the date of the merger.

Following is summary pro forma information showing the effects of the merger had it been consummated as of the beginning of the periods presented (in thousands):

	2007	2006	2005
Unrestricted revenues and other support	\$ 7,653,704	\$ 6,959,406	\$ 6,353,310
Excess of revenues over expenses	\$ 897,047	\$ 446,018	\$ 343,685

**Dispositions and Discontinued Operations** - CHW has signed a binding asset purchase agreement to sell substantially all land, buildings and equipment of San Gabriel Valley Medical Center, a 273-bed facility located in San Gabriel, California, to an unrelated party. The sale is expected to close in 2008. A gain is anticipated on the sale and will be recorded in discontinued operations in the statement of operations and changes in net assets at the date of the sale.

In October 2004, CHW sold substantially all land, buildings and equipment of St. Dominic's Hospital in Manteca, California, to an unrelated party for \$30.0 million. A gain on the sale of \$10.9 million was recorded in 2005.

The accompanying consolidated statements of operations and changes in net assets reflect the results of the operations of the facilities sold, closed or held for sale as discontinued operations for all periods presented, including operating revenues of \$120.6 million, \$114.3 million and \$146.8 million for 2007, 2006 and 2005, respectively. Property and equipment held for sale of \$24.8 million, \$25.5 million and \$42.1 million, as of June 30, 2007, 2006 and 2005, respectively, related to divestitures is classified as assets held for sale on the consolidated balance sheets.

### 4. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Un-sponsored community benefits are programs or activities that provide treatment and/or promote health and healing as a response to identified community needs. These benefits (a) generate a low or negative margin, (b) respond to the needs of special populations, such as persons living in poverty and other disenfranchised persons, (c) supply services or programs that would likely be discontinued, or would need to be provided by another nonprofit or government provider, if the decision was made on a purely financial basis, (d) respond to public health needs, and/or (e) involve education or research that improves overall community health.

**Benefits for the Poor** include services provided to persons who are economically poor or are medically indigent and cannot afford to pay for healthcare services because they have inadequate resources and/or are uninsured or underinsured.

**Benefits for the Broader Community** refer to persons in the general community, beyond and including those in a target population. Most services for the broader community are aimed at improving the health and welfare of the overall community.

**Traditional Charity Care** is free or discounted health services provided to persons who cannot afford to pay and who meet CHW's criteria for financial assistance. The amount of services quantified at customary charges was \$452.5 million, \$384.5 million and \$232.7 million, for the years ended June 30, 2007, 2006 and 2005, respectively.

**Net Community Benefit**, excluding the unpaid cost of Medicare, is the total cost incurred after deducting direct offsetting revenue from government reimbursement, patients, donations and other sources. Comparable amounts of net community benefit were \$465.2 million and \$340.6 million for 2006 and 2005, respectively. In prior years, CHW included the unpaid cost of Medicare in benefits for the broader community. Net Community Benefit including the unpaid cost of Medicare was \$802.6 million and \$622.6 million for 2006 and 2005, respectively.

The following is a summary of CHW's community benefits for the year ended June 30, 2007, in terms of services to the poor and benefits for the broader community, which has been prepared in accordance with the Catholic Health Association of the United States' publication, *A Guide for Planning and Reporting Community Benefit* (dollars in thousands):

	Persons Served	Total Benefit Expense	Unaudited		% of Total Expense
			Direct Offsetting Revenue	Net Community Benefit	
Benefits for the poor:					
Traditional charity care	93,677	\$ 128,961	\$ (8,132)	\$ 120,829	1.7%
Unpaid costs of Medicaid / Medi-Cal	785,379	1,241,579	(1,006,804)	234,775	3.3%
Other public programs	242,415	112,270	(80,082)	32,188	0.4%
Community services:					
Community health services	333,776	16,310	(3,628)	12,682	0.2%
Health professions education	18,405	3,270	-	3,270	0.0%
Subsidized health services	69,516	10,291	(3,888)	6,403	0.1%
Donations	169,068	6,372	(128)	6,244	0.1%
Community building activities	49,693	2,878	(1,367)	1,511	0.0%
Community benefit operations	19,909	2,119	(1)	2,118	0.0%
Total community services for the poor	660,367	41,240	(9,012)	32,228	0.4%
Total benefits for the poor	1,781,838	1,524,050	(1,104,030)	420,020	5.8%
Benefits for the broader community:					
Community services:					
Community health services	2,645,356	31,536	(17,339)	14,197	0.2%
Health professions education	76,939	49,418	(14,447)	34,971	0.5%
Subsidized health services	297,290	14,440	(1,796)	12,644	0.2%
Research	1,330	17,767	(14,519)	3,248	0.0%
Donations	289,663	9,060	(200)	8,860	0.1%
Community building activities	114,891	2,718	(416)	2,302	0.0%
Community benefit operations	104,027	5,462	(264)	5,198	0.1%
Total benefits for the broader community	3,529,496	130,401	(48,981)	81,420	1.1%
Total Community Benefits	5,311,334	\$ 1,654,451	\$ (1,153,011)	\$ 501,440	6.9%
Unpaid costs of Medicare	940,373	2,288,812	(1,868,119)	420,693	5.9%
Total Community Benefits including unpaid costs of Medicare	6,251,707	\$ 3,943,263	\$ (3,021,130)	\$ 922,133	12.8%



## 5. OTHER CURRENT ASSETS

Other current assets consist of the following at June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Inventories	\$ 125,481	\$ 114,394	\$ 103,217
Receivables, other than patient accounts receivable	101,326	113,242	70,497
Other prepaid expenses	45,635	29,626	23,055
Deposits	19,125	3,708	2,863
Other	49,286	27,100	10,931
Total other current assets	<u>\$ 340,853</u>	<u>\$ 288,070</u>	<u>\$ 210,563</u>

## 6. INVESTMENTS AND ASSETS LIMITED AS TO USE

The fair value of investments and assets limited as to use at June 30, 2007, 2006 and 2005, is estimated based upon quoted market prices for those or similar investments, as shown below (in thousands):

	2007	2006	2005
Cash and cash equivalents	\$ 999,855	\$ 555,948	\$ 80,121
U.S. government and federal agency securities	741,143	764,313	713,331
Corporate debt securities	740,686	576,163	553,191
Equity securities	1,517,881	1,250,851	1,137,420
Interest in net assets of unconsolidated foundations	226,012	198,969	175,789
Other investments	468,125	371,310	247,829
Total	<u>\$ 4,693,702</u>	<u>\$ 3,717,554</u>	<u>\$ 2,907,681</u>
Assets limited as to use:			
Current	\$ 144,814	\$ 153,643	\$ 214,024
Long-term	4,080,444	3,269,338	2,502,405
Short-term investments	468,444	294,573	191,252
Total	<u>\$ 4,693,702</u>	<u>\$ 3,717,554</u>	<u>\$ 2,907,681</u>

As discussed in Note 2, at June 30, 2007, CHW reclassified its investment portfolio to a trading portfolio from available-for-sale. As a result of this reclassification, cumulative unrealized net gains from current and prior years were recorded in investment income at the date of change. In prior years, unrealized gains and losses were recorded in unrestricted net assets unless restricted by the donor.

Investment income and losses on assets limited as to use, cash equivalents, notes receivable, and investments are comprised of the following for the years ended June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Interest and dividend income	\$ 143,160	\$ 103,437	\$ 69,910
Realized gains and losses on sales of securities	125,478	82,186	82,300
Net unrealized gain on trading securities	341,354	-	-
Other, net of capitalized investment income	(18,399)	(10,541)	(4,432)
Total investment income	<u>\$ 591,593</u>	<u>\$ 175,082</u>	<u>\$ 147,778</u>

The Community Economic Initiative Program ("CEIP") is an expression of CHW's commitment to promote the health of the communities it serves. Through its community investments, one component of CEIP, CHW

channels financial resources to nonprofit community-based organizations that endeavor to promote the total health of their communities. CHW's definition of health includes the development of affordable housing for low-income persons and families, increased opportunities for jobs and job training and expanded access to healthcare for uninsured and underinsured persons. As of June 30, 2007, 2006 and 2005, CHW's community investment loan portfolio totaled \$28.6 million, \$20.1 million and \$16.3 million, respectively, which is included in other assets limited as to use.

## 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following at June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Land	\$ 181,469	\$ 167,965	\$ 157,095
Land improvements	94,614	88,042	84,516
Buildings	3,044,350	2,692,421	2,231,247
Equipment	2,567,162	1,990,463	2,055,308
Construction in progress	397,278	555,165	387,518
Total	<u>6,284,873</u>	<u>5,494,056</u>	<u>4,915,684</u>
Less: Accumulated depreciation	<u>(3,339,699)</u>	<u>(2,978,646)</u>	<u>(2,751,912)</u>
Property and equipment, net	<u>\$ 2,945,174</u>	<u>\$ 2,515,410</u>	<u>\$ 2,163,772</u>

## 8. OTHER LONG-TERM ASSETS

Other long-term assets consist of the following at June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Notes receivable, primarily secured	\$ 50,278	\$ 51,743	\$ 47,082
Deferred financing costs	87,216	66,911	37,803
Prepaid pension expense	28,502	23,674	22,487
Goodwill	9,019	8,541	9,099
Other	31,875	5,731	14,705
Total other long-term assets	<u>\$ 206,890</u>	<u>\$ 156,600</u>	<u>\$ 131,176</u>

## 9. AFFILIATION WITH SCRIPPS HEALTH

In August 1995, CHW and Scripps Health ("Scripps") entered into an affiliation agreement to enhance their mutual ability to serve the San Diego community. Through the affiliation, CHW transferred the sole voting membership of one of its subordinate corporations, Mercy Healthcare San Diego ("MHSD") to Scripps, along with the responsibility for its operation and governance. MHSD's principal activity is the operation of a hospital and a network of clinics.

Pursuant to the affiliation agreement, among other things, CHW obtained the right to receive a 20 percent interest in the annual change in unrestricted net assets of Scripps and the right to 20 percent of the net proceeds, with certain restrictions, upon the liquidation of Scripps. Scripps has the right to receive from CHW an amount equal to CHW's percentage interest in (i) the annual capital expenditures of Scripps and (ii) the annual amortization of debt principal of Scripps. CHW and Scripps may make an election annually to receive all or a portion of the accumulated but not previously paid amounts under the affiliation agreement, subject to certain conditions. No payments have ever been paid by either party under these provisions. Twenty percent of the members of the Scripps Board of Directors shall be elected from a slate of nominees proposed by CHW.

CHW accounts for the affiliation with Scripps under the equity method. Its investment at June 30, 2007, 2006 and 2005, is \$187.6 million, \$130.3 million and \$107.2 million, respectively, and is reflected on the accompanying consolidated balance sheets in ownership interests in health-related joint ventures. CHW recorded income of \$57.3 million, \$23.1 million and \$13.3 million in revenue from health-related joint ventures, net, for the years ended June 30, 2007, 2006 and 2005, respectively, related to its 20 percent interest in the unrestricted net assets of Scripps.

#### **10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

Most of CHW and its subordinate corporations are participants in certain single employer defined benefit retirement plans. The plans cover substantially all eligible employees. Benefits are generally based on age, years of service and employee compensation. As of January 1, 2007, SMRMC merged into CHW, as discussed in Note 2, and the pension plan of that organization was merged into one of CHW's defined benefit plans.

CHW hospitals also offer postretirement healthcare benefits to certain employees. During 2007, an existing plan was amended to cover additional employee groups and a new plan was established to cover other employees. As such, most CHW employees are covered by a postretirement healthcare benefit plan. For the majority of covered employees, the benefits are determined based on age, years of service and compensation up to specified amounts. Benefits for other employees are a percentage of the cost of medical coverage in future years; the percentage is based on age and years of service. Activity associated with these benefits is reflected in the following tables as Other Benefit Plans.

CHW adopted the required provisions of FAS 158 as of June 30, 2007. FAS 158 required CHW to recognize the funded status, which represents the difference between the fair value of plan assets and the projected benefit obligations of its pension and other postretirement benefit plans, in the June 30, 2007, consolidated balance sheet, with a corresponding adjustment to unrestricted net assets reflected as a cumulative effect of change in accounting principle. The adjustment to unrestricted net assets at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plans' funded status in CHW's consolidated balance sheets pursuant to the provisions of FASB Statement No. 87, *Employers' Accounting for Pensions* ("FAS 87"). These amounts will be subsequently recognized as net period pension cost pursuant to CHW's historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension costs in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets at adoption of FAS 158.

The adoption of FAS 158 had no effect on CHW's excess of revenues over expenses for the year ended June 30, 2007, or for any prior period presented, and it will not affect CHW's operating results in future periods. Had CHW not been required to adopt FAS 158 at June 30, 2007, it would have recognized a change in additional minimum pension liability pursuant to the provisions of FAS 87.

For the plans that are subject to FAS 158, the following table presents the incremental effects of adopting the provisions of FAS 158 on CHW's accompanying consolidated balance sheets at June 30, 2007. The effect of recognizing the change in additional minimum liability is included in the column labeled "Prior to Adopting FAS 158."

	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported at June 30, 2007
Pension and postretirement - (prepaid asset)	\$ (25,554)	\$ (2,948)	\$ (28,502)
Pension and postretirement - accrued liability	208,123	384,693	592,816
Increase (decrease) in unrestricted net assets	51,739	(381,745)	(330,006)

Contributions to the defined benefit retirement plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to plan participants. These plans qualify under a Church Plan Exemption, and as such are not subject to ERISA funding requirements. CHW's funding policy requires that, at a minimum, each hospital that participates in the CHW plan makes contributions equal to its unfunded normal cost plus amortization of any unfunded actuarial accrued liability. Contributions to these plans are anticipated at \$204.7 million in 2008.

The measurement date for plan assets, pension obligations and net periodic pension costs associated with the retirement and postretirement benefit plans is March 31.

The following table summarizes defined benefit and postretirement plan activities for the years ended June 30, 2007, 2006 and 2005 (in thousands):

	2007		2006		2005	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Change in benefit obligation:						
Benefit obligation at beginning of year	\$ 1,608,613	\$ 20,881	\$ 1,397,311	\$ 24,782	\$ 1,145,070	\$ 16,429
Service cost	122,391	3,411	95,004	1,754	75,891	1,072
Interest cost	97,213	2,743	84,307	1,505	73,166	1,063
Amendments	-	25,935	-	(733)	(35,530)	-
Actuarial gain (loss)	(16,238)	(1,052)	64,308	(6,289)	169,746	2,292
Acquisitions	113,300	-	-	175	-	4,206
Administrative expenses	(4,045)	-	-	-	-	-
Benefits paid	(40,031)	(11,734)	(32,317)	(313)	(31,032)	(280)
Adoption of new plan	-	36,338	-	-	-	-
Benefit obligation at end of year	<u>\$ 1,881,203</u>	<u>\$ 76,522</u>	<u>\$ 1,608,613</u>	<u>\$ 20,881</u>	<u>\$ 1,397,311</u>	<u>\$ 24,782</u>
Accumulated benefit obligation	<u>\$ 1,541,810</u>	<u>\$ 76,522</u>	<u>\$ 1,286,156</u>	<u>\$ 20,881</u>	<u>\$ 1,141,193</u>	<u>\$ 24,782</u>
Change in plan assets:						
Fair value of plan assets at beginning of year	\$ 1,085,924	\$ -	\$ 886,844	\$ -	\$ 759,597	\$ -
Actual return on plan assets	113,797	-	127,360	-	60,668	-
Employer contributions	154,545	11,734	110,938	313	102,282	280
Benefits paid	(40,031)	(11,734)	(32,317)	(313)	(31,032)	(280)
Acquisitions	67,232	-	-	-	-	-
Administrative expenses	(4,045)	-	(6,901)	-	(4,671)	-
Fair value of plan assets at end of year	<u>\$ 1,377,422</u>	<u>\$ -</u>	<u>\$ 1,085,924</u>	<u>\$ -</u>	<u>\$ 886,844</u>	<u>\$ -</u>
Funded status	\$ (503,781)	\$ (76,522)	\$ (522,689)	\$ (20,881)	\$ (510,467)	\$ (24,782)
Unrecognized actuarial loss	-	-	415,229	(2,149)	422,365	4,559
Unrecognized prior service cost	-	-	(30,417)	5,783	(33,484)	7,854
Additional minimum liability, long-term	-	-	(83,708)	-	(147,810)	-
Contributions after measurement date	15,989	-	17,263	-	11,818	-
Accrued benefit cost	<u>\$ (487,792)</u>	<u>\$ (76,522)</u>	<u>\$ (204,322)</u>	<u>\$ (17,247)</u>	<u>\$ (257,578)</u>	<u>\$ (12,369)</u>
Amounts recognized in the balance sheet consist of:						
Other long-term assets	\$ 28,502	\$ -	\$ 23,674	\$ -	\$ 22,487	\$ -
Current liabilities	(204,670)	(3,726)	(134,980)	-	(110,499)	-
Long-term liabilities	(311,624)	(72,796)	(93,016)	(17,247)	(169,566)	(12,369)
Accrued benefit cost	<u>\$ (487,792)</u>	<u>\$ (76,522)</u>	<u>\$ (204,322)</u>	<u>\$ (17,247)</u>	<u>\$ (257,578)</u>	<u>\$ (12,369)</u>
Amounts recognized in unrestricted net assets:						
Net actuarial loss	\$ 397,991	\$ (2,963)	\$ -	\$ -	\$ -	\$ -
Prior service cost	(25,935)	64,756	-	-	-	-
Additional minimum liability	-	-	(83,708)	-	(147,810)	-
Amounts in unrestricted net assets	<u>\$ 372,056</u>	<u>\$ 61,793</u>	<u>\$ (83,708)</u>	<u>\$ -</u>	<u>\$ (147,810)</u>	<u>\$ -</u>

Weighted-average assumptions as of June 30, 2007, 2006 and 2005 (dollars in thousands):

	2007		2006		2005	
	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans	Retirement Plans	Other Benefit Plans
Weighted-average assumptions used to determine benefit obligations:						
Discount rate	6.25%	6.15%	6.00%	6.00%	6.10%	6.10%
Rate of compensation increase	6% first 3 years, 5% thereafter	5.00%	6% first 3 years, 5% thereafter	N/A	6% first 3 years, 5% thereafter	N/A
Weighted-average assumptions used to determine net periodic benefit cost:						
Discount rate	6.00%	6.00%	6.10%	6.10%	6.50%	6.50%
Expected return on plan assets	8.00%	N/A	8.00%	N/A	8.50%	N/A
Rate of compensation increase	6% first 3 years, 5% thereafter	5.00%	6% first 3 years, 5% thereafter	N/A	5.00%	N/A
Components of net periodic benefit cost:						
Service cost	\$ 122,391	\$ 3,411	\$ 95,004	\$ 1,754	\$ 75,891	\$ 1,072
Interest cost	97,213	2,743	84,307	1,505	73,166	1,063
Expected return on plan assets	(92,748)	-	(73,746)	-	(67,376)	-
Net prior service cost/(credit) amortization	(3,012)	3,302	-	1,513	-	-
Net loss/(gain) amortization	23,205	(236)	-	419	-	-
Other	-	-	21,664	-	19,922	2,774
Net periodic benefit cost	<u>\$ 147,049</u>	<u>\$ 9,220</u>	<u>\$ 127,229</u>	<u>\$ 5,191</u>	<u>\$ 101,603</u>	<u>\$ 4,909</u>

Assumed healthcare trend rates only impact a portion of the amounts reported for the postretirement healthcare plan. Following are the trend rates at June 30:

	2007	2006	2005
Healthcare cost trend rate assumed for next year	9.50%	10.00%	10.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%
Year the rate reaches the ultimate trend rate	2017	2017	2017



A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (in thousands):

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service and interest cost components	\$178	\$ (117)
Effect on accumulated postretirement benefit obligation	866	(847)

Retirement plan assets are invested as follows:

	<b>Target Allocation</b>	<b>Plan Assets at March 31</b>		
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	0%	5%	10%	4%
Debt securities	22%	22%	18%	20%
Equity securities	63%	65%	68%	73%
Real estate	6%	5%	2%	3%
Other investments	9%	3%	2%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

CHW's investment strategy for the retirement plan assets is to balance the liquidity needs of the retirement plans with the long-term return goals necessary to satisfy future obligations. The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long term and maintaining security of principal to meet near term expenses and obligations through the fixed income allocations. Periodic reviews of the market values and corresponding asset allocation percentages are performed to determine whether a rebalancing of the portfolio is necessary.

CHW's retirement plan portfolio return assumptions of 8.0% for the years ended June 30, 2007 and 2006, and 8.5% for the year ended June 30, 2005, are based on the weighted average return of comparative market indices for the asset classes represented in the portfolio and discounted for retirement plan expenses, and expectations about future returns.

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

	<b>Retirement Benefits</b>	<b>Other Benefits</b>
2008	\$ 42,285	\$ 3,726
2009	48,424	4,226
2010	54,915	4,870
2011	62,768	5,234
2012	71,820	5,801
2013 - 2017	<u>545,008</u>	<u>39,863</u>
<b>Total</b>	<b><u>\$ 825,220</u></b>	<b><u>\$ 63,720</u></b>

Three hospitals participate in a multi-employer retirement plan covering certain employees; other employees are covered by individual retirement accounts or union plans. For the multi-employer plan as a whole, the net assets available for benefits exceeded the actuarially computed value of vested benefits as of the most recent actuarial valuation. The participating CHW hospitals funded the minimum funding requirement in accordance with ERISA, which was zero for the years ended June 30, 2007, 2006 and 2005.

CHW and certain subordinate corporations maintain defined contribution retirement plans. Employer contributions to those plans of \$30.2 million, \$32.6 million, and \$29.4 million for the years ended June 30, 2007, 2006 and 2005, respectively, are primarily based on a percentage of a participant's contribution.

Pension and other postretirement expense under all plans was \$187.3 million, \$167.2 million and \$135.9 million in 2007, 2006 and 2005, respectively, and is included in salaries and benefits in the consolidated statements of operations and changes in net assets.

## 11. LONG-TERM DEBT AND GUARANTEES

### *Long-Term Debt*

Long-term debt consists of the following at June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Under the Master Trust Indenture:			
2007 Financing Plan			
Fixed Rate Revenue Bonds (weighted average of 5.1 percent in 2007), payable in installments to 2033:			
Uninsured Bonds	\$ 477,568	\$ -	\$ -
Variable Rate Revenue Bonds (weighted average of 4.0 percent in 2007), payable in installments to 2042:			
Insured Auction Rate Certificates	676,250	-	-
2006 Financing Plan			
Fixed Rate Revenue Bonds (weighted average of 5.0 percent in 2007 and 2006), payable in installments to 2011:			
Uninsured Bonds	58,176	56,180	-
Variable Rate Revenue Bonds (weighted average of 3.7 and 3.4 percent in 2007 and 2006, respectively), payable in installments to 2036:			
Insured Auction Rate Certificates	609,025	609,025	-
Uninsured Variable Rate Demand Bonds	234,000	234,000	-
Senior Secured Note (weighted average of 5.8 and 5.0 percent in 2007 and 2006, respectively), due in October 2008	320,000	320,000	-
Notes payable to banks under credit agreements (weighted average of 5.8 percent in 2007), due in October 2011	2,925	-	-

	2007	2006	2005
<b>2004 Financing Plan</b>			
Fixed Rate Revenue Bonds (weighted average of 5.5, 5.5 and 5.4 percent in 2007, 2006 and 2005, respectively), payable in installments to 2027:			
Uninsured Bonds	153,159	155,050	156,300
Variable Rate Revenue Bonds (weighted average of 4.4, 4.1 and 3.4 percent in 2007, 2006 and 2005, respectively), payable in installments to 2034:			
Insured Auction Rate Certificates	342,050	342,050	342,050
Uninsured Variable Rate Demand Bonds	150,000	150,000	150,000
Uninsured Variable Rate Revenue Bonds	175,000	300,000	300,000
Uninsured Put Revenue Bonds (weighted average of 4.7 percent in 2007, 2006, and 2005), payable in installments to 2027	95,800	95,900	100,000
<b>Pre-2004 Financing Plans</b>			
Fixed Rate Revenue Bonds (weighted average of 5.4, 5.5 and 5.6 percent in 2007, 2006 and 2005, respectively), payable in installments to 2029:			
Insured Bonds	157,055	248,480	364,310
Uninsured Bonds	340,617	540,100	726,845
Variable Rate Revenue Bonds (weighted average of 3.6, 2.9 and 2.0 percent in 2007, 2006 and 2005, respectively), payable in installments to 2024:			
Insured Variable Rate Demand Bonds	75,900	75,900	81,400
Insured Auction Rate Certificates	89,100	89,500	279,700
Senior Secured Notes, 5.3 percent, due in July 2008	55,000	55,000	55,000
Total	<u>4,011,625</u>	<u>3,271,185</u>	<u>2,555,605</u>
<b>Other</b>			
Fixed Rate Revenue Bonds, 5.5 to 6.0 percent, payable in installments to 2020	-	8,000	8,405
Various notes payable and other debt, ranging up to 8.0 percent, substantially secured, payable in installments to 2042	12,193	22,040	21,552
Capitalized lease obligations	51,571	24,746	27,026
Total	<u>4,075,389</u>	<u>3,325,971</u>	<u>2,612,588</u>
Less current portion	<u>(25,745)</u>	<u>(23,214)</u>	<u>(57,612)</u>
Total long-term debt	<u>\$ 4,049,644</u>	<u>\$ 3,302,757</u>	<u>\$ 2,554,976</u>

Scheduled long-term principal debt payments for the next five years and thereafter are as follows (in thousands):

2008	\$ 25,745
2009	426,323
2010	51,902
2011	67,661
2012	79,111
Thereafter	<u>3,424,647</u>
Total	<u>\$ 4,075,389</u>

CHW maintains a bank liquidity facility for the \$75.9 million of insured variable rate demand bonds to ensure the availability of funds to purchase any bonds tendered that the re-marketing agent is unable to re-market. The bank liquidity facility expires in June 2018 unless extended by mutual agreement. CHW maintains bank letters of credit as credit enhancement and liquidity support for the \$150.0 million and \$234.0 million of uninsured variable rate demand bonds. The bank letters of credit expire in October 2010, unless extended by mutual agreement. For the \$175.0 million of uninsured variable rate revenue bonds, the bondholder is required to hold the bonds until maturity or early redemption by CHW. For insured auction rate certificates, the bondholder is required to hold the certificates until the re-marketing agent can find a new buyer for any tendered certificates. CHW has the option to convert \$2.4 billion of the variable rate bonds and auction rate certificates to a fixed rate.

**2007 Financing Plan** - In April 2007, pursuant to a financing plan (“2007 Financing Plan”), CHW consummated the following transactions:

CHW issued \$1.1 billion of bonds with various maturities through 2042. A portion of these proceeds was used to finance the cost of certain capital projects in California, Arizona and Nevada. The remainder of these proceeds was used to refund in advance \$389.1 million of previously outstanding bond obligations. Those proceeds were placed in an irrevocable trust and, pursuant to the escrow agreements, the escrow trustee purchased government securities to satisfy obligations under the bonds. The debt has been legally defeased and accordingly, the previously outstanding bond obligations and the assets placed in the trust are not included in the accompanying consolidated balance sheets as of June 30, 2007.

CHW recorded a loss on early extinguishment of debt of \$12.8 million during 2007 related to the 2007 Financing Plan. Additional losses of \$4.0 million were recorded on the early extinguishment of debt of other amounts refinanced, defeased or repurchased during 2007.

CHW entered into six insured interest rate swap agreements, with varying maturities through 2042, whereby \$400.0 million of insured auction rate certificates convert to fixed rate debt for an effective rate of approximately 3.3 percent. While CHW has the right to terminate the arrangements prior to maturity for any reason, the counterparty only has restricted rights to terminate the arrangements prior to maturity. CHW’s objective was to lower total portfolio interest rate volatility. These agreements have been designated as cash flow hedges, and therefore the effective portions of the changes in fair value are included in unrestricted net assets and the ineffective portions are included in market adjustment on swaps, net, in the accompanying consolidated statements of operations and changes in net assets in the amount of \$3.4 million of expense for the year ended June 30, 2007. The fair values of these swap agreements were recorded on the accompanying consolidated balance sheet at \$12.4 million in other current assets at June 30, 2007.

**2006 Financing Plan** - In October and November of 2005, pursuant to a financing plan (“2006 Financing Plan”), CHW consummated the following transactions:

CHW issued \$899.2 million of bonds with various maturities through 2036. A portion of these proceeds was used to finance the cost of certain capital projects in California, Arizona and Nevada. The remainder

of these proceeds was used to refund in advance \$131.7 million of previously outstanding bond obligations. Those proceeds were placed in an irrevocable trust and, pursuant to the escrow agreements, the escrow trustee purchased government securities to satisfy obligations under the bonds. The debt has been legally defeased and accordingly, the previously outstanding bond obligations and the assets placed in the trust are not included in the accompanying consolidated balance sheets as of June 30, 2007 and 2006. CHW recorded a loss on early extinguishment of debt of \$21.0 million during 2006 related to the 2006 Financing Plan.

CHW also secured the following six credit facilities as part of the 2006 Financing Plan:

- A five-year \$350.0 million syndicated credit facility that replaced a \$350.0 million credit facility with a May 2007 expiration. This facility is available for working capital, letters of credit, capital expenditures and other general corporate purposes. Letters of credit issued under this facility were \$6.0 million as of June 30, 2007 and 2006, but no amounts have been drawn. Line of credit amounts outstanding under this facility were \$2.9 million and \$0.0 million as of June 30, 2007 and 2006, respectively. During the years ended June 30, 2007 and 2006, the average interest rate on line of credit draws was 5.8 percent and 6.8 percent, respectively, and the maximum amount outstanding was \$89.1 million and \$1.0 million, respectively. This facility expires in October 2010 unless extended by mutual agreement.
- A three-year \$320.0 million syndicated term loan. The proceeds of the loan were used to defease \$310.1 million of previously outstanding bond obligations. Those proceeds were placed in an irrevocable trust, and pursuant to the escrow agreements, the escrow trustee purchased government securities to satisfy obligations under the bonds. The debt has been legally defeased and accordingly, the previously outstanding bond obligations and the assets placed in the trust are not included in the accompanying consolidated balance sheets as of June 30, 2007 and 2006. During the years ended June 30, 2007 and 2006, the average interest rate on the loan was 5.8 percent and 5.0 percent, respectively. This facility expires in October 2008 unless extended by mutual agreement.
- A five-year \$203.0 million syndicated standby letter of credit to provide credit enhancement and liquidity support for \$200.0 million of uninsured variable rate demand bonds. This facility expires in October 2010 unless extended by mutual agreement.
- A five-year \$152.3 million syndicated standby letter of credit that replaced a \$152.3 million credit facility with a May 2007 expiration. The facility provides credit enhancement and liquidity support for \$150.0 million of uninsured variable rate demand bonds. This facility expires in October 2010 unless extended by mutual agreement.
- A five-year \$34.5 million syndicated standby letter of credit to provide credit enhancement and liquidity support for \$34.0 million of uninsured variable rate demand bonds. This facility expires in October 2010 unless extended by mutual agreement.
- A five-year \$20.0 million single bank line of credit that replaced a \$20.0 million credit facility with a May 2007 expiration. This facility is available for letters of credit. Letters of credit issued under this facility were \$11.2 million and \$6.3 million as of June 30, 2007 and 2006, respectively, but no amounts have been drawn. This facility expires in October 2010 unless extended by mutual agreement.

In November 2005, CHW entered into eight insured interest rate swap agreements, with varying maturities through 2033, whereby \$419.0 million of insured auction rate certificates convert to fixed rate debt for an effective rate of approximately 3.1 percent. While CHW has the right to terminate the arrangements prior to maturity for any reason, the counterparty only has restricted rights to terminate the arrangements prior to maturity. CHW's objective was to lower total portfolio interest rate volatility. These agreements have been designated as cash flow hedges, and therefore the effective portions of the changes in fair value are included in unrestricted net assets and the ineffective portions are included in market adjustment on swaps,

net, in the accompanying consolidated statements of operations and changes in net assets in the amount of \$0.1 million and \$4.8 million of expense for the years ended June 30, 2007 and 2006, respectively. The fair values of these swap agreements were recorded on the accompanying consolidated balance sheets at \$14.5 million and \$16.4 million in other current assets at June 30, 2007 and 2006, respectively.

**2004 Financing Plan** - In April and May of 2004, pursuant to a financing plan ("2004 Financing Plan"), CHW consummated the following transactions:

CHW issued \$1,048.4 million of bonds with various maturities through 2034. A portion of these proceeds was used to finance the cost of certain capital projects, including expansion plans in Arizona and Nevada and capital projects in California. The remainder of those proceeds was used to refund in advance \$518.4 million of previously outstanding bond obligations. Those proceeds were placed in an irrevocable trust and, pursuant to the escrow agreements, the escrow trustee purchased government securities to satisfy obligations under the bonds. The debt has been legally defeased and accordingly, the previously outstanding bond obligations and the assets placed in the trust are not included in the accompanying consolidated balance sheets as of June 2007, 2006 and 2005. CHW recorded a loss on early extinguishment of debt of \$15.3 million during 2004 related to the 2004 Financing Plan.

Included in the \$1,048.4 million of bonds, CHW issued \$100.0 million of uninsured put revenue bonds initially bearing interest at a fixed rate for a period of 7 years for \$50.0 million of bonds and 10 years for the remaining \$50.0 million of bonds. Thereafter, CHW may elect to convert the bonds' terms to an alternate interest period or to another long-term interest rate period. The bonds will be subject to mandatory tender for purchase on the first day of each interest rate period.

CHW also secured three, three-year credit facilities as part of the 2004 Financing Plan:

- A \$350.0 million syndicated credit facility that replaced two facilities totaling \$350.0 million. This facility, with a maturity date of May 2007, was available for working capital, letters of credit, capital expenditures and other general corporate purposes. Letters of credit issued under this facility were \$5 million as of June 30, 2005, but no amounts were drawn. No line of credit amounts were outstanding under this facility as of June 30, 2005. During the years ended June 30, 2006 and 2005 there were no draws on the line of credit. This facility was terminated and replaced with another \$350.0 million credit facility as part of the 2006 Financing Plan.
- A \$152.3 million syndicated standby letter of credit facility to provide credit enhancement and liquidity support for \$150.0 million of uninsured variable rate demand bonds. This facility had a maturity date of May 2007. This facility was terminated and replaced with another \$152.3 million credit facility as part of the 2006 Financing Plan.
- A \$20.0 million single bank line of credit replacing a facility totaling \$30.0 million. This facility had a maturity date of May 2007 and was available for letters of credit. Letters of credit issued under this facility were \$10.7 million as of June 30, 2005, but no amounts were drawn. This facility was terminated and replaced with another \$20.0 million credit facility as part of the 2006 Financing Plan.

In April 2004, CHW entered into two total return swap agreements that effectively converted \$300.0 million of uninsured variable interest rate bonds to floating rate debt. One agreement, expiring in April 2009, covered \$125.0 million of bonds. This agreement was terminated in conjunction with the advance refunding of the underlying bonds as part of the 2007 Financing Plan. The other agreement covers \$175.0 million of bonds expiring in April 2009. CHW receives the current interest on the bonds in exchange for interest at a variable rate equal to the BMA Index plus a fixed spread. Both CHW and the counterparty have the right to terminate the arrangement prior to maturity. CHW's objective was to minimize the interest expense on the new debt. The derivatives convert a variable rate set at the 30-year bond index to a weekly reset index. These instruments have not been designated as cash flow hedges, and therefore the changes in fair value are included in market adjustments on swaps, net in the accompanying consolidated statements of operations and changes in net assets. The fair values of these total return swap instruments were recorded on the accompanying consolidated balance sheets at \$3.8 million (related to the \$175



million agreement only), \$4.2 million, and \$7.8 million in current assets at June 30, 2007, 2006 and 2005, respectively. Upon termination, the mark-to-market adjustment will be updated to reflect the settlement value of the securities.

In April 2004, CHW entered into six insured interest rate swap agreements, with varying maturities through 2026, whereby \$342.1 million of insured auction rate certificates convert to fixed rate debt for an effective rate of approximately 3.4 percent. While CHW has the right to terminate the arrangement prior to maturity for any reason, the counterparty only has restricted rights to terminate the arrangements prior to maturity. CHW's objective was to lower total portfolio interest rate volatility. These agreements have been designated as cash flow hedges, and therefore the effective portions of the changes in fair value are included in unrestricted net assets and the ineffective portions are included in market adjustment on swaps, net, in the accompanying consolidated statements of operations and changes in net assets in the amount of \$0.0 million of income, \$9.0 million of income and \$9.0 million of expense for the years ended June 30, 2007, 2006 and 2005, respectively. The fair values of these swap agreements were recorded on the accompanying consolidated balance sheets at \$1.4 million in current assets, \$2.3 million in current assets and \$25.5 million in current liabilities at June 30, 2007, 2006 and 2005, respectively.

**Swap Arrangements** - In addition to the swap arrangements discussed above, in September 2003, CHW entered into an agreement whereby \$52.9 million of then outstanding bonds (currently \$41.2 million outstanding) were repurchased and then sold to a bank. Simultaneously, CHW entered into a total return swap arrangement with the bank to effectively convert the bonds to a variable rate. CHW's objective was to reduce the interest rate. This instrument has not been designated as a hedge, and therefore, the changes in fair value of \$0.0 million, \$0.2 million and \$0.3 million of expense are included in market adjustments on swaps, net, in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2007, 2006 and 2005, respectively. The fair values of this total return swap instrument were recorded on the accompanying consolidated balance sheets at \$0.0 million, \$0.0 million and \$0.3 million in current assets at June 30, 2007, 2006 and 2005, respectively. Upon termination, the mark-to-market adjustment will be updated to reflect the settlement value of the securities.

CHW entered into an interest rate swap agreement in August 1999 in the notional amount of \$86.0 million that effectively converts fixed rate debt (average rate of 5.5 percent) to variable rate debt. CHW sold an option to the swap counterparty, which the counterparty exercised, to suspend payments under the swap. The counterparty has the option to resume payments at a future date if the six-month daily weighted average of the BMA Municipal Swap Index averages above 7.0 percent. CHW used the cash payment to finance the termination payment on another derivative. This agreement expires in August 2009 and has not been designated as a hedge agreement, therefore the changes in fair value of \$0.0 million, \$0.0 million and \$0.2 million of income are included in market adjustment on swaps, net, in the accompanying consolidated statements of operations and changes in net assets for the years ended June 30, 2007, 2006 and 2005, respectively. The fair values of this interest rate swap agreement were recorded on the accompanying consolidated balance sheets at \$0.0 million, in current liabilities, for the years ended June 30, 2007, 2006 and 2005.

The estimated fair values of the interest rate swap instruments have been determined using available market information and valuation methodologies, primarily discounted cash flows. The estimated fair values of the total return swap instruments are determined using available market information and valuation methodologies, considering both discounted cash flows and the current market value of the variable interest rate bonds. Changes in fair value of the interest rate swap instruments that have not been designated as hedges are included in market adjustment on swaps, net, on the consolidated statements of operations and changes in net assets.

CHW retains an investment bank to monitor and report on its swaps. It is CHW's policy to provide sound stewardship of fiscal resources by effectively managing both the level of outstanding debt and the proportion of variable to fixed rate debt. CHW's objective in using interest rate swap contracts is to increase or decrease its variable rate debt exposure, thereby controlling its risk. The same investment bank advised CHW at the inception of each swap and monitors each swap for its entire term. The investment bank also monitors the mark-to-market trends in the total return swaps and advises CHW on exit strategies.

**Other Terms of Debt Agreements** - CHW may redeem bonds in whole or in part, prior to the stated maturities; redemption is without premium if the bonds have a variable interest rate and is with a premium of up to 2 percent if the bonds have a fixed rate.

The Master Trust Indenture of the Obligated Group requires, among other things, gross revenue pledged as collateral, certain limitations on additional indebtedness, liens on property, disposition or transfers of assets, and the maintenance of certain cash balances and other financial ratios. CHW is in compliance with these requirements as of June 30, 2007.

CHW has entered into arrangements where it provides collateral for the benefit of various lenders. The collateral, classified as Board-designated assets limited as to use on the consolidated balance sheets, is generally held within CHW's investment accounts at State Street Bank & Trust Company. The market value of the collateral was \$43.1 million, \$40.5 million, and \$40.8 million at June 30, 2007, 2006 and 2005, respectively, with a maximum liability of \$8.3 million at June 30, 2007, 2006 and 2005.

**Fair Values of Long-Term Debt** – The fair value of CHW's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to CHW for debt of the same remaining maturities. The estimated fair values of CHW's debt instruments as of June 30, 2007, 2006 and 2005, are as follows (in thousands):

	2007	2006	2005
Debt issued under Master Trust Indenture	\$ 4,013,668	\$ 3,291,101	\$ 2,605,811
Other	63,764	54,786	57,319
Total	<u>\$ 4,077,432</u>	<u>\$ 3,345,887</u>	<u>\$ 2,663,130</u>

The fair value amounts do not represent the amount CHW would be required to expend to retire the indebtedness.

**Guarantees** – CHW enters into physician recruitment agreements with certain physicians who agree to relocate to its communities to fill a need in the hospitals' service areas and commit to remain in practice there. Under these agreements, CHW makes loans available to the physicians that are earned over the period the physicians fulfill their commitment to the community, which is typically four years, or are repayable by the physicians. The carrying amount of the liability for CHW's obligations under these guarantees is \$19.3 million, \$0.0 million, and \$0.0 million as of June 30, 2007, 2006, and 2005, respectively. The maximum potential amount of future undiscounted payments CHW could be required to make under these guarantees is \$23.7 million and \$8.7 million as of June 30, 2007 and 2006, respectively.

CHW and certain subordinate corporations have guaranteed the indebtedness of other organizations in the amount of \$25.9 million, \$28.5 million and \$23.8 million as of June 30, 2007, 2006 and 2005, respectively, which includes amounts discussed under Transactions between Related Organizations in Note 2.

## 12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Restricted net assets as of June 30, 2007, 2006 and 2005, consist of donor-restricted contributions and grants, which are to be used as follows (in thousands):

	2007	2006	2005
Equipment and expansion	\$ 105,473	\$ 101,593	\$ 77,517
Research and education	67,209	56,640	31,485
Charity and other	127,880	102,353	106,989
Endowments	<u>85,626</u>	<u>85,349</u>	<u>78,657</u>
Total	<u>\$ 386,188</u>	<u>\$ 345,935</u>	<u>\$ 294,648</u>

## 13. COMMITMENTS, CONTINGENT LIABILITIES AND OTHER

**General Regulatory Compliance** - The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by healthcare providers.

**Pending Matters** - CHW has resolved several government claims of improper cost reimbursement, improper claims for physicians' services, improper claims for hospital services and possible violations of the anti-kickback and anti-referral laws. Certain settlements resulted in a Corporate Integrity Agreement that applied to CHW affiliates in its Sacramento, California service area. The Corporate Integrity Agreement, which expired in July 2006, did not obligate CHW to make any material payments and does not otherwise limit its operations in any material manner.

CHW facilities are currently under investigation by the Department of Justice and Office of Inspector General for false or otherwise improper claims in connection with Medicare cost reporting, as well as claims for reimbursement of hospital and administrative services. Currently, the information CHW has received from the government is largely confined to the information requests it has received, and as yet, the government has not made any specific charges, nor has it suggested the amount of any repayments or other penalties. Information exchange and discussions are ongoing. Given the current status of the matter and based on the limited information received to date from the government, CHW management does not presently have information indicating that this investigation or its resolution will have a material adverse effect on CHW. Nevertheless, an investigation of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of this matter will not adversely affect the financial condition or results of operations of CHW.

**Charity Care for the Uninsured and Underinsured** - CHW periodically reviews its policies and procedures to ensure they are consistent with and in furtherance of CHW's mission. In May of 2004, CHW modified its systemwide Patient Financial Assistance Policy ("Policy") to provide discounted care to eligible uninsured and underinsured patients in a more uniform manner. The Policy was subsequently updated to reflect further developments.

Over the past several years, there has been extensive public focus on the practices of hospitals regarding amounts charged to patients who are uninsured or underinsured. Lawsuits have been filed against many hospitals and health systems challenging their practices. On October 11, 2005, two lawsuits were filed against CHW in California state courts. A third lawsuit was filed in federal court on December 23, 2005, which was

subsequently dismissed without prejudice on March 20, 2006. The lawsuits generally charge CHW with inappropriate billing and collection practices of the uninsured, and allege, among other things, claims for breach of contract, breach of the implied covenant of good faith and fair dealing and unfair business practices. Each suit is purportedly fashioned as a class action. Although CHW management currently believes that the liability exposure raised by these actions is not material, these or similar actions, individually or in the aggregate, could ultimately have a material adverse effect on the results of operations or financial condition of CHW.

In November 2006, the San Francisco Superior Court granted preliminary approval of a settlement agreement between CHW and plaintiffs in one of the October 2005 lawsuits, which received final approval in January 2007. Under the settlement agreement, class members had until March 8, 2007, to submit claims. The final settlement has been appealed to the California Appellate Court by one of the class member claimants, who is also a plaintiff in the non-settled lawsuit. No claims can be paid pending resolution of the appeal. The estimated costs associated with implementing and administering the settlement have been accrued as current liabilities in CHW's financial statements. The remaining lawsuit continues, though management does not believe that any material liabilities will result.

CHW management believes that the Policy, in combination with its other charitable activities, demonstrates that it operates in full compliance with the laws and regulations that are at issue in the lawsuits arising in this area. However, like other hospitals and health systems, CHW or one or more of its constituent hospitals can, at any time, be sued in individual or class action lawsuits such as the three described above, or potentially by the government or other parties. Potential lawsuits in this area could also include allegations related to balance billing of patients where the insurer has made payment, placing liens on tort recoveries of patients, collection practices or errors by collection agencies, and similar matters. In some such situations, CHW would expect to use the Policy as well as the settlement, as a means to defend and/or otherwise resolve any such action in a manner favorable to CHW. Nevertheless, there can be no certainty that such future action, or actions, might not arise and result in additional liability to CHW.

**Operating Leases** – CHW leases various equipment and facilities under non-cancelable operating leases. Total rental expense for the years ended June 30, 2007, 2006 and 2005, was \$93.3 million, \$79.0 million and \$72.4 million, respectively.

Net future minimum lease payments under non-cancelable operating leases as of June 30, 2007, are as follows (in thousands):

2008	\$ 58,206
2009	47,500
2010	38,415
2011	31,150
2012	24,526
Thereafter	<u>63,797</u>
Total	<u>\$ 263,594</u>

**Long-term Contracts** – Effective in July 2001, CHW entered into a ten-year agreement for information technology management services. The agreement specifies the types and levels of services, which may be modified by mutual agreement, and provides for annual inflation adjustments. Under the terms of this agreement, CHW paid \$77.7 million, \$67.2 million and \$59.1 million in 2007, 2006 and 2005, respectively. The agreement contains a mechanism for price adjustments should there be new affiliations or disaffiliations. Subject to payment of significant penalties, CHW may cancel the agreement without cause three years after the effective date.

Effective in April, 2007, CHW entered into an eight-year agreement for remote hosting and hot site hosting for certain electronic medical record technology for certain CHW facilities. The agreement specifies the types and levels of services, with additional schedules for additional services available for future consideration. Under the terms of the agreement, CHW will pay approximately \$103.3 million over the eight-year period of which

CHW paid \$3.0 million in 2007. The agreement may be terminated for material breach including significant failure of service levels but may not be cancelled without cause.

**Capital and Purchase Commitments** – CHW and certain subordinate corporations have undertaken various construction and expansion projects. At June 30, 2007, 2006 and 2005, remaining capital commitments related to these projects were approximately \$407.4 million, \$148.3 million and \$198.8 million, respectively. Excluding the capital and long-term contract commitments discussed above, at June 30, 2007, remaining purchase commitments were approximately \$29.0 million.

**Seismic Standards** – The State of California requires compliance with certain seismic standards by 2008. An extension of this seismic compliance deadline to 2013 has been granted for most CHW facilities. Based upon studies performed, the total cost of bringing all facilities into compliance to meet the standards in effect until 2030 is estimated to be between \$800.0 million and \$1.0 billion before inflation. Planning measures are underway that may result in certain of the seismically noncompliant facilities being withdrawn from use.

#### 14. CHW, SUBORDINATE CORPORATIONS AND SUBSIDIARIES (UNAUDITED)

Following is a list of corporations and subsidiaries that are included in the accompanying consolidated financial statements for the year ending June 30, 2007. Unless otherwise indicated, such entities are nonprofit corporations. The Obligated Group Members are denoted by an asterisk (\*). Unless otherwise indicated, subsidiaries are not Obligated Group Members.

<p>Catholic Healthcare West*</p> <p>Operating dba's of Catholic Healthcare West</p> <p>Arroyo Grande Community Hospital</p> <p>California Hospital Medical Center – Los Angeles</p> <p>Chandler Regional Hospital</p> <p>Dominican Hospital</p> <p>French Hospital Medical Center</p> <p>Glendale Memorial Hospital and Health Center</p> <p>Marian Medical Center</p> <p>Mercy General Hospital</p> <p>Mercy Gilbert Medical Center</p> <p>Mercy Hospital Bakersfield</p> <p>Mercy Hospital of Folsom</p> <p>Mercy Medical Center Merced - Community Campus</p> <p>Mercy Medical Center Merced - Dominican Campus</p> <p>Mercy Medical Center Mt. Shasta</p> <p>Mercy Medical Center Redding</p> <p>Mercy San Juan Medical Center</p> <p>Mercy Southwest Hospital</p> <p>Methodist Hospital of Sacramento</p> <p>Northridge Hospital Medical Center - Roscoe Blvd. Campus</p> <p>Saint Mary's Regional Medical Center</p> <p>San Gabriel Valley Medical Center</p> <p>St. Bernardine Medical Center</p> <p>St. Elizabeth Community Hospital</p> <p>St. John's Pleasant Valley Hospital</p> <p>St. John's Regional Medical Center</p> <p>St. Joseph's Behavioral Health Center</p> <p>St. Joseph's Hospital and Medical Center</p> <p>St. Joseph's Medical Center of Stockton</p> <p>St. Mary Medical Center</p> <p>St. Mary's Medical Center</p> <p>St. Rose Dominican Hospital Rose de Lima Campus</p> <p>St. Rose Dominican Hospital Siena Campus</p> <p>St. Rose Dominican Hospital San Martin Campus</p> <p>Woodland Memorial Hospital</p> <p>Catholic Healthcare West Hospital and Professional Liability Self-Insurance Trust (California trust)</p> <p>Catholic Healthcare West Workers' Compensation Self-Insurance Trust (California trust)</p> <p>CHW Insurance Ltd. (Cayman Island corporation)</p> <p>Bakersfield Memorial Hospital*</p> <p>CHW Medical Foundation*</p> <p>Community Hospital of San Bernardino*</p> <p>Mercy Senior Housing, Inc.*</p> <p>Saint Francis Memorial Hospital*</p> <p>Sequoia Health Services*</p> <p>Sierra Nevada Memorial-Miners Hospital*</p>	<p>Arroyo Grande Community Hospital Foundation</p> <p>California Hospital Medical Center Foundation</p> <p>CHW Foundation East Valley</p> <p>Community Hospital Foundation</p> <p>Dominican Hospital Foundation</p> <p>French Hospital Medical Center Foundation</p> <p>Glendale Memorial Health Foundation</p> <p>Marian Medical Center Foundation</p> <p>Mercy Foundation, Bakersfield</p> <p>Mercy Medical Center Merced Foundation</p> <p>Northridge Hospital Foundation</p> <p>Saint Mary's Foundation</p> <p>San Gabriel Valley Medical Center Foundation</p> <p>St. Bernardine Medical Center Foundation</p> <p>St. Francis Foundation of Santa Barbara</p> <p>St. John's Healthcare Foundation (Oxnard and Pleasant Valley)</p> <p>St. Joseph's Foundation (Phoenix)</p> <p>St. Joseph's Foundation of San Joaquin</p> <p>St. Mary Medical Center Foundation</p> <p>St. Mary's Medical Center Foundation</p> <p>St. Rose Dominican Health Foundation</p> <p>CDS of Nevada, Inc. (taxable)</p> <p>Dominican Health Services</p> <p>Dominican Oaks Corporation</p> <p>Glendale Memorial Services Corporation (taxable)</p> <p>Inland Health Organization of Southern California (taxable)</p> <p>Management Services Organization of Santa Maria, Inc. (taxable)</p> <p>Marian Community Clinics, Inc.</p> <p>Marian Health Services, Inc. (taxable)</p> <p>Mark Twain St. Joseph's Healthcare Corporation</p> <p>Merced Alliance for Managed Care, Inc. (taxable)</p> <p>Primary Care Plus (taxable)</p> <p>Primary Care Plus Foundation</p> <p>Saint Mary's Healthfirst (taxable)</p> <p>Saint Mary's Outpatient Surgery Center at Galena</p> <p>Saint Mary's Preferred Health Insurance Company, Inc. (taxable)</p> <p>Shasta Senior Nutrition Program</p> <p>Golden Umbrella</p> <p>Sierra Nevada Memorial Home Care, Inc.</p> <p>SJH Holdings, Inc. (taxable)</p> <p>St. Francis Hospital Support Corporation</p> <p>St. Mary Catholic Housing Corporation</p> <p>St. Mary Health Ventures, Inc. (taxable)</p> <p>St. Mary Professional Building, Inc.</p> <p>Trinity Care LLC (taxable)</p>
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Catholic Healthcare West  
San Francisco, California

We have audited the basic consolidated financial statements of Catholic Healthcare West and Subordinate Corporations ("Catholic Healthcare West") as of and for the years ended June 30, 2007, 2006 and 2005, and our report thereon appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements of Catholic Healthcare West taken as a whole. The additional information on pages 35 through 41 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of Catholic Healthcare West's management. Such additional information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

*Deloitte + Touche LLP*

September 21, 2007  
(April 14, 2008 as to Note 2)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP BALANCE SHEETS

**JUNE 30, 2007, 2006 AND 2005 (in thousands)**

Assets	2007	2006	2005
Current assets:			
Cash and cash equivalents	\$ 461,395	\$ 447,929	\$ 421,868
Short-term investments	394,198	243,829	136,614
Cash and cash equivalents held under securities lending program	424,796	315,206	272,930
Cash held for related corporations	144,535	125,507	107,090
Assets limited as to use	144,814	153,643	214,024
Patient accounts receivable, net	1,069,920	910,334	859,180
Due from related corporations	-	1,894	6,280
Other current assets	<u>335,203</u>	<u>284,941</u>	<u>206,264</u>
Total current assets	<u>2,974,861</u>	<u>2,483,283</u>	<u>2,224,250</u>
Assets limited as to use:			
Board-designated assets for:			
Capital projects	2,231,058	1,897,753	1,489,857
Workers' compensation	305,960	299,907	302,387
Hospital professional and general liability	232,570	222,304	192,320
Under bond indenture agreements for:			
Capital projects	855,357	434,241	162,956
Debt service	53,182	56,257	97,982
Bond reserves	46,256	77,349	87,161
Donor-restricted	21,223	19,153	16,812
Other	54,608	43,891	47,552
Less amount required to meet current obligations	<u>(144,814)</u>	<u>(153,643)</u>	<u>(214,024)</u>
Net assets limited as to use	<u>3,655,400</u>	<u>2,897,212</u>	<u>2,183,003</u>
Property and equipment, net	2,903,899	2,470,747	2,119,693
Ownership interests in health-related joint ventures	308,449	219,685	183,456
Assets held for sale	24,825	25,512	42,103
Other long-term assets	<u>200,252</u>	<u>150,134</u>	<u>125,263</u>
Total assets	<u>\$ 10,067,686</u>	<u>\$ 8,246,573</u>	<u>\$ 6,877,768</u>

(Continued)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP BALANCE SHEETS

**JUNE 30, 2007, 2006 AND 2005 (in thousands)**

---

Liabilities and Net Assets	2007	2006	2005
Current liabilities:			
Current portion of long-term debt	\$ 25,578	\$ 22,455	\$ 56,885
Accounts payable	322,759	296,680	252,159
Payable under securities lending program	424,796	315,206	272,930
Due to government agencies	24,466	28,600	17,889
Due to related corporations	104,925	111,734	95,008
Accrued salaries and benefits	360,945	327,712	296,815
Accrued workers' compensation	41,380	44,296	50,977
Accrued hospital professional and general liability	45,585	44,102	61,124
Pension and other postretirement liabilities	209,730	134,968	110,347
Other accrued liabilities	<u>231,722</u>	<u>205,222</u>	<u>217,320</u>
Total current liabilities	<u>1,791,886</u>	<u>1,530,975</u>	<u>1,431,454</u>
Other liabilities:			
Workers' compensation	192,465	197,422	186,531
Hospital professional and general liability	180,640	198,050	185,600
Pension and other postretirement liabilities	385,150	32,494	36,934
Other	<u>124,656</u>	<u>188,493</u>	<u>220,510</u>
Total other liabilities	<u>882,911</u>	<u>616,459</u>	<u>629,575</u>
Long-term debt, net of current portion	<u>4,039,957</u>	<u>3,275,402</u>	<u>2,527,107</u>
Total liabilities	<u>6,714,754</u>	<u>5,422,836</u>	<u>4,588,136</u>
Net assets:			
Unrestricted	3,332,967	2,805,173	2,272,603
Temporarily restricted	<u>19,965</u>	<u>18,564</u>	<u>17,029</u>
Total net assets	<u>3,352,932</u>	<u>2,823,737</u>	<u>2,289,632</u>
Total liabilities and net assets	<u>\$ 10,067,686</u>	<u>\$ 8,246,573</u>	<u>\$ 6,877,768</u>

(Concluded)

See notes to additional information.

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2007, 2006 AND 2005 (in thousands)

	2007	2006	2005
Unrestricted revenues and other support:			
Net patient revenue	\$ 6,655,835	\$ 5,945,528	\$ 5,439,507
Premium revenue	418,021	335,902	310,620
Revenue from health-related joint ventures, net	104,314	63,253	37,522
Other operating revenue	169,792	174,135	156,326
Contributions	<u>17,209</u>	<u>11,140</u>	<u>11,423</u>
Total unrestricted revenues and other support	<u>7,365,171</u>	<u>6,529,958</u>	<u>5,955,398</u>
Expenses:			
Salaries and benefits	3,691,120	3,271,057	2,988,483
Supplies	1,088,862	963,264	899,403
Provision for bad debts	547,305	531,119	486,598
Purchased services and other	1,293,824	1,125,419	1,039,074
Depreciation	295,359	230,651	228,633
Interest, net	147,781	121,328	105,192
Market adjustment on swaps, net	3,925	(552)	1,039
Loss on early extinguishment of debt	<u>16,442</u>	<u>21,668</u>	<u>386</u>
Total expenses	<u>7,084,618</u>	<u>6,263,954</u>	<u>5,748,808</u>
Operating income	280,553	266,004	206,590
Other income:			
Investment income, net	<u>578,646</u>	<u>164,658</u>	<u>141,553</u>
Excess of revenues over expenses	<u>\$ 859,199</u>	<u>\$ 430,662</u>	<u>\$ 348,143</u>

(Continued)

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2007, 2006 AND 2005 (in thousands)

	2007	2006	2005
Unrestricted net assets:			
Excess of revenues over expenses	\$ 859,199	\$ 430,662	\$ 348,143
Effect of changes in accounting principles	(381,745)	(21,499)	-
Net assets acquired in merger	156,847	-	-
Change in net unrealized gains (losses) on investments	(203,302)	6,014	34,564
Net assets released from restrictions used for purchase of property and equipment	4,161	3,232	1,616
Change in additional minimum pension liability	51,739	64,102	(85,778)
Gain (loss) from discontinued operations	820	(6,687)	(24,089)
Change in fair value of interest rate swaps	13,052	39,995	(12,952)
Donated property and equipment	14,372	11,935	10,801
Other	<u>12,651</u>	<u>4,816</u>	<u>(14,179)</u>
Increase in unrestricted net assets	<u>527,794</u>	<u>532,570</u>	<u>258,126</u>
Temporarily restricted net assets:			
Contributions	2,428	5,255	6,918
Net assets acquired in merger	9,369	-	-
Net realized and unrealized gains on investments	1,281	488	-
Net assets released from restrictions	(6,075)	(3,856)	2,979
Change in interest in net assets of unconsolidated foundations	-	-	(2,248)
Other	<u>(5,602)</u>	<u>(352)</u>	<u>(5,774)</u>
Increase in temporarily restricted net assets	<u>1,401</u>	<u>1,535</u>	<u>1,875</u>
Increase in net assets	529,195	534,105	260,001
Net assets, beginning of year	<u>2,823,737</u>	<u>2,289,632</u>	<u>2,029,631</u>
Net assets, end of year	<u>\$ 3,352,932</u>	<u>\$ 2,823,737</u>	<u>\$ 2,289,632</u>

(Concluded)

See notes to additional information.

## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007, 2006 AND 2005 (in thousands)

	2007	2006	2005
Cash flows from operating activities:			
Change in net assets	\$ 529,195	\$ 534,105	\$ 260,001
Adjustments to reconcile change in net assets to cash provided by operating activities:			
Loss on early extinguishment of debt	16,442	21,668	386
Depreciation, including discontinued operations	297,819	235,173	233,717
Amortization	10,385	13,789	8,884
Equity in earnings of equity method investments	(88,610)	(36,229)	(32,514)
(Gain) loss on disposal of assets, including discontinued operations	(2,974)	2,288	(11,640)
Property value adjustments, including discontinued operations	-	-	804
Restricted contributions and investment income	(3,190)	(5,645)	(8,784)
Change in additional minimum pension liability	(51,739)	(64,102)	83,375
Change in net realized and unrealized gains on investments	(256,200)	(81,214)	(115,660)
Effect of changes in accounting principles	381,745	21,499	-
Change in fair value of interest rate swaps	(13,052)	(39,995)	12,952
Net assets associated with merger	(166,216)	-	-
Changes in certain assets and liabilities:			
Accounts receivable, net	(124,426)	(51,154)	(40,155)
Accounts payable	12,395	44,521	32,037
Workers' compensation and hospital professional and general liabilities	(31,597)	(362)	52,217
Accrued salaries and benefits	30,621	30,897	-
Accrued liabilities	75,490	52,518	54,460
Other, net	(128,245)	(67,950)	31,377
Cash provided by operating activities	487,843	609,807	561,457
Cash flows from investing activities:			
Purchase of investments	(3,165,188)	(2,827,654)	(2,112,617)
Proceeds from sale of investments	2,586,606	2,146,017	2,144,697
Cash proceeds on disposal of assets	13,706	4,938	4,731
Proceeds from disposal of discontinued operations	-	12,365	29,995
Net assets associated with merger	22,126	-	-
Additions to operating property and equipment	(542,995)	(573,446)	(435,864)
Increase in securities lending collateral	(109,590)	(42,276)	(175,293)
Other, net	4,288	(116)	3,221
Cash used in investing activities	(1,191,047)	(1,280,172)	(541,130)

(Continued)



## CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

### ADDITIONAL INFORMATION – CATHOLIC HEALTHCARE WEST OBLIGATED GROUP STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2007, 2006 AND 2005 (in thousands)

---

	2007	2006	2005
Cash flows from financing activities:			
Borrowings	1,266,391	1,219,428	-
Repayments	(630,753)	(530,678)	(52,546)
Increase in payable under security lending program	109,590	42,276	175,293
Restricted contributions and investment income	3,190	5,645	8,784
Deferred financing costs	(31,748)	(40,245)	(464)
Cash provided by financing activities	716,670	696,426	131,067
Net increase in cash and cash equivalents	13,466	26,061	151,394
Cash and cash equivalents at beginning of year	447,929	421,868	270,474
Cash and cash equivalents at end of year	\$ 461,395	\$ 447,929	\$ 421,868
Components of cash and cash equivalents and investments at end of year:			
Cash and cash equivalents	\$ 461,395	\$ 447,929	\$ 421,868
Short-term investments	394,198	243,829	136,614
Board-designated assets for capital projects	2,231,058	1,897,753	1,489,857
Total	\$ 3,086,651	\$ 2,589,511	\$ 2,048,339
Supplemental disclosures of cash flow information:			
Cash paid for interest, net of capitalized interest	\$ 157,984	\$ 128,281	\$ 99,404
Assets acquired under capital lease	\$ 2,256	\$ 3,447	\$ 2,856
Donated property and equipment	\$ 14,372	\$ 11,935	\$ 10,801

(Concluded)

See notes to additional information.

**CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS**  
**NOTES TO ADDITIONAL INFORMATION –**  
**CATHOLIC HEALTHCARE WEST OBLIGATED GROUP**  
**YEARS ENDED JUNE 30, 2007, 2006 AND 2005**

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**1. BASIS OF PRESENTATION**

The additional information on the balance sheets, statements of operations and changes in net assets and statements of cash flows of Catholic Healthcare West Obligated Group (the “Obligated Group”) have been prepared in accordance with generally accepted accounting principles and pursuant to the provisions of the Master Trust Indenture dated November 15, 1985, between Mercy Health System (subsequently renamed Catholic Healthcare West) and Mellon Bank National Association (subsequently changed to US Bank National Association) (the “Master Trust Indenture”), as amended to date. Such information reflects the Obligated Group as defined in the Master Trust Indenture. Note 14 to the basic consolidated financial statements lists the members of the Obligated Group. Other consolidated entities whose stock is owned by an Obligated Group member are also included in the financial statements of the Obligated Group.

CHW has interests in the assets of charitable foundations that raise funds on behalf of CHW and its affiliated hospitals. The net assets of these foundations totaled approximately \$499.1 million, \$426.8 million and \$368.0 million as of June 30, 2007, 2006 and 2005, respectively. Such amounts have been excluded from the total assets of the Obligated Group in the accompanying additional information because such assets are not required to be included under the terms of the Master Trust Indenture.

**2. RESTATEMENT**

Subsequent to the issuance of the 2007 Additional Information – Catholic Healthcare West Obligated Group, management determined that the current portion of pension and other post retirement liabilities had been incorrectly included in other accrued liabilities on the balance sheet. As a result, the 2007 Additional Information has been restated from previously reported amounts to reflect the reclassification of \$209.7 million from other accrued liabilities to the current portion of pension and other post retirement liabilities. This change has no impact on the total current liabilities or total liabilities.

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**APPENDIX C**

**SUMMARY OF PRINCIPAL DOCUMENTS**

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*The 2007 Series K and L Bonds are being remarketed pursuant to this Reoffering Circular in connection with the conversion of the interest rate on such Bonds to a Long Term Interest Rate which will apply to such Bonds to their maturity or earlier redemption. These Summaries reflect the terms of such Bonds and the relevant documents only on and after the conversion date and with regard to the Bonds in the Long Term Interest Rate Period. The following are summaries of certain provisions of the Master Indenture, the Supplemental Master Indenture, the Bond Indenture and the Loan Agreement (as defined herein). These summaries do no purport to be complete or definitive and are qualified in their entirety by reference to the full terms of such documents.*

## DEFINITIONS

The following are definitions of certain terms used in this Official Statement. All capitalized terms not defined in this Official Statement have the meanings set forth in the Master Indenture and the Bond Indenture.

“Accountant” means, with respect to the Master Indenture, any independent certified public accountant or firm of such accountants selected by the Obligated Group Representative and acceptable to the Master Trustee.

“Act” means the Joint Exercise of Powers Act, constituting Title 1, Chapter 5 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Additional Indebtedness” means any Indebtedness (including all Obligations, other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) incurred subsequent to the issuance of Obligation No. 1 under the First Supplemental Master Indenture, Obligation No. 2 under the Second Supplemental Master Indenture, Obligation Nos. 3A, 3B and 3C under the Third Supplemental Master Indenture and Obligation Nos. 4A, 4B and 4C under the Fourth Supplemental Master Indenture.

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

“Adjusted Annual Operating Revenues” means, unless the context provides otherwise, as to any period, gross operating revenues, plus unrestricted interest income, of the Obligated Group for such period, less adjustments for contractual service allowances, bad debts and free services, all as determined in accordance with generally accepted accounting principles and in such a manner that no portion of operating revenues is included more than once.

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

“Affiliate” means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or a state thereof which is directly controlled by the Corporation or any other Affiliate. For purposes of this definition, control means the power to direct the management and policies of a Person through the ownership of at least a majority of its voting securities, or the right to designate or elect at least a majority of the members of its Governing Body by contract or otherwise.

“Agreement” or “Loan Agreement” means that certain loan agreement, by and between the Authority and the Corporation, dated as of April 1, 2007, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

“Annual Bond Service” means, as of any date of calculation and for any Bond Year, the sum of (1) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments, and assuming for any period of time when the actual interest rate on the Bonds cannot be determined, an interest rate equal to the greater of 6% per annum and the average interest rate per annum which would have been in effect for any 12 consecutive calendar months during the previous 18 months), (2) the principal amount of then Outstanding Bonds falling due by their

terms, and (3) the amount of all Mandatory Sinking Account Payments required by the Bond Indenture falling due on then Outstanding Bonds.

“Assured Guaranty” means Assured Guaranty Corp, a Maryland-domiciled insurance company, the insurer of the Assured Guaranty Insured Bonds.

“Assured Guaranty Bond Insurance Policy” means that financial guaranty insurance policy issued by Assurance Guaranty insuring the payments of principal of and interest on the 2007 Series K Bonds and 2007 Series L Bonds pursuant to the terms thereof.

“Authority” means the California Statewide Communities Development Authority or its successors and assigns created pursuant to, and as defined in, the Act.

“Authorized Representative” means, (a) with respect to the Corporation or any other Obligated Group Member, the Chairperson of its governing body, its chief executive officer, its chief financial officer or its vice president, treasury services; or with respect to either the Corporation or any other Obligated Group Member, any other Person or Persons designated as an Authorized Representative of the Corporation or any other Obligated Group Member by a Certificate of the Corporation or such Obligated Group Member, respectively, signed by the Chairperson of its governing body or its chief executive officer, its chief financial officer or its vice president, treasury services, and filed with the Bond Trustee and (b) with respect to the Authority, its Chairman, Vice Chairman, Secretary or any member or any other Person or Persons designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chairman, Vice Chairman, Secretary or any member and filed with the Bond Trustee.

“Balloon Indebtedness” means Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Short-Term Indebtedness and the Indebtedness intended to be used to refinance such Short-Term Indebtedness will be outstanding for a total of more than 365 days as certified in an Officer’s Certificate, 25% or more of the original principal of which matures (or is payable at the option of the holder) in the same Fiscal Year, if such 25% or more is not to be amortized below 25% by mandatory redemption prior to such year, or 25% or more of the original principal of which is payable at the option of the holder in the same Fiscal Year, if such 25% or more is not to be amortized below 25% by mandatory redemption prior to such Fiscal Year.

“Bond Indenture” means the Indenture, dated as of April 1, 2007, between the California Statewide Communities Development Authority and the Bond Trustee, relating to the Bonds, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Indenture.

“Bond Insurance Policy” means the financial guaranty insurance policy or policies issued by the Bond Insurer with respect to the applicable Series of Bonds insured by it, which Bond Insurance Policy insures or guarantees the payment when due of the principal of and interest on such Bonds as provided therein.

“Bond Insurer” means Assured Guaranty. References to “Bond Insurer” will mean the Bond Insurer so long as the Bonds insured by it remain Outstanding and it has not failed to perform under its Bond Insurance Policy.

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

“Bond Reserve Requirement” means with respect to an Issue of Bonds, as of any date of calculation, the least of (i) 10% of the original principal amount of such Bonds, (ii) Maximum Annual Bond Service on the then Outstanding Bonds and (iii) 125% of the average Annual Bond Service on all of such Issue Bonds then Outstanding.

“Bond Trustee” or “Trustee” means The Bank of New York Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America or its successor, as Bond Trustee under the Bond Indenture.

“Bond Year” means the period of twelve consecutive months ending on July 1 in any year in which Bonds are Outstanding.

“Bonds” means California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2007 Series K and L, authorized by, and at any time Outstanding pursuant to, the Bond Indenture.

“Book-Entry Form or Book-Entry System” means a form or system, as applicable, under which physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Bondholder, with the physical bond certificates held by and “immobilized” in the custody of the Depository and the book-entry system maintained by and the responsibility of others than the Authority or the Bond Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

“Book Value” when used in connection with Property, Plant and Equipment or other Property of an Obligated Group Member means the value of such Property, net of accumulated depreciation and amortization, determined in accordance with generally accepted accounting principles, for the most recent Fiscal Year for which audited Financial Statements are available, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Obligated Group Member determined in such a manner that no portion of such value of Property of any Obligated Group Member is included more than once.

“Business Day” means any day other than (A) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Principal Corporate Trust Office of the Bond Trustee are located are authorized by law or executive order to close or (B) a day on which the New York Stock Exchange is closed.

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

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

“Completion Indebtedness” means any Long-Term Indebtedness or Balloon Indebtedness incurred by any Obligated Group Member for the purpose of financing the completion of constructing or equipping facilities for which Long-Term Indebtedness or Balloon Indebtedness had theretofore been incurred, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness or Balloon Indebtedness was originally incurred.

“Consultant” means a firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Obligated Group Member, and which is a professional consultant acceptable to the Master Trustee and having the skill and experience necessary to render the particular report required by the provision of the Master Indenture in which such requirement appears.

“Conversion Date” means May \_\_\_\_, 2008.

“Corporation” means Catholic Healthcare West, a California nonprofit public benefit corporation, or any entity which is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets permitted under the Master Indenture.

“Costs of Issuance Fund” means the fund so designated and established pursuant to the Bond Indenture.

“CSCDA” means the Authority.

“Date of Issue” means the date of original execution of the Bonds.

“Days Cash on Hand” means, for the period tested, the aggregate amount of unrestricted and unencumbered (i) cash, (ii) cash equivalents and/or (iii) marketable debt and equity securities in immediately available funds as of the date of calculation divided by the quotient of (iv) operating expenses less depreciation and amortization for such period divided by (v) the number of calendar days in the semi-annual period. Notwithstanding any of the foregoing to the contrary, Days Cash on Hand will not include (vi) self-insurance funds, (vii) proceeds of any short-term borrowings including, without limitation, internal affiliate loans and draws on lines of credit regardless of the maturity date of the line of credit, (viii) proceeds of accounts receivable financings or factoring, (ix) proceeds of put debt not supported by a liquidity facility with term-out features, and (x) funds or investments subject to any restrictions, permanent or temporary, regardless of whether such funds or investments are considered restricted for purposes of generally accepted accounting principles; provided, however, that any funds or investments which are subject only to board designated restrictions not related to any restriction imposed or required by a third party pursuant to applicable law shall be included in Days Cash on Hand.

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

“Debt Service Requirement” means, for any period of time for which such determination is made, the aggregate of the scheduled payments to be made in respect of principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest on Outstanding Long-Term Indebtedness of each Obligated Group Member during such period, taking into account (i) with respect to Indebtedness represented by a Guaranty of obligations of a Person which is not an Obligated Group Member, the amount of the principal and interest payments to be taken into account pursuant to subsection (b) of the section herein entitled “MASTER INDENTURE—Particular Covenants of Each Obligated Group Member—Limitations on Guaranties,” (ii) with respect to Balloon Indebtedness, the amount of principal and interest deemed payable during such period determined under subsection (f) of the section herein entitled “MASTER INDENTURE—Particular Covenants of Each Obligated Group Member—Limitations on Additional Indebtedness,” (iii) with respect to Variable Rate Indebtedness, the amount of interest deemed payable during such period will be assumed to be equal to the average interest rate per annum which would have been in effect for any 12 consecutive calendar months during the previous 18 calendar months and (iv) with respect to Indebtedness refunded or refinanced, the amount of principal or interest taken into account during such period will be assumed to equal only the principal or interest not payable from the proceeds of Indebtedness and the investment income of such proceeds; *provided, however*, that in reference to Long-Term Indebtedness incurred to finance the construction of capital improvements, principal or interest will be excluded from the determination of the Debt Service Requirement to the extent that escrowed or trusteed funds are available to pay such principal or interest.

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

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

“Ethical and Religious Directives” means Ethical and Religious Directives for Catholic Health Care Facilities, as promulgated from time to time by the National Conference of Catholic Bishops, Washington, D.C., of the Roman Catholic Church. If the National Conference of Catholic Bishops will cease to exist, “Ethical and Religious Directives” will mean such similar directives promulgated by its successor organization or by such organization then exercising its powers and duties, or by the Roman Catholic Church.

“Event of Default” means, with respect to the Master Indenture, any one or more of those events set forth in the Master Indenture (see “MASTER INDENTURE – Defaults and Remedies – Events of Default” in this Appendix D), and with respect to the Bond Indenture, any of the events specified in such Indenture (see “BOND INDENTURE – Events of Default and Remedies of Bondholders – Events of Default” in this Appendix D).

“Favorable Opinion of Bond Counsel” means a written Opinion of Counsel from a firm of recognized standing in the field of obligations, the interest on which is excluded from gross income for purposes of federal income taxation, addressed to the Authority, a Broker-Dealer, if any, the Remarketing Agent, if any, the Bond Insurer and the Bond Trustee to the effect that the action proposed to be taken is authorized or permitted by the related Indenture and the related Loan Agreement (if applicable) and will not result in the loss of the exclusion of interest on the Bonds from gross income for federal income tax purposes.

“Fee Agent” means Wells Fargo National Association, or any successor agent determined by CSCDA from time to time.

“Financial Statements” means the consolidated or combined financial statements, which eliminate all intercompany items, of the Obligated Group.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30 or any other twelve-month period hereafter selected and designated as the official fiscal year period for purposes of the definition of “Fiscal Year” in the Master Indenture.

“Fitch” means Fitch Ratings, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

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

“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 and including certificates or other instruments evidencing ownership interests in such direct obligations of the United States of America such as “CATS,” “TIGRS,” Treasury Receipts and Stripped Treasury Coupons) or obligations the timely payment of the principal of and interest on which are unconditionally guaranteed by the full faith and credit of the United States of America and (2) obligations, the interest on which is exempt from federal income taxation under Section 103 of the Code and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clause (1) above.

“Gross Revenue Fund” means the fund so designated and established pursuant to the Master Indenture.

“Gross Revenues” means, unless the context provides otherwise, all revenues, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing), including, but without limiting the generality of the foregoing, (a) gross revenues derived from its or their operation of the facilities owned and operated by the Obligated Group Members, (b) gifts, grants, bequests, donations and contributions exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses, (c) proceeds derived from (i) insurance, other



than insurance proceeds the application of which is the subject of an agreement entered into between any Obligated Group Member and the holder of Indebtedness secured by a related Permitted Lien with respect to application of insurance proceeds or condemnation awards received in connection with Property subject to such Permitted Lien, (ii) accounts receivable, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance or indemnity programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member and (d) rentals received from the lease of office space.

“Guaranty” means all loan commitments or other obligations of any Obligated Group Member, guaranteeing in any manner, whether directly or indirectly, any obligation of any other Person, which obligation of such other Person would constitute Indebtedness if such obligation were the obligation of the Obligated Group Member.

“Holder,” “Bondholder” or “Owner” means, with respect to the Master Indenture, the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to the bearer, and, whenever used in the Bond Indenture, with respect to a Bond, means the person in whose name such Bond is registered.

“Income Available for Debt Service” means, unless the context provides otherwise, with respect to the Obligated 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 generally accepted accounting principles; *provided*, that no determination thereof will take into account: (a) any revenue or expense of a Person which is not an Obligated Group Member or any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (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 and (d) extraordinary non-cash items.

For purposes of determining if a Bond Reserve Fund created under the Bond Indenture must be funded, subparagraph (d) above is replaced by:

“(d) write-downs or write-ups of assets (other than at time of sale), losses on discontinued operations, asset impairment charges on non-financial assets, unrealized gains or losses of any kind and market-to-market charges on financial contracts such as interest rate swaps, caps or collars, and any other non-cash items acceptable to the Bond Insurer.”

“Indebtedness” means all obligations for borrowed money, installment sales and capitalized lease obligations, incurred or assumed by any Obligated Group Member, including Guaranties (other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member), Long-Term Indebtedness, Short-Term Indebtedness or any other obligation for payments of principal and interest with respect to money borrowed, except obligations of an Obligated Group Member to another Obligated Group Member; *provided, however*, if more than one Obligated Group Member will have incurred or assumed a Guaranty of a person other than an Obligated Group Member, or if more than one Obligated Group Member will be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture, such Guaranty will be included only one time.

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

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

“Interest Payment Date” means January 1 and July 1 of each year, commencing on July 1, 2008.

“Investment Securities” means any of the following that at the time are legal investments under the laws of the State of California for moneys held hereunder and then proposed to be invested therein:

- (1) United States Government Obligations;
- (2) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): Federal Home Loan Bank System; Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”); Federal National Mortgage Association (FNMA or “Fannie Mae”); Student Loan Marketing Association (SLMA or “Sallie Mae”); Resolution Funding Corp. (REFCORP); and Farm Credit System.
- (3) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating from S&P of not less than AA-m and, if rated by Moody’s, of not less than Aa2, including funds for which the Trustee, its parent, if any, its affiliates or its subsidiaries, provide investment advisory or other management services.
- (4) Certificates of deposit secured at all times by collateral described in (1) and/or (2) above. Such certificates must be issued by commercial banks, including the Trustee, its parent, if any, and affiliates, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.
- (5) Certificates of deposit, savings accounts, deposit accounts or money market deposits, including those with the Trustee, its parent and any affiliate, which are fully insured by the Federal Deposit Insurance Corporation (“FDIC”), including BIF and SAIF.
- (6) With the consent of the Bond Insurer, investment agreements with financial institutions rated at least A- (or the equivalent in the rating system then in effect) by S&P, including guaranteed investment contracts, forward purchase agreements and reserve fund put agreements (all of which shall require that any investments held or purchased pursuant to such investment agreement shall be Investment Securities).
- (7) Commercial paper rated, at the time of purchase, at least “Prime-1” by Moody’s and “A-1” or better by S&P.
- (8) Bonds or notes issued by any state or municipality, which are rated in one of the two highest Rating Categories by S&P and Moody’s.
- (9) Federal funds or bankers acceptances with a maximum term of one year of any bank, including the Trustee, its parent, if any, and affiliates, which has an unsecured, uninsured and unguaranteed obligation rating of “Prime-1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.
- (10) Repurchase agreements (supported by appropriate opinions of counsel) with notice to S&P, collateralized by Investment Securities described in clause (1) or (2) above, FNMAs or FHLMCs with any registered broker/dealer subject to the Securities Investors’ Protection Corp. jurisdiction or any commercial bank insured by the FDIC, if (i) such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated at least equivalent to the rating on the Bonds or (ii) the parent entity of such broker/dealer or commercial bank meets the rating requirements of (i) and issues a guarantee of full and timely performance of the obligations of such broker/dealer or commercial bank under the repurchase agreement; provided:
  - (a) a master repurchase agreement or specific written repurchase agreement governs the transactions; and



(b) the securities are held free and clear of any lien by the Trustee or an independent third party acting solely as agent (“Agent”) for the Trustee, and such third party is (i) a Federal Reserve Bank or (ii) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$50 million and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee; and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the Trustee; and

(d) the repurchase agreement has a term of 30 days or less, the collateral securities are valued no less frequently than weekly, market-to-market at current market price plus accrued interest, and the Trustee or the Agent will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two business days of such valuation; and

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 104%, unless the collateral consists of obligations of FNMA or FHLMC, in which case the fair market value of the securities in relation to the amount of repurchase obligation must equal at least 105%.

(11) any other investment approved by the Bond Insurer.

“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 of a portion of the principal of, premium, if any, and interest on, as the same will 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 authorized to act in such capacity.

“Joint Powers Agreement” means the Amended and Restated Joint Exercise of Powers Agreement, dated June 1, 1988, relating to the formation of the California Statewide Communities Development Authority, among certain cities, counties and special districts in the State, including the Program Participants.

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

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

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

“Long-Term Indebtedness” means all (unless the context provides otherwise) Indebtedness incurred or assumed by any Obligated Group Member for any of the following: (a) payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year; (b) payments under leases which are capitalized in accordance with generally accepted accounting principles; and (c) payments under installment purchase contracts having an original term in excess of one year; notwithstanding the fact that payments in respect thereof (whether installment, serial maturity or sinking fund or otherwise) are required to be made less than one year after the date of creation thereof, excluding any Indebtedness which is renewable or extendable pursuant to the terms of a revolving credit or similar agreement if, by the terms of such agreement, no Indebtedness is permitted to be Outstanding thereunder for a

period of at least twenty (20) days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement.

“Long-Term Interest Rate” means a term, non-variable interest rate on the Bonds determined in accordance with the Bond Indenture.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect and beginning on, and including, the Conversion Date for a Conversion to the Long-Term Interest Rate and ending on, and including, the day preceding the last Interest Payment Date for such period and, thereafter, each successive period, if any, of substantially the same duration as that established period until the day preceding the earliest of the change to a different Long-Term Interest Rate Period, the Conversion to a different Interest Rate Period or the maturity of the Bonds.

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

“Master Indenture” means that certain master trust indenture, dated as of November 15, 1985, between the Obligated Group Members and the Master Trustee, as originally executed and as it may be amended from time to time by any Supplemental Master Indentures.

“Master Trustee” means U.S. Bank National Association, or its successor, as master trustee under the Master Indenture.

“Maximum Annual Bond Service” means, with respect to the Bonds as of any date of calculation, the highest Annual Bond Service for the current or any succeeding Bond Year.

“Maximum Annual Debt Service” means, with respect to the Master Indenture, the highest Debt Service Requirement for the current or any succeeding Fiscal Year.

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

“Ninety-Third Supplemental Master Indenture” or “Supplement No. 93” means that certain ninety-third supplemental master trust indenture, dated as of April 1, 2007, between the Corporation and the Master Trustee, pursuant to which Obligation No. 93-B was issued.

“Non-Recourse Indebtedness” means, with respect to the Master Indenture, any Indebtedness which is not a general obligation and which is secured by a Lien, liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Obligated Group Member and which is incurred in connection with the purchase, acquisition or construction of Property purchased, acquired, constructed or equipped after the date of the Master Indenture.

“Obligated Group” means all Obligated Group Members.

“Obligated Group Member” or “Member” means the Corporation, Mercy Senior Housing, Inc., CHW Medical Foundation, Sierra Nevada Memorial – Miners Hospital, Bakersfield Memorial Hospital, Community Hospital of San Bernardino and Saint Francis Memorial Hospital and any Person which will become an Obligated Group Member in accordance with the Master Indenture and not including any person which will have withdrawn from the Obligated Group pursuant to the Master Indenture.

“Obligation” means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of the Corporation and each other Obligated Group Member, which may be in any form set forth

in a Supplemental Master Indenture, including, but not limited to, bonds, obligations, debentures, loan agreements, guaranties or leases.

“Obligation No. 93-B” means the obligation issued under the Master Indenture and Ninety-Third Supplemental Master Indenture, evidencing the Obligated Group’s obligation to make Loan Repayments with respect to the 2007 Series K and L Bonds.

“Official Statement” means the Official Statement of an Authority pursuant to which the Bonds were originally marketed.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of the Bond Indenture, each Opinion of Counsel will include the statements provided for in the Bond Indenture.

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

“Outstanding,” (i) with respect to the Master Indenture, when used with reference to Obligations and other Indebtedness, means, as of any date of determination, all Obligations and Indebtedness theretofore issued or incurred and not paid and discharged other than (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (b) Obligations in lieu of which other Obligations have been authenticated and delivered unless proof satisfactory to the Master Trustee has been received that any such Obligations are held by a bona fide purchaser, (c) Obligations owned by any Obligated Group Member as provided in the Master Indenture, (d) Indebtedness deemed paid and no longer Outstanding pursuant to the terms thereof, whether by payment, prepayment, defeasance or otherwise and (e) Indebtedness for which there has been made an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures current repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such obligations shall be deemed Outstanding and the obligation so deemed to be Outstanding will be that one which produces the greater amount to be included in the Debt Service Requirement to be included in the calculation of such covenants; and (ii) with respect to the Bond Indenture, when used as of any particular time with reference to Bonds, means (subject to the certain provisions of the Bond Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (A) Bonds theretofore cancelled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (B) on or after any Purchase Date for Bonds pursuant to the Bond Indenture, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Tender Agent, provided that funds sufficient for such purchase are on deposit with the Tender Agent in accordance with certain provisions of the Bond Indenture; (C) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Bond Indenture, including Bonds (or portions of Bonds) referred to in the Bond Indenture; and (D) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

“Permitted Liens” consist of the following:

(1) Liens arising by reason of good faith deposits by any Obligated Group Member in the ordinary course of business (for other than borrowed money), deposits by any Obligated Group Member to secure public and statutory obligations, or deposits 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;

(2) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Obligated Group Member to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with

worker's 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;

(3) Any judgment lien against any Obligated Group Member so long as such judgment is being contested and execution thereon is stayed;

(4) (A) rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property to (1) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of the Property or materially and adversely affect the value thereof or (2) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, suppliers or vendors, have been due for less than 90 days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof; (E) to the extent that it affects title to any Property, the Master Indenture; and (F) landlord's liens;

(5) Any Lien securing Non-Recourse Indebtedness provided that the Property purchased, acquired, constructed or equipped with the proceeds of such Non-Recourse Indebtedness does not replace any Property of the Obligated Group which generated more than five percent (5%) of the Adjusted Annual Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited Financial Statements are available;

(6) The Lien on Gross Revenues created by the Master Indenture;

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

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

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

(10) Liens on Property existing at the time a Person becomes an Obligated Group Member pursuant to the terms of the Master Indenture or existing at the time a Person is merged into an Obligated Group Member pursuant to the terms of the Master Indenture; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property not subject to such Lien on the date such Person becomes an Obligated Group Member unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture; provided further that any such Lien will be permitted pursuant to this paragraph only if (i) such Person, prior to its being merged into an Obligated Group Member or becoming an Obligated Group Member, had a long-term debt rating from Standard & Poor's assigned by Standard & Poor's to Obligations issued under the Master Indenture, (ii) the long-term debt rating assigned by Standard & Poor's to Obligations under the Master Indenture will not be reduced as a result of such merger or addition to the Obligated Group or (iii) the Master Trustee has received a written report of an Accountant stating that the ratio determined by dividing Income Available for Debt Service by the Debt Service Requirement for the

most recent Fiscal Year for which audited Financial Statements are available immediately preceding the proposed date of such merger or addition of an Obligated Group Member, adjusted to reflect such merger or addition as if it had occurred at the beginning of such Fiscal Year would be not less than 2.0;

(11) Liens on accounts receivable, which Lien shall be prior to the security interest in Gross Revenues granted by the Master Indenture, securing Short-Term Indebtedness, provided the aggregate principal amount of the Short-Term Indebtedness secured by such accounts receivable does not exceed 5% of Adjusted Annual Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited Financial Statements are available;

(12) Liens securing other obligations of the Obligated Group *provided* all Obligations Outstanding under the Master Indenture are secured on a parity therewith;

(13) Liens securing Indebtedness of any Obligated Group Member in an amount, at the time of incurrence, not to exceed in the aggregate 23% of the Book Value of all Property of all Obligated Group at the end of the most recent Fiscal Year for which audited Financial Statements are available;

(14) Liens securing leases of Property;

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

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

(17) The lease or license of the use of a part of Property in connection with the proper and economical use of such Property in accordance with customary and prudent business practice;

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

(19) Liens arising by virtue of a lease and leaseback or similar arrangements entered into by any Obligated Group Member with a Related Bond Issuer to the extent required in connection with the issuance of a series of Related Bonds;

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

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

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Primary Obligor” means that Obligated Group Member or those Obligated Group Members primarily obligated to make any payment, whether at maturity, by acceleration upon redemption or otherwise, under the Master Indenture, any Supplemental Master Indenture, any Obligation or otherwise in connection with any borrowing under the Master Indenture as set forth in a Supplemental Master Indenture.



“Principal Corporate Trust Office” means (i) with respect to the Bond Trustee the office of the Bond Trustee, which as of the date hereof is located at 550 Kearny Street, San Francisco, California 94108, Attention: Corporate Trust Department, or such other office as may be specified to the Authority, the Corporation and the Bond Insurer by the Bond Trustee in writing and (ii) with respect to the Fee Agent for CSCDA, the office of the Fee Agent identified by CSCDA for the payment of fees to CSCDA.

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

“Program Participants” means the entities set forth in the recitals of the 2007 Indenture, each a political subdivision of the State of California, as program participants under the Joint Powers Agreement.

“Project” means the financing of the additions, extensions, alterations and improvements to the facilities (or the reimbursement to the Corporation for such financing) with the proceeds of the Bonds, all as more particularly described in the Loan Agreement.

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

“Property” means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

“Property, Plant and Equipment” means, unless the context provides otherwise, all Property of the Obligated Group which is property, plant and equipment under generally accepted accounting principles.

“Rating Agency” means any nationally recognized rating agency then providing a rating on the Bonds.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

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

“Record Date” means, as the case may be, the applicable Regular Record Date or Special Record Date.

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

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

“Regular Record Date” means June 15 and December 15.

“Related Bond Indenture” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“Related Bonds” means the revenue bonds or other obligations or evidences of indebtedness issued or incurred by any state, territory of possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue or incur obligations on behalf thereof (“governmental issuer”), the proceeds of which are loaned or otherwise made available to (a) any Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or (b) any Person other than an Obligated Group Member in consideration of issuance to such governmental issuer (1) by such Person of any indebtedness or other obligation of such Person, and (2) by any Obligated Group Member of an Obligation issued under the Master Indenture in respect of such indebtedness or other obligation.

“Revenues” means all amounts received by the Authority or the Bond Trustee pursuant or with respect to the Loan Agreement or Obligation No. 93-B with respect to the Bonds, including, without limiting the generality of the foregoing,

- (1) Loan Repayments (including both timely and delinquent payments, any late charges, and whether paid from any source),
- (2) prepayments of all or any part of the Loan Repayments,
- (3) insurance proceeds and condemnation proceeds, and
- (4) all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the relevant Indenture (except for interest, profits or other incomes derived from the investment of amounts in the Yield Reduction Sinking Fund or to the extent such interest, profits or other income is required to be transferred to or retained in the Rebate Fund pursuant to such Indenture and the related Tax Agreement),

but not including any Administrative Fees and Expenses or proceeds of any right of indemnification under the Loan Agreement.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Corporation by notice to the Authority and the Bond Trustee.

“Series,” whenever used in the Bond Indenture with respect to the Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction, regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter authenticated and delivered upon transfer or exchange of or in lieu of or in substitution for (but not to refund) such Bonds as provided in the related Indenture.

“2007 Series K Bonds” means the \$54,000,000 California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Catholic Healthcare West) 2007 Series K issued pursuant to the Bond Indenture.

“2007 Series L Bonds” means the \$36,000,000 California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Catholic Healthcare West) 2007 Series L issued pursuant to the Bond Indenture.

“Short-Term Indebtedness” means all Indebtedness for any of the following: (a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less or which pursuant to the terms of a revolving credit or similar agreement or otherwise is renewable or extendable at the option of the borrower to a date or for a period or periods from the date originally incurred of more than one year if, by the terms of such agreement, no indebtedness is permitted to be outstanding thereunder for a period of at least twenty (20) days during each period of twelve (12) consecutive months beginning with the effective date of such revolving credit or other similar agreement; (b) Payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less; (c) Payments under installment purchase contracts having an original term of one year or less; and (d) Payments with respect to any other Indebtedness which appear on the balance sheet of any Obligated Group Member and which do not exceed one year in duration.

“Sinking Accounts” means the accounts in the Sinking Fund so designated and established pursuant to the Bond Indenture.



“Sinking Fund” means the fund so designated and established pursuant to the Bond Indenture.

“Special Record Date” means the date established by the Bond Trustee pursuant to the Bond Indenture as the record date for the payment of defaulted interest on the Bonds.

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

“State” means the State of California.

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

“Supplemental Master Indenture” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose, among others, of creating a particular Obligation or Obligations issued under the Master Indenture.

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

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and exempt from federal income taxes under Section 501(a) of the Code or corresponding provisions of federal income tax laws from time to time in effect.

“United States Government Obligations” means:

(A) (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 (2) obligations issued by the following United States government agencies: the U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration, Government National Mortgage Association, U.S. Maritime Administration, and U.S. Department of Housing and Urban Development, the timely payment of which are fully guaranteed by the United States of America.

(B) (1) direct obligations of the United States which have been “stripped” by the United States Treasury, (2) CATS, TIGRS and similar securities and (3) interest only stripped obligations of the Resolution Funding Corp. (“REFCORP”); and

(C) obligations (1) the interest on which is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, (2) the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (A) or (B), and (3) that are rated in the highest Rating Category by each Rating Agency then rating the Bonds.

“Unrestricted Fund Balance” means, unless the context provides otherwise, the unrestricted fund balance as shown on the Financial Statements of the Obligated Group, determined in accordance with generally accepted accounting principles.

“Yield Reduction Sinking Fund” means the fund by that name established pursuant to the Bond Indenture.

## MASTER INDENTURE

### General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group which shall be secured by the Gross Revenues of each Obligated Group Member. Each Obligation issued under the Master Indenture is a joint and several obligation of each Obligated Group Member. See, however, “Particular Covenants of Each Obligated Group Member—Withdrawal from the Obligated Group” below.

*The following are summaries of certain provisions of the Master Indenture. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Master Indenture.*

### Authorization, Issuance and Terms of Obligations

The Obligated Group Representative may from time to time authorize for itself or on behalf of any other Obligated Group Member the issuance of an Obligation or a series of Obligations pursuant to the terms, conditions and limitations established by the Master Indenture or any Supplemental Master Indenture. There is no limit on the aggregate principal amount of Obligations that may be issued under the Master Indenture, but no Obligations may be issued except as permitted by the provisions of the Master Indenture, including the provisions relating to the incurrence of Additional Indebtedness, or any Supplemental Master Indenture. See “MASTER INDENTURE—Particular Covenants of Each Obligated Group Member—Limitations on Additional Indebtedness.” All Obligations issued under the Master Indenture are issued on a parity basis. In the event of a default, the proceeds obtained or realized by the Master Trustee would be shared on a parity basis by all holders of Obligations issued under the Master Indenture.

Each Supplemental Master Indenture authorizing the issuance of an Obligation or a series of Obligations shall specify and determine the principal amount of such Obligations, the purposes for which such Obligations are being issued, the Obligated Group Member or Members which are Primary Obligors of such Obligations, the form, title, designation, and the manner of numbering or denominations, if applicable, of such Obligations, the date or dates of maturity of such Obligations, the date of issuance of such Obligations, the rate or rates of interest (or method of determining the rate or rates of interest) borne by such series of Obligations, and any other provisions deemed advisable or necessary by the Obligated Group Representative.

### Particular Covenants of Each Obligated Group Member

#### Payment of Obligations by Obligated Group.

Each Obligated Group Member jointly and severally covenants promptly to pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in the Supplemental Master Indenture or Indentures relating to such Obligation or Obligations, and in said Obligations according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

#### Rates and Charges.

Commencing the Fiscal Year beginning July 1, 1985, each Obligated Group Member covenants to set rates and charges for its facilities and services such that in any Fiscal Year the ratio determined by dividing the Income Available for Debt Service for such Fiscal Year by the Debt Service Requirement for such Fiscal Year, calculated for the Obligated Group as a whole at the end of such Fiscal Year, shall be not less than 1.10.

If at any time the ratio required by the previous paragraph is not met the Master Trustee shall require the Obligated Group to retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Obligated Group Member, respectively, agrees that to the extent permitted by law it

will follow the recommendations of the Consultant which pertain to its operations to the extent feasible, subject to a good faith determination by the Governing Body of any such Obligated Group Member that the implementation of such recommendations would not be in the best interests of such Obligated Group Member, which determination shall be acceptable to the Master Trustee. So long as the Obligated Group shall retain a Consultant and shall follow such Consultant's recommendations to the extent permitted by law, or if the aforementioned good faith determination not to follow such recommendation has been made, this paragraph shall be deemed to have been complied with for such Fiscal Year even if such ratio is below the previously referred to level for such Fiscal Year, but in no event less than 1.00.

If in any Fiscal Year a report of a Consultant is delivered to the Master Trustee, which report shall state that Industry Restrictions or changes in public or private third-party reimbursement programs have been imposed which make it impossible for the coverage requirement specified in the second preceding paragraph to be met, then such coverage requirement shall be reduced to 1.00.

Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or any state in which it conducts its business or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by a Consultant.

#### Limitations on Liens.

Each Obligated Group Member, respectively, agrees that it will not create, assume or suffer to be created or permit the existence of any Lien upon any of its Property now owned or hereafter acquired by it, nor its Gross Revenues unless all Obligations issued under the Master Indenture shall be secured prior to or equally and ratably with any Indebtedness or other obligation secured by such Lien, and each Obligated Group Member further covenants and agrees that if such a lien is created or assumed by an Obligated Group Member, it will make or cause to be made effective a provision whereby all Obligations issued under the Master Indenture will be secured prior to or equally with such Indebtedness or other obligation secured by such Lien; provided, however, that notwithstanding the foregoing and without securing Obligations issued under the Master Indenture, Obligated Group Members may create, assume or suffer to exist any one or all of the Permitted Liens.

#### Limitations on Additional Indebtedness.

Each Obligated Group Member, respectively, covenants and agrees that it will not incur any Additional Indebtedness (whether through the issuance of Obligations or otherwise) other than Additional Indebtedness described under this Section "Limitations on Additional Indebtedness," which Additional Indebtedness may be incurred only in the manner and pursuant to the terms as follows:

- (a) Long-Term Indebtedness, if prior to incurrence of any Long-Term Indebtedness one of the following three conditions shall be met: (1) there is delivered to the Master Trustee an officer's certificate certifying the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement, taking into account all Outstanding Long-Term Indebtedness, for the most recent Fiscal Year for which audited Financial Statements are available, and that such ratio is not less than 1.10; *provided, however,* that the aggregate of the Outstanding Long-Term Indebtedness incurred under this subsection, including the Indebtedness to be incurred, and the Outstanding liabilities under capitalized leases incurred under subsection (j) of this Section, "Limitations on Additional Indebtedness," shall not exceed, at the time of incurrence, 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available; or (2) there is delivered to the Master Trustee an officer's certificate, accompanied by the certificate of an Accountant confirming the contents thereof, certifying the ratio of Income Available for Debt Service for the most recent Fiscal Year for which audited Financial Statements are available to Maximum Annual Debt Service, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then to be incurred, and that such ratio is not less than 1.25; or (3)(A) there is delivered to the Master Trustee a certificate of an Accountant certifying the ratio determined by dividing the Income Available for Debt Service by the Debt Service

Requirement, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then to be incurred, for the most recent Fiscal Year for which audited Financial Statements are available and that such ratio is not less than 1.25, and (B) there shall be filed with the Master Trustee the report of a Consultant to the effect that the forecast Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account (or an officer's certificate if such forecast Debt Service Coverage Ratio is not less than 1.75), for (i) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation, or (ii) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two Fiscal Years succeeding the date on which the Indebtedness is incurred, for each such period is not less than 1.25, as shown by forecast statements of revenue and expense for each such period, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; provided that the Debt Service Coverage requirements of this subsection (3) shall be reduced, in each case, to 1.00 if the Master Trustee receives the report of a Consultant to the effect that Industry Restrictions prevent the Obligated Group from meeting the requirements of this subsection;

(b) Completion Indebtedness, without limit;

(c) Long-Term Indebtedness for the purpose of refunding any Outstanding Long-Term Indebtedness so as to render it no longer Outstanding if: (1) the maximum principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest payments on the proposed Long-Term Indebtedness does not exceed 110% of the maximum principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest payments on the Indebtedness being refunded, or (2) the total principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest payments on the proposed Long-Term Indebtedness does not exceed 110% of the total principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest payments on the Indebtedness being refunded, or (3) the requirements of subsection (a)(2) or (3) are met;

(d) Short-Term Indebtedness in the ordinary course of business if immediately after the incurrence of such Indebtedness the Outstanding principal amount of all such Indebtedness does not exceed 20% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available; *provided, however*, that for a period of thirty (30) consecutive calendar days in each such Fiscal Year, the amount of Short-Term Indebtedness Outstanding must be reduced to an amount not greater than three percent (3%) of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available;

(e) Non-Recourse Indebtedness;

(f) Balloon Indebtedness may be incurred provided that at the time such Balloon Indebtedness is to be incurred the conditions described in subsection (a)(2) or (3) of this Section, "Limitations on Additional Indebtedness," are met with respect to such Balloon Indebtedness, assuming such Balloon Indebtedness to be Long-Term Indebtedness, as if it were being repaid in substantially equal annual installments of principal and interest over a term over which the Obligated Group could reasonably be expected to borrow, not to exceed 25 years, and bearing interest at an interest rate equal to the rate at which the Obligated Group could reasonably be expected to borrow for such term, not to exceed 25 years, by issuing an Obligation. There shall be delivered to the Master Trustee, together with any officer's certificate or report of a Consultant required by subsection (a)(2) or (3), a letter of a banking or investment banking institution knowledgeable in matters of health care finance, confirming that the borrowing term and interest rate assumptions set forth in such certificate complies with the requirements of this subsection;

(g) Variable Rate Indebtedness provided at the time such Variable Rate Indebtedness is incurred the conditions described in subsection (a)(2) or (3) of this Section, "Limitations on Additional Indebtedness," are met, assuming that the interest rate on such Variable Rate Indebtedness shall be equal to the average interest rate per annum which would have been in effect for any twelve consecutive calendar months during the previous 18 calendar months. There shall be delivered to the Master Trustee a letter of a

banking or investment banking institution knowledgeable in matters of health care finance confirming such interest rate;

(h) Indebtedness which is subordinated to any Obligations Outstanding under the Master Indenture;

(i) Reimbursement or other repayment obligations arising under reimbursement or similar agreements with banks or other financial institutions relating to letters or lines of credit or other credit facilities used to secure Indebtedness;

(j) Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property provided that the aggregate of the Outstanding liabilities under capitalized leases incurred under this subsection and the Outstanding Long-Term Indebtedness incurred under subsection (a)(1) of this Section, "Limitations on Additional Indebtedness," shall not exceed, at the time of incurrence, 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available; or

(k) Indebtedness which is incurred to construct, renovate or replace Property of the Obligated Group if federal or state agencies, authorities, officials or similar governmental bodies with jurisdiction over any Obligated Group Member specifically mandate such construction, renovation or replacement as a condition to such Obligated Group Member being able to continue to carry on such of its activities as are subject to the jurisdiction of such federal or state agency, authority, official or similar governmental body.

#### Limitations on Guaranties.

Each Obligated Group Member, respectively, agrees that it will not enter into, or become liable after the date of the Master Indenture in respect of, any Guaranty except:

(a) Guaranties may be incurred without limit, if the Guaranty is by an Obligated Group Member of the Indebtedness of another Obligated Group Member; or

(b) Guaranties of indebtedness of any Person which is not an Obligated Group Member provided that the test for incurring Long-Term Indebtedness in (a)(2) or (3) above under "Limitations on Additional Indebtedness" is met; further provided that as long as any such Guaranty is a contingent liability under generally accepted accounting principles 20% of the Annual Debt Service on the indebtedness being guaranteed (determined in a manner as nearly as practicable to the determination of Debt Service Requirement under the Master Indenture) shall be added to the computation of Debt Service Requirement. If any such Guaranty becomes a current liability but thereafter becomes a contingent liability, during the period such Guaranty is a current liability and for two years after such Guaranty becomes a contingent liability, 100% of the annual debt service on the indebtedness being guaranteed shall be added to the computation of Debt Service Requirement.

#### Consolidation, Merger, Sale or Conveyance.

Each Obligated Group Member, respectively, covenants that it will not merge or consolidate with any other corporation which is not an Obligated Group Member or sell or convey all or substantially all of its assets to any Person which is not an Obligated Group Member unless:

(a) Such Obligated Group Member will be the continuing corporation, or if the successor corporation is not such an Obligated Group Member such successor corporation shall be a corporation organized and existing under the laws of the United States of America or a state thereof;

(b) The Master Trustee shall have received the following Supplemental Master Indenture, Consultant's or Accountant's report or officer's certificate, as appropriate, and counsel opinions in form



and content satisfactory to the Master Trustee: (1) if the successor corporation is not such Obligated Group Member a Supplemental Master Indenture, containing the agreement of such successor corporation (A) to become an Obligated Group Member under the Master Indenture and thereby subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member under the Master Indenture; and (B) to assume the due and punctual payment of the principal of, premium, if any, and interest on all Obligations issued under the Master Indenture according to their tenor; (2)(A)(i) a report of a Consultant that the forecast debt service coverage ratios of the successor corporation, calculated in the same manner as the Debt Service Coverage Ratio under the Master Indenture, for the two Fiscal Years immediately succeeding the proposed date of such merger, consolidation, sale or conveyance is expected to be greater than the forecast Debt Service Coverage Ratio for such periods had the consolidation or merger not occurred; or (ii) a report of a Consultant or Accountant, or an officer's certificate, as appropriate, to the effect that the condition described in subsection (a)(2) or (3) above under "Limitations on Additional Indebtedness" would be met for the incurrence of one dollar of Long-Term Indebtedness; and (B) the Unrestricted Fund Balance of the Obligated Group, including the unrestricted fund balance of such successor corporation (calculated in the same manner as the Unrestricted Fund Balance under the Master Indenture) calculated as of the end of the most recent Fiscal Year for which audited Financial Statements are available will be not less than 90% of the Unrestricted Fund Balance of the Obligated Group at the end of the most recent Fiscal Year for which audited Financial Statements are available; (3) an officer's certificate to the effect that immediately following such transaction the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture; (4) an Opinion of Counsel to the effect that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of this Section, "Consolidation, Merger, Sale or Conveyance," and that it is permissible for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered by this Section, "Consolidation, Merger, Sale or Conveyance," to the effect that each instrument executed and delivered to the Master Trustee in accordance with section (b)(1) of this Section, "Consolidation, Merger, Sale or Conveyance," has been duly authorized, executed and delivered by the successor corporation and constitutes a legal, valid and binding obligation enforceable in accordance with its terms, with such exceptions and limitations as are acceptable to the Master Trustee, and to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance will not subject any Obligations Outstanding under the Master Indenture to the registration provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required); and (5) if all amounts due or to become due on any Related Bond which bears interest which is not includable in gross income of the holder under the Internal Revenue Code of 1954, as amended, have not been fully paid to the holder thereof, an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of any such Related Bond, would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond; and

(c) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for the Obligated Group Member, with the same effect as if it had been named in the Master Indenture as an Obligated Group Member or had become an Obligated Group Member pursuant to the Master Indenture, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by an Obligated Group Member without any such consolidation, merger, sale or conveyance having occurred.

### Joining the Obligated Group.

Persons which are not Obligated Group Members may become an Obligated Group Member upon delivery to the Master Trustee of the following Supplemental Master Indenture, counsel opinions, Consultant report, Accountant report, officer's certificate and other miscellaneous documents, in form and content satisfactory to the Master Trustee:

(a) A Supplemental Master Indenture containing the agreement of such Person (1) to become an Obligated Group Member under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member under the Master Indenture and (2) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Obligated Group Member that all Obligations issued and then Outstanding under the Master Indenture will be paid in accordance with the terms thereof and of the Master Indenture when due and, to the extent the terms of any Obligation contain a commitment on behalf of the Obligated Group in addition to the commitment to repay such Obligation in accordance with its terms and the terms of the Master Indenture, agreeing to be bound by the terms of such Obligation insofar as it pertains to the Obligated Group;

(b) An Opinion of Counsel to the effect that (1) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied; (2) the Supplemental Master Indenture described in section (a) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding obligation of such Person enforceable in accordance with its terms, with such exceptions and limitations as are acceptable to the Master Trustee; (3) under then existing law such Person becoming an Obligated Group Member will not subject any Obligations Outstanding under the Master Indenture to the registration provision of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required);

(c) If all amounts due or to become due on any Related Bond which bears interest which is not includable in gross income of the holder under the Code, have not been fully paid to the holder thereof, an Opinion of Bond Counsel to the effect that under then existing law the consummation of such transaction, whether or not contemplated on any date of the delivery of any such Related Bond, would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond;

(d) (1) (A) a report by a Consultant that the forecast Debt Service Coverage Ratio of the Obligated Group, including such Person, calculated in the same manner as the Debt Service Coverage Ratio under the Master Indenture for the two Fiscal Years immediately succeeding the proposed date of the inclusion of such Person in the Obligated Group is expected to be greater than the forecast Debt Service Coverage Ratio for such periods had the Person not become an Obligated Group Member; or (B) a report of a Consultant or Accountant, or an officer's certificate, as appropriate, to the effect that the condition described in subsection (a)(2) or (3) above under "Limitations on Additional Indebtedness" would be met for the incurrence of one dollar of Long-Term Indebtedness; and (2) the Unrestricted Fund Balance of the Obligated Group, including the unrestricted fund balance of such Person (calculated in the same manner as the Unrestricted Fund Balance under the Master Indenture) will be not less than 90% of the Unrestricted Fund Balance of the Obligated Group at the end of the most recent Fiscal Year for which audited Financial Statements are available;

(e) An officer's certificate to the effect that immediately upon any Person becoming an Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture;

(f) The written consent of the Obligated Group Representative on behalf of the existing Obligated Group Members to the addition of such Person to the Obligated Group; and

(g) An irrevocable power of attorney authorizing the execution of Obligations by Catholic Healthcare West.



Sale, Lease or Other Disposition of Assets; Disposition of Liquid Assets.

Each Obligated Group Member, respectively, agrees that it will not in any Fiscal Year sell, lease or otherwise dispose of any Property, including liquid assets, other than as provided above under “Consolidation, Merger, Sale or Conveyance,” the Book Value of which would cause the aggregate Book Value of Property so transferred by Obligated Group Members in such year to exceed five percent (5%) (or ten percent (10%) if the Master Trustee receives an officer’s certificate certifying that the ratio of Income Available for Debt Service to the Debt Service Requirement, both for the most recent Fiscal Year for which audited Financial Statements are available, is not less than 1.75) of the Book Value of the Property of the Obligated Group (excluding any asset restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses), except for transfers of assets described below:

- (a) In the ordinary course of business;
- (b) In connection with a “sale and leaseback” transaction that would be treated as and constitute a true sale and leaseback under the Code;
- (c) To any Person not an Obligated Group Member if prior to the sale, lease or other disposition there is delivered to the Master Trustee an officer’s certificate stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the operations of the Obligated Group;
- (d) To another Obligated Group Member;
- (e) To a Person which is not an Obligated Group Member if such Person shall become an Obligated Group Member pursuant to the Master Indenture or to a successor corporation pursuant to a merger or consolidation permitted by the Master Indenture, without limit, if such successor corporation shall become an Obligated Group Member pursuant to the Master Indenture simultaneously with such sale, lease, or other disposition;
- (f) To a Person which is not an Obligated Group Member, provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee (1) a written report of an Accountant stating that the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited Financial Statements are available immediately preceding the proposed date of disposition, adjusted to exclude the revenues and expenses derived from the assets proposed to be disposed of, would at least equal 1.75 for such Fiscal Year (or an officer’s certificate if such ratio is not less than 2.5) or would be greater than it would otherwise have been absent such sale, lease or other disposition; or (2) a written report of a Consultant (or an officer’s certificate if the Debt Service Coverage Ratios described in subsections (A) and (B) hereof are not less than 2.0 and 2.5, respectively) to the effect that: (A)(i) the forecast Debt Service Coverage Ratio for the two consecutive Fiscal Years immediately following such disposition, taking such disposition into account, is projected to be at least 1.35 in each Fiscal Year or would be greater than it would otherwise have been absent such sale, lease or other disposition and (ii) such disposition will not lower the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited Financial Statements are available by more than 20%; or (B) the forecast Debt Service Coverage Ratio for the two consecutive Fiscal Years immediately following such disposition, taking such disposition into account, is projected to be not less than 2.0 in each Fiscal Year or would be greater than it would otherwise have been absent such sale, lease or other disposition;
- (g) To any Person, provided such Property is received by such Obligated Group Member as a gift, grant, bequest or donation and is restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, redemption premium and interest on Indebtedness and such Person has as one of its corporate purposes the receipt of gifts, grants, bequests and donations and the application of such Property in accordance with such restrictions;

(h) To any Person not an Obligated Group Member provided that such Property is transferred for fair market value and the appropriate Obligated Group Member applies the net proceeds of such sale or other disposition either (i) to the payment of Indebtedness related to the Property being sold or transferred, (ii) to the payment of principal on Outstanding Obligations, (iii) to the purchase of replacement assets or (iv) to the future purchase of assets, provided that such net proceeds are restricted to the future purchase of assets (before any transfer of property described in this subsection (h), Catholic Healthcare West shall furnish to the Master Trustee (i) an officer's certificate stating that no Event of Default has occurred and is continuing and stating the amount of the net proceeds, if any, of such sale or other disposition, and (accompanied by the report of a Consultant or an Accountant or an officer's certificate, as appropriate) to the effect that (taking into account the disposition of the Property released) the requirements of (a)(2) or (3) above under "Limitations on Additional Indebtedness" will be satisfied with respect to the incurrence of one dollar of Long-Term Indebtedness and (ii) an appraisal of the Property so sold or disposed of, showing such Property is to be sold or disposed of at a price equal to its fair market value. Upon receipt of such Certificate, report or certificate, and appraisal(s), the Master Trustee shall execute and deliver any releases or other documents reasonably requested by Catholic Healthcare West in connection with such sale or other disposition; or

(i) In the case of cash or cash equivalents, as a loan to any Person, provided that the Master Trustee shall have received an officer's certificate certifying that (A) such loan has been evidenced in writing, (B) such loan bears interest at a reasonable interest rate and (C) there is a reasonable expectation that such loan will be repaid in accordance with its terms.

#### Withdrawal From the Obligated Group.

The Corporation may not withdraw from the Obligated Group. No other Obligated Group Member may withdraw from the Obligated Group unless the Master Trustee receives the following, in form and content satisfactory to the Master Trustee:

(a) the written consent of the Obligated Group Representative on behalf of the existing Obligated Group Members to the withdrawal of such Obligated Group Member from the Obligated Group;

(b) if all amounts due on any Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the holder thereof, an Opinion of Bond Counsel, to the effect that under then existing law such Obligated Group Member's withdrawal from the Obligated Group would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond;

(c) the Master Trustee shall have received either (1) a written report of an Accountant stating that the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement for the most recent Fiscal Year for which audited Financial Statements are available immediately preceding the proposed withdrawal, adjusted to exclude the revenues and expenses of the Obligated Group Member proposing to withdraw from the Obligated Group, would at least equal 1.75 for such Fiscal Year (or an officer's certificate if such ratio is not less than 2.5) or would be greater than it would otherwise have been absent such withdrawal; or (2) a written report of a Consultant (or an officer's certificate if the Debt Service Coverage Ratios described in subsections (A) and (B) hereof are not less than 2.0 and 2.5, respectively) to the effect that: (A)(i) the forecast Debt Service Coverage Ratio for the two consecutive Fiscal Years immediately following such withdrawal, taking such withdrawal into account, is projected to be at least 1.35 in each Fiscal Year or would be greater than it would otherwise have been absent such withdrawal and (ii) such withdrawal will not lower the Debt Service Coverage Ratio for the most recent Fiscal Year for which audited Financial Statements are available by more than 20%; or (B) the forecast Debt Service Coverage Ratio for the two full Fiscal Years following such withdrawal, taking the proposed withdrawal into account, is projected to be not less than 2.0 in each such Fiscal Year or would be greater than it would otherwise have been absent such withdrawal; and

(d) an officer's certificate to the effect that, immediately after the withdrawal of such Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed under the Master Indenture.

Filing of Financial Statements, Certificate of No Default, Other Information.

Each Obligated Group Member, respectively, covenants that it will: (a) as soon as practicable but in no event later than 120 days after the end of its Fiscal Year, file with the Master Trustee, with each Holder who may have so requested in writing or in whose behalf the Master Trustee may have so requested and, if such corporations are then providing a rating for Related Bonds, with Moody's Investors Service and with Standard & Poor's Corporation a copy of its audited Financial Statements as of the end of such Fiscal Year accompanied by the opinion of an Accountant and a copy of audited combined or consolidated Financial Statements of the Obligated Group as of the end of such Fiscal Year accompanied by the opinion of an Accountant. Such audited Financial Statements shall be prepared in accordance with generally accepted accounting principles and shall include such statements necessary for a fair presentation of unrestricted fund financial position, results of operations and changes in unrestricted fund balance and financial position as of the end of such Fiscal Year; (b) as soon as practicable but in no event later than 120 days after the end of each Fiscal Year, file with the Master Trustee, and with each Holder who may have so requested or in whose behalf the Master Trustee may have so requested, an officer's certificate and a report of an Accountant stating the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement of such Obligated Group Member for such Fiscal Year and stating whether or not to the best knowledge of the signers such Obligated Group Member is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signers may have knowledge; (c) if an Event of Default shall have occurred and be continuing, (1) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including Catholic Healthcare West and its consolidated or combined Affiliates, including any other Obligated Group Member) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records, personnel records, medical staff records, personal records of each Obligated Group Member, privileged communications between each Obligated Group Member and counsel, litigation records and malpractice and claims records and (2) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request; (d) within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant; (e) provisions calling for or referring to the delivery by any Obligated Group Member of financial statements for any given period shall be deemed satisfied if the combined or consolidated financial statements for such period, prepared in accordance with generally accepted accounting principals, of such entities are so delivered.

General Covenants as to Corporate Existence, Maintenance of Property, Etc.

Each Obligated Group Member covenants: (a) except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; *provided, however,* that nothing contained in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business; (b) at all times to cause its business to be carried on and conducted and its Property to be maintained, preserved and kept in good repair, working order and condition and all needful and proper repairs, renewals and replacements thereof to be made; *provided, however,* that nothing contained in this subsection (b) shall be construed (1) to prevent it from ceasing to operate any portion of its Property or entering into a "sale and leaseback" transaction that would constitute and be treated as a true sale and leaseback under the Code with respect to any of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body) it is advisable not to operate the same or to enter into such "sale and leaseback" arrangement, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition or (2) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business; (c) to do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states

thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; *provided*, nevertheless, that nothing in the Master Indenture contained shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith; (d) promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; *provided, however*, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof; (e) promptly to pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectability is being contested in good faith, subject to the rights of the Obligated Group Member to assert setoffs; (f) at all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness, other than any thereof whose validity is being contested in good faith; (g) to procure and maintain all necessary licenses and permits and maintain accreditation of its health care facilities (other than those of a type for which accreditation is not available) by the Joint Commission on Accreditation of Hospitals or other applicable recognized accrediting body, when and as available and the status of its health care facilities (other than those not currently having such status) as a provider of health care services eligible for reimbursement under the Medicare, Medicaid, Blue Cross and comparable programs, including future governmental programs, the appropriateness of which are determined by the Governing Body; *provided, however*, that it need not comply with this Section, “General Covenants as to Corporate Existence, Maintenance of Property, Etc.,” 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; and (h) so long as the Master Indenture shall remain in force and effect, in the case of each Primary Obligor which is a Tax-Exempt Organization at the time it becomes a Primary Obligor, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, to take no action or suffer any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which, in the opinion of Bond Counsel, would result in the interest on any Related Bond becoming subject to federal income taxes.

#### Insurance.

(a) Each Obligated Group Member, respectively, agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to health care activities and properties, customary for health care providers of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, worker’s compensation coverage as required by the laws of the state in which such Obligated Group Member does business, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of health care services provided by any Obligated Group Member, professional liability insurance (in an amount not less than \$1,000,000 per occurrence and \$3,000,000 in the annual aggregate) protecting each Obligated Group Member against claims arising from any act or omission in the furnishing of health care services to any patient, and fidelity bonds on officers and employees of any Obligated Group Member who may have access to or custody of the Gross Revenues of the Obligated Group.

(b) The Obligated Group Representative shall employ an insurance consultant to review the insurance requirements of the Obligated Group Members from time to time (but not less frequently than once every 24 months). If the insurance consultant makes recommendations for the change in any of the insurance coverage maintained by any Obligated Group Member, such Obligated Group Member shall change such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of such Obligated Group Member that such recommendations, in whole or in part, are in the best interests of such Obligated Group Member.

(c) In lieu of maintaining the insurance coverage stated above, the Obligated Group Members shall have the right to adopt alternative risk management programs which the Governing Body of each such Obligated Group Member determines to be reasonable and in the best interests of such Member, including, without limitation,

to self-insure in whole or in part, individually or in connection with other institutions or organizations, to participate in programs of captive insurance companies and/or to create and operate such captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal laws now or hereafter in existence limiting medical malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the insurance consultant and reviewed each year thereafter.

#### Insurance and Condemnation Proceeds.

(a) Any Obligated Group Member may make agreements and covenants with the holder of secured Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Lien with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Lien.

(b) Except as required by any agreement described in (a) above, amounts received by any Obligated Group Member as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as it may determine, including, without limitation, applying such moneys to pay or prepay any Indebtedness in accordance with the terms thereof and of any Supplemental Master Indenture, subject to compliance with the provisions hereof and thereof; *provided, however*, that if the amount of such proceeds or awards received with respect to any casualty loss or condemnation exceeds 10% of the Book Value of the Property, Plant and Equipment, the Obligated Group agrees that such proceeds must be applied to the repair or replacement of the lost or damaged Property in connection with which the proceeds or awards are received or to the payment or prepayment of any Obligations in accordance with the terms of the Master Indenture or of any Supplemental Master Indenture unless the Corporation shall deliver to the Master Trustee:

(1) (A) An officer's certificate certifying the expected Debt Service Coverage Ratio for each of the two Fiscal Years following the date on which such proceeds or awards are expected to have been fully applied is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, along with the officer's certificate and (B) a written report of a Consultant confirming such certification; or

(2) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Debt Service Coverage Ratio for each of the periods described in paragraph (A) above to be not less than 1.20, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level.

Notwithstanding the foregoing, the 1.20 requirements contained in subsection (b)(2) shall be reduced to 1.00 if the Trustee receives an Officer's Certificate to the effect that Industry Restrictions prevent the Obligated Group from meeting the requirements of subsection (b)(2).

#### Gross Revenue Fund; Restrictions on Further Encumbering Gross Revenue.

(a) Each Obligated Group Member, respectively, agrees that so long as any of the Obligations issued under the Master Indenture remain Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Obligated Group Members shall establish and maintain, subject to the provisions of subsection (e) of this Section "Gross Revenue Fund; Restrictions on Further Encumbering Gross Revenues," in one or more accounts at such banking institution or institutions as the Obligated Group Representative shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)"). Subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Master Indenture, each Obligated Group Member, respectively, to the extent now or hereafter permitted by law, hereby pledges and grants a security interest to the Master Trustee in the Gross Revenue Fund and all of the Gross Revenues of the Obligated Group to secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations issued under the Master Indenture and the performance by each Obligated Group Member of its other obligations under the Master Indenture. Prior to the delivery of the first series of Obligations under the Master



Indenture, the Obligated Group Representative shall deliver to the Master Trustee a duly executed financing statement evidencing the prior security interest of the Master Trustee in form required by the California, Nevada and Arizona Uniform Commercial Codes with copies sufficient in number for filing with the office of the Secretary of State of the State of California in Sacramento, California, the Secretary of State of the State of Nevada in Carson City, Nevada and the Secretary of State of the State of Arizona in Phoenix, Arizona and shall execute and cause to be sent to each Depository Bank a notice of the security interest granted under the Master Indenture and shall execute and deliver such other documents (including, but not limited to, continuation statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

(b) The foregoing pledge, and agreement to pay, shall not inhibit, and the Master Indenture allows, so long as no Obligated Group Member is in default in the payment of any Obligation, the use of any funds on deposit in the Gross Revenue Fund for any proper corporate purpose of any Obligated Group Member.

(c) Each Obligated Group Member covenants that it will file such financing statements or amendments to or terminations of existing financing statements which shall, in the Opinion of Counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including without limitation (1) any Person becoming an Obligated Group Member pursuant to the Master Indenture; or (2) any Obligated Group Member ceasing to be an Obligated Group Member pursuant to the Master Indenture.

(d) Each Obligated Group Member covenants that it will not pledge or grant a security interest in (except as provided in subsection (a) above and as may be otherwise provided in the Master Indenture) any of its Gross Revenues.

(e) In the event that any installment of principal of or interest on any Obligation issued under the Master Indenture or other amount as is so required to be paid shall not be paid when and as the same becomes due and payable, then the Master Trustee shall give notice thereof to the Obligated Group Representative and, unless such delinquent installment is paid, or provision for payment is duly made, in a manner satisfactory to the Master Trustee, within five days after receipt of such notice, the Obligated Group Representative shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Master Trustee. All Gross Revenues of the Obligated Group shall continue to be deposited in the Gross Revenue Fund as provided in subsection (a) of this Section "Gross Revenue Fund; Restrictions on Further Encumbering Gross Revenues" until the amounts on deposit in said Fund are sufficient to pay in full, or have been used to pay in full, all such delinquent installments in default and all other then existing Events of Default known to the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate shall have been made therefore, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such delinquent installments or cure such defaults) shall be returned promptly to the name and credit of the appropriate Obligated Group Members. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Master Trustee shall use and withdraw amounts in said fund from time to time to make such delinquent installments as such installments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such installments due on any date, then to the payment of debt service on such Obligations ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, shall determine to be in the best interests of the Holders, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Obligated Group Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated Group unless and to the extent that the Master Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Obligated Group Members; *provided, however*, that the Obligated Group Members shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Obligated Group. Each Obligated Group Member, respectively, agrees to execute and deliver all instruments as may be required to implement this Section. Each Obligated Group Member further, respectively, agrees that a failure to comply with the terms of this Section shall cause irreparable harm to the Holders and shall entitle the Master Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of the Obligated Group Members as provided in this Section "Gross Revenue Fund; Restrictions on Further Encumbering Gross Revenues."

## **Default and Remedies**

### Events of Default.

Events of Default under the Master Indenture shall mean any of the following events:

(a) The Obligated Group shall fail to make any payment required by any Obligation issued and Outstanding under the Master Indenture within five days of the date that such payment shall become due and payable, in accordance with the terms thereof, of the Master Indenture and any Supplemental Master Indenture;

(b) Any Obligated Group Member shall fail duly to observe or perform any covenant or agreement on its part under the Master Indenture (other than as referred to in subsection (a) above) for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Obligated Group Member by the Master Trustee, or to the Obligated Group Member and the Master Trustee by the holders of at least 25% in aggregate principal amount of Obligations then Outstanding; except that, if such failure may be remedied but not within such 30-day period and if the Obligated Group Member has taken all action reasonably possible to remedy such failure or breach within such 30-day period, such failure shall not become an Event of Default for so long as the Obligated Group Member shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(c) An event of default shall occur and be continuing under a Related Bond Indenture (which “event of default” shall be as defined in such Related Bond Indenture) or upon a Related Bond;

(d) Any Obligated Group Member shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding under the Master Indenture and other than any other Indebtedness which is Non-Recourse Indebtedness) in an aggregate amount greater than one percent (1%) of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available, whether such Indebtedness now exists or shall hereafter be created, and such failure shall be continuing following the expiration of any period of grace with respect thereto, or an event of default as defined in any mortgage, indenture or instrument, under which there may be issued, or by which there may be secured or evidenced, any Indebtedness in an aggregate amount greater than one percent (1%) of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available, whether such Indebtedness now exists or shall hereafter be created, and such failure shall be continuing following the expiration of any period of grace with respect thereto; *provided, however*, that such default shall not constitute an Event of Default within the meaning of this Section, “Default and Remedies” if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (1) the Corporation or such Obligated Group Member, or both, in good faith commence proceedings to contest the existence or payment of such Indebtedness and (2) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

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

(f) The institution by any Obligated Group Member of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other



similar official) of any Obligated Group Member or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may (but only if the Obligated Group is in default under (a) above under “Events of Default” and the Outstanding principal amount of Indebtedness in default is greater than one percent (1%) of the aggregate principal amount of Obligations Outstanding) and shall (i) upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations issued and Outstanding under the Master Indenture (other than Obligations issued under the Master Indenture which constitute Non-Recourse Indebtedness), or upon the written request of any Holder if an Event of Default described in (a) above under “Events of Default” has occurred with respect to such Holder’s Obligation or (ii) upon the acceleration of any Obligation pursuant to the terms of the Supplemental Master Indenture pursuant to which such Obligation was issued, by notice to the Obligated Group Members, declare all Obligations issued and Outstanding under the Master Indenture immediately due and payable. In such event, there shall be due and payable on the Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues to the date of payment.

(b) At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if

(1) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices or other payments then due (other than the principal or other payments then due only because of such declaration) of all Obligations issued and Outstanding under the Master Indenture;

(2) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents;

(3) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and

(4) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied,

then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations issued and Outstanding under the Master Indenture together with indemnification of the Master Trustee to its satisfaction therefore, shall proceed forthwith to protect and enforce its rights and the rights of the Holders of Obligations issued under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(1) enforcement of the right of such Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

- (2) suit upon all or any part of the Obligations;
- (3) civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;
- (4) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and
- (5) enforcement of any other right of such Holders conferred by law or by the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee may, and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations issued under the Master Indenture then Outstanding, shall, upon being indemnified to its satisfaction therefore, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (2) to preserve or protect the interests of the Holders, *provided* that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders of Obligations issued under the Master Indenture not making such request.

#### Application of Revenues and Other Moneys After Default.

During the continuance of an Event of Default all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Section entitled "Default and Remedies," after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture shall be applied as follows:

- (a) Unless the principal of all Outstanding Obligations issued under the Master Indenture 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 on the Obligations issued under the Master Indenture in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations issued under the Master Indenture which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available shall not be sufficient to pay in full all the Obligations issued under the Master Indenture due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

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

(c) If the principal of all Outstanding Obligations issued under the Master Indenture shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Section entitled “Default and Remedies,” then, subject to the provisions of subsection (b) of this Section “Application of Revenues and Other Moneys After Default” in the event that the principal of all Outstanding Obligations issued under the Master Indenture shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a) of this Section “Application of Revenues and Other Moneys After Default.”

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of this Section, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation issued under the Master Indenture until such Obligation issued under the Master Indenture shall be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations issued under the Master Indenture and interest thereon have been paid under the provisions of this Section “Application of Revenues and Other Moneys After Default” and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Obligated Group Members, their successors, or as a court of competent jurisdiction may direct.

#### Holders’ of Obligations Control of Proceedings.

If an Event of Default shall have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Obligations issued under the Master Indenture then Outstanding shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, *provided* that such direction is not in conflict with any applicable law or the provisions of the Master Indenture and *provided further*, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Holders of Obligations issued under the Master Indenture not joining in such direction and provided further that nothing in this Section, “Holders’ of Obligations Control of Proceedings” shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders of Obligations issued under the Master Indenture.

#### Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder of the Obligations issued under the Master Indenture to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Section entitled “Default and Remedies” to the Master Trustee and the Holders of the Obligations issued under the Master Indenture, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations issued under the Master Indenture then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences; *provided, however*, that, except under the circumstances set forth in subsection (b) of the Section entitled “Acceleration; Annulment of Acceleration,” a default in the payment of the principal of, premium, if any, or interest on any Obligation issued under the Master Indenture, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations issued under the Master Indenture, respectively, at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, each Obligated Group Member, the Master Trustee and the Holders of Obligations issued under the Master Indenture shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

### **Supplemental Master Indentures**

#### Supplemental Master Indentures Not Requiring Consent of Holders of Obligations.

Each Obligated Group Member, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplemental Master Indentures for one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Master Indenture.
- (b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall not materially and adversely affect the interests of the Holders.
- (c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them subject to the provisions of (a) below under the Section “Supplemental Master Indentures Requiring Consent of Holders of Obligations.”
- (d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect.
- (e) To create and provide for the issuance of a series of Obligations as permitted under the Master Indenture.
- (f) To evidence the succession of another corporation to any Obligated Group Member, or successive successions, or the additions of a Person to the Obligated Group, and the assumption by the successor corporation or additional Obligated Group Member of the covenants, agreements and obligations of the Obligated Group Member pursuant to the Sections entitled “Consolidation, Merger, Sale or Conveyance” and “Joining the Obligated Group,” respectively, and to evidence the withdrawal of an Obligated Group Member from the Obligated Group pursuant to the Section entitled “Withdrawing from the Obligated Group.”

#### Supplemental Master Indentures Requiring Consent of Holders of Obligations.

Other than Supplemental Master Indentures referred to in the Section entitled “Supplemental Master Indentures Not Requiring Consent of Holders of Obligations” and subject to the terms and provisions and limitations contained in the Section “Remedies and Defaults” and not otherwise, the Holders of not less than 60% in aggregate principal amount of the Obligations issued under the Master Indenture then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by each Obligated Group Member when authorized by resolution or other action of equal formality by

its Governing Body, and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; *provided, however*, nothing in this Section “Supplemental Master Indentures Requiring Consent of Holders of Obligations” shall permit or be construed as permitting a Supplemental Master Indenture which would: (1) extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest payable on any Obligation or change the method of calculating interest on an Obligation without the consent of the Holder of such an Obligation; (2) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture in any manner which would materially and adversely affect the interests of the Holders of Obligations issued under the Master Indenture or any of them without the consent of the Holders of all Obligations issued under the Master Indenture then Outstanding; or (3) reduce the aggregate principal amount of Obligations issued under the Master Indenture then Outstanding the consent of the Holders of which is required to authorize such Supplemental Master Indentures without the consent of the Holders of all Obligations issued under the Master Indenture then Outstanding.

### **Satisfaction and Discharge of Master Indenture**

If Catholic Healthcare West shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and been paid, or the Obligated Group Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Obligated Group Members and such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or Government Obligations, the principal of and the interest on which when due, will be sufficient to pay at maturity or upon redemption all Obligations, and the Obligated Group Members shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group Members, then the Master Indenture shall cease to be of further effect.

## **NINETY-THIRD SUPPLEMENTAL MASTER INDENTURE**

### **General**

The Ninety-Third Supplemental Master Indenture provides for the issuance of Obligation No. 93-B pursuant to the Master Indenture, and provides the terms and form thereof.

*The following are summaries of certain provisions of the Ninety-Third Supplemental Master Indenture. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Ninety-Third Supplemental Master Indenture.*

### **Payments on Obligation No. 93-B; Credits**

Except as provided in this paragraph, “Payments on Obligation No. 93-B; Credits” and in the paragraph, “Prepayment of Obligation No. 93-B,” payment of principal of, premium, if any, and interest on Obligation No. 93-B and any other payments required to be made with respect to Obligation No. 93-B will be made to the Trustee at the times and in the amounts specified in Obligation No. 93-B.

(a) The Corporation shall receive credit for payments on Obligation No. 93-B, in addition to any credits resulting from payment or prepayment from other sources (except any payments made by Assured Guaranty pursuant to its Bond Insurance Policy), as follows:

(i) On installments of interest on Obligation No. 93-B in an amount equal to moneys deposited in the Interest Fund created under the Bond Indenture which amounts are available to pay interest on the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 93-B;



(ii) On installments of principal on Obligation No. 93-B in an amount equal to moneys deposited in the Principal Fund created under the Bond Indenture which amounts are available to pay principal of the Bonds and to the extent such amounts have not previously been credited against payments on Obligation No. 93-B;

(iii) On installments of principal and interest, respectively, on Obligation No. 93-B in an amount equal to the principal amount of Bonds and the interest thereon for which sufficient amounts (as determined in the Bond Indenture) in money, or Investment Securities described in clause (1) of the definition of Investment Securities in the Bond Indenture have been irrevocably deposited with the Trustee in an amount sufficient to pay the principal of, premium, if any, and interest thereon when due to the extent such amounts have not been previously credited against payments on Obligation No. 93-B. Such credits shall be made against the installments of principal of and interest on Obligation No. 93-B which would have been used, but for such deposit, to pay principal of and interest, on such Bonds when due at maturity or called for mandatory redemption; and

(iv) On installments of principal and interest, respectively, on Obligation No. 93-B in an amount equal to the principal amount of Bonds acquired by the Corporation or any other Obligated Group Member and surrendered to the Trustee for cancellation or purchased by the Trustee and cancelled and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal of and interest on Obligation No. 93-B which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

#### **Prepayment of Obligation No. 93-B**

So long as all amounts which have become due under Obligation No. 93-B have been paid, the Corporation will have the right, at any time and from time to time, to prepay all or any part of the amounts to become due and payable under Obligation No. 93-B and the Authority agrees that the Trustee will accept such prepayments when the same are tendered by the Corporation. Prepayments may be made by payments of cash, deposit of certain Investment Securities or surrender of Bonds, as contemplated in the paragraph above under "Payments on Obligation No. 93-B; Credits." Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any additional payments required to be made under the Loan Agreement remain unpaid, the Corporation will not be relieved of its obligations under the Ninety-Third Supplemental Master Indenture.

#### **Registration, Number, Negotiability and Transfer of Obligation No. 93-B**

Except as provided in the following paragraph, so long as any Bonds remain Outstanding (as that term is defined in the Bond Indenture), Obligation No. 93-B will be issuable only as a single Obligation without coupons registered in the name of the Trustee on behalf of the Authority and no transfer of Obligation No. 93-B will be registered under the Ninety-Third Supplemental Master Indenture or be recognized by the Corporation except for transfers to a successor Trustee.

Upon the principal of all Obligations Outstanding being declared immediately due and payable and during the continuance of an Event of Default, Obligation No. 93-B may be transferred and such transfer registered, if and to the extent the Trustee or the Bond Insurer requests that the restrictions described in the previous paragraph on transfers be terminated.

#### **Right to Redeem Obligation No. 93-B**

Obligation No. 93-B will be subject to redemption, in whole or in part, prior to maturity at the times and in the amounts specified in the Bonds issued under the Bond Indenture and in the manner provided in the Ninety-Third Supplemental Master Indenture; provided that in no event will Obligation No. 93-B, be redeemed unless a corresponding amount of Bonds is also redeemed.



### **Events of Default; Acceleration**

An “Event of Default” under the Loan Agreement shall constitute an Event of Default under the Ninety-Third Supplemental Master Indenture.

Upon the occurrence and during the continuation of an Event of Default described in the immediately preceding paragraph, the Master Trustee shall, if requested by the Authority or Bond Insurer, regardless of whether the Outstanding principal amount of Obligation No. 93-B equals at least twenty-five percent (25%) of the aggregate principal amount of all Obligations issued under the Master Indenture then Outstanding, give notice pursuant to the Master Indenture to the Obligated Group declaring the principal of all Obligations issued under the Master Indenture then Outstanding to be due and immediately payable, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Master Indenture or in such Obligations contained to the contrary notwithstanding; provided, however, that if Assured Guaranty is not in default under its Bond Insurance Policy, the Authority may not request the Master Trustee to declare the principal of all Obligations then Outstanding to be due and immediately payable.

### **Tax-Exempt Status**

The Corporation covenants that so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on any Bond have not been fully paid to the Holder thereof, that it will not take any action or suffer any action to be taken by others, including any action that would result in the alteration or loss of its status as a Tax-Exempt Organization, which, in the opinion of Bond Counsel, would result in the interest payable on any Bond being includable in gross income of the registered owner thereof for purposes of federal income taxation.

### **Additional Covenants**

Supplement No. 93 includes certain additional financial and operating covenants and certain modifications to existing Master Indenture definitions and covenants that remain in effect only for so long as Obligation No. 93-B, remains outstanding, unless waived by the Bond Insurer. These covenants include further agreements regarding rates and charges, limitations on the disposition of assets, limitations on withdrawal from the Obligated Group, limitations on Liens and limitations on Additional Indebtedness. Any of these additional covenants may be waived by the Bond Insurer in its sole and absolute discretion and without the approval of the Master Trustee, Trustee, any Holder of any Obligation or any Bondholders. Bondholders cannot be assured that any of these additional covenants will be in place or enforced at any time.

## **INDENTURE**

### **General**

The Bond Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the related Authority.

***The following are summaries of certain provisions of the Bond Indenture. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full terms of the Bond Indenture. This summary of the Bond Indenture does not purport to be complete or definitive.***

### **Revenues and Funds**

#### Establishment of Funds.

The Bond Indenture creates an Interest Fund, a Rebate Fund, a Principal Fund, a Redemption Fund, an Optional Redemption Account and a Special Redemption Account within the Redemption Fund, a Principal Fund, a Rebate Fund, a Costs of Issuance Fund, a Project Fund, a Yield Reduction Sinking Fund, and a Bond Reserve Fund, all of which are to be held by the Trustee.

### Pledge and Assignment.

(A) Pursuant to, and subject only to, the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in such Indenture, there are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of such Indenture, all of the Revenues described in the Bond Indenture and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture (other than the Rebate Fund).

(B) The Authority transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues described in the Bond Indenture and other assets pledged in paragraph (A) above and all of the right, title and interest of an Authority in the Loan Agreement (except for (i) the right to receive any Administrative Fees and Expenses and any other fees and expenses of the California Statewide Communities Development Authority, to the extent payable to the Authority, (ii) any rights of the Authority or its officers, directors, members, agents or employees to reimbursement or indemnification, (iii) the obligation of the Corporation to make deposits pursuant to the related Tax Agreement and (iv) the rights of the Authority to receive notices, to give consents, to make inspections, and the right to enforce the special service covenant under the Loan Agreement, and (v) as otherwise expressly set forth in the Loan Agreement) and Obligation No. 93-B. The Bond Trustee will be entitled to and will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee for the Bonds and will forthwith be paid by the Authority to the Bond Trustee for application to the Bonds. Notwithstanding anything to the contrary in the Bond Indenture, CSCDA will have no obligation to and instead the Bond Trustee may, without further direction from CSCDA, take any and all steps, actions and proceedings to enforce any or all rights of CSCDA (other than those specifically retained by CSCDA) under the Bond Indenture or the Loan Agreement, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the Obligated Group Members under Obligation No. 93-B.

### Interest Fund.

(A) The Bond Trustee will establish, maintain and hold in trust under the Bond Indenture a separate fund designated as the "Interest Fund." Moneys in the Interest Fund will be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture.

(B) The Bond Trustee will deposit the following Revenues in the Interest Fund when and as such Revenues are received: (1) the interest component of all Loan Repayments, including the interest component of all cash prepayments of Loan Repayments made pursuant to the Loan Agreement; (2) the interest component of all payments made pursuant to Obligation No. 93-B; (3) all interest, profits and other income received from the investment of moneys in the Interest Fund; and (4) any other Revenues not required to be deposited in any other fund or account established pursuant to the Bond Indenture.

(C) All amounts in the Interest Fund will be used and withdrawn by the Bond Trustee solely for the purpose of paying the interest on the Bonds as the same becomes due and payable (including accrued interest with respect to any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

### Principal Fund.

(A) The Bond Trustee will establish, maintain and hold in trust a separate fund designated as the "Principal Fund." Moneys in the Principal Fund will be held, disbursed, allocated and applied by the Bond Trustee only as provided in the Bond Indenture.

(B) The Bond Trustee will deposit the following Revenues in the Principal Fund when and as such Revenues are received: (1) the principal component of all Loan Repayments, but excluding the principal component of all cash prepayments of Loan Repayments made pursuant to the Loan Agreement, which will be deposited in the Redemption Fund; and (2) the principal component of all payments made pursuant to Obligation No. 93-B, but

excluding the principal component of all cash prepayments of Loan Repayments made pursuant to Obligation No. 93-B, which will be deposited in the Redemption Fund.

(C) On each Mandatory Sinking Account Payment date for any Series of Bonds, the Bond Trustee will apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Bonds of such Series, upon the notice and in the manner provided in the Bond Indenture; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee may apply moneys in the Principal Fund to the purchase of Bonds of such Series 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) will not exceed the Redemption Price that would be payable for such Bonds upon redemption by application of such Mandatory Sinking Account Payments. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Bonds of any Series with moneys in the Principal Fund, or, during said period and prior to giving said notice of redemption, the Corporation has deposited Bonds of any Series with the Bond Trustee (together with a Request of the Corporation to apply such Bonds so deposited to the Mandatory Sinking Account Payment for such Series due on said date with respect to such Bonds), or Bonds of any Series were at any time purchased or redeemed by the Bond Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Bonds purchased or deposited pursuant to this paragraph, if any, will be cancelled and delivered by the Bond Trustee to or upon the Order of the Corporation. Bonds of any Series purchased from the Principal Fund, purchased or redeemed from the Redemption Fund, or deposited by the Corporation with the Bond Trustee will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series, then as a credit against such future Mandatory Sinking Account Payments for such Series as the Corporation may specify.

#### Application of Redemption Fund.

(A) The Bond Trustee will establish and maintain a fund separate from any other fund established and maintained under the Bond Indenture designated as the "Redemption Fund." The Bond Trustee will establish and maintain within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account.

(B) The Bond Trustee will deposit the following Revenues in the Optional Redemption Account when and as such Revenues are received: (1) except as provided in paragraph (C), the principal component of all cash prepayments of Loan Repayments made pursuant to the Loan Agreement; and (2) except as provided in paragraph (C), the principal component of all cash prepayments made pursuant to Obligation No. 93-B.

(C) The Bond Trustee will deposit the following Revenues in the Special Redemption Account when and as such Revenues are received: (1) the principal component of all cash prepayments of Loan Repayments made pursuant to the Loan Agreement which are specified in a Certificate of the Corporation to be applied to redemption of the Bonds pursuant to the Bond Indenture; and (2) the principal component of all cash prepayments made pursuant to Obligation No. 93-B which are specified in a Certificate of the Corporation to be applied to redemption of the Bonds pursuant to the Bond Indenture.

(D) All amounts deposited in the Optional Redemption Account and in the Special Redemption Account will be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has not been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee will, upon direction of the Corporation, apply such amounts to the purchase of the Bonds of the applicable Series 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 Redemption Price then applicable to such Series of Bonds (or, if the Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may

be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds of any Series purchased or redeemed from the Redemption Fund will be allocated as a credit against such future Mandatory Sinking Account Payments for such Series as the Corporation may specify.

#### Rebate Fund.

To the extent required by the Bond Indenture and the Tax Agreement, certain amounts will be deposited in the Rebate Fund by the Corporation and thereafter paid to the federal government to the extent required to satisfy the Rebate Requirements (as defined in the Tax Agreement). Any moneys remaining in a Rebate Fund after the payment of all such amounts, or provision made therefore, including accrued interest and payment of any applicable fees to the Bond Trustee, will be remitted to the Corporation.

#### Investment of Moneys in Funds and Accounts.

All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested by the Bond Trustee upon Request of the Corporation, solely in Investment Securities, except with respect to the amounts on deposit in the Rebate Fund, which shall not be subject to the limitation on investments to Investment Securities.

All interest, profits and other income received from the investment of moneys on deposit in the Rebate Fund or the Yield Reduction Sinking Fund shall be deposited when received in such Fund. All interest, profits and other income received from the investment of moneys in any other fund or account established pursuant to the Bond Indenture shall be deposited when received in the Interest Fund. Notwithstanding anything to the contrary contained in this paragraph, any amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account from which such accrued interest was paid.

Investment Securities acquired as an investment of moneys in any fund or account established under the Bond Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account other than the Rebate Fund, the Interest Fund or the Principal Fund, all Investment Securities credited to such fund or account shall be valued at the lesser of cost or market value plus, prior to the first payment of interest following purchase, the amount of accrued interest, if any, paid as a part of the purchase price. For the purpose of determining the amount in the Principal Fund or the Interest Fund, all Investment Securities credited to such funds shall be valued at par. Notwithstanding anything to the contrary in the Bond Indenture, in making any valuations of investments under the Bond Indenture, the Bond Trustee may utilize any widely used computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon.

#### Bond Reserve Fund.

The Bond Trustee, will establish, maintain and hold in trust for the benefit of the Holders of the Bonds a separate fund designated as the "Bond Reserve Fund." All amounts in the Bond Reserve Fund will be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Fund or the Principal Fund or (together with any other money available therefore) for the redemption of all Bonds then Outstanding. Notice of any such withdrawal from a Bond Reserve Fund will be provided to the Bond Insurer within two (2) Business Days after such withdrawal. Prior to making a withdrawal from the Bond Reserve Fund to make up a deficiency in the Interest Fund, the Bond Trustee will notify the Corporation of such deficiency and the Corporation may deposit with the Bond Trustee all or part of such deficiency. The Bond Reserve Fund will not be funded in connection with the issuance of the Bonds, but will be funded in an amount equal to the Bond Reserve Requirement calculated at the time of such funding if the Members fail to satisfy certain covenants, as set forth in the Bond Indenture.

In lieu of maintaining and depositing moneys in the Bond Reserve Fund (if required by the Bond Indenture), the Corporation may deposit with the Bond Trustee a letter of credit, subject to the written approval of

the Bond Insurer, (i) which is issued by a bank with a credit rating at the time of deposit of such letter of credit into the Bond Reserve Fund of at least investment grade from each Rating Agency rating the Bonds, (ii) the repayment obligation with respect to which is not secured by a lien on assets of any Member senior to any lien which secures the Bonds and (iii) which has a term of at least five years from the date of issuance thereof. If the credit rating of the bank issuing such letter of credit falls below investment grade, the Corporation will within twelve months of such downgrading either (i) substitute a new letter of credit satisfying the requirements of this paragraph, (ii) fund the Bond Reserve Fund through the deposit of cash or an irrevocable surety bond policy satisfying the requirements of the immediately succeeding paragraph or (iii) fund the Bond Reserve Fund through a combination of (i) and (ii). At least six months prior to the expiration date of a letter of credit on deposit in the Bond Reserve Fund, the Corporation will either (i) substitute a new letter of credit satisfying the requirements of this paragraph, (ii) fund the Bond Reserve Fund through the deposit of cash or an irrevocable surety bond policy satisfying the requirements of the immediately succeeding paragraph or (iii) fund the Bond Reserve Fund through a combination of (i) and (ii). Any such letter of credit will permit the Bond Trustee to draw amounts thereunder for deposit in the Bond Reserve Fund which, together with any moneys on deposit in, or surety bond policy available to fund, the Bond Reserve Fund, are not less than the Bond Reserve Requirement and which may be applied to any purpose for which moneys in the Bond Reserve Fund may be applied. The Bond Trustee will make a drawing on such letter of credit (i) whenever moneys are required for the purposes for which Bond Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or an irrevocable surety bond are available in the Bond Reserve Fund in the amount of the Bond Reserve Requirement.

In lieu of maintaining and depositing moneys in the Bond Reserve Fund (if required by the Bond Indenture), the Corporation also may maintain in effect an irrevocable surety bond policy, subject to the written approval of the Bond Insurer, (i) which is issued by a bond insurance company with a claims-paying ability rating at the time of deposit of such surety bond policy into the Bond Reserve Fund of at least investment grade from each Rating Agency rating the Bonds, (ii) the repayment obligation with respect to which is not secured by a lien on assets of any Member senior to any lien which secures the Bonds and (iii) has a term of at least five years from the date of issuance thereof. If the credit rating of the bond insurance company issuing such surety bond policy falls below investment grade, the Corporation will either (i) substitute a new surety bond policy satisfying the requirements of this paragraph, (ii) fund the Bond Reserve Fund through the deposit of cash or a letter of credit satisfying the requirements of the immediately preceding paragraph or (iii) fund the Bond Reserve Fund through a combination of (i) and (ii). At least six months prior to the expiration date of a surety bond policy on deposit in the Bond Reserve Fund, the Corporation will either (i) substitute a new surety bond policy satisfying the requirements of this paragraph, (ii) fund the Bond Reserve Fund through the deposit of cash or a letter of credit satisfying the requirements of the immediately preceding paragraph or (iii) fund the Bond Reserve Fund through a combination of (i) and (ii). Any such surety bond policy will permit the Bond Trustee to obtain amounts thereunder for deposit in the Bond Reserve Fund which, together with any moneys on deposit in, or letter of credit available to fund, the Bond Reserve Fund, are not less than the Bond Reserve Requirement and which may be applied to any purpose for which moneys in the Bond Reserve Fund may be applied. The Bond Trustee will make a drawing on such surety bond policy (i) whenever moneys are required for the purposes for which Bond Reserve Fund moneys may be applied, and (ii) prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys or a letter of credit are available in the Bond Reserve Fund in the amount of the Bond Reserve Requirement.

Moneys in the Bond Reserve Fund may be released upon the Request of the Corporation with the written consent of the Bond Insurer.

The Corporation covenants to cause the Members (i) to maintain at least 80 Days Cash on Hand and to provide the Bond Insurer with semiannual reports calculated as of each June 30 and December 31 to demonstrate compliance with these requirements and (ii) to maintain a Debt Service Coverage Ratio in each Fiscal Year of not less than 1.35 times and to provide the Bond Insurer with annual reports (summarized consolidated balance sheets and summarized consolidated statements of operations and changes in net assets for the Obligated Group included as “Additional Information” to the audited consolidated financial statements of the Corporation and Subordinate Corporations (the “Obligated Group Financials”)) to demonstrate compliance with this requirement. If a report required indicates noncompliance with these requirements, the Corporation covenants to deposit within a period of 30 days from the filing of such report the amount (or surety bond policy or letter of credit approved by the Bond



Insurer) necessary to bring the amount in the Bond Reserve Fund up to the Bond Reserve Requirement (but only if, after such deposit, the Members have, in the aggregate, at least 75 Days Cash on Hand after such deposit) and to notify the Bond Trustee and CSCDA, of the date of the filing of such report and the expected date of such deposit. The Bond Trustee shall hold such funds (or surety bond policy or letter of credit approved by the Bond Insurer) as security until (i) the Bond Insurer provides the Bond Trustee with written instructions to release such funds (or surety bond policy or letter of credit approved by the Bond Insurer) to the Corporation, or (ii) the Corporation files a report with the Bond Trustee and Bond Insurer based on Obligated Group Financials for two Fiscal Years demonstrating that the Members maintained at least 85 Days Cash on Hand for four consecutive semiannual reporting periods and a Debt Service Coverage Ratio at least equal to 2.0 times for two consecutive Fiscal Years, in which case the Bond Trustee shall immediately release these funds (or surety bond policy or letter of credit approved by the Bond Insurer) upon a Request of the Corporation and give written notice to the Bond Insurer and CSCDA, of such action.

If the Corporation fails to make the deposit to the Bond Reserve Fund required pursuant to the immediately preceding paragraph in the 30-day period described above, an Event of Default shall occur and be deemed to be an Event of Default under such Indenture unless the Bond Insurer (a) provides in writing for a “cure period” or (b) waives in writing the requirement altogether.

#### Yield Reduction Sinking Fund.

The Trustee will establish a special fund designated the “Yield Reduction Sinking Fund” under the Bond Indenture. The Trustee shall deposit into the Yield Reduction Sinking Fund funds required to be deposited therein by the Corporation pursuant to the Tax Agreement. All amounts at any time on deposit in the Yield Reduction Sinking Fund shall be held by the Trustee in trust for the payment of the principal of or interest on the Bonds, solely for the purpose of reducing the yield on certain proceeds of the Bonds on deposit in a refunding escrow fund in order to satisfy the rules relating to the yield restriction of such proceeds under Section 148 of the Code and applicable Treasury Regulations. The investment and application of amounts on deposit in the Yield Reduction Sinking Fund, including investment earnings thereon, shall be governed by the provisions of the Tax Agreement and any written direction given by the Corporation to the Trustee in order to carry out the purposes of the Tax Agreement and satisfy the provisions of Section 148 of the Code and the Treasury Regulations. The Trustee shall be deemed conclusively to have complied with this paragraph if it follows the directions of the Corporation, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Authority or the Corporation with the requirements of this paragraph.

### **Particular Covenants**

#### Tax Covenants.

*General.* The Authority covenants with the Holders of the Bonds that, notwithstanding any other provisions of the Bond Indenture, it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Bonds under Section 103 of the Code. The Authority will not, directly or indirectly, use or permit the use of proceeds of the Bonds or any of the property financed or refinanced with proceeds of such Bonds, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code) or an organization described in Section 501(c)(3) of the Code in pursuit of such organization’s exempt purpose and other than in an “unrelated trade or business” (as such term is defined in Section 513 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on such Bonds.

*Qualified 501(c)(3) Bonds.* The Authority will not take any action, or fail to take any action, if any such action or failure to take action would cause the Bonds to be other than “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code, and in furtherance thereof, will not make any use of the proceeds of the Bonds or any of the property financed or refinanced with proceeds of such Bonds, or any portion thereof, or any other funds of the Authority, that would cause such Bonds to be other than “qualified 501(c)(3) bonds” within the meaning of Section 145 of the Code. To that end, so long as any Bonds are outstanding, the Authority, with respect to such proceeds and property and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued thereunder and under Section 103 of the Internal



Revenue Code of 1954, as amended (the “1954 Code”), to the extent such requirements are, at the time, applicable and in effect. The Authority will establish reasonable procedures necessary to ensure continued compliance with Section 145 of the Code (or, if applicable, the 1954 Code) and the continued qualification of the related Bonds as “qualified 501(c)(3) bonds.”

*Arbitrage.* The Authority will not, directly or indirectly, use or permit the use of any proceeds of any Bonds, or of any property financed or refinanced thereby, or other funds of the Authority, or take or omit to take any action, that would cause such Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code. To that end, the Authority will comply with all requirements of Section 148 of the Code and all regulations of the United States Department of the Treasury issued thereunder to the extent such requirements are, at the time, in effect and applicable to such Bonds.

*Federal Guarantee.* The Authority will not make any use of the proceeds of the related Bonds or any other funds of the Authority, or take or omit to take any other action, that would cause such Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

*Compliance with Tax Agreement.* In furtherance of the foregoing tax covenants of the Bond Indenture, the Authority covenant that it will comply with the provisions of the Tax Agreement, which is incorporated into such Indenture as if fully set forth therein. Such covenants will survive payment in full or defeasance of the related Bonds.

#### Amendment of Loan Agreement.

(A) Except as provided in paragraph (B) below, the Authority will not amend, modify or terminate any of the terms of its Loan Agreement, or consent to any such amendment, modification or termination unless the written consent of (1) the Bond Insurer or (2) the Bond Insurer and the Holders of a majority in principal amount of the Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee, provided that no such amendment, modification or termination will reduce the amount of Loan Repayments to be made to the Authority or the Bond Trustee by the Corporation pursuant to a Loan Agreement, or extend the time for making such payments, without the written consent of the Bond Insurer and the Holders of the Bonds then Outstanding. Copies of any such amendment will also be provided to the Rating Agencies then rating the Bonds.

(B) Notwithstanding the provisions of paragraph (A) above, the terms of a Loan Agreement may also be modified or amended from time to time and at any time by the Authority with the consent of the Bond Insurer, but without the necessity of obtaining the consent of or any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority or the Corporation contained in a Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power therein reserved to or conferred upon the Authority or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender will materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Bond Indenture, and which will not materially adversely affect the interests of the Holders of the Bonds; or

(3) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds.

## **Events of Default and Remedies of Bondholders**

### Events of Default

The following events shall be Events of Default: (a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise; (b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable; (c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Bond Indenture or in the Bonds, if such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given (i) to the Authority and the Corporation by the Bond Trustee, or (ii) to the Authority, the Corporation and the Bond Trustee by any of the Bond Insurer or the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or (d) a Loan Default Event.

### Acceleration of Maturities.

Whenever any Event of Default under the Bond Indenture shall have happened and be continuing, the Bond Trustee may take the following remedial steps. In the case of an Event of Default described above in (a) or (b), the Bond Trustee may, with the written consent of the Bond Insurer, and upon the written direction of the Bond Insurer will, notify the Master Trustee of such Event of Default, may make a demand for payment under Obligation No. 93-B, and request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members of the Obligated Group declaring the principal of all Obligations issued under the Master Indenture then outstanding to be due and immediately payable. Upon such declaration by the Master Trustee, the Bond Trustee may, with the written consent of the Bond Insurer, and upon the written direction of the Bond Insurer will, declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Bond Trustee the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 93-B. In the case of an Event of Default described above in (d), the Bond Trustee may, with the written consent of the Bond Insurer, and upon the written direction of the Bond Insurer will, take whatever action at law or in equity is necessary or desirable (including petitioning for a writ of mandamus) to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Bond Indenture. In the case of an Event of Default described above in (d), the Bond Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement in order to remedy the Loan Default Event.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 93-B has been annulled pursuant to the Master Indenture and any and all other defaults known to the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the reasonable satisfaction of the Bond Trustee or provision reasonably deemed by the Bond Trustee to be adequate shall have been made therefore, then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

### Bond Trustee to Represent Bondholders.

The Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and

lawful attorney-in-fact of the Holders of the Bonds 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 Bonds, the Bond Indenture, Loan Agreement, Obligation No. 93-B, the Act and applicable provisions of any other law. Subject to the rights of the Bond Insurer with respect to the enforcement of remedies related to the Bonds insured by each of them as described in the Bond Indenture, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Bond Trustee to represent the Bondholders, the Bond 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 Bonds then Outstanding and upon being indemnified to its satisfaction therefore, will, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it will 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 Bond Trustee or in such Holders under the Bond Indenture, the Loan Agreement, Obligation No. 93-B, the Act or any other law; and upon instituting such proceeding, the Bond Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Bond Indenture, pending such proceedings. If more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%). All rights of action under the Bond Indenture or the Bonds or otherwise may be prosecuted and enforced by the Bond Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Bond Trustee will be brought in the name of the Bond Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Bond Indenture.

#### Bondholders' Direction of Proceedings.

Anything in the Bond Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee under the Bond Indenture, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

#### Limitation on Bondholders' Right to Sue.

No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, Obligation No. 93-B, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee will follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Bond Trustee indemnity reasonably satisfactory to it against the fees, costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee; and (5) the Bond Insurer shall have consented in writing to such action.

No one or more Holders of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Bond Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Bond Indenture, the Loan Agreement, Obligation No. 93-B, the Act or other applicable law with respect to such Bonds, except in the manner provided in such Indenture, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner provided in such Indenture

and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of such Indenture.

### **Modification or Amendment of the Bond Indenture**

(A) The Bond Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Authority and the Bond Trustee may enter into when the written consent of (i) the Bond Insurer or (ii) the Bond Insurer and the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have been filed with the Bond Trustee. No such modification or amendment shall

(1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or

(2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in such Indenture), without the consent of the Holders of all Bonds then Outstanding.

(B) The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time with the consent of the Bond Insurer, but without the necessity of obtaining the consent of any Bondholders, for purposes including, but not limited to, the following:

(1) To add covenants and agreements of the Authority, pledge or assign additional security for the Bonds (or any portion thereof), or surrender any right reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) To cure any defective provision, contained in such Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) To qualify such Indenture under the Trust Indenture Act of 1939, as amended, and which shall not materially adversely affect the interests of the Holders of the Bonds; and

(4) To preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds.

### **Defeasance**

#### Discharge of Indenture.

The Bonds of any Series may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways: (A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds of such Series Outstanding, as and when the same become due and payable; (B) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Bond Indenture) to pay when due or redeem all Bonds of such Series then Outstanding; or (C) by delivering to the Bond Trustee, for cancellation by it, all Bonds of such Series then Outstanding. If the Authority pays all Outstanding Bonds and has also paid or caused to be paid all other sums payable under the Bond Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses and any other fees and expenses payable to the Authority pursuant to the Loan Agreement and all amounts then due and payable to the Bond Insurer, then and in

that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Bond Trustee signifying the intention of the Authority to discharge all such indebtedness and such Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of Revenues and other assets made under such Indenture and all covenants, agreements and other obligations of the Authority under such Indenture shall cease, terminate, become void and be completely discharged and satisfied.

### **Miscellaneous**

#### Liability of Authority Limited to Revenues.

Notwithstanding anything contained in the Bond Indenture or in the Bonds, the Authority shall have no pecuniary liability under the Bond Indenture except that which can be satisfied from Revenues received pursuant to the Loan Agreement and the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under such Indenture for any of the purposes in such Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of such Indenture. Nevertheless, the Authority may, but shall not be required to, advance for any of the purposes hereof any funds of the Issuer which may be made available to it for such purposes.

## **LOAN AGREEMENT**

### **General**

The Loan Agreement provides the terms of the loan of the proceeds of the Bonds to the Corporation and the repayment of and security for such loan by the Corporation.

*The following are summaries of certain provisions contained in the Loan Agreement. These summaries do not purport to be complete or definitive and are qualified in their entirety by reference to the full term of the Loan Agreement.*

#### Loan Repayments—2007 Bonds

As long as any of the Bonds remain Outstanding, the Corporation agrees to pay on or before the Business Day which is at least four days preceding (i) each Interest Payment Date, the full amount of the interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding (less any amounts on deposit in the Interest Fund available for the payment of such interest), (ii) each Principal Payment Date, the full amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid into the Principal Fund, in each case on each Principal Payment Date (less any amounts on deposit in the Principal Fund available for the payment of such principal or Mandatory Sinking Account Payments) and (iii) the first Business Day of each calendar month, any amount required under the Bond Indenture to be deposited in the Bond Reserve Fund. In addition, the Corporation will duly and punctually pay, or cause to be paid, the principal of and the interest and any premium on Obligation No. 93-B at the dates and in the places and manner mentioned therein. Notwithstanding any schedule of payment set forth in Obligation No. 93-B or in the Loan Agreement, the Corporation agrees to make payments, or cause payments to be made, at the times and in the amounts to be paid as principal or Redemption Price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same become due whether at maturity, upon redemption, by declaration of acceleration or otherwise.

### **Additional Payments**

The Corporation also agrees to pay certain “Additional Payments” in connection with the issuance of the Bonds, including certain taxes and assessments charged to the Authority and the Trustee and the reasonable fees and expenses of experts engaged by the Authority and the Trustee. In addition, the Corporation agrees to make any and all payments into the related Rebate Fund at such times as is required by the related Indenture and Tax Agreement.



## **Obligations Unconditional**

The obligations of the Corporation and the other Obligated Group Members to make the Loan Repayments and Additional Payments and to pay the principal of and interest on Obligation No. 93-B as required by the Loan Agreement and to perform and observe the other agreements on their parts contained in the Loan Agreement are absolute and unconditional, notwithstanding any other provision of the related Agreement, the Ninety-Third Supplemental Master Indenture, the Bond Indenture or the Master Indenture. Until the Loan Agreement is terminated and all payments under such Agreement are made, the Corporation: (a) will pay all amounts required under Obligation No. 93-B without abatement, deduction or set-off, except as otherwise expressly provided in the Loan Agreement; (b) will not suspend or discontinue any payments due under Obligation No. 93-B for any reason whatsoever, including, without limitation, any right of set-off or counterclaim; (c) will perform and observe all its other agreements contained in the Loan Agreement; and (d) except as provided under the Loan Agreement, will not terminate the Loan Agreement for any cause including, without limiting the generality of the foregoing, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California, or any political subdivision of either thereof, or any failure of the Authority to perform and observe any agreement, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement. Nothing contained in the Loan Agreement will be construed to release the Authority from the performance of any of the agreements on its part contained in the Agreement; and in the event the Authority will fail to perform any such agreement on its part, the Corporation may institute such action against the Authority as the Corporation may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting will not be subject to any defense, set-off, counterclaim or recoupment whatsoever, whether arising out of the breach of any duty or obligation of the Authority, the Master Trustee or the Bond Trustee owing to the Corporation, or by reason of any other indebtedness or liability at any time owing by the Authority, the Master Trustee or the Bond Trustee to the Corporation. In no event shall any payment on the Bonds derived from moneys obtained pursuant to the Bond Insurance Policy be considered to satisfy the obligations of the Corporation to make payments on Obligation No. 93-B or the Loan Agreement.

## **Loan Default Events**

The following events shall be “Loan Default Events”: (a) failure by the Corporation to pay, or cause to be paid, in full any payment required under a Loan Agreement or under Obligation No. 93-B on the date that such payment shall become due, whether at maturity, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Loan Agreement or Obligation No. 93-B; (b) if any material representation or warranty made by the Corporation in the Loan Agreement or in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of Obligation No. 93-B or the Bonds or the negotiation of the Bond Indenture or the Loan Agreement 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 Loan Agreement, on its part to be observed or performed, other than as referred to in (a) or (b) above, including any covenant, condition or agreement in the Master Indenture applicable to any Obligated Group Member, or shall breach any warranty by the Corporation contained in the Loan 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 Corporation by the Authority, the Bond Insurer or the Bond Trustee or to the Corporation and the Bond Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding; except that, if such failure or breach can be remedied, but not within such sixty (60) day period and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such sixty (60) day period, and has obtained the consent of the Bond Insurer to the extension of the cure period, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Bond Trustee or the Bond Insurer; (d) if an Event of Default described herein under “Master Indenture – Defaults and Remedies – Events of Default – (b)” shall have occurred and shall not have been remedied or waived; or (e) the Master Trustee shall have declared the aggregate principal amount of Obligation No. 93-B and all interest thereon immediately due and payable in accordance with the Master Indenture.



## **Remedies in General**

Upon the occurrence and during the continuance of any Loan Default Event, the Bond Trustee, on behalf of the Authority, at its option, may take the following steps: (a) In the case of a Loan Default Event described in (a) above, take whatever action at law or in equity is necessary or desirable to collect the Loan Repayments and payments then due under Obligation No. 93-B and may exercise certain rights of the Bond Trustee under the Bond Indenture to waive the default set forth in the Loan Agreement in the event the Corporation or any entity on behalf of the Corporation deposits with the Bond Trustee a sum sufficient to make good or cure such default; (b) In the case of a Loan Default Event described in (b) above, take whatever action at law or in equity to correct any material representation or warranty described therein which shall at any time prove to have been incorrect in any material respect as of the time made or to recover any costs or damages which may result from such representation or warranty being incorrect in any material respect as of the time made; (c) In the case of a Loan Default Event described in (c) or (d) above, take whatever action at law or in equity necessary or desirable to enforce the performance, observance or compliance by the Corporation with any covenant, condition, agreement or provision by the Corporation under the Loan Agreement or the Master Indenture, as applicable; and (d) In the case of a Loan Default Event described in (e) above, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable and shall take such other action, or cease such action, as the Master Trustee shall direct, but only to the extent such directions are consistent with the provisions of the Master Indenture.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Authority shall not under any circumstances declare the entire unpaid aggregate amount of the payment due under the Loan Agreement to be immediately due and payable except in accordance with the directions of the Master Trustee in the event that the Master Trustee shall have declared the aggregate principal amount of the related Obligation and all interest due thereon immediately due and payable in accordance with the Master Indenture and Supplement No. 97. In addition, upon the occurrence of any Event of Default hereunder, the Authority shall be afforded the same rights given to the Master Trustee pursuant to the Master Indenture.

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## APPENDIX D

### BOOK-ENTRY SYSTEM

**THE INFORMATION PROVIDED IN THIS APPENDIX D HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUER, THE CORPORATION, ANY OTHER OBLIGATED GROUP MEMBER OR THE TRUSTEE AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS REOFFERING CIRCULAR.**

The Depository Trust Company (“DTC”) New York, NY, acts as securities depository for the Bonds. The Bonds will be reoffered as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Bond certificate will be issued for each Series of the Bonds, each in the aggregate principal amount of such Series, and deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates 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 is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others, such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are however expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

Redemption notices shall be sent to DTC. If less than all of a Series of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Bonds of such Series to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds and interest payments on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Issuers or the Bond Trustee, on a payment 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 Participants and not of DTC, its nominee, the Bond Trustee or the Issuers, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, redemption proceeds and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond 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 the Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates for such Bonds will be printed and delivered to DTC.

**APPENDIX E**

**OPINION OF BOND COUNSEL  
DELIVERED UPON ORIGINAL ISSUANCE OF BONDS**

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# SIDLEY AUSTIN BROWN & WOOD LLP

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April 28, 2004

California Health Facilities  
Financing Authority  
Sacramento, California

\$342,050,000  
California Health Facilities Financing Authority  
Insured Health Facility Revenue Bonds  
(Catholic Healthcare West)  
2004 Series A, B, C, D, E and F

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Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Authority") and in such capacity have examined a record of proceedings relating to the issuance of the Authority's \$342,050,000 Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2004 Series A, B, C, D, E and F, dated April 28, 2004 (collectively, the "Bonds" and each a "Series" of Bonds). The Bonds are issued under and pursuant to the California Health Facilities Financing Authority Act, as amended, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California, and a Bond Indenture, dated as of April 1, 2004 (the "Bond Indenture"), by and between the Authority and BNY Western Trust Company, as bond trustee (the "Bond Trustee"), for the purpose of providing funds, together with other available funds, to (i) refund certain debt obligations of Catholic Healthcare West (the "Corporation"), and (ii) pay certain costs and expenses incurred in connection with the issuance of the Bonds. Capitalized terms not defined herein shall have the meanings assigned to them in the Bond Indenture.

The Bonds are authorized to be issued in six series of Bonds designated, respectively, as "2004 Series A," "2004 Series B," "2004 Series C," "2004 Series D," "2004 Series E" and "2004 Series F." The 2004 Series A Bonds shall be issued in the aggregate principal amount of \$69,875,000. The 2004 Series B Bonds shall be issued in the aggregate principal amount of \$29,675,000. The 2004 Series C Bonds shall be issued in the aggregate principal amount of \$52,875,000. The 2004 Series D Bonds shall be issued in the aggregate principal amount of

California Health Facilities  
Financing Authority  
April 28, 2004  
Page 2

\$52,800,000. The 2004 Series E Bonds shall be issued in the aggregate principal amount of \$89,000,000. The 2004 Series F Bonds shall be issued in the aggregate principal amount of \$47,825,000. All Series of Bonds shall mature on July 1, 2025. The Bonds bear interest from April 28, 2004, and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein and in the Bond Indenture. Each Series of the Bonds initially will bear interest at Auction Rates. While the Bonds of any Series bear interest at Auction Rates, such Bonds will be issued as fully registered Bonds in denominations of \$25,000 and any integral multiple thereof and are interchangeable as provided in the Bond Indenture.

The Bonds are secured by, among other things, payments to be made by the Corporation under a Loan Agreement (the "Loan Agreement"), dated as of April 1, 2004, between the Authority and the Corporation and delivered to the Authority as evidence of the Corporation's obligation to repay the loan of the proceeds of the Bonds. The 2004 Series A, 2004 Series B, 2004 Series E and 2004 Series F Bonds also are secured by the Catholic Healthcare West Obligation No. 72-A ("Obligation No. 72-A"), dated April 28, 2004, issued by the Corporation pursuant to the terms of a Seventy-Second Supplemental Master Indenture, dated as of April 1, 2004, (the "Seventy-Second Supplemental Indenture") between the Corporation, as Obligated Group Representative, and the Master Trustee (referred to below), and a Master Trust Indenture, dated as of November 15, 1985, as amended to the date hereof (the "Master Indenture"), among the Corporation, the other Obligated Group Members and U.S. Bank National Association, successor to Mellon Bank, N.A., as master trustee (the "Master Trustee"). The 2004 Series C and 2004 Series D Bonds also are secured by the Catholic Healthcare West Obligation No. 72-B ("Obligation No. 72-B"), dated April 28, 2004, issued by the Corporation pursuant to the terms of the Seventy-Second Supplemental Indenture. The Authority will assign to the Bond Trustee, for the benefit of bondholders, its right, title and interest in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture), Obligation No. 72-A and Obligation No. 72-B.

The principal or Redemption Price of the Bonds is payable in lawful money of the United States of America at the principal corporate trust office of the Bond Trustee in San Francisco, California. The interest on the Bonds is payable through the book-entry system maintained by The Depository Trust Company, New York, New York, or, if the book-entry system is no longer in effect, in lawful money of the United States of America by check or draft mailed to each Holder at the addresses shown on the registration books maintained by the Bond Trustee or, while Bonds bear interest at the Long-Term Interest Rate, at the option of the Holder of at least \$1,000,000 in aggregate principal amount of Bonds, by wire transfer to such address as may have been filed with the Bond Trustee for such purpose.

The Loan Agreement and the Bond Indenture and the rights and obligations of the Authority, the Corporation, the Bond Trustee and the registered owners of the Bonds may be amended or modified in the manner and subject to the conditions and terms set forth in the Loan Agreement and the Bond Indenture.

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As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and officials of the Corporation and the other Obligated Group Members furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Bond Indenture has been duly authorized and executed by the Authority and is valid and binding in accordance with its terms. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, of all of the Revenues and any other amounts (including the proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture, excepting only any amounts held in the Rebate Fund or the Purchase Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bond Indenture also creates a valid assignment to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, of all of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture), Obligation No. 72-A and Obligation No. 72-B.
3. The Bonds are valid and binding limited obligations of the Authority payable solely from the Revenues and other assets pledged and assigned therefor under the Bond Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the State of California nor the Authority shall be obligated to pay the Bonds or the interest thereon except from the Revenues, and neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California and said State is not liable for the payment thereof.
4. The Loan Agreement has been duly authorized and executed by the Authority and the Corporation and is valid and binding in accordance with its terms.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Corporation with certain covenants of the Bond Indenture, the Loan Agreement, the Tax Certificate and certain other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and

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operation of the Obligated Group Members, the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In rendering the foregoing opinion, we have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California, regarding the qualification of the Obligated Group Members as organizations described in Section 501(c)(3) of the Code. In addition, we can give no opinion or assurance about the future activities of the Obligated Group Members or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of one or more Obligated Group Members to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code may cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership of or the receipt of interest on the Bonds.
7. Under existing law, interest on the Bonds is exempt from State of California personal income taxes.

The Indenture provides that the Bonds of any Series may be converted to bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates or a Long-Term Interest Rate, under the circumstances and subject to the conditions set forth in the Indenture. The foregoing opinions relate to the matters described herein only as of the date hereof. We express no opinion as to the exclusion of interest for federal income tax purposes on and after the occurrence of any such conversion or on and after the delivery of a Liquidity Facility (as defined in the Indenture). Additionally, certain requirements and procedures contained or referred to in the Bond Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income of the owners of the Bonds for federal income tax

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April 28, 2004  
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purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than this firm.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Bonds, the Loan Agreement and the Bond Indenture and the liens and security interest described above are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally and to the application of such principles of equity as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Further, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated April 19, 2004, issued in connection with the marketing of the Bonds and express no opinion with respect thereto.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

In rendering this opinion, we also have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California with respect to the authorization, execution and delivery by the Corporation of the Loan Agreement.

Respectfully submitted,

*Sidley Austin Brown & Wood LLP*



# SIDLEY AUSTIN BROWN & WOOD LLP

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November 10, 2005

California Health Facilities  
Financing Authority  
Sacramento, California

\$317,875,000  
California Health Facilities Financing Authority  
Insured Health Facility Revenue Bonds  
(Catholic Healthcare West)  
2005 Series A, B, C, D, E, and F

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Ladies and Gentlemen:

We have acted as bond counsel to the California Health Facilities Financing Authority (the "Authority") and in such capacity have examined a record of proceedings relating to the issuance of the Authority's \$317,875,000 Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2005 Series A, B, C, D, E and F (collectively, the "Bonds" and each a "Series"), dated their date of original execution and delivery (the "Date of Issue"). The Bonds are issued under and pursuant to the California Health Facilities Financing Authority Act, as amended, constituting Part 7.2 of Division 3 of Title 2 of the Government Code of the State of California, and a Bond Indenture, dated as of November 1, 2005 (the "Bond Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as bond trustee (the "Bond Trustee"), for the purpose of providing funds, together with other available funds, to (i) refund certain debt obligations of Catholic Healthcare West (the "Corporation"), (ii) finance and refinance the acquisition of and certain improvements and additions to the health facilities owned and operated by the Corporation and certain affiliates of the Corporation and reimbursing the Corporation or its affiliates for expenditures made in anticipation thereof and (iii) pay certain costs and expenses incurred in connection with the issuance of the Bonds. Capitalized terms not defined herein shall have the meanings assigned to them in the Bond Indenture.

The Bonds are authorized to be issued in six series of Bonds designated, respectively, as "2005 Series A," "2005 Series B," "2005 Series C," "2005 Series D," "2005 Series E," and "2005 Series F." The 2005 Series A Bonds shall be issued in the aggregate principal amount of \$54,650,000. The 2005 Series B Bonds shall be issued in the aggregate principal amount of \$53,725,000. The 2005 Series C Bonds shall be issued in the aggregate principal amount of

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California Health Facilities

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\$67,700,000. The 2005 Series D Bonds shall be issued in the aggregate principal amount of \$48,850,000. The 2005 Series E Bonds shall be issued in the aggregate principal amount of \$54,100,000. The 2005 Series F Bonds shall be issued in the aggregate principal amount of \$38,850,000. The 2005 Series A, B, E and F Bonds shall mature on July 1, 2022. The 2005 Series C Bonds shall mature on July 1, 2032. The 2005 Series D Bonds shall mature on July 1, 2031. The Bonds bear interest from the Date of Issue, and are subject to redemption prior to their respective maturities in the manner and upon the terms and conditions set forth therein and in the Bond Indenture. Each Series of the Bonds initially will bear interest at Auction Rates. While the Bonds of any Series bear interest at Auction Rates, such Bonds will be issued as fully registered Bonds in denominations of \$25,000 and any integral multiple thereof and are interchangeable as provided in the Bond Indenture.

The Bonds are secured by, among other things, payments to be made by the Corporation under a Loan Agreement (the "Loan Agreement"), dated as of November 1, 2005, between the Authority and the Corporation and delivered to the Authority as evidence of the Corporation's obligation to repay the loan of the proceeds of the Bonds. The Bonds also are secured by the Catholic Healthcare West Obligation No. 87-A ("Obligation No. 87-A"), the Catholic Healthcare West Obligation No. 87-B ("Obligation No. 87-B") and the Catholic Healthcare West Obligation No. 87-C ("Obligation No. 87-C"), each dated the Date of Issue, and each issued by the Corporation pursuant to the terms of an Eighty-Seventh Supplemental Master Indenture, dated as of November 1, 2005, between the Corporation, as Obligated Group Representative, and the Master Trustee (referred to below), and a Master Trust Indenture, dated as of November 15, 1985, as amended to the date hereof (the "Master Indenture"), among the Corporation, the other Obligated Group Members and U.S. Bank National Association, successor to Mellon Bank, N.A., as master trustee (the "Master Trustee"). The Authority will assign to the Bond Trustee, for the benefit of bondholders, its right, title and interest in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture), Obligation No. 87-A, Obligation No. 87-B and Obligation No. 87-C.

The principal or Redemption Price of the Bonds is payable in lawful money of the United States of America at the principal corporate trust office of the Bond Trustee in San Francisco, California. The interest on the Bonds is payable through the book-entry system maintained by The Depository Trust Company, New York, New York, or, if the book-entry system is no longer in effect, in lawful money of the United States of America by check mailed to each Holder at the addresses shown on the registration books maintained by the Bond Trustee or, at the option of the Holder, by wire transfer in accordance with the wire transfer instructions provided by the Holder of such Bonds.

The Loan Agreement and the Bond Indenture and the rights and obligations of the Authority, the Corporation, the Bond Trustee and the registered owners of the Bonds may be amended or modified in the manner and subject to the conditions and terms set forth in the Loan Agreement and the Bond Indenture.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and officials of the Corporation and the other Obligated Group Members furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Bond Indenture has been duly authorized and executed by the Authority and is valid and binding in accordance with its terms. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, of all of the Revenues and any other amounts (including the proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture, excepting only any amounts held in the Rebate Fund or the Purchase Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bond Indenture also creates a valid assignment to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, of all of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture), Obligation No. 87-A, Obligation No. 87-B and Obligation No. 87-C.
3. The Bonds are valid and binding limited obligations of the Authority payable solely from the Revenues and other assets pledged and assigned therefor under the Bond Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the State of California nor the Authority shall be obligated to pay the Bonds or the interest thereon except from the Revenues, and neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of California and said State is not liable for the payment thereof.
4. The Loan Agreement has been duly authorized and executed by the Authority and the Corporation and is valid and binding in accordance with its terms.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Corporation with certain covenants of the Bond Indenture, the Loan Agreement, the Tax Certificate and certain other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Obligated Group Members, the use, expenditure and investment

of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In rendering the foregoing opinion, we have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California, regarding the qualification of the Obligated Group Members as organizations described in Section 501(c)(3) of the Code. In addition, we can give no opinion or assurance about the future activities of the Obligated Group Members or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of one or more Obligated Group Members to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code may cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

6. Interest on the Bonds is not treated as an item of tax preference in calculating federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership of or the receipt of interest on the Bonds.
7. Under existing law, interest on the Bonds is exempt from State of California personal income taxes.

The Bond Indenture provides that the Bonds of any Series may be converted to bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates or a Long-Term Interest Rate, under the circumstances and subject to the conditions set forth in the Bond Indenture. The foregoing opinions relate to the matters described herein only as of the date hereof. We express no opinion as to the exclusion of interest for federal income tax purposes on and after the occurrence of any such conversion or on and after the delivery of a Liquidity Facility (as defined in the Bond Indenture). Additionally, certain requirements and procedures contained or referred to in the Bond Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion of interest on the Bonds from gross income of the owners of the Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than this firm.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Bonds, the Loan Agreement and the Bond Indenture and the liens and security interest described above are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally and to the application of such principles of equity as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Further, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated October 31, 2005, issued in connection with the marketing of the Bonds and express no opinion with respect thereto.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events. In rendering this opinion, we also have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California, with respect to the authorization, execution and delivery by the Corporation of the Loan Agreement.

Respectfully submitted,

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FOUNDED 1866

April 26, 2007

California Statewide Communities  
 Development Authority  
 Sacramento, California

\$676,250,000  
 California Statewide Communities Development  
 Authority  
 Insured Health Facility Revenue Bonds  
 (Catholic Healthcare West)  
 2007 Series A through L

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Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the “Authority”) and in such capacity have examined a record of proceedings relating to the issuance of the Authority’s \$676,250,000 Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2007 Series A, B, C, D, E, F, G, H, I, J, K and L (collectively, the “Bonds” and each a “Series”), dated their date of original execution and delivery (the “Date of Issue”). The Bonds are issued under and pursuant to the Joint Powers Act, commencing with Section 6500 of the Government Code of the State of California, and a Bond Indenture, dated as of April 1, 2007 (the “Bond Indenture”), by and between the Authority and The Bank of New York Trust Company, N.A., as bond trustee (the “Bond Trustee”), for the purpose of providing funds, together with other available funds, to (i) refund certain debt obligations of Catholic Healthcare West (the “Corporation”), (ii) finance and refinance the acquisition of and certain improvements and additions to the health facilities owned and operated by the Corporation and certain affiliates of the Corporation and reimbursing the Corporation or its affiliates for expenditures made in anticipation thereof, and (iii) pay certain costs and expenses incurred in connection with the issuance of the Bonds. Capitalized terms not defined herein shall have the meanings assigned to them in the Bond Indenture.

The Bonds are authorized to be issued in twelve series of Bonds designated, respectively, as “2007 Series A,” “2007 Series B,” “2007 Series C,” “2007 Series D,” “2007 Series E,” “2007 Series F,” “2007 Series G,” “2007 Series H,” “2007 Series I,” “2007 Series J,” “2007 Series K,” and” “2007 Series L.” The aggregate principal amounts and maturity dates for each Series of Bonds are as follows:



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Series	Principal Amount	Maturity Date (July 1)
2007 Series A	\$40,000,000	2035
2007 Series B	60,000,000	2041
2007 Series C	60,000,000	2041
2007 Series D	80,000,000	2041
2007 Series E	80,000,000	2040
2007 Series F	80,000,000	2040
2007 Series G	63,700,000	2031
2007 Series H	42,550,000	2031
2007 Series I	48,025,000	2030
2007 Series J	31,975,000	2030
2007 Series K	54,000,000	2041
2007 Series L	36,000,000	2041

The Bonds bear interest from the Date of Issue and are subject to redemption prior to their respective stated maturities in the manner and upon the terms and conditions set forth therein and in the Bond Indenture. Each Series of the Bonds initially will bear interest at Auction Rates. While the Bonds of any Series bear interest at Auction Rates, such Bonds will be issued as fully registered Bonds in denominations of \$25,000 and any integral multiple thereof and are interchangeable as provided in the Bond Indenture.

The Bonds are secured by, among other things, payments to be made by the Corporation under a Loan Agreement (the “Loan Agreement”), dated as of April 1, 2007, between the Authority and the Corporation and delivered to the Authority as evidence of the Corporation’s obligation to repay the loan of the proceeds of the Bonds. The Series A, Series G and Series H Bonds also are secured by the Catholic Healthcare West Obligation No. 93-A (“Obligation No. 93-A”); the Series K and Series L Bonds also are secured by the Catholic Healthcare West Obligation No. 93-B (“Obligation No. 93-B”); the Series B and Series C Bonds also are secured by the Catholic Healthcare West Obligation No. 93-C (“Obligation No. 93-C”); the Series I and Series J Bonds also are secured by the Catholic Healthcare West Obligation No. 93-D (“Obligation No. 93-D”); and the Series D, Series E, and Series F Bonds also are secured by the Catholic Healthcare West Obligation No. 93-E (“Obligation No. 93-E”), each dated the Date of Issue, and each issued by the Corporation pursuant to the terms of a Ninety-Third Supplemental Master Indenture, dated as of April 1, 2007, between the Corporation, as Obligated Group Representative, and the Master Trustee (referred to below), and a Master Trust Indenture, dated as of November 15, 1985, as amended to the date hereof (the “Master Indenture”), among the Corporation, the other Obligated Group Members and U.S. Bank National Association, successor to Mellon Bank, N.A., as master trustee (the “Master Trustee”). The Authority will assign to the Bond Trustee, for the benefit of bondholders, its right, title and interest in the Loan Agreement



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(to the extent and as more particularly described in the Bond Indenture), Obligation No. 93-A, Obligation No. 93-B, Obligation No. 93-C, Obligation No. 93-D and Obligation No. 93-E.

The Loan Agreement and the Bond Indenture and the rights and obligations of the Authority, the Corporation, the Bond Trustee and the registered owners of the Bonds may be amended or modified in the manner and subject to the conditions and terms set forth in the Loan Agreement and the Bond Indenture.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and officials of the Corporation and the other Obligated Group Members furnished to us without undertaking to verify the same by independent investigation.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Bond Indenture has been duly authorized and executed by the Authority and is valid and binding in accordance with its terms. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Bond Indenture, of all of the Revenues and any other amounts (including the proceeds of the sale of Bonds) held in any fund or account established pursuant to the Bond Indenture, excepting only any amounts held in the Rebate Fund or the Purchase Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture. The Bond Indenture also creates a valid assignment to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, of all of the right, title and interest of the Authority in the Loan Agreement (to the extent and as more particularly described in the Bond Indenture), Obligation No. 93-A, Obligation No. 93-B, Obligation No. 93-C, Obligation No. 93-D and Obligation No. 93-E.
3. The Bonds are valid and binding limited obligations of the Authority payable solely from the Revenues and other assets pledged and assigned therefor under the Bond Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. Neither the State of California nor the Authority shall be obligated to pay the Bonds or the interest thereon except from the Revenues, and neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The

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Bonds are not a debt of the State of California and said State is not liable for the payment thereof.

4. The Loan Agreement has been duly authorized and executed by the Authority and the Corporation and is valid and binding in accordance with its terms.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Corporation with certain covenants of the Bond Indenture, the Loan Agreement, the Tax Certificate and certain other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Obligated Group Members, the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In rendering the foregoing opinion, we have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California, regarding the qualification of the Obligated Group Members as organizations described in Section 501(c)(3) of the Code. In addition, we can give no opinion or assurance about the future activities of the Obligated Group Members or about the effect of future changes in the Code, applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of one or more Obligated Group Members to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of their status as organizations described in Section 501(c)(3) of the Code may cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
6. Interest on the Bonds is not treated as an item of tax preference in calculating federal alternative minimum taxable income of individuals and corporations. Interest on the Bonds, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by the ownership of or the receipt of interest on the Bonds.
7. Under existing law, interest on the Bonds is exempt from State of California personal income taxes.

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April 26, 2007  
Page 5

The Bond Indenture provides that the Bonds of any Series may be converted to bear interest at a Daily Interest Rate, a Weekly Interest Rate, Bond Interest Term Rates, a Long-Term Interest Rate or a LIBOR-Based Interest Rate, under the circumstances and subject to the conditions set forth in the Bond Indenture. Additionally, certain requirements and procedures contained or referred to in the Bond Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. The foregoing opinions relate to the matters described herein only as of the date hereof. We express no opinion as to the exclusion of interest on the Bonds from gross income of the owners of the Bonds for federal income tax purposes on and after the occurrence of any such conversion, the delivery of a Liquidity Facility (as defined in the Bond Indenture), or the date on which any such change occurs or action is taken upon the advice or approval of counsel other than this firm.

With respect to the opinions expressed herein, the enforceability of the rights and obligations under the Bonds, the Loan Agreement and the Bond Indenture and the liens and security interest described above are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally and to the application of such principles of equity as the court having jurisdiction may impose, regardless of whether such enforceability is considered in a proceeding in equity or at law. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Further, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated April 5, 2007, issued in connection with the marketing of the Bonds and express no opinion with respect thereto.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events. In rendering this opinion, we also have relied upon the opinion of Paul Hastings Janofsky & Walker LLP, San Francisco, California, with respect to the authorization, execution and delivery by the Corporation of the Loan Agreement.

Respectfully submitted,

*Sidley Austin LLP*

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**APPENDIX F**

**FORM OF OPINION OF BOND COUNSEL**

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May \_\_, 2008

California Statewide Communities Development Authority  
Sacramento, California

The Bank of New York  
Trust Company, N.A.  
San Francisco, California

J.P. Morgan Securities Inc.  
New York, New York

Citigroup Global Markets, Inc.  
New York, New York

\$90,000,000  
California Statewide Communities Development Authority  
Insured Health Facility Revenue Bonds  
(Catholic Healthcare West)  
2007 Series K and L

Ladies and Gentlemen:

We have acted as bond counsel to the California Statewide Communities Development Authority (the "Authority"), and, in that capacity, we previously have issued our opinion, dated April 26, 2007, concerning the California Statewide Communities Development Authority \$676,250,000 Insured Health Facility Revenue Bonds (Catholic Healthcare West), 2007 Series A-L (collectively, the "Bonds" and each a "Series"). The Bonds were issued on April 26, 2007 under and pursuant to the Joint Powers Act, commencing with Section 6500 of the Government Code of the State of California (the "Act"), and a Bond Indenture, dated as of April 1, 2007 (the "Bond Indenture"), by and between the Authority and The Bank of New York Trust Company, N.A., as bond trustee (the "Bond Trustee"), for the purpose of providing funds, together with other available funds, to (i) refund certain bonds issued for the benefit of Catholic Healthcare West (the "Corporation") and its affiliates, (ii) finance and refinance certain improvements to the health care facilities owned and operated by the Corporation and its affiliates in California, including the reimbursement of the Corporation or its affiliates for expenditures made in anticipation thereof, and (iii) pay certain costs and expenses incurred in connection with the issuance of the Bonds. The net proceeds of the Bonds were loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of April 1, 2007 (the "Loan Agreement"). Capitalized terms not defined herein shall have the meanings ascribed to them in the Bond Indenture or in our original opinion dated April 26, 2007.

On April 26, 2007, we rendered an opinion that, under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Corporation with certain covenants of the Bond Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated April 26, 2007 (the "2007 Tax Agreement"), between the Authority and the Corporation, and certain other documents pertaining to the Bonds and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Obligated Group Members, the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes.

On April 14, 2008, pursuant to Section 2.07(B) of the Bond Indenture, the Corporation gave notice of its election to have the interest rate on the Series K and Series L Bonds (the "Converted Bonds") converted to a Long-Term Interest Rate on May 16, 2008, which Long-Term Interest Rate will be in effect until the respective maturity dates for each such Series (the "Conversion"). The aggregate principal amount and maturity date for each Series of the Converted Bonds are as follows:

<u>Series</u>	<u>Principal Amount</u>	<u>Maturity Date</u>
2007 Series K	54,000,000	July 1, 2041
2007 Series L	36,000,000	July 1, 2041

In connection with our rendering the opinions set forth herein, we have reviewed the Bond Indenture, the Loan Agreement, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and officials of the Corporation and the other Obligated Group Members furnished to us without undertaking to verify the same by independent investigation.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to above. Further, we have assumed compliance with all covenants contained in the Bond Indenture, the Loan Agreement, and the 2007 Tax Agreement, including (without limitation) covenants and agreements, compliance with which is necessary to assure that actions, omissions or events on and after the date of issuance of the Bonds have not caused and will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We have not been engaged to undertake and we have not undertaken to determine compliance with any of such covenants and agreements or any other requirements of law, and, except as expressly set forth below, we have not otherwise reviewed any actions, omissions or events occurring after the date of issuance of the Bonds or the exclusion of interest on the Bonds from gross income for federal income tax purposes. Accordingly, except as expressly set forth below, no opinion is expressed herein as to whether interest on the Bonds is excludable from gross income for federal income tax purposes or as to any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Based upon the foregoing, under existing law, we are of the opinion that the Conversion is authorized or permitted by the Bond Indenture and the Act and will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of any such actions or events.

Respectfully submitted,

**APPENDIX G**

**ASSURED GUARANTY SPECIMEN BOND INSURANCE POLICY**

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Assured Guaranty Corp.  
 1325 Avenue of the Americas  
 New York, NY 10019  
 t. 212.974.0100  
 www.assuredguaranty.com

**Financial Guaranty Insurance Policy**

**Issuer:**

**Policy No.:**

**Obligations:**

**Premium:**

**Effective Date:**

Assured Guaranty Corp., a Maryland corporation ("**Assured Guaranty**"), in consideration of the payment of the Premium and on the terms and subject to the conditions of this Policy (which includes each endorsement hereto), hereby unconditionally and irrevocably agrees to pay to the trustee (the "**Trustee**") or the paying agent (the "**Paying Agent**") for the Obligations (as set forth in the documentation providing for the issuance of and securing the Obligations) for the benefit of the Holders, that portion of the Insured Payments which shall become Due for Payment but shall be unpaid by reason of Nonpayment.

Assured Guaranty will make such Insured Payments to the Trustee or the Paying Agent on the later to occur of (i) the date applicable principal or interest becomes Due for Payment, or (ii) the Business Day next following the day on which Assured Guaranty shall have Received a completed Notice of Nonpayment. If a Notice of Nonpayment by Assured Guaranty is incomplete or does not in any instance conform to the terms and conditions of this Policy, it shall be deemed not Received, and Assured Guaranty shall promptly give notice to the Trustee or the Paying Agent. Upon receipt of such notice, the Trustee or the Paying Agent may submit an amended Notice of Nonpayment. The Trustee or the Paying Agent will disburse the Insured Payments to the Holders only upon receipt by the Trustee or the Paying Agent, in form reasonably satisfactory to it of (i) evidence of the Holder's right to receive such payments, and (ii) evidence, including without limitation any appropriate instruments of assignment, that all of the Holder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Assured Guaranty. Upon and to the extent of such disbursement, Assured Guaranty shall become the Holder of the Obligations, any appurtenant coupon thereto and right to receipt of payment of principal thereof or interest thereon, and shall be fully subrogated to all of the Holder's right, title and interest thereunder, including without limitation the right to receive payments in respect of the Obligations. Payment by Assured Guaranty to the Trustee or the Paying Agent for the benefit of the Holders shall discharge the obligation of Assured Guaranty under this Policy to the extent of such payment.

This Policy is non-cancelable by Assured Guaranty for any reason. The Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment premium or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Assured Guaranty, nor against any risk other than Nonpayment.

Except to the extent expressly modified by any endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "**Avoided Payment**" means any amount previously distributed to a Holder in respect of any Insured Payment by or on behalf of the Issuer, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. "**Business Day**" means any day other than (i) a Saturday or Sunday, (ii) any day on which the offices of the Trustee, the Paying Agent or Assured Guaranty are closed, or (iii) any day on which banking institutions are authorized or required by law, executive order or governmental decree to be closed in the City of New York or in the State of Maryland. "**Due for Payment**" means (i) when referring to the principal of an Obligation, the stated maturity date thereof, or the date on which such Obligation shall have been duly called for mandatory sinking fund redemption, and does not refer to any earlier date on which payment is due by reason of a call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless Assured Guaranty in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and (ii) when referring to interest on an Obligation, the stated date for payment of such interest. "**Holder**" means, in respect of any Obligation, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Obligation to payment of principal or interest thereunder, except that Holder shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligations. "**Insured Payments**" means that portion of the principal of and interest on the Obligations that shall become Due for Payment but shall be unpaid by reason of Nonpayment. Insured Payments shall not include any additional amounts owing by the Issuer solely as a result of the failure by the Trustee or the Paying Agent to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee or the Paying Agent by reason of such failure. "**Nonpayment**" means, in respect of an Obligation, the failure of the Issuer to have provided sufficient funds to the Trustee or the Paying Agent for payment in full of all principal and interest Due for Payment on such Obligation. It is further understood that the term "Nonpayment" in respect of an Obligation includes any Avoided Payment. "**Receipt**" or "**Received**" means actual receipt or notice of or, if notice is given by overnight or other delivery service, or by certified or registered United States mail, by a delivery receipt signed by a person authorized to accept delivery on behalf of the person to whom the notice was given. Notices to Assured Guaranty may be mailed by registered mail or personally delivered or telecopied to it at 1325 Avenue of the Americas, New York, New York 10019, Telephone Number: (212) 974-0100, Facsimile Number: (212) 581-3268, Attention: Risk Management Department - Public Finance Surveillance, with a copy to the General Counsel, or to such other address as shall be specified by Assured Guaranty to the Trustee or the Paying Agent in writing. A Notice of Nonpayment will be deemed to be Received by Assured Guaranty on a given Business Day if it is Received prior to 12:00 noon (New York City time) on such Business Day; otherwise it will be deemed Received on the

next Business Day. "Term" means the period from and including the Effective Date until the earlier of (i) the maturity date for the Obligations, or (ii) the date on which the Issuer has made all payments required to be made on the Obligations.

At any time during the Term of this Policy, Assured Guaranty may appoint a fiscal agent (the "Fiscal Agent") for purposes of this Policy by written notice to the Trustee or the Paying Agent, specifying the name and notice address of such Fiscal Agent. From and after the date of Receipt of such notice by the Trustee or the Paying Agent, copies of all notices and documents required to be delivered to Assured Guaranty pursuant to this Policy shall be delivered simultaneously to the Fiscal Agent and to Assured Guaranty. All payments required to be made by Assured Guaranty under this Policy may be made directly by Assured Guaranty or by the Fiscal Agent on behalf of Assured Guaranty. The Fiscal Agent is the agent of Assured Guaranty only, and the Fiscal Agent shall in no event be liable to the Trustee or the Paying Agent for any acts of the Fiscal Agent or any failure of Assured Guaranty to deposit, or cause to be deposited, sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Assured Guaranty hereby waives, in each case for the benefit of the Holders only, all rights and defenses of any kind (including, without limitation, the defense of fraud in the inducement or in fact or any other circumstance that would have the effect of discharging a surety, guarantor or any other person in law or in equity) that may be available to Assured Guaranty to deny or avoid payment of its obligations under this Policy in accordance with the express provisions hereof. Nothing in this paragraph will be construed (i) to waive, limit or otherwise impair, and Assured Guaranty expressly reserves, Assured Guaranty's rights and remedies, including, without limitation, its right to assert any claim or to pursue recoveries (based on contractual rights, securities law violations, fraud or other causes of action) against any person or entity, in each case, whether directly or acquired as a subrogee, assignee or otherwise, subsequent to making any payment to the Trustee or the Paying Agent, in accordance with the express provisions hereof, and/or (ii) to require payment by Assured Guaranty of any amounts that have been previously paid or that are not otherwise due in accordance with the express provisions of this Policy.

This Policy (which includes each endorsement hereto) sets forth in full the undertaking of Assured Guaranty with respect to the subject matter hereof, and may not be modified, altered or affected by any other agreement or instrument, including, without limitation, any modification thereto or amendment thereof. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. This Policy will be governed by, and shall be construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, Assured Guaranty has caused this Policy to be affixed with its corporate seal, to be signed by its duly authorized officer, and to become effective and binding upon Assured Guaranty by virtue of such signature.

**ASSURED GUARANTY CORP.**

(SEAL)

By: \_\_\_\_\_  
[Insert Authorized Signatory Name]  
[Insert Authorized Signatory Title]

Signature attested to by:

\_\_\_\_\_  
Counsel





