NEW ISSUE
BOOK-ENTRY ONLY

Ratings+: S&P A+
Moody's A2

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Oregon personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

$113,860,000
HOSPITAL FACILITY AUTHORITY OF CLACKAMAS COUNTY, OREGON
REVENUE BONDS (LEGACY HEALTH SYSTEM) SERIES 2009A

Dated: Date of Issuance

Due: July 15, as shown below

The Hospital Facility Authority of Clackamas County, Oregon Revenue Bonds (Legacy Health System), Series 2009A (the "Series A Bonds" or the "Bonds") are being issued as fixed rate bonds under a Bond Indenture, dated as of May 1, 2009 (the "Bond Indenture"), between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"), as fully registered bonds and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Bonds under a book-entry only system. See "BOOK-ENTRY SYSTEM." Beneficial Owners of the Bonds will not receive physical delivery of bond certificates. Principal of and premium, if any, and interest on the Bonds will be paid by the Bond Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds, as described herein. Interest on the Bonds is payable on January 15, 2010 and semiannually thereafter on July 15 and January 15 of each year to their maturity or earlier redemption.

The Bonds are issued under and secured by the Bond Indenture and are limited obligations of the Authority, payable solely from Revenues, which consist primarily of loan repayments required to be paid by Legacy Health System ("LHS") under a Loan Agreement, dated as of May 1, 2009 (the "Loan Agreement"), between the Authority and LHS. The obligation of LHS to make loan repayments is evidenced and secured by Obligation No. 7 issued under an Amended and Restated Master Trust Indenture, dated as of May 1, 2009 (the "Master Indenture"), described herein, which obligates the Obligated Group, defined herein, to make payments on such Obligation in amounts sufficient to pay principal, premium, if any, and interest on the Bonds when due.

The Bonds are subject to optional, extraordinary optional, and mandatory sinking fund redemption prior to maturity as described herein.

Maturity Schedule

$51,945,000 Serial Bonds

Due (July 15)	Principal Amount	Interest Rate	Yield	CUSIP[†]	Due (July 15)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2010	$2,600,000	3.000%	2.230%	179027VS3	2018	$3,490,000	4.500%	4.590%	179027WA1
2011	2,680,000	3.000	2.780	179027VT1	2019	1,195,000	4.500	4.790	179027WB9
2012	2,760,000	3.000	3.130	179027VU8	2019	2,465,000	5.000	4.790	179027WC7
2013	2,850,000	3.500	3.360	179027VV6	2020	3,845,000	5.000	5.000	179027WD5
2014	2,960,000	4.000	3.730	179027VW4	2021	4,040,000	5.000	5.070	179027WE3
2015	3,080,000	4.000	4.000	179027VX2	2022	4,250,000	5.000	5.150	179027WF0
2016	3,210,000	4.000	4.190	179027VY0	2023	4,470,000	5.125	5.240	179027WG8
2017	3,345,000	4.250	4.390	179027VZ7	2024	4,705,000	5.250	5.300	179027WH6

$27,810,000 5.500% Term Bonds Due July 15, 2029, Priced to Yield 5.550% CUSIP[†] 179027WJ2

$34,105,000 5.500% Term Bonds Due July 15, 2035, Priced to Yield 5.750% CUSIP[†] 179027WK9

THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS EXCEPT FROM REVENUES, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT A DEBT OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON, NOR ARE THEY LIABLE FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale and to approval of validity of the Bonds and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for LHS by its special counsel, Davis Wright Tremaine LLP, Portland, Oregon and Seattle, Washington; for the Authority by its special counsel, Orrick, Herrington & Sutcliffe LLP, Portland, Oregon; and for the Underwriters by their counsel, Foster Pepper PLLC, Seattle, Washington. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. It is expected that the Bonds in book-entry form will be available for delivery to the Bond Trustee for Fast Automated Securities Transfer on behalf of DTC on or about May 21, 2009.

Citi

Merrill Lynch & Co.

J.P. Morgan

Dated: May 13, 2009

[+] For an explanation of the ratings, see "RATINGS" herein.

[†] Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of bondholders only and none of the Authority, LHS or the Underwriters makes any representation with respect to such number or undertake any responsibility for their accuracy. The CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of the Bonds.

Only the information set forth herein under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (to the extent the information therein pertains to the Authority) has been furnished or reviewed by the Authority. The information relating to DTC and the Book-Entry System has been furnished by DTC. Such information is believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Authority, LHS and its affiliates or Citigroup Global Markets Inc. (the "Underwriter"). Other information contained herein has been obtained from LHS and other sources (other than the Authority) that are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness is not to be relied upon or construed as a promise or representation by the Authority or the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of this information.

No dealer, broker, salesperson or other person has been authorized by the Authority, LHS or the Underwriters to give any information or to make any representation other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder implies that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the issuance of securities referred to herein and may not be used, in whole or in part, for any other purpose.

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

THE BONDS AND OBLIGATION NO. 7 HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND INDENTURE OR THE MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CAUTIONARY STATEMENTS REGARDING PROJECTIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute projections or statements of future events, generally known as forward-looking statements. These statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. These forward-looking statements include, among others, certain statements contained in the information under the caption "BONDHOLDERS' RISKS" in the forepart of this Official Statement and the statements contained under the caption "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE" in APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM." The achievement of certain results or other expectations contained in 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 the forward-looking statements. LHS 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 these statements are based occur.

TABLE OF CONTENTS

	Page
INTRODUCTION	1
Purpose of the Bonds	1
Legacy Health System and the Obligated Group	1
Security and Source of Payment for the Bonds	2
Additional Indebtedness and Other Obligations	3
Bondholders' Risks	4
THE AUTHORITY	4
THE BONDS	4
Description of the Bonds	5
Redemption of Bonds	5
SECURITY AND SOURCE OF PAYMENT FOR THE BONDS	7
General	7
Limited Liability of the Authority	8
The Master Indenture	8
Security and Enforceability	11
BOOK-ENTRY SYSTEM	13
Bonds in Book-Entry Form	13
DTC and Its Participants	13
Use of Certain Terms in Other Sections of the Official Statement	15
PLAN OF FINANCING	15
ESTIMATED SOURCES AND USES OF FUNDS	16
DEBT SERVICE REQUIREMENTS	16
BONDHOLDERS' RISKS	18
General	18
Impact of Disruptions in the Credit Markets and General Economic Factors	18
Other Significant Risk Areas Summarized	19
Nonprofit Health Care Environment	22
Healthcare Reform Initiatives	24
Patient Service Revenues	25
Regulatory Environment	29
Business Relationships and Other Business Matters	32
Tax-Exempt Status and Other Tax Matters	34
Other Risk Factors	37
ABSENCE OF MATERIAL LITIGATION	38
TAX MATTERS	38
CONTINUING DISCLOSURE	40
CERTAIN LEGAL MATTERS	40

CERTAIN RELATIONSHIPS 40
RATINGS 40
UNDERWRITING 41
INDEPENDENT ACCOUNTANTS 41
FINANCIAL ADVISOR TO LHS 41
OTHER MATTERS 41
EXECUTION 41

APPENDIX A INFORMATION CONCERNING LEGACY HEALTH SYSTEM A-1
APPENDIX B AUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED MARCH 31, 2008 AND 2007 OF LEGACY HEALTH SYSTEM AND AFFILIATES B-1
APPENDIX C SUMMARY OF PRINCIPAL DOCUMENTS C-1
APPENDIX D FORM OF CONTINUING DISCLOSURE CERTIFICATE D-1
APPENDIX E FORM OF BOND COUNSEL OPINION E-1

OFFICIAL STATEMENT

$113,860,000
HOSPITAL FACILITY AUTHORITY
OF CLACKAMAS COUNTY, OREGON
REVENUE BONDS
(LEGACY HEALTH SYSTEM)
SERIES 2009A

INTRODUCTION

This Official Statement, including the cover page and Appendices hereto (the "Official Statement"), is provided to furnish information with respect to the sale and delivery by the Hospital Facility Authority of Clackamas County, Oregon (the "Authority") of its Revenue Bonds (Legacy Health System), Series 2009A, issued in the aggregate principal amount of $113,860,000 (the "Series A Bonds" or the "Bonds").

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Master Indenture or the Bond Indenture, as defined and described below. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – Definitions." The descriptions and summaries of various documents in this Official Statement do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of its terms and conditions. All statements herein are qualified in their entirety by reference to each document.

Purpose of the Bonds

The Bonds will be issued pursuant to the Bond Indenture, dated as of May 1, 2009 (the "Bond Indenture") between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"). The proceeds of the sale of the Bonds will be loaned by the Authority to Legacy Health System ("LHS") pursuant to a Loan Agreement, dated as of May 1, 2009 (the "Loan Agreement"), between the Authority and LHS, for the purposes of financing a portion of the costs of capital construction, remodeling and renovation, and acquisition and installation of equipment, for the hospital and medical facilities located in the State of Oregon (the "Project"), to pay capitalized interest on the Bonds during construction, to fund a debt service reserve fund for the Bonds, and to pay certain costs of issuance relating to the Bonds. For a further description of the uses of Bond proceeds, see "PLAN OF FINANCING" and "ESTIMATED SOURCES AND USES OF FUNDS."

Concurrently with the issuance of the Bonds, the Authority expects to issue its Revenue Bonds (Legacy Health System), Series 2009B and Series 2009C (the "Series 2009B and 2009C Bonds"), in the aggregate principal amount of $50,000,000 for the purposes of financing a portion of the costs of the Project. The Series 2009B and 2009C Bonds will be issued under a separate bond indenture providing for the issuance of the Series 2009B and 2009C Bonds as intermediate-term bonds subject to mandatory tender bearing interest in different interest rate modes. It is anticipated that the Series 2009B and 2009C Bonds will initially be issued as intermediate-term bonds with mandatory tender dates three to five years after issuance. The Series 2009B and 2009C Bonds will be secured by an Obligation issued under the Master Indenture (described herein). The issuance of the Bonds is not contingent upon the issuance of the Series 2009B and 2009C Bonds.

Legacy Health System and the Obligated Group

The System. LHS, an Oregon nonprofit corporation, operates itself and through its affiliates, a system of health care facilities (collectively referred to as the "System"). LHS is the parent corporation and the sole corporate member of five Oregon nonprofit corporations: Legacy Emanuel Hospital & Health Center ("Emanuel"), Legacy Good Samaritan Hospital and Medical Center ("Good Samaritan"), Legacy Meridian Park Hospital ("Meridian Park"), Legacy Mount Hood Medical Center ("Mount Hood") and Legacy Visiting Nurse Association ("LVNA"). LHS also is the sole corporate member of one Washington nonprofit corporation: Legacy Salmon Creek Hospital ("Salmon Creek"). See APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM—ORGANIZATION AND RELATED ENTITIES."

The Obligated Group. In February of 2009, pursuant to a Joinder Agreement, Emanuel, Good Samaritan, Meridian Park, Mount Hood and LVNA agreed to become members of the Obligated Group in addition to LHS. In connection with the issuance of the Bonds, LHS, Emanuel, Good Samaritan, Meridian Park, Mount Hood and LVNA are entering into an Amended and Restated Master Trust Indenture, dated as of May 1, 2009 (the "Master Indenture") with The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee").

LHS, Emanuel, Good Samaritan, Meridian Park, Mount Hood, and LVNA are all Obligated Group Members (the "Obligated Group") established under the Master Indenture and liable with respect to Obligations issued thereunder. Other entities may become members of the Obligated Group (each, a "Member") in accordance with the procedures set forth in the Master Indenture. Additionally, in accordance with the Master Indenture, Members may withdraw from the Obligated Group from time to time. Each Obligated Group Member is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture, including Obligation No. 7 (as hereinafter defined), which will evidence and secure the loan of the proceeds of the Bonds from the Authority to LHS. For more information, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

Under the Master Indenture, LHS, as Credit Group Representative, may designate "Designated Affiliates" from time to time and rescind any such designation at any time. Designated Affiliates are not obligated to make payments with respect to Obligation No. 7 or any other Obligations issued under the Master Indenture, but may be required to pay or otherwise transfer to the Credit Group Representative amounts necessary to enable LHS to pay when due the principal of and premium, if any, and interest on Outstanding Obligations, subject to certain limitations with respect to donor-restricted funds held by any Designated Affiliate. Salmon Creek, Emanuel Medical Center Foundation, Emanuel Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mount Hood Medical Center Foundation and Salmon Creek Hospital Foundation have been designated by LHS as the initial Designated Affiliates under the Master Indenture.

The consolidated financial statements of the System included in Appendix B include the revenues and expenses of the Obligated Group Members and Designated Affiliates (collectively, the "Credit Group") and certain other organizations that are affiliated with LHS, but are not Credit Group Members. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – The Master Indenture."

The Master Indenture and Obligation No. 7. Payments to be made by LHS under the Loan Agreement related to the Bonds will be secured by Obligation No. 7 ("Obligation No. 7"), which is being issued pursuant to the Supplemental Master Indenture for Obligation No. 7, dated as of May 1, 2009 ("Supplement No. 7"), between the Credit Group Representative and the Master Trustee, supplementing the Master Indenture.

At the time the Bonds are issued, there also are other outstanding Obligations under the Master Indenture. See "INTRODUCTION – Additional Indebtedness and Other Obligations" herein.

Any outstanding Obligations issued pursuant to the Master Indenture, including Obligation No. 7, are the general obligations of the Obligated Group Members, secured by a security interest in all of the right, title, and interest, whether now owned or hereafter acquired of each Obligated Group Member, in and to its Gross Revenues (as described herein under the heading "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS – The Master Indenture – Grant of Security Interest in Gross Revenues"). No Affiliate (except for the Obligated Group Members) is or will be obligated to make payments with respect to the Bonds or to pay any outstanding Obligations. See Appendix C – "SUMMARY OF PRINCIPAL DOCUMENTS—Master Indenture" for a summary of covenants contained in the Master Indenture.

Security and Source of Payment for the Bonds

The Bonds are limited obligations of the Authority, payable solely from Revenues, which consist primarily of payments made by LHS under the Loan Agreement ("Loan Repayments"). The Loan Repayments are secured by payments made by the Obligated Group on Obligation No. 7 and from certain funds held under the Bond Indenture. LHS will be obligated under the Loan Agreement to make Loan Repayments in amounts sufficient to pay in full all of the principal of and premium, if any, and interest on the Bonds when due. The payments on Obligation No. 7 are required to be made at such times and in such amounts as shall be sufficient to pay in full when due (whether at

maturity, upon redemption prior to maturity or upon acceleration) all principal of and premium, if any, and interest on the Bonds plus other obligations due under the Loan Agreement. The Obligated Group Members receive a credit on payments due on Obligation No. 7 to the extent of payments made by LHS under the Loan Agreement.

THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS EXCEPT FROM REVENUES, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT A DEBT OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON, NOR ARE THEY LIABLE FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

Additional Indebtedness and Other Obligations

Other than Obligation No. 7, at the time the Bonds are issued, the following Obligations will be outstanding under the Master Indenture:

- Obligation No. 1 ("Obligation No. 1") securing the Authority's Revenue Bonds, Series 1999 originally issued in the aggregate principal amount of $99,540,000 (the "Series 1999 Bonds") and outstanding in the principal amount of $89,585,000 as of the date of this Official Statement.

- Obligation No. 2 ("Obligation No. 2") securing the Authority's Revenue Refunding Bonds, Series 2001 originally issued in the aggregate principal amount of $181,575,000 (the "Series 2001 Bonds") and outstanding in the principal amount of $121,120,000 as of the date of this Official Statement.

- Obligation No. 3 ("Obligation No. 3") securing the Authority's Revenue Bonds, Series 2003 originally issued in the aggregate principal amount of $50,000,000 (the "Series 2003 Bonds") and outstanding in the principal amount of $44,300,000 as of the date of this Official Statement.

- Obligation No. 4 ("Obligation No. 4") securing LHS's obligations to the financial institution obligated under a standby bond purchase agreement, dated as of September 1, 2007, as amended, and expiring on June 4, 2010 or such earlier date as provided for therein, providing for the purchase of tendered and unremarketed Series 2003 Bonds.

- Obligation No. 5 ("Obligation No. 5") securing the Authority's Revenue Bonds, Series 2008A, Series 2008B and Series 2008C originally issued in the aggregate principal amount of $150,000,000 (the "Series 2008 Bonds") and outstanding in the principal amount of $150,000,000 as of the date of this Official Statement.

- Obligation No. 6 ("Obligation No. 6") securing LHS's obligations to the financial institution obligated under a reimbursement agreement, dated as of November 1, 2008 relating to a direct-pay letter of credit for the Series 2008 Bonds, which expires on November 13, 2011, unless terminated earlier or extended, as provided for therein.

- Obligation No. 8 ("Obligation No. 8") securing the Authority's Series 2009B and 2009C Bonds, which are expected to be issued in the aggregate principal amount of $50,000,000.

- Obligation No. 9 ("Obligation No. 9") securing LHS's obligations to a swap counterparty to hedge interest rate risks associated with outstanding bond issues.

- Obligation No. 10 ("Obligation No. 10") securing LHS's obligations to a swap counterparty to hedge interest rate risks associated with outstanding bond issues.

- Obligation No. 11 ("Obligation No. 11") securing LHS's obligations to a swap counterparty to hedge interest rate risks associated with outstanding bond issues.

Additional Obligations on a parity with Obligation No. 7 may be issued by the Obligated Group Members for the purposes, upon the terms and subject to the conditions provided in the Master Indenture. Subject to the conditions contained therein, the Master Indenture also permits the Obligated Group Members to incur secured and unsecured indebtedness in addition to Obligation No. 7 and to enter into Guaranties. See "SUMMARY OF PRINCIPAL DOCUMENTS – Master Indenture – Particular Covenants of Each Member of the Obligated Group – Limitation on Indebtedness" and "—Against Encumbrances" in APPENDIX C hereto.

Bondholders' Risks

Payment of the Loan Repayments by LHS and payments with respect to Obligation No. 7 are expected to be made from revenues to be derived from the operations of the System. Certain risks are inherent in the production of such revenues. See "BONDHOLDERS' RISKS" herein for a discussion of these and other risks.

THE AUTHORITY

The Authority is a public authority organized on June 4, 1974, by the Board of Commissioners of Clackamas County, Oregon, pursuant to Oregon Revised Statutes 441.525 to 441.595 inclusive (the "Act"). The Bonds will be issued by the Authority pursuant to the provisions of the Act and the Bond Indenture. The Authority, by virtue of the Constitution and laws of Oregon, particularly the Act, may acquire, construct, extend, furnish improve, own, mortgage and lease, as lessee or lessor, hospital facilities and parts thereof. The Authority may issue notes and revenue bonds for the purpose of carrying out its powers. The Authority does not have the power or authority to levy taxes or to operate a hospital facility.

The Authority shall continue in existence so long as its revenue bonds or other obligations are outstanding and may be dissolved anytime thereafter according to law. It is governed by a seven member Board of Directors, with members who are appointed and serve at the pleasure of the Board of Commissioners of Clackamas County, Oregon (the "County"). One member of the Board of Directors is also a member of the County's Board of Commissioners. The Board of Directors currently has five vacancies.

The Project is located within the geographical boundaries of Clackamas County, Oregon and Multnomah County, Oregon. Pursuant to the Act and Oregon Revised Statutes Section 190.010, the Authority and The Hospital Facilities Authority of Multnomah County, Oregon (the "Multnomah Authority") entered into an Intergovernmental Cooperation Agreement (the "Intergovernmental Agreement"), wherein the Multnomah Authority agrees that the Authority will be the issuer of the Bonds and the Authority has the power to loan the proceeds of the Bonds to LHS for the financing of the Project.

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 Bond Indenture for all of the provisions relating to the Bonds. The discussion herein is qualified by such reference.

Description of the Bonds

The Bonds will be dated the date of issuance, will bear interest at the rates set forth on the cover page of this Official Statement, payable on January 15, 2010, and semiannually thereafter on July 15 and January 15 of each year to their maturity or earlier redemption, will be subject to the redemption provisions set forth below, and will mature on the dates and in the amounts set forth on the cover page hereof. The Bonds will be transferable and exchangeable as set forth in the Bond Indenture and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as Securities Depository for the Bonds. See "BOOK-ENTRY SYSTEM." So long as the Bonds are registered in the name of Cede & Co. or its registered assign, as the Nominee of the Securities Depository, the Authority and the Bond Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due. So long as any Bond is registered in the name of the Nominee, all payments with respect to principal or interest with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the representation letter with the Securities Depository or as otherwise instructed in writing by the Securities Depository. Thereafter, the principal and premium, if any, on the Bonds is payable upon presentation for payment and the surrender of the Bonds at the Principal Corporate Trust Office designated by the Bond Trustee in accordance with the Bond Indenture, and interest on the Bonds is payable by check mailed by the Bond Trustee on each Interest Payment Date to the Holders thereof as of the Record Date for such Interest Payment Date as provided in the Bond Indenture; provided that any Holder of $1,000,000 or more in aggregate principal amount of Bonds may be paid by wire transfer to an account in the United States designated by such owner to the Bond Trustee in writing prior to the applicable Record Date. Bonds are issuable only in fully registered form in Authorized Denominations of $5,000 or any integral multiple thereof. For more information as to payment of principal of, premium, if any, and interest on the Bonds while the Bonds are registered in the name of a Nominee, see "BOOK-ENTRY SYSTEM."

Redemption of Bonds

Optional Redemption. The Bonds maturing on July 1, 2029 are subject to optional redemption prior to maturity, at the request to LHS, in whole or in part on any date, commencing July 15, 2014, at a redemption price equal to the principal amount of such Bonds called for redemption, plus accrued interest to the redemption date, without premium. The Bonds other than those Bonds maturing on July 1, 2029, are subject to optional redemption prior to maturity, at the request to LHS, in whole or in part on any date, commencing July 15, 2019, from such maturity or maturities as are designated by LHS (or, if not so designated, in inverse order of maturity), from any available funds (including borrowed funds), at a redemption price equal to the principal amount of the Bonds called for redemption, plus accrued interest to the redemption date, without premium.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary optional redemption prior to maturity at the request of LHS, in whole or in part on any date as soon as practicable following receipt by the Bond Trustee of the proceeds of, and to the extent of, amounts paid in respect of the extraordinary optional redemption of Obligation No. 7 (or any Obligation substituted therefor) derived from net proceeds of insurance or condemnation awards, if any portion of the Property, Plant and Equipment of the Obligated Group or of the Designated Affiliates (as defined in the Master Indenture) (1) shall have sustained loss or damage, or (2) shall have been condemned, or (3) shall have sustained insured loss of title, in each such case resulting in receipt of net proceeds of insurance or a condemnation award in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group or of the Designated Affiliates (as defined in the Master Indenture) at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing July 15, 2029 and July 15, 2035 (the "Term Bonds") are subject to mandatory redemption and shall be redeemed on July 15 in the years set forth below, in the amount of the unsatisfied portion of the Sinking Account Requirement as shown for each year in the following schedule (the "Sinking Account Requirement") for such Term Bonds by payment from the Bond Fund of a redemption price of the principal amount of such Term Bonds called for redemption plus interest accrued to the date fixed for redemption, but without premium, as follows:

Year (July 15)	Sinking Account Requirement
2025	$4,965,000
2026	5,250,000
2027	5,545,000
2028	5,860,000
2029*	6,190,000

* Maturity

Year (July 15)	Sinking Account Requirement
2030	$6,540,000
2031	6,910,000
2032	7,300,000
2033	7,715,000
2034	4,585,000
2035*	1,055,000

* Maturity

Whenever any Term Bonds are purchased, redeemed (other than as described above) or delivered by the Authority or LHS to the Bond Trustee for cancellation, the principal amount of such Term Bonds so retired shall satisfy and be credited against the Sinking Account Requirements for Term Bonds as designated by LHS.

Notice of Redemption. Notice of redemption shall be mailed by first-class mail by the Bond Trustee, not less than thirty (30) days and not more than sixty (60) days prior to the redemption date, to (i) the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee, and (ii) the Authority, the Securities Depository and the Information Services. Notice of redemption shall be given by overnight mail to the Securities Depository and to the Information Services. Each notice of redemption shall state the date of such notice, the date of issuance, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee) the maturity (including CUSIP numbers, if any), and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Each notice shall also state that redemption is conditioned upon receipt by the Bond Trustee on the date specified for redemption of sufficient funds to pay the redemption price of the Bonds so redeemed and the availability of such moneys for use by the Bond Trustee to redeem Bonds, and as applicable, may be otherwise subject to one or more conditions as set forth in such notice.

Any notice of optional redemption under the Bond Indenture may be rescinded by written notice given by LHS to the Bond Trustee no later than five (5) Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable to the same parties and in the same manner as the notice of redemption was given pursuant to the Bond Indenture.

Failure by the Bond Trustee to give notice pursuant to the Bond Indenture to the Authority or any one or more of the Securities Depository or Information Services, or the insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. Failure by the Bond Trustee to mail notice of redemption (or failure by any such Holder or Holders to receive said notice) pursuant to the Bond Indenture 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 Bond Trustee, at the expense of LHS, for and on behalf of the Authority.

Effect of Redemption. If notice of redemption has been given and not rescinded by the Bond Trustee as described above, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption are on deposit with the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice and interest accrued thereon to the redemption date, interest on the Bonds so

called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest. All Bonds redeemed pursuant to the provisions of the Bond Indenture, if any, shall be canceled upon surrender thereof and delivered to or upon the order of the Authority. If the Bond Trustee does not have sufficient funds on the redemption date to pay the Redemption Price (including premium, if any, and interest accrued to the redemption date) of all of the Bonds to be optionally or extraordinarily redeemed for any reason (including, but not limited to, failure to issue any refunding obligations intended for such purpose on or prior to the date fixed for redemption), then the optional or extraordinary redemption shall be cancelled and any notice thereof shall be void, but such event shall not constitute an Event of Default under the Bond Indenture.

In addition, if LHS shall have delivered to the Bond Trustee no later than five (5) Business Days prior to the Redemption Date set for any Bonds, written notice of its decision to cancel its prior request for redemption, then the purported optional or extraordinary optional redemption shall be canceled and any prior notice thereof shall be void.

Acceleration. If an Event of Default shall occur (other than as specified in the Bond Indenture), then, and in each and every such case during the continuance of such Event of Default, the Bond Trustee may, and upon the written direction of the Holders of more than fifty percent (50%) in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Authority and LHS, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Bond Indenture or in the Bonds to the contrary notwithstanding.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any final judgment or decree in any suit, action or other proceeding instituted for the payment of the moneys due shall have been obtained or entered, the Authority or LHS 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 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 or such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, LHS and the Bond Trustee, or the Bond Trustee if such declaration was made by the Bond Trustee, may, 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.

Upon the occurrence and during the continuation of an Event of Default, the Bond Trustee may, and upon the written direction of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding shall, take whatever action at law or in equity it deems, or such Holders deem, necessary or desirable (i) to collect any amounts then due under the Bond Indenture, the Bonds, the Loan Agreement or Obligation No. 7, (ii) to enforce performance of any obligation, agreement or covenant of the Authority under the Bond Indenture or the Bonds or of LHS under the Loan Agreement, the Tax Agreement or Obligation No. 7, or (iii) to otherwise enforce any of its rights.

In the event that the Master Trustee has accelerated Obligation No. 7 and is pursuing its available remedies under the Master Indenture, the Bond Trustee, without waiving any Event of Default under the Bond Indenture, agrees not to pursue its available remedies under the Bond Indenture or the Loan Agreement in a manner that would hinder or frustrate the pursuit by the Master Trustee of its remedies under the Master Indenture provided that the Bond Trustee may take any action permitted of an Obligation holder under the Master Indenture.

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

General

The Bonds are limited obligations of the Authority payable solely from Revenues, which consist primarily of Loan Repayments made by LHS pursuant to the Loan Agreement. In the Loan Agreement, LHS agrees to make the Loan Repayments to the Bond Trustee, which payments, in the aggregate, will be in amounts sufficient for the payment in full of all amounts payable with respect to the Bonds, including the total interest payable on the Bonds to the date of maturity of such Bonds or earlier redemption, the principal amount of such Bonds, any redemption

premiums, and certain other fees and expenses (the "Additional Payments"), less any amounts available for such payment as provided in the Bond Indenture. The Bonds are also payable from payments made on Obligation No. 7, proceeds of the Bonds (to the extent available), investment earnings on proceeds of the Bonds, certain amounts on deposit under the Bond Indenture, each in the manner and to the extent set forth in the Bond Indenture. The Loan Agreement provides that the obligation of LHS to make the Loan Repayments is absolute and unconditional. The Authority will assign to the Bond Trustee, to secure the payment of all Bonds in accordance with their terms, all of its rights, title and interest in the Loan Agreement (with certain exceptions and reservations) and Obligation No. 7. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—The Bond Indenture—Pledge and Assignment; Bond Fund," "—The Loan Agreement—Loan Repayments" and "—The Loan Agreement—Obligations Unconditional."

As security for its obligation to make the Loan Repayments, LHS, as Credit Group Representative, concurrently with the issuance of the Bonds will issue Obligation No. 7 to the Bond Trustee pursuant to which the Obligated Group Members agree to make payments to the Bond Trustee in amounts sufficient to pay, when due, the principal of and premium, if any, and interest on the Bonds. Each Obligated Group Member is jointly and severally liable for the payment of the Obligations issued under the Master Indenture.

Pursuant to the Bond Indenture, a debt service reserve fund shall be established and held by the Bond Trustee for the benefit of the Bonds (the "Debt Service Reserve Fund"). At the time of issuance of the Bonds, $7,923,843 will be deposited into the Debt Service Reserve Fund from proceeds of the Bonds, which amount is defined as the "Debt Service Reserve Requirement" in the Bond Indenture. See "SUMMARY OF PRINCIPAL DOCUMENTS—The Bond Indenture—Application of Debt Service Reserve Fund" in Appendix C.

Limited Liability of the Authority

THE AUTHORITY SHALL NOT BE OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS EXCEPT FROM REVENUES, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. THE BONDS ARE NOT A DEBT OF THE STATE OF OREGON, CLACKAMAS COUNTY, OREGON, MULTNOMAH COUNTY, OREGON, OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE OF OREGON, NOR ARE THEY LIABLE FOR THE PAYMENT THEREOF. THE AUTHORITY HAS NO TAXING POWER.

The Master Indenture

In connection with the issuance of the Bonds, the Obligated Group Members are entering into the Master Indenture with the Master Trustee. The Obligated Group Members are liable with respect to Obligations issued under the Master Indenture. Other entities may become members of the Obligated Group in accordance with the procedures set forth in the Master Indenture. Each Obligated Group Member is jointly and severally obligated to pay when due the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture, including Obligation No. 7, which will evidence and secure the loan of the proceeds of the Bonds from the Authority to LHS. For more information, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

Obligated Group Members. LHS, Emanuel, Meridian Park, Good Samaritan, Mount Hood and LVNA are the Obligated Group Members under the Master Indenture. Under certain conditions described in the Master Indenture, additional Members may be added to the Obligated Group from time to time after the issuance of the Bonds and made jointly and severally liable with respect to Obligation No. 7, and all other Obligations outstanding under the Master Indenture. Additionally, in accordance with the Master Indenture, Members may withdraw from the Obligated Group from time to time. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—The Master Indenture—Membership in the Obligated Group" and "Withdrawal From the Obligated Group."

Salmon Creek owns and operates a newly constructed acute care hospital located in Clark County Washington. The hospital opened in August 2005 with 165 licensed beds and was the State of Washington's first new hospital construction since 1979. The hospital was financed solely with then-existing cash reserves and operating cash flow. Salmon Creek is not an Obligated Group Member, although it is a Designated Affiliate (see

"Designated Affiliates" below). Certain conditions in the certificate of need granted by the Washington State Department of Health for the construction of the Salmon Creek facility could be interpreted as limiting the ability of LHS to add Salmon Creek to the Obligated Group. In the Master Indenture, LHS has agreed to make a good faith effort to obtain amendment of those conditions following delivery of the certificate of completion for the Salmon Creek project. LHS has further agreed that, if the amendment of the certificate of need conditions is obtained or if LHS otherwise determines that Salmon Creek may be added to the Obligated Group without violating applicable law, regulation or contract, it will add Salmon Creek to the Obligated Group. The Master Indenture provides that it is not necessary to satisfy the conditions of the Master Indenture relating to membership in the Obligated Group in connection with the addition of Salmon Creek. See APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS—The Master Indenture – Membership in the Obligated Group." There is no assurance that Salmon Creek will become an Obligated Group Member.

Designated Affiliates. Under the Master Indenture, LHS, as the Credit Group Representative, may by resolution designate "Designated Affiliates" from time to time, and may rescind any such designation at any time. Salmon Creek, Emanuel Medical Center Foundation, Emanuel Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mount Hood Medical Center Foundation and Salmon Creek Hospital Foundation have been designated by LHS as the initial Designated Affiliates under the Master Indenture.

The Master Indenture provides that LHS, as Credit Group Representative, must, by resolution, designate a Controlling Member (who must be an Obligated Group Member) for each Designated Affiliate. Each Controlling Member is required under the Master Indenture to cause each of its Designated Affiliates to pay or otherwise transfer to the Credit Group Representative or other Member amounts necessary to enable the Members to pay when due the principal of, premium, if any, and interest on any Outstanding Master Indenture Obligations. Designated Affiliates are not obligated under Obligation No. 7 or any other Master Indenture Obligations, nor may the Bond Trustee or any Holder seek to enforce compliance with the Master Indenture against any Designated Affiliate. Compliance with the Master Indenture by a Designated Affiliate may only be enforced by its Controlling Member or the Credit Group Representative, and the ability of such Controlling Member or the Credit Group Representative to enforce compliance with the Master Indenture will vary and the available remedies may be limited depending on the nature of the relationship between the Designated Affiliate and the Controlling Member.

Under the Master Indenture, the Controlling Member for a Designated Affiliate must either: (i) maintain, directly or indirectly, control of the Designated Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Designated Affiliate to the extent required to cause the Designated Affiliate to comply with the Master Indenture, or (ii) have in effect such contracts or other agreements, which in the judgment of the Governing Bodies of the Credit Group Representative and the Controlling Member, are sufficient to allow such Controlling Member to enforce compliance by the Designated Affiliate with the terms of the Master Indenture.

If the Controlling Member maintains organizational control of the Designated Affiliate (as is the case for each of the initial Designated Affiliates), compliance with the Master Indenture generally may be enforced by the Controlling Member exercising its reserved powers to direct actions of the Designated Affiliate, including replacing the members of the governing body of such Designated Affiliate, if necessary. The level of organizational control and the procedures for exercising such control may vary among Designated Affiliates and there is no assurance that a Controlling Member would be able to enforce compliance by its Designated Affiliate in a timely manner.

With respect to those Designated Affiliates who are not subject to organizational control but have only a contractual relationship with a Controlling Member, the ability of the Controlling Member to enforce compliance with the Master Indenture will be based solely on the applicable contract. Should any such non-controlled Designated Affiliate refuse to comply with the covenants and requirements of the Master Indenture, the Controlling Member's remedies would be limited to litigation to specifically enforce the provisions of the applicable written contract. In particular, the execution of a written contract may not give the Obligated Group the power or authority to replace the governing body or management of a Designated Affiliate. Moreover, the Designated Affiliate may have certain defenses to such litigation, and there is no assurance that the Controlling Member would prevail in such an action.

The Master Indenture provides that after an entity is designated as a Designated Affiliate, the Credit Group Representative may at any time declare that such entity is no longer a Designated Affiliate. Accordingly, there can

be no assurance that an entity designated as a Designated Affiliate will continue to be a Designated Affiliate for the term of Obligation No. 7.

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

Grant of Security Interest in Gross Revenues. Pursuant to the Master Indenture, the Obligated Group Members each agreed to pledge and assign to the Master Trustee, for the benefit of the Holders of Obligations, subject in all cases to Permitted Liens, a security interest in, all of its right, title, and interest, whether now owned or hereafter acquired, in and to (i) the Gross Revenues of that Obligated Group Member, and (ii) the proceeds thereof. The security interest in Gross Revenues described above has been perfected to the extent, and only to the extent, that such security interest may be perfected under the Uniform Commercial Code of the State of Oregon ("UCC") by filing and maintenance of UCC financing statements. The Obligated Group Members are not required to enter into any deposit account control agreements with respect to the Gross Revenues, which are generally required to perfect security interests in deposit accounts under the UCC. See "Security and Enforceability – Perfection of Security Interest" below.

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

Obligations. Under the Master Indenture, the Obligated Group Members are authorized (with the approval of LHS, as Credit Group Representative) to incur, pursuant to a supplement to the Master Indenture, for itself and on behalf of the other Obligated Group Members, Obligations to evidence or secure Indebtedness (or other obligations of a Member not constituting Indebtedness). The Obligated Group Members are jointly and severally liable with respect to the payment of each Obligation, including Obligation No. 7, incurred under the Master Indenture. LHS has issued Obligation No. 7 under the Master Indenture to evidence its obligation to make loan repayments under the Loan Agreement.

Other Obligations under the Master Indenture. LHS has previously issued its Obligation No. 1 to secure the obligations of LHS with respect to the Series 1999 Bonds. LHS has previously issued its Obligation No. 2 to secure the obligations of LHS with respect to the Series 2001 Bonds. LHS has previously issued its Obligation No. 3 to secure the obligations of LHS with respect to the Series 2003 Bonds. LHS has previously issued its Obligation No. 4 to secure the obligations of LHS with respect to a standby bond purchase agreement related to the Series 2003 Bonds. LHS has previously issued its Obligation No. 5 to secure the obligations of LHS with respect to the Series 2008 Bonds. LHS has previously issued its Obligation No. 6 to secure the obligations of LHS with respect to the letter of credit related to the Series 2008 Bonds. Upon issuance of the Bonds, Obligation No. 7 will be delivered to the Bond Trustee, as assignee of the Authority, as further security for the Bonds. Payments on Obligation No. 7 are required to be sufficient to pay the principal of and premium, if any, and interest on the Bonds when due and certain other payment obligations under the Loan Agreement. Upon the issuance of the Series 2009B and 2009C Bonds, Obligation No. 8 will be delivered to the Bond Trustee, as assignee of the Authority, as further security for the Series 2009B and 2009C Bonds. In addition, the Obligated Group has issued Obligations No. 9, No. 10, and No. 11 to certain swap providers to provide security for LHS's outstanding interest rate swap agreements.

Security and Enforceability

Perfection of a Security Interest. Each Obligated Group Member has granted a security interest in all of the Gross Revenues of the Obligated Group and has agreed to perfect the grant of a security interest in the Gross Revenues to the extent, and only to the extent, that such security interest may be perfected by filing under the UCC. The Obligated Group Members have not entered into any deposit account control agreements with respect to the Gross Revenues, which are generally required to perfect security interests in deposit accounts under the UCC. Accordingly, the security interest in certain Gross Revenues may not be effective against third parties with perfected security interests. Additionally, it may not be possible to perfect a security interest under the UCC in certain types of Gross Revenues (e.g., certain insurance proceeds and payments under the Medicare and Medicaid programs) prior to actual receipt by any Member. Even if perfected, the grant of a security interest in Gross Revenues may be subordinate to the interest and claims of others in several instances. Some examples of cases of subordination of prior interests and claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights imposed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal or state bankruptcy laws that may affect the enforceability of the Master Indenture or grant of a security interest in Gross Revenues, and (vi) liens on investments and investment accounts constituting Gross Revenues in favor of secured parties who have entered into control agreements with respect to such investments and investment accounts.

Enforceability of the Master Indenture, the Loan Agreement and Obligation No. 7. The state of the insolvency, fraudulent conveyance and bankruptcy laws relating to enforceability of guaranties or obligations issued by one corporation in favor of the creditors of another or the obligations of an Obligated Group Member to make debt service payments on behalf of another Member is unsettled and the ability to enforce the Master Indenture and Obligation No. 7 against any Member which would be rendered insolvent thereby could be subject to challenge. In particular, such obligations may be voidable under the Federal Bankruptcy Code or applicable state fraudulent conveyance laws if the obligation is incurred without "reasonably equivalent value" to the obligor and if the incurrence of the obligation is made while the Member is insolvent or thereby renders the Member insolvent, or was done with the intent to defraud, hinder or delay creditors. 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.

The joint and several obligation described herein of each Obligated Group Member to pay debt service on Obligation No. 7 may not be enforceable under any of the following circumstances:

(1) to the extent payments on Obligation No. 7 are requested to be made from assets of a Member other than LHS 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;

(2) if the purpose of the debt created and evidenced by Obligation No. 7, is not consistent with the charitable purposes of the Member (other than LHS) from which such payment is requested or required, 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;

(3) to the extent payments on Obligation No. 7 would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by such Member (other than LHS); or

(4) 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 Obligated Group Members on Obligation No. 7 also apply to their obligations on all Obligations. If the obligation of a particular Obligated Group Member 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.

In addition, common law authority and authority under state statutes exists for the ability of courts in such states 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 attorney general of such state or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

The legal right and practical ability of the Bond Trustee to enforce its rights and remedies against LHS under the Loan Agreement and related documents and of the Master Trustee to enforce its rights and remedies against the Obligated Group Members under Obligation No. 7 may be limited by laws relating to bankruptcy, insolvency, reorganization, fraudulent conveyance or moratorium and by other similar laws affecting creditors' rights. In addition, the Bond Trustee's and the Master Trustee's ability to enforce such terms will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or may be limited.

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.

For a further description of the provisions of the Bond Indenture, the Loan Agreement and the Master Indenture, including covenants that secure the Bonds, events of default, acceleration and remedies under the Master Indenture, see APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS."

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

Bankruptcy. In the event of 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 such Obligated Group Member's liquidation. Security interests and other liens granted to a Bond 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. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Obligated Group 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 its property, as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Obligated Group Member, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of such Obligated Group Member despite any security interest of the Bond Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their respective security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

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

In the event of bankruptcy of any Member, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement and 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.

BOOK-ENTRY SYSTEM

Information concerning DTC and the Book-Entry System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Authority, the Underwriters, the Bond Trustee, LHS or any other Obligated Group Member. Neither the information on DTC's website, nor any links from that website, is a part of this Official Statement, and such information cannot be relied upon to be accurate as of the date of this Official Statement, nor should any such information be relied upon to make investment decisions regarding the Bonds.

Bonds in Book-Entry Form

Beneficial ownership in the Bonds will be available to Beneficial Owners (as described below) only be or through DTC Participants via a book-entry system (the "Book-Entry System") maintained by DTC. If the Bonds are taken out of the Book-Entry System and delivered to owners in physical form or delivered to a successor Securities Depository, as contemplated hereinafter under "DTC and Its Participants," the following discussion will not apply.

DTC and Its Participants

DTC, New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such Bonds, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates 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 for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on

file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 or Indirect Participants acting on behalf of Beneficial Owners. BENEFICIAL OWNERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR OWNERSHIP INTERESTS IN THE BONDS, EXCEPT IN THE EVENT THAT USE OF THE BOOK-ENTRY SYSTEM FOR THE BONDS IS DISCONTINUED.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as 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 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, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them. THE AUTHORITY, LHS AND THE BOND TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE BONDS.

Redemption notices shall be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee 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).

Redemption proceeds, distributions, and 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 Bond Trustee on payment dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Bond Trustee, LHS or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and payments on the Bonds 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 is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

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

The Authority may decide to discontinue use of the system of book-entry transfers of Bonds through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered as described in the Bond Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of the Official Statement

In reviewing this Official Statement it should be understood that while the Bonds are in the Book-Entry System, reference in other sections of this Official Statement to owners of such Bonds should be read to include any person from whom a Participant acquires an interest in Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

PLAN OF FINANCING

The proceeds of the sale of the Bonds will be used to finance a portion of the costs of the Project. See APPENDIX A – INFORMATION CONCERNING LEGACY HEALTH SYSTEM—ANTICIPATED CAPITAL PROJECTS" for additional information concerning the Project and other anticipated capital projects of the Credit Group.

Concurrently with the issuance of the Bonds, the Authority expects to issue its Series 2009B and 2009C Bonds, for the purposes of financing a portion of the costs of the Project. The issuance of the Bonds is not contingent upon the issuance of the Series 2009B and 2009C Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds of the Bonds are as follows:

Estimated Sources of Funds	
Bond Proceeds:	
Par Amount of the Bonds	$113,860,000
Original Issue Discount	(1,484,273)
Total Sources of Funds	**$112,375,727**
Estimated Uses of Funds	
Project Fund Deposits:	
Project Fund	$91,450,170
Other Fund Deposits:	
Capitalized Interest	11,284,425
Debt Service Reserve Fund	7,923,843
Delivery Date Expenses:	
Cost of Issuance [1]	1,717,289
Total Uses of Funds	**$112,375,727**

[1] Includes legal fees, printing costs, Underwriters' discount, the Bond Trustee's fees and other miscellaneous issuance costs.

DEBT SERVICE REQUIREMENTS

The amounts required in each fiscal year ending March 31 for the payment of the principal of (at maturity or by mandatory sinking fund redemption) and interest on the Series 1999 Bonds, the Series 2001 Bonds, the Series 2003 Bonds, the Series 2008 Bonds, the Series 2009B and 2009C Bonds, certain other obligations of LHS and the Bonds are as follows:

Year	Outstanding Bonds[1][2]	Other Long-Term Indebtedness	Principal of the Bonds	Interest on the Bonds	Series 2009B and 2009C Bonds	Total Debt Service
3/31/2010	$30,384,572	$1,716,000	$ 0	$3,688,986	$1,625,000	$37,414,558
3/31/2011	30,406,055	1,716,000	2,600,000	5,636,363	2,500,000	42,858,418
3/31/2012	30,372,421	1,482,000	2,680,000	5,557,163	2,500,000	42,591,584
3/31/2013	30,810,872	1,404,000	2,760,000	5,475,563	2,500,000	42,950,435
3/31/2014	30,337,663	1,404,000	2,850,000	5,384,288	2,500,000	42,475,951
3/31/2015	29,584,936	1,404,000	2,960,000	5,275,213	2,500,000	41,724,149
3/31/2016	29,572,493	585,000	3,080,000	5,154,413	2,500,000	40,891,906
3/31/2017	29,593,578		3,210,000	5,028,613	2,500,000	40,332,191
3/31/2018	29,568,042		3,345,000	4,893,331	2,500,000	40,306,373
3/31/2019	19,540,473		3,490,000	4,743,725	2,500,000	30,274,198
3/31/2020	29,723,984		3,660,000	4,576,688	2,500,000	40,460,672
3/31/2021	29,630,228		3,845,000	4,392,050	2,500,000	40,367,278
3/31/2022	29,654,146		4,040,000	4,194,925	2,500,000	40,389,071
3/31/2023	12,797,868		4,250,000	3,987,675	2,500,000	23,535,543
3/31/2024	12,807,037		4,470,000	3,766,881	2,500,000	23,543,918
3/31/2025	12,818,304		4,705,000	3,528,831	2,500,000	23,552,135
3/31/2026	12,827,967		4,965,000	3,268,788	2,500,000	23,561,755
3/31/2027	12,836,561		5,250,000	2,987,875	2,500,000	23,574,436
3/31/2028	12,851,458		5,545,000	2,691,013	2,500,000	23,587,471
3/31/2029	12,862,866		5,860,000	2,377,375	2,500,000	23,600,241
3/31/2030	12,871,993		6,190,000	2,046,000	2,500,000	23,607,993
3/31/2031	12,888,480		6,540,000	1,695,925	2,500,000	23,624,405
3/31/2032	12,899,462		6,910,000	1,326,050	2,500,000	23,635,512
3/31/2033	12,908,195		7,300,000	935,275	2,500,000	23,643,470
3/31/2034	12,924,328		7,715,000	522,363	2,500,000	23,661,691
3/31/2035	12,937,729		4,585,000	184,113	5,966,125	23,672,967
3/31/2036	12,950,020		1,055,000	29,013	9,654,250	23,688,283
3/31/2037	12,965,644				10,735,875	23,701,519
3/31/2038	12,979,658				10,733,625	23,713,283
3/31/2039					10,732,750	10,732,750
3/31/2040					10,736,875	10,736,875
TOTAL[3]	**$585,307, 033**	**$9,711,000**	**$113,860,000**	**$93,348,492**	**$120,184,500**	**$922,411,025**

(1) Assumes that interest is payable on variable rate bonds at a rate of 2.47%, which represents the 10-year average of the Securities Industry and Financial markets Association ("SIFMA") tax-exempt weekly variable rate index. The highest weekly interest rate during this period was 7.96% and the lowest interest rate during this period was .46%
(2) Includes mandatory sinking fund redemption.
(3) Totals may not foot due to rounding.

BONDHOLDERS' RISKS

The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Prospective purchasers of the Bonds should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Certain of these risks are described below. The discussion of risk factors is not meant to be definitive or exhaustive.

General

Except as noted herein under "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS," the Bonds are payable from and secured by payments made pursuant to the Loan Agreement and payments made pursuant to Obligation No. 7. No representation or assurance can be made that revenues will be realized by LHS or other Members of the Obligated Group in amounts sufficient to make the payments on Obligation No. 7 and, thus, to pay the principal of 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 are subject to actions by, among others, The Joint Commission, the Centers for Medicare and Medicaid Services ("CMS") of the U.S. Department of Health and Human Services ("DHHS"), the Attorney General of the State of Oregon, the National Labor Relations Board 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, the costs associated with responding to governmental inquiries and investigations, demand for health care, other forms of care or treatment, changes in the methods by which employers purchase health care for employees, capability of management, changes in the structure of how health care is delivered and paid for (e.g., a "single-payor" system), future changes in the economy, demographic changes, availability of physicians, nurses and other healthcare professionals, and malpractice claims and other litigation. These factors and others may adversely affect payment by LHS and the Obligated Group under the Loan Agreement and Obligation No. 7 and, consequently, on the Bonds. In addition, the tax-exempt status of each Obligated Group Member and, therefore, of the Bonds, could be adversely affected by, among other things, an adverse determination by a governmental entity, non compliance with governmental regulations or legislative changes.

Impact of Disruptions in the Credit Markets and General Economic Factors

The current domestic and international financial crisis has had, and is expected to continue to have, negative repercussions upon the national and global economies, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, increase in interest rates, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies. In response, President Bush signed the Emergency Economic Stabilization Act of 2008 on October 3, 2008 that authorizes the U.S. Treasury to purchase up to $700 billion of mortgage–backed debt and other securities from financial institutions and take other actions for the purpose of stabilizing the financial markets. Further, President Obama signed the new administration's first major initiative to stimulate the lagging U.S. economy on February 17, 2009, the American Recovery and Reinvestment Act of 2009, more commonly known as the Stimulus Act. The Federal Reserve Board and other agencies of the federal government and foreign governments have taken various actions that are designed to enhance liquidity, improve the performance and efficiency of credit markets and generally stabilize securities markets. There can be no assurance that these actions will be effective.

The financial crisis has had a particularly acute impact upon the financial sector in recent months, and has caused many banks and other financial institutions to seek additional capital, to merge, and in some cases, to fail. Additionally, substantial amounts have been withdrawn from tax-exempt money market funds. A continued weakening of the economy could have a negative impact upon LHS, and could impair the ability of LHS to pay the principal of, interest on, and Redemption Price of the Bonds.

The financial crisis has also had a material adverse impact on many commercial insurers. A continuation of the financial crisis could have an adverse effect on the commercial insurers from which LHS obtains insurance and reinsurance, and could adversely impact both the cost and availability of insurance and reinsurance.

LHS has significant holdings in a diversified portfolio of investments. Market fluctuations have affected and will continue to affect materially the value of those investments and those fluctuations may be and historically have been material. The market disruption has exacerbated the market fluctuations and has negatively affected the investment performance of securities in LHS's portfolio. The reduction in investment income may have a negative impact on LHS's ability to provide its own liquidity for variable rate debt. Investment income (including both realized and unrealized gains on investments) has contributed significantly to LHS's financial results over recent years. Current market conditions have significantly reduced LHS's investment income and had a negative impact on LHS's financial results. For the nine months ending December 31, 2008, the System recognized investment losses totaling approximately $92.5 million. In addition, many of LHS's investments have liquidity restrictions, including notice or capital call provisions. LHS also has cash deposits in excess of Federal Deposit Insurance Corporation ("FDIC") limits for deposit insurance, which guarantees deposits in member banks, currently up to $250,000 per depositor per bank. Any bank failure could have an adverse impact upon deposits of institutions in excess of FDIC insurance limits.

LHS has entered into multiple interest rate swap agreements (the "Swaps") with an aggregate notional amount of approximately $239,000,000 and may enter into more in the future. The Swaps are subject to periodic "mark-to-market" valuations and at any time may have a negative value to LHS. The market disruption has also exacerbated the fluctuations in the valuation of the Swaps. A Swaps counterparty may terminate a Swap upon the occurrence of certain "termination events" or "events of default." LHS may terminate any Swap at any time. If either a counterparty to a Swap or LHS terminates any of the Swaps during a negative value situation, LHS may be required to make a termination payment to such Swaps counterparty, and such payment could be material. Pursuant to the Swaps, each counterparty will be obligated to make payments to LHS, which payments may be more or less than the variable rates that LHS is required to pay with respect to a comparable principal amount of the related indebtedness. No determination can be made at this time as to the potential exposure to LHS relating to the difference in variable rate payments. The existing Swaps are secured under the Master Indenture, and LHS and Obligated Group Members may enter into interest rate swap agreements and other financial product and hedge devices that may be secured under the Master Indenture in the future. The Swaps may require the posting of collateral under certain circumstances. The Swaps and other investment contracts are subject to counterparty risk.

For many years, health care providers have been under increasing economic pressure from various third-party payors, both governmental (particularly Medicare and Medicaid) and private (e.g., instituted health maintenance organizations). These third-party payors have limited the payment rates for hospital stays and procedures creating incentives that reduce hospital inpatient utilization and increase the use of outpatient services and out-of-hospital care. Shifts in third-party payor policies and the need for providers to adapt to changing and complex payment arrangements have had and will continue to have a significant impact upon the economic performance of LHS. The financial condition of LHS is also threatened by particular pressures resulting from the current economic crisis, including risks of: increased inflation; increased pressure on the federal government to decrease Medicare funding, on the federal and state governments to decrease Medicaid funding and on employers to reduce healthcare coverage and increase deductibles; increased unemployment, uncompensated care and bad debt; and decrease in return on investments.

These and other risks may adversely affect LHS and the Members of the Obligated Group and jeopardize their ability to generate revenues and make Loan Repayments and the Obligated Group's ability to make payments under the Obligations when due. There can be no assurance that the financial condition of LHS and/or the utilization of LHS's or any Member's facilities will not be adversely affected by any of these circumstances. Wherever in this discussion of risks reference is made to the LHS, the risks described may also be applicable to future Members of the Obligated Group.

Other 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 negative impact on the financial conditions and results of operations of the Obligated Group and, in turn, the ability of LHS and the Obligated Group to make payments under the Loan Agreement and Obligation No. 7.

Reliance on Medicare and Medicaid. Inpatient hospitals rely to a high degree on payment from the federal Medicare and Medicaid programs. Health care providers have been and will continue to be significantly impacted by changes in the last several years in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. 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 and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted and have caused severe reductions in reimbursement. Past federal budgets have contained cuts to the Medicare and Medicaid program budgets. While it is uncertain whether future federal budgets will propose cuts to these programs, any reduction in the level of Medicare and/or Medicaid spending or a reduction in the rate of increase of Medicare and/or Medicaid spending would have an adverse impact on the revenues of the Obligated Group derived from the Medicare and Medicaid programs. 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 or Medicaid outlays for hospitals. Any reductions in Medicare and Medicaid spending growth could negatively impact hospitals and health systems. See APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA."

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

Capital Needs vs. Capital Capacity. Hospital and other health care operations are capital intensive. Regulation, technology and physician/patient expectations require constant and often significant capital investment. Total capital needs may outstrip capital capacity. Furthermore, capital capacity of hospitals and health systems may be reduced as a result of recent credit market dislocations, and it is uncertain how long those conditions may persist.

Construction Risks. The Obligated Group Members are currently undertaking a number of major construction projects, including certain of the projects to be financed with Bond proceeds and are expected to undertake additional projects in the future. Construction projects are subject to a variety of risks, including but not limited to strikes, shortages of materials and labor, adverse weather conditions, and delays in issuance of required building permits or other necessary approvals, including environmental approvals. Such events could delay occupancy. Cost overruns may occur due to change orders, delays in the construction schedule, scarcity of building materials and labor and other factors. Cost overruns could cause the costs of any project to exceed available funds. There can be no assurances that the projects currently pursued or undertaken in the future by the Obligated Group Members will be finished on time or within budget.

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

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

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

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

Personnel Shortage. Currently, a shortage of physicians (including specialists) and nursing and other technical personnel exists which may have its primary impact on hospitals and health systems. Various studies have predicted that this shortage will become more acute over time and grow to significant proportions. In addition, shortages of other professional and technical staff such as pharmacists, therapists, laboratory technicians and others may occur or worsen. Hospital operations, patient and physician satisfaction, financial condition and future growth could be negatively affected by physician and nursing and other technical personnel shortages, resulting in material adverse impact to hospitals and health systems.

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

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

Proliferation of Competition. Hospitals increasingly face competition from specialty providers of care and ambulatory care facilities. This may cause hospitals to lose essential inpatient or outpatient market share. Competition may be focused on services or payor classifications where hospitals realize their highest margins, thus negatively affecting programs that are economically important to hospitals. Specialty hospitals may attract specialists as investors and may seek to treat only profitable classifications of patients, leaving full-service hospitals with higher acuity and/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's services in favor of those offered by a hospital's competitor.

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

Labor Costs and Disruption. The delivery of health care is labor intensive. Labor costs, including salary, benefits and other liabilities associated with the workforce, have a significant impact on hospital and health care

provider operations and financial condition. Hospital and health care employees are increasingly organized in collective bargaining units and may be involved in work actions of various kinds, including work stoppages and strikes. Overall costs of the hospital workforce are high, and turnover is high. Pressure to recruit, train and retain qualified employees is expected to accelerate. These factors may materially increase hospital costs of operation. Workforce disruption may negatively impact hospital revenues and reputation.

General Economic Conditions; Bad Debt and Indigent Care. Hospitals and other health care providers are economically influenced by the environment in which they operate. 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 and providers to increase free care. Economic downturns and lower funding of state Medicaid programs may increase the number of patients treated by hospitals and providers who are uninsured, underinsured 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 and other health care providers.

Health Care Reform. Federal and state legislators have proposed various health care reform plans that, if enacted, would make significant changes in the way health care services are delivered and reimbursed. It is anticipated that more health care reform proposals will be forthcoming. Some proposals are sweeping and would require conforming and complex changes to both federal and state laws addressing perhaps all aspects of hospital and provider operations, health care delivery and reimbursement. These changes could result in lower hospital and provider reimbursement, utilization changes, increased government enforcement and other unanticipated impacts.

Pension and Benefit Funds. As large employers, health systems may incur significant expenses to fund pension and benefit plans for employees and former employees and to fund required workers' compensation benefits. On August 17, 2006, the President signed the Pension Protection Act of 2006 into law. The Pension Protection Act of 2006 replaced the funding requirements for defined benefit pension plans, imposes new benefit limits on underfunded plans and changed the premiums that the sponsors of underfunded plans must pay to the Pension Benefit Guaranty Corporation to insure a minimum level of benefits to their participants. Recently, there has been a downturn in the financial markets causing many pension plans to become underfunded. Should this trend continue, funding obligations in some cases may be erratic or unanticipated, and many companies, including LHS, may be obligated to fund unfunded liability and pay additional premiums with significant commitments of available cash needed for other purposes. In 2008, Congress passed the Worker, Retiree and Employer Recovery Act of 2008, which was designed to ease requirements for pension plans and individuals affected by the economic crisis, and the Worker, Retiree and Employer Recover Act of 2008 suspends required minimum distributions from 401(k) plans, IRAs and other retirement accounts for 2009, provides pension plan funding relief, and includes corrections to the Pension Protection Act of 2006.

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

Facility Damage. Hospitals and other health care providers 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 a material adverse impact on hospital operations and financial condition and results of operations.

Nonprofit Health Care Environment

As non-profit tax-exempt organizations, LHS and the Obligated Group Members are subject to federal, state and local laws, regulations, rulings and court decisions relating to their organization and operations, including their operations for charitable purposes. At the same time, LHS and the Obligated Group Members conduct large-scale complex business transactions and are large 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 complex health care organizations.

An increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the health care organizations. Areas that have come under examination have included pricing practices, billing and collection practices, charity care, methods of providing and reporting community benefit, executive compensation, exemption of property from real property taxation, private use of facilities financed with tax-exempt bonds and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. The challenges and examinations, and any resulting legislation, regulations, judgments or penalties, could have a negative impact on LHS and the Obligated Group. These challenges or examinations include the following, among others:

Congressional Hearings. Since 2004, three congressional committees have conducted hearings and other proceedings inquiring into various practices of nonprofit hospitals and health care providers. Among the legislation proposed or discussed as a result of these hearings and proceedings are: (1) establishment of minimum required levels of charity care to be provided by nonprofit health care providers; (2) periodic review of hospitals' tax-exempt status by the IRS; and (3) greater and more uniform reporting of charitable and community benefit activities.

IRS Review of Nonprofit Hospitals. In July 2007, the IRS released an interim report summarizing responses from almost 500 tax-exempt hospitals to a May 2006 questionnaire about how they provide and report benefits to the community. The report determined that a lack of uniformity in definitions and reporting, including those regarding uncompensated care and various types of community benefit, made it difficult for the IRS to assess whether a hospital is in compliance with current law. One recommendation in the interim report was the creation of new schedules as part of a redesigned Form 990 (Return of Organization Exempt from Income Tax) on which hospitals would report how they benefit the community, as well as information on billing and collection practices and certain other activities. Hospitals will be required to submit additional information when filing their returns for the 2008 tax year. As a result of the increased scrutiny of community benefit activity by the IRS resulting, in part, from the new reporting requirement, tax-exempt hospitals may be required to increase the resources spent on qualifying activities.

Indigent Care. Tax-exempt health care providers often treat large numbers of indigent patients who are unable to pay in full for their medical care. 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, county, state and federal health care programs (including Medicare and Medicaid) may increase the frequency and severity of indigent treatment by such hospitals and other providers. It also is possible that future legislation could require that tax-exempt hospitals and other providers maintain minimum levels of indigent care as a condition of federal income tax exemption or exemption from certain state or local taxes.

Class Actions. Hospitals and health systems have long been subject to a wide variety of litigation risks, including liability for care outcomes, employer liability, property and premises liability, and peer review litigation with physicians, among others. In recent years, consumer class action litigation has emerged as a potentially significant source of litigation liability for 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.

Action by Purchasers of Hospital Services and Consumers. Major purchasers of hospital services also could take action to restrain hospital charges or charge increases. As a result of increased public scrutiny, it is also possible that the pricing strategies of hospitals may be perceived negatively by consumers, and hospitals may be forced to reduce fees for their services. Decreased utilization could result, and hospitals' revenues may be negatively impacted. In addition, consumers and consumer advocates are increasing pressure for hospitals and other health care providers to be transparent and provide information about cost and quality of services that may affect future consumer choices about where to receive health care services.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit health care providers by state and local taxing authorities have been challenged on the grounds that the health care providers were not engaged in sufficient charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. Neither the real property tax exemptions of LHS nor those of any Obligated Group Members are or have been placed under review by state or local authorities.

The foregoing are some examples of the challenges and examinations facing nonprofit health care organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations and may indicate an increasingly difficult operating environment for health care organizations, including LHS and Obligated Group Members. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a negative impact on hospitals and health care providers, including LHS and Obligated Group Members, and in turn, their ability to make payments under the Loan Agreement and Obligation No. 7.

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; (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems; and (4) implementing regulations regarding mandatory staffing levels. Other developments affecting hospitals and providers 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.

In June 2007, the Oregon Legislative Assembly passed the Healthy Oregon Act (Senate Bill 329, Chapter 697 Oregon Laws 2007) that created the Oregon Health Fund Board, a seven member board appointed by the Governor and confirmed by the Oregon Senate. The Board developed a comprehensive plan to reform Oregon's health care system in order to ensure access to health care for all Oregonians, contain health care costs, and address issues of quality in health care. The plan was sent to the Governor and Oregon Legislative Assembly for consideration in the 2009 session. Proposed legislation supported by and related to the Oregon Health Fund Board, HB 2009, would consolidate authority currently residing within the Oregon Department of Human Services in a new Oregon Health Authority, and create several new initiatives, including but not limited to the following: (1) oversight of health information technology; (2) prevention of chronic disease and reduction in utilization of acute treatments; (3) creation of patient-centered primary care homes; (4) creation of a workforce database; (5) creation of uniform standards for health insurers; (6) permission for regulations requiring hospitals to report capital projects; and (7) requiring study of comparative cost-effectiveness of new and existing healthcare procedures and services and the development of evidence-based medical practice guidelines. This proposed legislation, in addition to other proposed legislation, may have an adverse or positive impact on LHS and the Obligated Group Members, but no specific prediction can be made until and unless any legislation is passed, which is not certain.

Congress and the Obama administration have indicated their intent to institute significant health reform in the coming year. The President's budget for fiscal year 2010 proposes a $634 billion health care reserve fund to implement comprehensive health reforms over a ten-year period; the reforms themselves are as yet unspecified. Although health reform may be financed by payment cuts in government health care programs, health care reform could be implemented in a way that is beneficial to hospitals if more people who are currently uninsured or underinsured have access to fuller coverage for hospital services.

In order to pay for health reform initiatives, the Obama administration proposes to make significant cuts in Medicare payments to providers, including those to hospitals. Some of the specifics that could adversely impact hospital revenues include: (1) significant cuts to Medicare Advantage health plans resulting in reduced payments by such plans to providers; (2) changes in reimbursement designed to discourage hospital readmission rates; (3) bundled payments that cover hospital services, post-acute setting services and professional services; (4) restricted access to or payments for ancillary services (e.g., establishing prior authorization from radiology benefit manages for medical imaging procedures); (5) further quality incentive programs that pay providers based on specified

performance parameters; and (6) further restrictions on Medicare payments and increased processing and auditing designed to enhance payment accuracy.

Legislation or regulation on any of the above or related topics could have a negative impact on LHS or one or more Obligated Group Members and, in turn, their ability to make payments under the Loan Agreement and Obligation No. 7.

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.

In 2005, CMS announced a new demonstration project using recovery audit contractors ("RACs") as part of CMS' further efforts to assure accurate payments to providers. 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 applies an assessment to the provider's Medicare reimbursement in an amount estimated to equal the overpayment from the provider pending resolution of the audit. The RACs retain a percentage of their collections as the fee for their services. In 2007, while the RAC project was limited to five states, it returned $247 million to the Medicare program. In 2009, the project began its nationwide rollout. Such audits may result in reduced reimbursement for past overpayments and may slow future Medicare payments to providers pending resolution of the appeals process with the RACs.

Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RBRVS"). The RBRVS fee schedule establishes payment amounts for all physician services, including services of provider-based (or hospital-based) physicians, and it is subject to annual updates. The BBA establishes limits on the growth of Medicare payments for physicians' services. The system is linked to changes in the U.S. Gross Domestic Product and is expected to result in lower Medicare expenditures for physicians' services over time, which could in turn have an adverse effect on the financial condition of the System.

As the U.S. population ages, more people will become eligible for the Medicare program. Current projections indicate that, without some modification of the Medicare program, demographic change may exert significant and negative forces on the overall federal budget. Management cannot project whether or to what extent the Medicare program may be modified in the future, or what impact such modification may have on the financial operations of LHS and Obligated Group Members.

For information concerning the percentage of revenues charged by the Obligated Group to the Medicare program for the fiscal years ended March 31, 2008 and 2007, see APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA."

Hospital Medicare 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.

In its Prospective Payment Final Rule for 2008 (the "2008 IPPS Rule"), CMS established a new DRG clarification system, the Medicare Severity DRGs (MS-DRGs). The new system replaces the prior 526 DRGs with

745 MS-DRGs, and there can be no assurance that the changes in the classifications of patient hospitalizations at any of LHS or Obligated Group facilities will not result in fluctuations or declines in revenue. The MS-DRG coding system was made partially effective as of October 1, 2007 and will be fully phased in over a two year period.

Also enacted in the 2008 IPPS Rule and in the Prospective Payment Final Rule for 2009 (together with the 2008 IPPS Rule, the "IPPS Rules") were provisions preventing hospitals from assigning patient cases to DRGs with higher payments where a secondary diagnosis warranting higher payment is one of several specified health conditions and was acquired in the hospital. Specifically, the IPPS Rules identify certain conditions, including certain infections and serious preventable errors ("never events"), for which CMS will not reimburse hospitals unless the conditions were present at the time of admission. CMS has also announced its intent to identify additional conditions for which higher payment will be unavailable. Various HMOs and other private insurers have followed suit in refusing to pay for certain hospital-acquired conditions. There can be no assurance that these future payment limitations will not adversely affect the revenue of LHS and Obligated Group Members. Also, the occurrence of a never event has serious financial consequences. 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.

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

Other Medicare Service Payments. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, general outpatient services and home health services are based on regulatory formulas or predetermined 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.

Disproportionate Share Hospital Payments. The federal Medicare and the state 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 in future years, but there can be no assurance that such Members will qualify for disproportionate share hospital status in the future. There also can be no assurance that payments for disproportionate share will not be decreased or eliminated in the future. Disproportionate share payments are frequently the target of proposed Medicaid payment reductions.

Medicaid Programs. Medicaid is a program of medical assistance, funded jointly by the federal government and the states, for certain needy individuals and their dependants. Under Medicaid, the federal government provides limited funding to states that have medical assistance programs that meet federal standards. Attempts to balance or reduce federal and state budgets will likely negatively impact Medicaid spending and other state healthcare spending. Any reduction in federal or state funding would likely negatively impact provider reimbursement under the various programs.

In 2006, the Deficit Recovery Act directed CMS to establish a new Medicaid audit program known as the Medicaid Integrity Program ("MIP"). The establishment of the MIP at the federal level reflects both a shift in policy to increased federal enforcement and an increase in federal resources devoted to monitoring the State Medicaid Program. Similar to the Medicare RAC program, although the MIP auditors do not retain a percentage of their

collections as their fees. CMS is contracting with independent entities to search for fraud, waste or abuse by Medicaid providers, audit Medicaid claims, including hospital cost reports and risk contracts, and identify overpayments.

Individual states have a great deal of flexibility in establishing payments rates to providers. In addition, states can obtain waivers from the federal government to deviate from minimum federal requirements in order to provide services to the maximum number of low income eligibles in the most efficient manner. State-specific variations arise from the fact that the Medicaid statute allows for optional benefits and categories of beneficiaries, as well as waivers of general statutory requirements to implement specific programs or demonstration projects.

Oregon has obtained a federal waiver to operate the Oregon Health Plan. The Oregon Health Plan was created by legislation passed in 1989 and was designed to cover individuals who previously could not qualify for Medicaid. The Oregon Health Plan includes a standard benefits package that enlarges the prior Medicaid benefits package by providing extra services such as dental services, routine physicals, and mammograms. The standard package under the Oregon Health Plan emphasizes prevention. The money saved by not covering services below a certain cutoff point allows the State to extend Medicaid coverage to more of Oregon's poor.

In addition, Oregon has established a system of managed healthcare entities similar to HMOs that receive a capitated amount from the State of Oregon to provide all needed health services for enrollees. Savings generated by these entities were projected to enable an increase of Medicaid eligible enrollees in Oregon. A majority of Oregon Medicaid enrollees are members of these entities, which negotiate payment rates with hospitals, physicians and other providers. The remaining Medicaid enrollees are paid directly by the Medicaid agency, which in Oregon is the Division of Medical Assistance Programs ("DMAP"). DMAP has established payment levels far below the payments in the Medicare program. Accordingly, such payments may not cover the cost of providing such services.

Currently, Oregon levies a provider tax on hospitals and Medicaid managed care organizations in the State. This tax revenue is used to garner federal Medicaid matching funds with the combined resources comprising funding of a portion of the Oregon Health Plan. In addition to funding approximately 24,000 enrollees, Medicaid fee-for-service rates were increased slightly, so that in the aggregate these increased rates would offset the new tax. The provider tax is scheduled to expire in October 2009. There are various proposals currently being considered by the Oregon legislature related to increasing, amending or extending the provider tax. There is no guarantee that the provider tax will continue to provide funding for beneficiaries. It is impossible to predict the effect on the Credit Group if the provider tax were to expire, increase or be otherwise amended.

At least a majority of Oregon Medicaid enrollees are members of health maintenance organizations ("HMOs"). HMOs negotiate payment rates with hospital providers and physicians. The remaining Medicaid enrollees are paid directly by the Medicaid agency, which in Oregon is the Division of Medical Assistance Programs. The Division of Medical Assistance Programs payment is established by the agency and generally follows the payment structure of the Medicare program, with payment amounts far below the payment structure of the Medicare Program. Accordingly, such payments may not cover the cost of providing such services.

State General Assistance is a small State of Oregon funded program of medical assistance that covers certain needy individuals that do not qualify for federal Medicaid coverage.

Reductions in payments by Oregon's Medicaid program, the Oregon Health Plan or General Assistance, or loss of contracts for such programs, could materially adversely affect the financial condition of LHS.

With respect to Washington, CMS approved the State of Washington's demonstration proposal under Section 1115 of the Federal Social Security Act, which implemented a statewide Medicaid managed care delivery system. The State of Washington's Medicaid health care delivery system, entitled "Healthy Options," provides payment for health care services through a managed care provider network. Salmon Creek participates in the Healthy Options network and also treats patients covered by traditional Medicaid.

Medicaid revenues could be materially affected by cutbacks in Medicaid coverage or reimbursement. Coverage of services could be reduced by the State of Washington's raising the funding line on the priority list.

Coverage of persons could be reduced by eliminating groups of currently eligible State of Washington residents or by changing the poverty level threshold required for eligibility. Either of these changes would increase the number of uninsured persons treated by healthcare providers and increase the risk of unreimbursed expenses. In addition, reductions in provider reimbursement could have a significant negative impact on Salmon Creek's Medicaid revenues. The State of Washington agencies that purchase healthcare services (the Department of Social and Health Services, the Department of Labor and Industries and the State Health Care Authority, for example) implemented an outpatient prospective payment system ("OPPS") for payment of hospital-based outpatient services, which became effective on November 1, 2004. OPPS was modeled on the Medicare APC program. OPPS could have a significant negative impact on Salmon Creek's financial condition.

No assurances can be made that the Medicaid programs in Oregon and Washington will reimburse hospitals for the cost of delivering services. Attempts to balance or reduce the federal budget and/or each state's budget will likely negatively impact state Medicaid spending.

For information concerning the percentage of revenues received from the Medicaid Program, see APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA."

State Budgets. The states of Oregon and Washington face severe financial challenges, including erosion of general fund tax revenues. These factors have resulted in shortfalls between revenue and spending demands. The financial challenges facing the states may negatively affect system hospitals in a number of ways, including but not limited to, a greater number of indigent patients who are unable to pay for their care and a greater number of individuals who qualify for Medicaid and/or reductions in Medicaid reimbursement rates in the future.

The states of Oregon and Washington face significant budget shortfalls for 2009, which may continue for several years. The Obligated Group derives a significant portion of its revenues from Medicaid reimbursement, and such reimbursement rates may be negatively impacted by these budget shortfalls in the future.

Health Plans and Managed Care. Most private health insurance coverage is provided by various types of "managed care" plans, including 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. The rates offered to PPOs and HMOs may result in payment of less than actual cost.

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.

For information concerning the percentage of revenues charged by the Obligated Group to managed care plans for the fiscal years ended March 31, 2008 and 2007, see APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA."

Many HMOs and PPOs currently pay providers on a negotiated fee-for-service basis or, for institutional care, on a fixed rate per day of care, which, in each case, usually is discounted from the usual and customary charges for the care provided. As a result, the discounts offered to HMOs and PPOs may result in payment to a provider that is less than its actual cost. Additionally, the volume of patients directed to a provider may vary significantly from projections, and/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.

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 healthcare services provided by hospitals and providers. Published rankings such as "score cards," "pay for performance" and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and other providers and to influence the behavior of consumers and healthcare 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 healthcare provider negatively may adversely affect its reputation and financial condition. For information concerning the efforts of LHS and the Obligated Group Members to monitor performance, safety and patient satisfaction, see APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM."

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 these 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 that includes 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.

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 frequently 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. Penalties under the FCA include treble damages, civil penalties up to $10,000 per claim and attorneys' fees.

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, equipment and supply purchases 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 of the alleged kickback. Violations of the Anti-Kickback Law can also be deemed to be violations of the FCA.

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 or his or her family member has a financial relationship, unless an exception applies. It also prohibits a hospital furnishing the designated services from billing Medicare or Medicaid 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. There have been a series of regulations promulgated to clarify and implement the statutes, including the Stark regulations that became effective December 4, 2007 and the CMS comments preceding them. The Stark regulations are difficult to interpret, which increases the possibility that inadvertent violations may occur. In addition, CMS continues to revise, supplement and update the Stark law. On July 31, 2008, CMS published final regulations relating to Stark in the 2009 IPPS Rule that further restrict the type of financial arrangements that facilities and physicians may enter into, including additional restrictions on certain leases, percentage compensation arrangements and agreements under which a hospital purchases services.

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 civil monetary penalties of up to $15,000 per service referred, $10,000 for each day the prohibited relationship occurs and up to three times the amount claimed for each item or service 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. Violations of Stark can also be deemed to be violations of the FCA.

Antitrust. Antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, payor contracting, physician relations, joint ventures, merger, affiliation and acquisition activities, certain pricing or salary setting activities, 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.

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, and the American Recovery and Reinvestment Act of 2009 made changes to HIPAA. 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. The changes in the American Recovery and Reinvestment Act of 2009 expand who is covered by HIPAA to include business associates of covered entities.

HIPAA also 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 civil penalties range from $100 to $50,000 per occurrence and up to between $25,000 to $1,500,000 annually, depending on the harm to the patient, the mental state of the violator and the extent of any corrective action. The criminal penalties, which are also tiered in accordance with the seriousness of the offense, range between maximums of $50,000 and $250,000, and/or imprisonment between maximums of one to ten years.

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 made, which would have a materially adverse effect on hospital revenues. In addition, exclusion of hospital employees may be another source of potential liability for hospitals or health systems.

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

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

Licensing, Surveys, Investigations and Audits. Health facilities are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. These include, but are not limited

to, requirements of state licensing agencies and The Joint Commission. Renewal and continuation of certain of these licenses, certifications and accreditations are based on inspections or other reviews generally conducted in the normal course of business of health facilities. Loss of, or limitations imposed on, hospital licenses or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

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

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

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.

Business Relationships and Other Business Matters

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry recently. As part of its ongoing planning process, LHS has considered and will continue to consider the potential acquisition of operations or properties that may become affiliated with or become part of the System in the future, as well as the potential disposition of certain existing operations or properties. As a result, it is possible that the organizations and assets that make up the System may change from time to time, subject to the provisions in the Master Indenture and other financing documents which apply to merger, sale, disposition or purchase of assets, or with respect to joining or withdrawing from the System.

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

These types of alliances are generally designed to respond to trends in the delivery of medicine to better integrate hospital and physician care, to increase physician availability to the community and/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. Growth of integrated delivery systems may be resisted by local communities and physician groups.

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

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

Competition Among Health Care Providers. Increased competition from a wide variety of sources, including specialty hospitals, other hospitals and health care systems, HMOs, inpatient and outpatient health care facilities, long-term care and skilled nursing services facilities, clinics, physicians and others, may adversely affect the utilization and/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 and/or services that generate a significant source of revenue may be particularly damaging. For example, some large hospitals may have significant dependence on heart surgery programs, as revenue streams from those programs may cover significant fixed overhead costs. If a significant component of such a hospital's heart surgeons develop their own specialty heart hospital (alone or in conjunction with a growing number of specialty hospital operators and promoters), taking with them their patient base, the hospital could experience a rapid and dramatic decline in net revenues that is not proportionate to the number of patient admissions or patient days lost. It is also possible that the competing specialty hospital, as a for-profit venture, would not accept indigent patients or other payors and government programs, leaving low-pay patient populations in the full-service hospital. In certain cases, such an event could be materially adverse to the hospital. A variety of proposals have been advanced recently to permanently prohibit such investments. Nonetheless, specialty hospitals continue to represent a significant competitive challenge for full-service hospitals.

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

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

Labor Relations and Collective Bargaining. Hospitals are large employers with a wide diversity of employees. Increasingly, employees of hospitals are becoming unionized, and many hospitals have collective bargaining agreements with one or more labor organizations. Employees subject to collective bargaining agreements may include essential nursing and technical personnel, as well as food service, maintenance and other trade personnel. Renegotiation of such agreements upon expiration may result in significant cost increases to hospitals. Employee strikes or other adverse labor actions may have an adverse impact on operations, revenue and hospital reputation. Approximately 9.3% of LHS's employees currently are covered by collective bargaining agreements. See APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – EMPLOYEES."

Health Care Worker Classification. Health care providers, like all businesses, are required to withhold income taxes from amounts paid to employees. If the employer fails to withhold the tax, the employer becomes liable for payment of the tax imposed on the employee. On the other hand, businesses are not required to withhold federal taxes from amounts paid to a worker classified as an independent contractor. The IRS has established criteria for determining whether a worker is an employee or an independent contractor for tax purposes. As of the date of this Official Statement, the IRS has not reclassified any of LHS's hospitals' independent contractors (e.g., physician medical directors) as employees. If the IRS were to make such reclassifications, back taxes and penalties could be material.

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

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. In most cases, insurance does not provide coverage for judgments for punitive damages.

Litigation also arises from the corporate and business activities of hospitals, from a hospital's status as an employer or as a result of medical staff or provider network peer review or the denial of medical staff or provider network privileges. As with professional liability, many of these risks are covered by insurance, but some are not. For example, some antitrust claims or business disputes are not covered by insurance or other sources and may, in whole or in part, be a liability of a Member if determined or settled adversely. For information concerting LHS's self insurance coverage, see APPENDIX A – "INFORMATION CONCERNING LEGACY HEALTH SYSTEM – INSURANCE AND MALPRACTICE."

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.

Tax-Exempt Status and Other Tax Matters

Maintenance of the Tax-Exempt Status of Obligated Group Members. The tax-exempt status of the Bonds presently depends upon maintenance by each Obligated Group Member that receives or benefits from the

proceeds of the Bonds (the "Benefiting Member") of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and 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 and focuses on organizations that meet certain criteria. Such audits are conducted by teams of revenue agents, often take years to complete and require the expenditure of significant staff time by both the IRS and taxpayers. These audits examine a wide range of possible issues, including tax-exempt bond financing of partnerships and joint ventures, retirement plans and employee benefits, employment taxes, political contributions and other matters.

If the IRS were to find that an Obligated Group Member has participated in activities in violation of certain regulations or rulings, the tax-exempt status of such entity could be in jeopardy. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit health care corporations, it could do so in the future. Loss of tax-exempt status by 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 negative impact on the financial condition 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 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 addition, 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. 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

exemptions of the Obligated Group Members with respect to their core hospital facilities, have not, to the knowledge of management, been under challenge or investigation, an audit could lead to a challenge that could adversely affect the real property tax exemptions of the 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 Authority file an information report with the IRS. LHS has covenanted in the Loan Agreements that it will comply with such requirements. Future failure by LHS to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. The Authority has covenanted in the Bond Indenture that it will not take any action or refrain from taking any action that would cause interest on the Bonds to be included in gross income for federal income tax purposes.

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds, including the use of bond proceeds, 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.

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 specify certain billing and collection practices. The IRS has in addition added a new Schedule K to IRS Form 990, on which hospitals and health systems will be asked to provide detailed information regarding tax-exempt obligations issued since 2002, including information regarding arrangements that may give rise to private use, except with respect to refunding obligations issued after 2002 to refund original obligations issued prior to 2003.

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

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

Limitations on Contractual and Other Arrangements Imposed by the Internal Revenue Code. As tax-exempt organizations, the Obligated Group Members are limited with respect to their use of practice income guarantees, reduced rent on medical office space, low interest loans, joint venture programs and other means of recruiting and retaining physicians. Uncertainty in this area has been reduced somewhat by the issuance by the IRS of guidelines on permissible physician recruitment practices. The IRS scrutinizes a broad variety of contractual relationships commonly entered into by hospitals and has issued a detailed audit guide suggesting that field agents scrutinize numerous activities of the hospitals in an effort to determine whether any action should be taken with

respect to limitations on or revocation of their tax-exempt status or assessment of additional tax. Any suspension, limitation, or revocation of one or more Member's tax-exempt status or assessment of significant tax liability would have a materially adverse effect on the Obligated Group and might lead to loss of tax exemption of interest on the Bonds.

Other Risk Factors

Natural Disasters. The occurrences of natural disasters, including floods, volcanoes and earthquakes, may damage part or all of the facilities of LHS, interrupt utility service to part or all of the facilities of LHS or otherwise impair the operation of part of all of the facilities of LHS or the generation of revenues from part or all of the facilities of LHS beyond existing insurance coverages.

Risks Related to Outstanding Variable Rate Obligations. LHS has variable rate obligations outstanding, the interest rates on which could rise. Some of LHS's variable rate obligations are secured by either a standby bond purchase agreement or a letter of credit, and such liquidity or credit facilities are subject to renewal risk. Such interest rates vary on a periodic basis and may be converted to a fixed interest rate. This protection against rising interest rates is not unrestricted, however, because LHS 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 the dislocation among various bond insurers have triggered sudden and significant increases in interest costs for many issuers (and conduit borrowers) of tax-exempt debt. LHS's variable rate obligations are also subject to optional and mandatory tender provisions. LHS's variable rate obligations are secured by Obligations issued under the Master Indenture.

Fees for extensions or replacements of liquidity facilities supporting LHS's outstanding variable rate demand obligations could be substantially higher than current rates. If LHS is not able to extend or replace such liquidity facilities or if certain events occur under the agreements relating to such facilities, LHS could be required to repay the principal of such variable rate obligations over a shorter period or, in certain circumstances, the principal could become immediately due and payable by LHS. The effect on LHS of any such increase in interest rates, increase in facility fees or requirement that principal be repaid immediately or over a shorter period than the stated maturity, could be material.

Other Future Risks. In the future, the following factors, among others, may adversely affect the operations of health care providers, including LHS, 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 Obligated Group Members that might result from decreases in population or loss of market share to competitors.

(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) Cost and availability of any insurance, such as professional liability, fire, automobile and general comprehensive liability coverages, which health care facilities of a similar size and type generally carry.

(f) The occurrence of a natural or man-made disaster, a pandemic or an epidemic that could damage the Obligated Group Members' facilities, interrupt utility service to the facilities, result in an abnormally high

demand for healthcare services or otherwise impair the Obligated Group Members' operations and the generation of revenues from the facilities.

(g) Limitations on the availability of, and increased compensation necessary to secure and retain, nursing, technical and other professional personnel.

ABSENCE OF MATERIAL LITIGATION

There is no controversy of any nature now pending against the Authority or LHS or, to the knowledge of their respective officers, threatened which seeks to restrain or enjoin the issuance, sale, execution or delivery of the Bonds or which in any way contests or affects the validity of the Bonds or any proceedings of the Authority or LHS taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, or the use of the Bond proceeds.

LHS is a defendant in a limited number of claims for damages that LHS believes are not material to its business or operations. As of the date of this Official Statement, LHS does not know of any fact or set of facts from which liability might arise which individually or collectively would materially and adversely affect its business or operations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel is also of the opinion that interest on the Bonds is exempt from State of Oregon personal income taxes. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

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

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

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

In addition, Bond Counsel has relied, among other things, on the opinion of Davis Wright Tremaine LLP, Counsel to LHS, regarding the current qualification of LHS as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications and limitations. Bond Counsel has also relied upon representations of LHS concerning LHS's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel to LHS has given any opinion or assurance concerning Section 513(a) of the Code, and neither Bond Counsel nor Counsel to LHS can give or has given any opinion or assurance about the future activities of LHS, or about the effect of future changes to the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure of LHS to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Bonds in a manner that is substantially related to LHS's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of Oregon personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

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

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

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, LHS or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, LHS and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or LHS legitimately disagrees, may not be practicable. Any action of the IRS,

including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority, LHS or the Beneficial Owners to incur significant expense.

CONTINUING DISCLOSURE

Under the Loan Agreement, LHS has covenanted to enter into, comply with and carry out all of the provisions of a disclosure certificate (the "Disclosure Certificate") with respect to the Bonds in the form attached hereto as Appendix D. The failure of LHS to enter into and comply with the Disclosure Certificate will not be a Loan Default Event under the Loan Agreement; however, the Bond Trustee or any Bondholder or beneficial owner may and, upon the written direction of any participating underwriter or any Bondholders owning not less than 25% in aggregate principal amount of all of the Bonds then Outstanding, the Bond Trustee shall, subject to receipt of indemnity as provided in the Bond Indenture, take such actions as it may deem necessary and appropriate, including seeking mandamus or specific performance by court order, to cause LHS to comply with its continuing disclosure obligations. Effective July 1, 2009 the only Information Repository will be the Municipal Securities Rulemaking Board's electronic municipal market access system.

LHS has previously entered into continuing disclosure undertakings in connection with the issuance of the Series 1999 Bonds, the Series 2001 Bonds, the Series 2003 Bonds and the Series 2008 Bonds. In June 2006, S&P and Moody's downgraded the rating of the Series 1999 Bonds, the Series 2001 Bonds and the Series 2003 Bonds. LHS did not file a material events notice with respect to the rating changes at that time, as required by the continuing disclosure undertakings. In September 2008, LHS filed a material events notice when S&P again downgraded the rating of such bonds. During the last five years, other than as described in this paragraph, LHS has complied with all of its prior undertakings with respect to the Rule in all material respects.

CERTAIN LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, Bond Counsel to the Authority. A copy of the proposed form of Bond Counsel's opinion is set forth as Appendix E hereto. Approval of other legal matters will be passed upon for LHS by its special counsel, Davis Wright Tremaine LLP, Portland, Oregon and Seattle, Washington; for the Authority by its special counsel, Orrick, Herrington & Sutcliffe LLP, Portland, Oregon, and for the Underwriters by its counsel, Foster Pepper PLLC, Seattle, Washington. Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel, will provide certain other legal services for the Authority. Orrick, Herrington & Sutcliffe LLP undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement.

CERTAIN RELATIONSHIPS

Citibank, N.A., New York, a party to an interest rate swap agreement with LHS, is affiliated with Citigroup Global Markets Inc., one of the Underwriters for the Bonds.

Merrill Lynch Capital Services, a party to an interest rate swap agreement with LHS, is affiliated with Merrill Lynch, Pierce, Fenner & Smith Incorporated, one of the Underwriters for the Bonds.

RATINGS

Standard & Poor's Rating Service, a division of The McGraw Hill Companies, Inc. ("S&P") and Moody's Investors Service ("Moody's") have assigned a rating of "A+" and "A2," respectively, to the Bonds. Such ratings reflect only the views of S&P and Moody's, respectively, and an explanation of the significance of such ratings may be obtained from the rating agencies furnishing such ratings. No application was made to any other rating agency for the purpose of obtaining additional ratings on the Bonds.

Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the

agency originally establishing the rating, circumstances so warrant. Except as set forth herein under "CONTINUING DISCLOSURE," neither the Authority, the Underwriters or LHS have undertaken any responsibility to bring to the attention of holders of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Bonds.

UNDERWRITING

Under a bond purchase contract entered into by and among the Authority, the Underwriters, and LHS, the Bonds are being purchased at a price equal to $111,091,924 (representing the aggregate principal amount of the Bonds, less the net original issue discount of $1,484,273, less an Underwriters' discount of $1,283,803) for reoffering by the Underwriters. The bond purchase contract provides that the Underwriters will purchase all of the Bonds, if any are purchased. The obligation of the Underwriter to accept delivery of the Bonds is subject to various conditions contained in the bond purchase contract relating to the Bonds.

J.P. Morgan Securities Inc., one of the Underwriters of the Bonds, has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the Bonds with UBS Financial Services Inc.

To the extent permitted by law, LHS has agreed in the bond purchase contract relating to the Bonds to indemnify the Underwriters and the Authority against certain liabilities, including without limitation certain liabilities arising out of any incorrect, incomplete or misleading statements or information in this Official Statement.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of LHS as of March 31, 2008, and 2007, and for the years then ended, included in Appendix B hereto, have been audited by KPMG LLP, independent accountants, as stated in their report appearing therein.

FINANCIAL ADVISOR TO LHS

Ponder & Co. ("Ponder") has served as financial advisor to LHS for purposes of assisting with the development and implementation of a bond structure in connection with the Bonds. Ponder has not been engaged by LHS to compile, create, or interpret any information in this Official Statement relating to LHS, including without limitation any of LHS's financial and operating data, whether historical or projected. Any information contained in this Official Statement concerning LHS has not been independently verified by Ponder and inclusion of such information is not, and should not be construed as, a representation by Ponder as to its accuracy or completeness or otherwise. Ponder is not a public accounting firm and has not been engaged by LHS to review or audit any information in this Official Statement in accordance with auditing standards generally accepted in the United States.

OTHER MATTERS

All quotations from, and summaries and explanations of, the Act, the Master Indenture, the Bond Indenture, the Loan Agreement, the Continuing Disclosure Certificate, and other documents referred to herein do not purport to be complete and reference is made to the Act and said documents for full and complete statements of their provisions. Copies of such documents are on file at the offices of the Bond Trustee and LHS and are available during the offering period from the Underwriters upon request. The appendices attached hereto are a part of this Official Statement. All statements in this Official Statement involving matters of opinion, estimates or projections, whether or not expressly so stated, are intended as such and not as representations of fact.

EXECUTION

This Official Statement is not to be construed as a contract or agreement between the Authority or LHS and the purchasers or Bondholders of any of the Bonds. Only the information set forth herein under the captions "THE

AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION" (to the extent the information therein pertains to the Authority) has been furnished or reviewed by the Authority. All other information contained herein has been furnished by LHS, DTC, the Bond Trustee, the Master Trustee and other sources (other than the Authority) which are believed to be reliable.

LEGACY HEALTH SYSTEM

By: /s/ George J. Brown
President and
Chief Executive Officer

By: /s/ Pamela S. Vukovich
Senior Vice President and
Chief Financial Officer

APPENDIX A

INFORMATION CONCERNING LEGACY HEALTH SYSTEM

TABLE OF CONTENTS

Page

INTRODUCTION ... A-1

ORGANIZATION AND RELATED ENTITIES ... A-1

The Organization ... A-1

The Credit Group ... A-1

Bed Complement ... A-4

ANTICIPATED CAPITAL PROJECTS ... A-4

CORPORATE GOVERNANCE ... A-5

Board of Directors ... A-5

Board Committees ... A-6

Executive Management ... A-7

SERVICE AREAS AND COMPETITION ... A-10

Service Area Definition and Characteristics ... A-10

Competition in Service Areas ... A-12

MEDICAL STAFF ... A-15

Medical Staff ... A-15

Employed Physicians ... A-15

SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA ... A-16

Hospital Utilization ... A-16

Summary of Revenues and Expenses ... A-16

Sources of Patient Service Revenue ... A-17

Historical and Proforma Maximum Annual Debt Service Coverage ... A-18

Capitalization ... A-19

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE ... A-19

Critical Accounting Policies and Estimates ... A-19

Historical Performance ... A-19

Liquidity and Capital Resources ... A-22

EMPLOYEES ... A-24

COMPLIANCE ACTIVITIES ... A-24

INSURANCE AND MALPRACTICE ... A-24

Corporate Liability Insurance/Self-Insurance Coverage ... A-24

Medical Malpractice Litigation ... A-25

LICENSES, ACCREDITATION, AND APPROVALS ... A-25

INTRODUCTION

Legacy Health System, which is organized as an Oregon nonprofit corporation, operates a system of healthcare facilities (collectively, the "System"). The System was founded on the tradition and values of the community and the healing ministries of the Lutheran and Episcopal churches. The System is the largest Oregon-based, nonprofit healthcare system in the State of Oregon and is one of the largest employers in the five-county Portland metropolitan area. The System provides an integrated network of healthcare services, including acute and critical care, inpatient and outpatient treatment, primary and specialty physician services, hospice, graduate medical education, community health education and a variety of specialty services. Facilities within the System include five hospitals, inpatient and home hospice programs, and primary and specialty care clinics. The System was formed in 1989 by the affiliation of several of the region's major hospitals and healthcare organizations under a single parent corporation.

ORGANIZATION AND RELATED ENTITIES

The Organization

Parent Organization. Legacy Health System ("LHS") is the parent corporation for the System. It is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code (a "501(c)(3) organization"). It provides administrative services for the System in the areas of general administration, finance, legal services, human resources, information management, patient billing, quality and patient safety, and marketing and also oversees and supports health education and community wellness programs throughout the System's service area. LHS' administrative offices are located in two office buildings in northwest Portland and one in northeast Portland. The information system linking all of the facilities is also located at the administrative offices.

LHS is the sole corporate member of five Oregon nonprofit corporations: Legacy Emanuel Hospital & Health Center ("Emanuel"), Legacy Good Samaritan Hospital and Medical Center ("Good Samaritan"), Legacy Meridian Park Hospital ("Meridian Park"), Legacy Mount Hood Medical Center ("Mount Hood"), and Legacy Visiting Nurse Association ("LVNA"). LHS is the sole corporate member of one Washington nonprofit corporation: Legacy Salmon Creek Hospital ("Salmon Creek"). Each of these corporations (each, a "Hospital Affiliate" and collectively, the "Hospital Affiliates") is a 501(c)(3) organization. A description of the services provided by each Hospital Affiliate is provided below.

Each Hospital Affiliate (other than LVNA) is the sole corporate member of one or more related hospital foundations (each, a "Hospital Foundation" and collectively, the "Hospital Foundations") that identifies and seeks charitable support for programs and services that enhance community health and ensure quality medical care through disease prevention and education, continuing education for caregivers, state-of-the-art medical equipment and innovation in health care delivery. The Hospital Foundations are Emanuel Medical Center Foundation, Emanuel Children's Hospital Foundation, Good Samaritan Foundation, Meridian Park Medical Foundation, Mount Hood Medical Center Foundation, and Salmon Creek Hospital Foundation. Each Hospital Foundation is a nonprofit corporation and a 501(c)(3) organization.

The Credit Group

LHS, Emanuel, Good Samaritan, Meridian Park, Mount Hood and LVNA are members of the Obligated Group under the Master Indenture. Salmon Creek and each Hospital Foundation are Designated Affiliates under the Master Indenture.

Emanuel. Established in 1912, Emanuel owns and operates a tertiary-care center located on 45 acres in northeast Portland, which is licensed to operate 554 beds. As of December 31, 2008, Emanuel had 403 available staffed beds comprised of 286 acute care beds (of which 93 are pediatric) and 117 critical care beds (of which 75 are pediatric and neonatal). Emanuel provides a comprehensive range of inpatient, clinical and diagnostic services in numerous medical specialties and subspecialties. Emanuel operates a children's hospital, Level I Trauma Center, the Oregon Burn Center and high-risk obstetric services including a Level III NICU. Emanuel provides training for

interns and residents through its nationally accredited graduate medical education program. Emanuel operates primary care teaching clinics at Emanuel and in St. Helens, located approximately 30 miles from the main Emanuel campus. In addition to its core hospital services, Emanuel provides related health services through the following programs:

Legacy Emanuel Children's Hospital
Legacy Research
Legacy Laboratory Services
Legacy Metro Lab

Legacy Emanuel Children's Hospital (the "Children's Hospital") is a full-service children's hospital within Emanuel committed to providing care in an environment sensitive to the special needs of children and their families, including premature and critically ill newborns. Located on Emanuel's campus, the Children's Hospital treats children from throughout Oregon, southwest Washington, Alaska and Idaho.

Legacy Research is a full-service research facility that supports a wide range of research activity. Legacy Research collaborates with pharmaceutical, biotechnology and medical device companies. Legacy Research is located in northeast Portland (Holladay Park campus).

Emanuel is the sole member of Legacy Laboratory Service, LLC, an Oregon limited liability company which is located at the Holladay Park campus and operates and manages multiple locations throughout the greater Portland area, the Willamette Valley and the central Oregon coast. Legacy Laboratory Services also provides outpatient laboratory services to over 2,500 physicians located in Oregon and southwest Washington. Test and service offerings support the medical community and programs offered by the System through specialized services, such as its cytogenetics, medical genetics and cellular and molecular diagnostics laboratories, as well as clinical laboratory support. Prior to April 1, 2009, Legacy Laboratory Services operated as a division of Emanuel.

Legacy MetroLab is a nationally certified toxicology laboratory supporting business and industry clients throughout the United States.

In addition, Emanuel is the sole member of Legacy Clinics, LLC, an Oregon limited liability company, which operates nine primary care and nine specialty clinic sites throughout the Portland Metropolitan area. In addition, Legacy Clinics operates the hospitalist and intensivist programs at the four Oregon hospitals.

Emanuel is one of three members of an emergency air transport service joint venture, Life Flight Network LLC, which serves Oregon and southwest Washington.

Good Samaritan. Founded in 1875 under the auspices of the Episcopal Church, Good Samaritan is one of the earliest established hospitals in the Pacific Northwest. Good Samaritan is licensed to operate 539 beds and is located in northwest Portland. As of December 31, 2008, Good Samaritan had 230 available staffed beds, of which 28 were critical care beds. Good Samaritan specializes in several high-level specialty services, such as neuroscience services, which includes the Rehabilitation Institute of Oregon, a regional sleep disorders program, comprehensive epilepsy, stroke and brain tumor programs, Devers Eye Institute, a comprehensive cancer center, obesity, diabetes, and cardiac care, Kern critical care unit, kidney transplant services, and robotic surgical systems used for minimally invasive surgeries. Good Samaritan provides training for interns and residents through its nationally accredited graduate medical education program. As part of that program Good Samaritan operates a primary care teaching clinic located on its campus.

Meridian Park. Established in 1973, Meridian Park owns and operates a community hospital located in the city of Tualatin, south of Portland. Meridian Park is licensed to operate 150 beds and serves the needs of the fast growing communities of Tualatin, Tigard, Wilsonville, Sherwood, West Linn, and Lake Oswego. As of December 31, 2008, Meridian Park had 128 available staffed beds, of which 32 were critical care. Meridian Park offers a wide range of services, including outpatient diagnostic services such as PET/CT services, angiography, and MRI/MRA, a total joint center for patients undergoing joint replacement, diagnostic and interventional cardiac cath, a nationally

recognized stroke program, cancer treatment, intensive and intermediate care units, a family birth center, and pediatric and ambulatory care units in the emergency department.

Mount Hood. Mount Hood owns and operates a community hospital in the city of Gresham, east of Portland. Founded in 1922, the hospital was rebuilt in 1984 and has grown with the surrounding community. Mount Hood is licensed to operate 115 beds. As of December 31, 2008, Mount Hood had 80 available staffed beds, of which 10 were critical care. Mount Hood offers a wide range of services including family birth, diagnostic services, cancer treatment, surgery and emergency services.

Salmon Creek. In 2002, the Washington State Department of Health issued a certificate of need and approved the construction of a 220-bed acute care hospital in Clark County, Washington. This was the State of Washington's first new hospital construction since 1979. The hospital opened in August 2005 with 165 licensed beds, all of which are single occupancy. As of December 31, 2008, Salmon Creek had 146 available staffed beds comprised of 92 acute care beds (of which 12 are pediatric) and 54 critical care beds (of which 22 are pediatric and neonatal). Salmon Creek provides a full array of hospital services, including surgery, diagnostics, inpatient and outpatient medical services, neonatal intensive care unit, pediatric, obstetrical, and emergency services. The hospital operates adult, pediatric, and OB/GYN hospitalist programs, as well as four primary care physician practices and three specialty clinics. Salmon Creek utilizes an electronic information system for medical records and physician order entry. Physicians are able to complete their entire patient records electronically and can remotely access patient records, including diagnostic images.

LVNA. LVNA operates both an inpatient and outpatient hospice program. The inpatient program is licensed for 15 beds and is located at Hopewell House in southwest Portland. As of December 31, 2008, LVNA had 14 available staffed beds. The home hospice program serves the greater Portland/Vancouver metropolitan area. LVNA also has a 50% interest in a home infusion joint venture.

The following entities are affiliates of LHS but are not Members of the Obligated Group or Designated Affiliates under the Master Indenture.

Managed HealthCare Northwest. Managed HealthCare Northwest, Inc. ("MHN"), is an Oregon for-profit corporation, which offers a preferred-provider network, utilization review and case management services. MHN was created in 1988 through the merger of CareMark and Northwest Health, Inc., two of the oldest and most experienced preferred-provider organizations in the Northwest. MHN is owned 75 percent by Mount Hood and 25 percent by Adventist Health System/West.

Legacy Health System Insurance Company. Legacy Health System Insurance Company (LHSIC) was formed in 2004 under the laws of the Cayman Islands and obtained an Unrestricted Class "B" Insurer's license under the provisions of the Cayman Islands Insurance Law. LHSIC is wholly owned by LHS. LHSIC provides excess healthcare and general liability insurance to the System.

Legacy Adventist Venture. Legacy Adventist Venture ("LAV") is an Oregon nonprofit membership corporation and a 501(c)(3) organization formed in 1992 by LHS and Adventist Health System/West. Each member holds a 50 percent membership interest. LAV coordinates the provision of behavioral healthcare services. LAV is not included, except for LHS's interest, within the consolidated financial statements.

Legacy USP Surgery Centers LLC. Legacy USP Surgery Centers, LLC was formed in 2008 and is a joint venture with United Surgical Partners, Inc. ("USP") whose purpose is to own one or more surgery centers. Legacy has a controlling interest in this venture. USP performs the significant management functions for the joint venture.

Bed Complement

As of December 31, 2008, the System was licensed to operate 1,538 beds, of which 1,032 were available. The table below shows the licensed beds and the complement of available beds by facility as of that date.

	Emanuel	Good Samaritan	Meridian Park	Mount Hood	Salmon Creek	LVNA	The System
Licensed Beds	554	539	150	115	165	15	1,538
Available Beds:							
Acute Care	193	202	96	70	80		646
Pediatric Care	93				12		105
Critical Care							
Adult	42	28	32	10	32		144
Neonatal/Pediatric	75				22		97
Hospice						14	14
TOTAL	403	230	128	80	146	14	1,001

Source: The System's internal census data.

ANTICIPATED CAPITAL PROJECTS

In support of the System's strategic plan, the System anticipates spending approximately $569 million over fiscal years 2010, 2011, and 2012. The major anticipated capital projects include the following:

The New Emanuel Expansion Project at Emanuel includes the construction of a seven-story pediatric patient tower (the Tower), expansion of surgical services, expansion of the trauma intensive care unit, a new parking garage, and renovation of existing departments impacted by the expansion. The Tower will provide 162 private pediatric acute and intensive care beds and an expanded emergency department dedicated to pediatric patients. The renovation of existing space currently used for pediatrics will provide an additional 46 adult acute beds and expansion of the adult emergency department. The project will be completed in phases, beginning in fiscal year 2009 and ending in fiscal year 2012. Emanuel has entered into a general contractor agreement with Hoffman Construction Company to oversee construction of the parking garage, but it has not entered into a Guaranteed Maximum Price contract for the entire project. LHS monitors costs of construction for the project internally. See **"BONDHOLDERS' RISKS – Other Significant Risk Areas Summarized – Construction Risks."** The range of estimated costs for this project is between $222 and $254 million.

The System will implement the Epic Clinical Information System to integrate an electronic medical record system, computerized physician order entry, and an integrated billing system throughout the System's hospitals and clinics. This new clinical information system will replace several existing systems currently in use. It is expected that the implementation of the Epic system within the first hospital will be completed in the fall 2010, with all hospitals and clinics completed in 2012. Total estimated cost is approximately $89 million.

Due to the continued and anticipated growth in occupancy at Salmon Creek, the System is in process of completing the sixth floor of the hospital that was shelled in during the initial construction of the hospital. The new patient care areas will include 64 beds, primarily focused on orthopedic, neurology, and medical/surgical specialties. This project will bring the total available beds to the total number of beds granted in the original Certificate of Need. This project is expected to cost approximately $20 million, with completion estimated for the fall of 2009.

Mount Hood's emergency department is one of the busiest emergency departments in the State of Oregon. In order to meet the growing demands of the community, the System has recently constructed and opened a new section of its emergency department and is renovating the existing space. Mount Hood hired Hoffman Construction Company as the general contractor in 2008. Total estimated cost of the project, which will substantially expand the department, is approximately $17.5 million and completion is scheduled for the fall of 2009.

In addition to these major capital projects, the System anticipates upgrading telecommunication systems, renovation of patient care areas, acquisition of new imaging, surgical, and other diagnostic equipment, and improvements to physician clinics and other portions of the hospitals' physical plants and infrastructure.

The Series 2009 Bonds will primarily finance the construction of the Tower at Emanuel and renovations of existing departments. In November 2008 the Hospital Facility Authority of Clackamas County issued $150 million of variable rate demand bonds on behalf of the System to finance the parking garage and expansion of the trauma intensive care unit portions of the New Emanuel Expansion Project, Mount Hood's emergency department expansion, and other capital projects such as renovations and acquisitions of imaging, surgical and other diagnostic equipment at the Oregon hospitals. The other projects, including implementation of the Clinical Information System and the completion of the sixth floor at Salmon Creek, are anticipated to be financed from existing cash reserves and operating cash flow.

CORPORATE GOVERNANCE

Board of Directors

LHS is governed by a Board of Directors. The Board consists of no more than 19 directors who are appointed, elected, or serve ex officio as follows. The Bishop of the Oregon Synod of the Evangelical Lutheran Church in America (the "Oregon Synod") (or the Bishop's designee) and the Bishop of the Episcopal Diocese of Oregon (the "Episcopal Diocese") (or the Bishop's designee) serve ex officio. One director is appointed by election of the Convention of the Episcopal Diocese and one director is appointed by election of the Oregon Synod Council. Five medical staff physicians are elected by the Board. The Chief Executive Officer of LHS serves ex officio. The balance of the directors are elected by the Board of Directors. All directors other than the ex officio directors serve for terms of three years. Directors (other than ex officio directors) are limited to a maximum of three consecutive full terms. A Director may leave and rejoin the Board after a period of time, which resets the consecutive term limit. All terms expire in May on a staggered basis. The Chief Financial Officer and the Chief Legal Officer of LHS serve as Treasurer and Secretary, respectively, and are entitled to attend Board meetings and participate in deliberations, but are not entitled to vote. LHS' Board also serves as the board of directors for each of the Members of the Obligated Group. LHS' Board also serves as the board of directors for Salmon Creek, for which LHS' Chief Executive Officer serves as a non-voting advisor.

The Governance Committee of the Board routinely reviews best practices in corporate governance and recommends changes to LHS's corporate governance policies. The Board has implemented certain corporate governance practices consistent with the requirements of the Sarbanes-Oxley Act, even though those requirements do not apply to LHS as a nonprofit corporation.

LHS' standards of conduct policy requires each director, officer, employee, contracted medical director, and volunteer to annually disclose actual or potential conflicts of interest. These covered individuals may not vote or attempt to influence decisions in connection with any conflict of interest.

The members of the Board serve in a voluntary capacity and receive no compensation for their services. The following table shows the current membership of the Board, their respective years of service and their occupations:

Legacy Health System
Board of Directors

Name/Title	Occupation	Year of Original Appointment	Term Expires May,
Robert W. Bentley, M.D., Chairman [4]	Physician, Ophthalmology	2002	2010
Colleen A. Cain, Vice Chairman	Former CEO, Benova, Inc.	2003	2009
Bishop David Brauer-Rieke	Bishop of Oregon Synod of the Evangelical Lutheran Church in America	2007	N/A[1]
George J. Brown, M.D.	President and Chief Executive Officer, LHS	2008	N/A[2]
Robert L. Cornie	Retired, Morgan Stanley	2007	N/A[1]
Barbara K. Ferre, M.D. [4]	Physician, Pediatrics	2000	2010
Jeffrey S. Gordon	Investment Development Management	2005	2011
P. Campbell Groner III, [3] Secretary	Sr. Vice President & Chief Legal Officer, LHS	1998	N/A[2]
Hollis J. Hendricks	Legal Assistant, Bodyfelt Mount Stroup & Chamberlain, LLP	2003	N/A[1]
The Very Reverend William Lupfer	Dean, Trinity Episcopal Cathedral	2008	N/A[1]
Ronald S. King	CEO, Western Family Foods	2008	2009
Duane C. McDougall	Chairman and CEO, Boise Cascade	2003	2009
Corliss McKeever	President, African American Health Coalition	2005	2010
Steven Newberry, M.D.	Physician, Family Practice	2008	2011
Jack L. Orchard	Attorney, Ball Janik, LLP	2001	2010
Christopher S. Thoming	Physician, Urgent Care Medicine	2009	2012
Pamela S. Vukovich, [3] Treasurer	Sr. Vice President & Chief Financial Officer, LHS	1999	N/A[2]
John W. Winter, Jr.	Retired Partner, Arthur Andersen, LLP	1999	2011

(1) No Term Limit Member – Church Appointed by Episcopal Diocese or Lutheran Synod
(2) No Term Limit Member – Ex-Officio
(3) Nonvoting Director.
(4) Medical staff member.

Board Committees

The Board has the following standing committees:

Executive Committee. The Executive Committee transacts the business of the Board of Directors in the interim between meetings of the full Board.

Audit Committee. The Audit Committee is charged with ensuring appropriate policies and procedures are in place to safeguard and preserve the System's assets, and to oversee the fair presentation of the System's financial statements, the effectiveness of the system of internal controls, compliance with non-clinical legal and regulatory requirements, the determination of the independent auditor's qualifications and independence, and the performance of the System's internal audit function and independent accountants.

Community Health Committee. The Community Health Committee is charged with assessing and analyzing community health needs in the geographic areas served by the System. The Community Health Committee recommends where and how the System should direct its health improvement investments, using resources from a Community Health Fund established by LHS in 1999.

Compensation Committee. The Compensation Committee is responsible for establishing and maintaining a competitive compensation program for selected key executives of the System and its affiliates. The Compensation Committee makes recommendations to the Board with respect to such compensation programs.

Finance Committee. The Finance Committee oversees all areas of corporate finance for the System, including debt financings, capital expenditures, cash management, banking activities and relationships, investments and current and projected financial results.

Governance Committee. The Governance Committee ensures that the Board governance system performs well, with specific responsibility for making recommendations to the Board on Board organization and procedures, evaluating the performance of the Board and individual Directors, and nominating Directors.

Medical Quality and Credentialing Committee. The Medical Quality and Credentialing Committee assesses, monitors and improves the delivery of quality care throughout the System via the credentialing and quality improvement processes.

Planning Committee. The Planning Committee is charged with overseeing the development of the strategic plan; monitoring progress relative to the strategic plan; monitoring and informing the Board of market developments, trends and opportunities; and helping to connect the System's strategic initiatives with philanthropic opportunities for each hospital.

Executive Management

Brief biographies of LHS's executive management follow:

George J. Brown, MD, President and Chief Executive Officer. Dr. Brown, age 61, joined the System in 2008, in his current position. Previously, he was the Chief Operating Officer at Multicare Health System ("MHS") since October 1998. Prior to joining MHS, Dr. Brown was Commanding General, Madigan Army Medical Center, Lead Agent Region 11 and Commander, United States Army Western Regional Medical Command, Fort Lewis, Washington. Dr. Brown's previous leadership experience includes commanding Walter Reed Army Hospital, Washington D.C., Blanchfield Army Hospital, Fort Campbell, Kentucky; Letterman Army Institute of Medical Research, Presidio of San Francisco, California and U.S. Army Hospital Berlin, West Germany. He retired from active duty service in February 1999 as a Brigadier General in the Regular Army. Dr. Brown received his Bachelor of Arts degree from Hampton University, Hampton, Virginia and his Doctor of Medicine degree from Boston University School of Medicine. Dr. Brown is also a graduate of the U.S. Army War College. Dr. Brown is certified by the National Board of Medical Examiners, the American Board of Internal Medicine and Gastroenterology, and the American Board of Medical Management. He is a member of the Alpha Omega Alpha Medical Honor Society, American College of Physician Executives, American College of Physicians, and the American Gastroenterological Association. Dr. Brown is a member of the Association of Healthcare Executives and serves on the Boards of Oregon Society of Healthcare Executives and Oregon Business Council. He is involved with healthcare leadership groups and the State of Oregon who are working together on expanding healthcare services to a greater population in Oregon. Dr. Brown serves as an Adjunct Professor at the University of Alabama at Birmingham School of Health Related Professions.

Pamela S. Vukovich, Senior Vice President and Chief Financial Officer. Ms. Vukovich, age 54, joined the System in 1983 as Controller for Good Samaritan Hospital. Before assuming her present position, Ms. Vukovich was Vice President, Finance for Good Samaritan, Emanuel, Meridian Park, and Mount Hood Hospitals. She also served as the Interim President and Chief Executive Officer from October 2007 to September 2008. Ms. Vukovich's previous experience includes Audit Staff Accountant, Senior Staff Accountant, Manager and Senior Manager with KPMG, LLP in Portland from 1976 to 1983. She is currently affiliated with the Oregon chapter of the Healthcare Financial Management Association; Oregon Society of CPAs; and American Institute of CPAs. She also

currently serves on the board of Oregon Association of Hospitals and Health Systems. In 2007, Ms. Vukovich received the Portland Business Journal Orchid Award for Women in Business and the CFO Award for nonprofit companies. In 2008, Ms. Vukovich was honored as one of the top 100 graduates from the Oregon State School of Business. Ms. Vukovich received her Bachelors of Science, Accounting, from Oregon State University in 1976. She received her Oregon CPA in 1978.

Allyson Anderson, Chief Administrative Officer, Meridian Park. Ms. Anderson, age 45, joined the System in 2002 in her current position. Her previous experience includes Vice President for Sun Health Corporation in Phoenix, Arizona from 1991 to 2002, and manager of strategic projects for Health Dimensions in San Jose, California from 1989-1991. Ms. Anderson earned a master's degree in hospital administration from the University of Minnesota and a bachelor's degree from the University of Arizona. She is a diplomat with the American College of Healthcare Executives.

Jonathan Avery, Chief Administrative Officer, Salmon Creek. Mr. Avery, age 37, joined the System in 1996, as an administrative fellow. He has held various positions with the System before assuming his current role in 2005, including Manager of Managed Care Contracting, Director of Legacy Clinics, and Vice President of Legacy Clinics. Mr. Avery is a member of the Clark County Public Health Advisory Committee, the American College of Healthcare Executives and is also a Board member of the Columbia River Economic Development Council. Mr. Avery was selected as one of the recipients of the Portland Business Journal's 40 under 40 award. He earned a Master of Health Services Administration from the University of Michigan, and a Bachelor of Arts from the University of Oregon.

George A. (Jack) Cioffi, M.D., Senior Vice President and Chief Medical Officer. Dr. Cioffi, age 48, joined the System in 1991, as a physician within Legacy Devers Eye Institute. In 2006, Dr. Cioffi assumed his current role as Senior Vice President and Chief Medical Officer. He holds the Richard G. Chenoweth Endowed Chair of Ophthalmology at Legacy Good Samaritan Hospital and Medical Center Devers Eye Institute, and is a Professor of Ophthalmology at Oregon Health & Science University. He is the Chairman of the Scientific Advisory Committee for the Glaucoma Research Foundation and Chairman for the Adult Advisory Panel of Prevent Blindness America. He is the immediate Past-President of the Oregon Academy of Ophthalmology. He has served as a member of the FDA Ophthalmology/Dermatology Advisory Committee for drug approval. Dr. Cioffi received his medical degree at the University of South Carolina, completed a residency in ophthalmology at the University of Maryland and fellowship in Research & Clinical Glaucoma at the Devers Eye Institute.

Richard (Dick) Gibson, M.D., Senior Vice President and Chief Information Officer. Dr. Gibson, age 54, joined the System in 2007 in his current position. His previous experience includes eleven years as Chief Medical Information Officer for Providence Health System, and seven years in private medical practice in family and emergency medicine in the State of Washington. Dr. Gibson attended medical school at Case Western Reserve University, and is Board Certified in both Family Practice and Emergency Medicine. He continues to practice in Portland. He completed a Ph.D. in Medical Informatics at LDS Hospital and the University of Utah in Salt Lake City in 1995. He holds an MBA from Wharton.

Trent Green, Sr. Vice President, Strategic Planning and Business Development. Trent Green, age 37, Senior Vice President, Strategic Planning & Business Development, joined Legacy Health System December 1, 2008. Prior to joining Legacy, Mr. Green was a Director with Navigant Consulting. While at Navigant Consulting, Mr. Green provided leadership to the firm's Physician Strategy Practice and was responsible for all healthcare strategy recruiting activities. During his consulting career, Mr. Green worked for organizations across the country on various engagements including development of system strategic plans and strategic facility plans, formulation of medical staff development plans and physician-hospital collaboration initiatives. Mr. Green came to Navigant Consulting through the acquisition of Tiber Group in April 2005, where he was a Partner. Prior to beginning his consulting career, he completed a two-year administrative fellowship with the Mayo Clinic. Mr. Green has authored several articles and made presentations to national healthcare conferences on the topics of strategic physician practice positioning, health system capacity planning and identification of innovative responses to new market competitors. Mr. Green earned a Bachelors degree from Nebraska Wesleyan University and his MHA and MBA from the University of Minnesota. He is a member of several healthcare associations and serves on the Board of the Portland Business Alliance.

P. Campbell Groner, III, Senior Vice President and Chief Legal Officer. Mr. Groner, age 60, joined the System in 1998 in his current position. Prior to joining the System, Mr. Groner was a Partner and Chair of the Portland Health Law Section of Davis Wright Tremaine LLP, Portland, Oregon, from 1992 to 1997. Mr. Groner is currently affiliated with the American Health Lawyers Association and the Oregon Health Lawyers Association. He is a former member of the Executive Committees of the Health Law Section and the Antitrust and Trade Regulation Section of the Oregon State Bar, and is on the Editorial Board of the Oregon Health Law Manual. Mr. Groner serves on the Public Policy Committee of the Oregon Association of Hospitals and Health Systems and the Board of Directors of Trillium Family Services, and is a past Director of The Wallace Medical Concern. He received a Bachelor of Arts degree in English Literature in 1971 from Yale University, a Master of Arts in Teaching degree in 1973 from Harvard University, and a Juris Doctorate, magna cum laude, in 1986 from Northwestern School of Law of Lewis and Clark College, Portland, Oregon.

Carla Harris, Interim Chief Administrative Officer, Emanuel. Ms. Harris, age 69, joined the System in 1997 as Chief Administrative Officer, Emanuel Children's Hospital and assumed the interim position of Chief Administrative Officer, Emanuel in April, 2009. Prior to joining the System, Ms. Harris was the Executive Director of Women's Services for Brigham and Women's Hospital from 1995 to 1997, the Clinical Director of Nursing for Women's and Children's Health Division for UCLA Medical Center from 1990 to 1995, and held a variety of management positions at various hospitals. Ms. Harris began her career as a staff nurse in labor and delivery. She received her Bachelor of Science, Nursing from California State University, Fullerton, and her Master of Science, Nursing from California State University, Long Beach.

Bryce Helgerson, Chief Administrative Officer, Mount Hood. Mr. Helgerson, age 36, joined the System in 2005 in his present position. Prior to joining the System, Mr. Helgerson's professional background included clinical research and care at the University of Iowa Hospitals and Clinics, an Administrative Fellowship at Oregon Health & Sciences University, consulting in revenue cycle and healthcare process improvement at UCSF/Stanford, and six years of practice management in the Department of Neurological Surgery at Oregon Health & Science University. He currently serves on the Mount Hood Community College Foundation and East Metro Alliance boards. Mr. Helgerson was selected as one of the recipients of the Portland Business Journal's 40 under 40 award. Mr. Helgerson received a Master of Healthcare Administration from Washington University School of Medicine in St. Louis, MO, and Bachelor of Arts in Biology from Luther College in Decorah, IA.

Bronwyn Houston, Interim Chief Administrative Officer, Emanuel Children's Hospital. Ms. Houston, age 40, joined the System in 2001 as the Director of Ambulatory Pediatric Services at Emanuel Children's Hospital. Before joining Legacy, Ms. Houston's professional background included an administrative fellowship and leadership roles at St. Luke's Episcopal Health System in Houston, Texas. These roles included serving as the Director of St. Luke's Health Centers and serving as President of Greater Houston Health Network (St. Luke's 501(a) physician employment corporation). She currently serves on the CARES Northwest Governing Board. Ms. Houston earned a Bachelor of Science in Business Administration from The Ohio State University, a Masters of Arts in Human Resource Management from Washington University in St. Louis, MO, and a Masters in Healthcare Administration from Washington University School of Medicine in St. Louis, MO.

Anthony (Tony) Melaragno, MD, Chief Administrative Officer, Good Samaritan. Dr. Melaragno, age 60, joined the System in 2002, as Chief and Vice President of Research. In 2007, Dr. Melaragno assumed his current role as Chief Administrative Officer of Good Samaritan. Prior to joining the System, Dr. Melaragno was the Medical Director and Chief Executive Officer of the San Diego Blood Bank, and has held a variety research positions with the Naval Medical Research Institute, and as a professor with the University of California. He received his Bachelor in Science degree and medical degree from Ohio State University.

Will Mowe, Chief Administrative Officer, Legacy Clinics. Mr. Mowe, age 54, joined the System in 2004, as the Director of Specialty Clinics. In 2005, Mr. Mowe assumed his current role as Vice President, Clinic Operations. Prior to joining the System, Mr. Mowe was the Chief Operating Officer for Pacific Medical Group and The Oregon Clinic, and the Administrator for the Thoracic Clinic. He has also been employed as a Program Planning Analyst and Assistant Hospital Administrator at Kaiser Permanente, and started a Workers' Compensation PPO at Providence Health Plans. Mr. Mowe received a Masters of Science in Health Policy and Management from the Harvard School of Public Health, and a Bachelor of Arts summa cum laude from the University of Washington.

He was a Peace Corps volunteer for two years in West Africa, and is currently on Wallace Medical Concern's Board of Directors.

Sonja Steves, Senior Vice President, Human Resources. Ms. Steves, age 45, joined the System in 1988 as a staff writer for internal newsletters and marketing projects. During the next 14 years, she was promoted to Director of Marketing and Creative Services, and then to Vice Present of Marketing and Community Relations. In 2002, she became the senior Human Resources leader and in 2007 was promoted to her current position. Ms. Steves was selected as one of the recipients of the Portland Business Journal's 40 under 40 award. She holds a Bachelor of Arts from Pacific Lutheran University, and is SPHR certified by the Society for Human Resource Management.

Patricia M. Gianelli, Vice President, Financial Services. Ms. Gianelli, age 52, joined the System in 1987 as Assistant Controller for Hospital Operations. Ms. Gianelli has been Vice President, Financial Services since 1997. Her previous experience includes Senior Staff Accountant and Audit Manager with Arthur Andersen & Co. in Portland, and Audit Staff Accountant and Senior Staff Accountant with Arthur Andersen in San Francisco, California. Ms. Gianelli has served as faculty to the Healthcare Financial Managers Education Foundation since 1996, has served on a national advisory council to the HFMA Board of Directors and currently is past chair for the National Board of Examiners for HFMA. She received her Fellowship in HFMA (FHFMA) in 1994. Ms. Gianelli received a bachelor of science in accounting from the University of Oregon in 1978, graduating with highest honors. She received her Oregon CPA in 1983.

Scott H. Johnson, Vice President, Finance. Mr. Johnson, age 52, joined the System in 1999 in his current position. From October 2007 to September 2008, Mr. Johnson served as the Interim Chief Financial Officer. His previous experience includes Chief Financial Officer at MedPartners, Inc., NW Region, in Portland from 1997 to 1999; Director of Accounting for Providence Health System, Portland, from 1992 to 1997; Assistant Administrator and Director of Finance at St. Catherine's Residence, Inc., in North Bend, Oregon, from 1990 to 1992; Controller for Good Samaritan Hospital, Portland, from 1989 to 1990; and Experienced Senior at Arthur Andersen & Co., Portland, from 1983 to 1989. Mr. Johnson is currently with a member of the Oregon chapter of Healthcare Financial Management Association (HFMA), and the Oregon Society of CPAs. Mr. Johnson is a board member for New Avenues for Youth and Portland State University's Business Advisory Council, is past president of the Oregon Chapter of HFMA and is currently serving on the National Advisory Council to the HFMA Board of Directors. He received his Fellowship in HFMA (FHFMA) in 1996. Mr. Johnson received his Bachelor of Science, Business Administration: Accounting from Portland State University in 1983. He received his Oregon CPA in 1986.

SERVICE AREAS AND COMPETITION

Service Area Definition and Characteristics

Primary Service Area. The System's primary service area is the greater Portland/Vancouver area and includes the counties of Clackamas, Columbia, Multnomah, and Washington in Oregon and Clark County in Washington.

Secondary Service Area. The System's secondary service area includes counties surrounding the primary service area, also known as "the 60 Mile Ring," which includes Clatsop, Tillamook, Yamhill, Polk, Lincoln, Benton, Linn, Marion, Hood River and Wasco Counties in Oregon and Cowlitz, Skamania, Klickitat and Wahkiakum Counties in Washington.

The map on page A-15 shows the System's primary and secondary service areas.

Patient Origin by Service Area. The following table shows patient volume by service area for the System's hospital facilities during calendar year 2008.

Service Area of Patient Origin	Service Classification			
	Inpatient		Outpatient	
	Cases	%	Cases	%
Primary Service Area (Greater Portland Area)	47,459	86%	481,952	91%
Secondary Service Area (60 Mile Ring)	5,149	9	31,990	6
Other (Oregon and out of state)	2,553	5	15,662	3
Total	55,161	100%	529,604	100%

Source: The System's internal data.

Service Area Population. The table below presents population statistics for the System's primary and secondary service areas.

	Primary Service Area (Greater Portland/Vancouver Area) Estimated Population	Secondary Service Area (60 Mile Ring) Estimated Population
1980	1,265,009	683,897
1990	1,432,268	735,960
2000	1,803,755	921,086
2008	2,268,275	1,066,713

Source: 1980, 1990 and 2000 Census, US Bureau of Census. 2008 Intellimed.

Competition in Service Areas

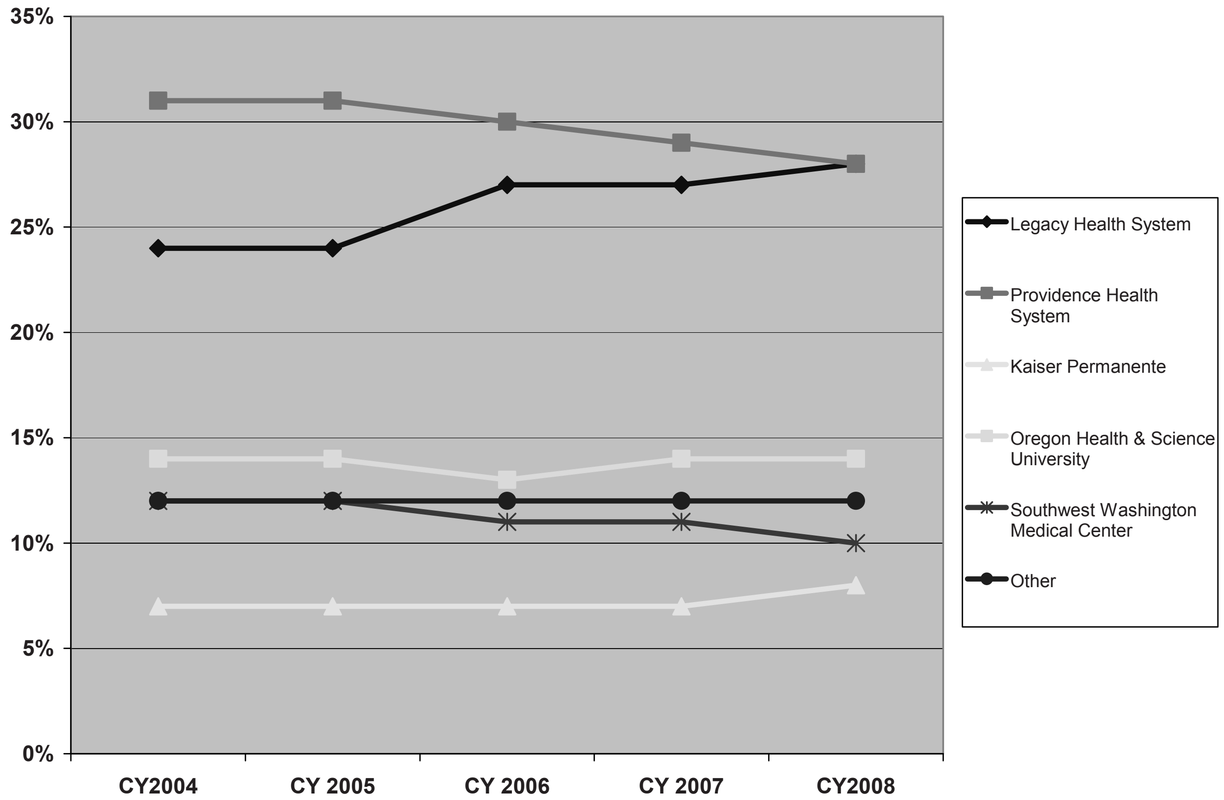
There are nine other general acute-care hospitals within the System's primary service area. The following table shows selected market share statistics for the System and those competing facilities or health systems for the calendar years ended December 31, 2006, 2007 and 2008.

Portland/Vancouver-Area Acute-Care Hospitals and Hospital Systems
Hospital Volume Comparison

Hospital	2006	% of Total	2007	% of Total	2008	% of Total
Legacy Health System						
Available Beds	1,018	30%	1,011	29%	986	29%
Discharges	52,115	27	53,272	27	55,161	28
Daily Census	647	27	680	28	695	28
Providence Health System						
Available Beds	908	27	913	27	922	27
Discharges	58,370	30	58,267	29	56,689	28
Daily Census	693	29	700	29	701	29
Kaiser Permanente						
Available Beds	182	5	182	5	182	5
Discharges	13,572	7	14,558	7	15,776	8
Daily Census	145	6	157	6	160	6
Oregon Health and Science University						
Available Beds	499	15	524	15	524	15
Discharges	25,914	13	27,744	14	28,327	14
Daily Census	365	16	395	16	410	17
Southwest Washington Medical Center						
Available Beds	335	10	345	10	357	10
Discharges	21,351	11	20,886	11	20,500	10
Daily Census	238	10	234	10	241	10
Other						
Available Beds	449	13	487	14	492	14
Discharges	23,829	12	23,704	12	22,820	12
Daily Census	264	11	263	11	247	10
Totals						
Available Beds	3,391	100%	3,462	100%	3,463	100%
Discharges	195,151	100	198,431	100	199,273	100
Daily Census	2,352	100	2,429	100	2,454	100

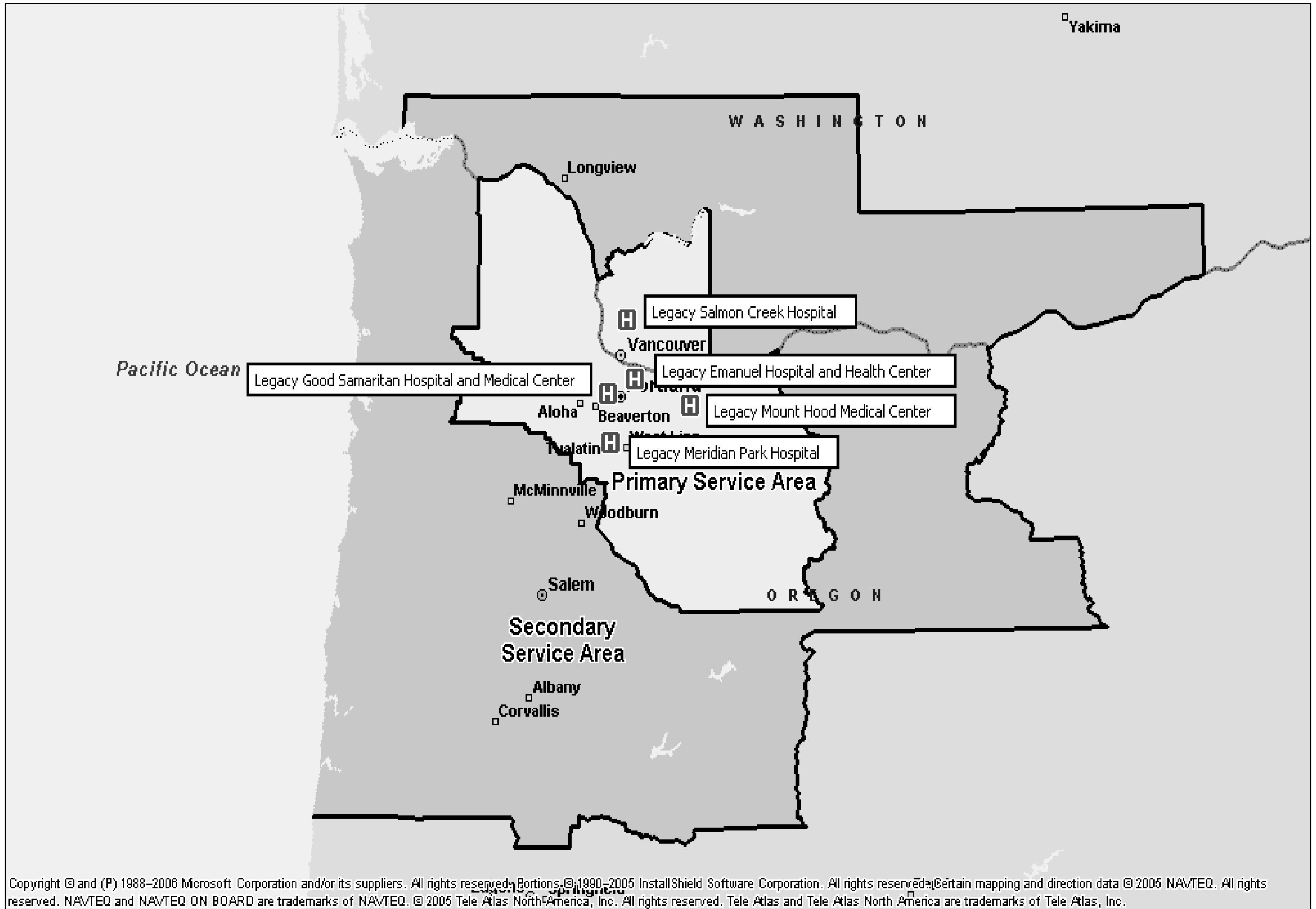
Source: Oregon Association of Hospitals and Health Systems Oregon DATABANK Program and Jerry Nemer, Director, Health Information Systems, OAHHS. Washington State Hospital Association quarterly reports from Larry Hettick and Randy Huyck, WHSA, and WSHA Databank monthly reports from Washington State Hospital Association website (2008 data annualized).

Legacy's market share has increased by four points, from 24% to 28%, over the past five years primarily due to the construction and opening of Salmon Creek. The following graph shows the comparative market shares of the System and the other major hospitals and hospital systems within the System's primary service area in terms of discharged inpatients for calendar years 2004 through 2008:



Source: Oregon Association of Hospitals and Health Systems Oregon DATABANK Program and Jerry Nemer, Director, Health Information Systems, OAHHS. Washington State Hospital Association quarterly reports from Larry Hettick and Randy Huyck, WHSA, and WSHA Databank monthly reports from Washington State Hospital Association website (2008 data annualized).

Service Area Map



MEDICAL STAFF

Medical Staff

The following table lists the System's physician counts as of February, 2009. Physicians join and resign from the medical staff every year, but there have been no material changes in the composition of the System's medical staff since 2003, with the exception of the addition of Salmon Creek.

Emanuel and Good Samaritan have a single medical staff known as Legacy Portland Hospitals that allows these physicians to admit and treat patients at either hospital. A physician may have privileges at more than one of the medical staffs, however, the System Total counts shown below represent a single physician only once.

MEDICAL STAFF

	Legacy Portland Hospitals	Salmon Creek	Meridian Park	Mount Hood	System Total
Total Members	1,415	473	484	312	2,054
Board Certified	1,393	471	476	306	2,025
Percent Board Certified	98.4%	99.6%	98.3%	98.1%	98.6%
Average Age	50	47	50	50	49

Source: The System's internal data.

Employed Physicians

The System employs 219 physicians representing approximately 200 FTEs. There are 47 primary care physicians staffing clinics throughout the Portland Metropolitan Area. These clinics serve the general community and provide access for low-income, pediatric and geriatric patients. Other employed physicians include 75 hospitalists and intensivists who serve acute and intensive care hospital patients (including OB/GYN physicians); 32 medical directors and chiefs of specialized hospital services and 65 pediatric, kidney transplantation, endovascular surgery, surgeons, and other specialists. The System employs 57 nurse practitioners, physician assistants and midwives, representing 42 FTEs in a variety of specialties. In addition, the System operates a residency program with 73 employed residents and fellows.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA

Hospital Utilization

The following table presents selected statistical indicators of the System's hospital patient activity.

Statistical Summary	Fiscal Years Ended March 31			Nine Months Ended December 31	
	2006	2007	2008	2007	2008
Average Available Beds[1]	1,023	1,016	1,013	993	996
Discharges	46,855	52,428	53,928	39,962	41,195
Adjusted Discharges [2]	75,507	83,108	86,777	64,378	66,972
Patient Days	220,745	239,061	251,301	186,623	189,812
Average Length of Stay (Days)	4.7	4.6	4.7	4.7	4.6
Average Daily Census	605	655	687	679	690
Percent Occupancy	59.1%	64.5%	67.8%	68.4%	69.3%
Emergency Room Visits	160,524	184,123	193,285	143,307	141,852
Births	5,733	6,685	6,808	5,124	5,525
Total Outpatient Visits	660,374	655,257	691,117	514,480	534,970
Surgical Cases					
Inpatient	15,654	16,938	17,219	13,047	13,109
Outpatient	21,705	21,790	23,841	17,484	18,756

(1) Changes in Average Available Beds reflects construction activity impacting available beds during the period.
(2) Adjusted Discharges are units of service calculated using guidelines developed by the American Hospital Association to give consideration to inpatient equivalents for outpatient services.
Source: The System's internal data

Summary of Revenues and Expenses

The following is a summary of consolidated statements of revenues and expenses of the System for the fiscal years ended March 31, 2006, 2007 and 2008, and the nine months ended December 31, 2007 and 2008.

Fiscal year information is derived from the System's audited consolidated financial statements, which include each of the Obligated Group Members, Designated Affiliates and Immaterial Affiliates (except Legacy Adventist Venture). All eliminations and reporting adjustments have been made to present the information in accordance with generally accepted accounting principles. This data should be read in conjunction with the 2007 and 2008 audited financial statements and related notes included in APPENDIX B. The audited financial statements and related notes for the fiscal year ended March 31, 2006, are not included in this Official Statement. Information for the nine-month periods ended December 31, 2007 and 2008 is derived from the System's internal data and reflect, in the opinion of management, all adjustments (including normal recurring adjustments) necessary to present fairly the results for such periods. The results for the nine-month period ended December 31, 2008, are not necessarily indicative of the results that may be expected for the full fiscal year ended March 31, 2009.

Operating Revenues and Expenses
(Dollars in thousands)

	Fiscal Year Ended March 31 (audited)			Nine Months Ended December 31 (unaudited)	
	2006	**2007**	**2008**	**2007**	**2008**
Net patient service revenues	$848,441	$988,245	$1,104,286	$826,214	$904,001
Other operating revenues	30,082	29,604	33,923	25,526	22,810
Total operating revenues	878,523	1,017,849	1,138,209	851,740	926,811
Expenses:					
Wages, salaries and benefits	513,292	562,345	625,933	459,722	502,475
Supplies	150,047	159,331	167,064	126,590	137,455
Professional fees	28,009	31,914	36,632	27,003	30,534
Purchased services	46,202	53,812	61,199	45,471	45,216
Depreciation	62,542	74,218	80,866	58,836	64,199
Interest and amortization	13,575	15,091	14,495	11,031	9,833
Provision for bad debts	22,699	44,023	63,973	52,608	68,339
Utilities, insurance and other	51,180	48,573	52,408	38,944	43,314
Total expenses	887,546	989,307	1,102,570	820,205	901,365
Income (loss) from operations	(9,023)	28,542	35,639	31,535	25,446
Investment income (loss), net [1]	49,308	39,481	52,543	73,085	(92,506)
Other losses, net	(12,794)	(11,599)	(14,276)	(10,708)	(9,041)
Total nonoperating gains (losses)	36,514	27,882	38,267	62,377	(101,547)
Revenues in excess of (less than) expenses	$ 27,491	$ 56,424	$ 73,906	$93,912	$(76,101)

[1] Effective April 1, 2007, the System designated all noncurrent investments and assets limited as to use, with readily determinable fair values, as trading securities. This change in designation of securities from “other than trading” to “trading” resulted in the immediate recognition of accumulated unrealized gains of $46.3 million in investment income and an offsetting decrease of $46.3 million to unrestricted net assets during fiscal year 2008 and during the nine months ended December 31, 2007.

Source: The System’s internal data and audited financial statements.

Sources of Patient Service Revenue

The System receives payment for services from several sources, with a variety of payment arrangements. Insurance payments include Health Maintenance Organizations (“HMOs”), Preferred Provider Organizations (“PPOs”) and indemnity agreements. The federal government, through the Medicare program, pays for most services for patients over 65 years of age. The federal government jointly funds care for indigent patients with the states of Oregon and Washington through coverage under the Oregon Health Plan (“OHP”) and Washington State Medicaid, respectively. See “**BONDHOLDERS’ RISKS—Patient Service Revenues**” in the body of this Official Statement for a discussion of Medicare and Medicaid reimbursement.

Managed care delivery in the service area is provided by a number of private health plans, the largest of which is Regence BlueCross BlueShield of Oregon. The System contracts separately with each of these health plans, primarily using discounted fees for service, negotiated case rates or negotiated rates per day.

The following table shows percentages of gross patient service charges for the System by payor for the fiscal years ended March 31, 2006, 2007 and 2008, and the nine months ended December 31, 2007 and 2008.

	Fiscal Years Ended March 31			Nine Months Ended December 31	
Source	2006 Percent	2007 Percent	2008 Percent	2007 Percent	2008 Percent
Medicare	32.9%	34.0%	33.1%	32.7%	33.9%
Medicaid/OHP	15.5	14.8	15.1	15.0	15.5
Commercial and Other Insurance	46.6	44.9	43.9	44.1	43.1
Self-pay	5.0	6.3	7.9	8.2	7.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The System's internal data.

Historical and Proforma Maximum Annual Debt Service Coverage

The following table presents the historical and estimated proforma maximum annual debt service coverage for the Credit Group, including other affiliates. Estimated adjusted maximum annual debt service reflects the Series 2008 Bonds issued in November 2008. Estimated proforma maximum annual debt services reflects both the Series 2008 Bonds and the proposed Series 2009A Bonds, Series 2009B Bonds and Series 2009C Bonds.

	Fiscal Years ended March 31 (in 000's)		
	2006	2007	2008
Income Available for Debt Service:			
Excess of Revenues Over Expenses	$27,491	$56,424	$73,906
Plus Depreciation of operating and nonoperating facilities	72,973	85,187	91,878
Plus change in fair value of swaps and trading securities, interest and amortization	10,617	9,730	(8,366)
Income Available for Debt Service	**$111,081**	**$151,341**	**$157,418**
Historical Annual Debt Service Requirement	$34,150	$28,255	$27,928
Historical Annual Debt Service Coverage Ratio	3.3	5.4	5.6
Estimated Adjusted Maximum Annual Debt Service [1]	$40,158	$40,158	$40,158
Estimated Adjusted Maximum Annual Debt Service Coverage Ratio	2.8x	3.8x	3.9x
Estimated Proforma Maximum Annual Debt Service [1]	$42,950	$42,950	$42,950
Estimated Proforma Maximum Annual Debt Service Coverage Ratio	2.6x	3.5x	3.7x

[1] Interest on the Series 2003 and 2008 Bonds reflect an assumed rate 2.6% per annum, the approximate 10-year average of the SIFMA Index. The actual interest rate paid on the Series 2003 and 2008 Bonds are likely to change based on market conditions.

Source: The System's internal data.

Capitalization

The capitalization of the System as of March 31, 2008, and as adjusted to reflect the issuance of the Bonds as of that date, is set forth in the table below. Capitalization shown below as adjusted, reflects the Series 2008 Bonds issued in November 2008. Capitalization shown below as proforma reflects both the Series 2008 Bonds and the proposed Series 2009A Bonds, Series 2009B Bonds and Series 2009C Bonds.

	Fiscal Year Ended March 31, 2008 Unadjusted	Fiscal Year Ended March 31, 2008 As Adjusted	Fiscal Year Ended March 31, 2008 Proforma
	(in 000's)	(in 000's)	(in 000's)
Total Current and Long-term Debt	$ 290,422	$ 440,422	$ 604,282
Unrestricted Net Assets	813,723	813,723	813,723
Total Capitalization	**1,104,145**	**1,254,145**	**1,418,005**
Total Outstanding Bonds as a Percentage of Total Capitalization	**26.3%**	**35.1%**	**42.6%**

Source: The System's internal data.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE

Critical Accounting Policies and Estimates

General. 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 the 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. System management bases their estimates on historical experience and various other assumptions that it believes are reasonable under the circumstances and are in accordance with generally accepted accounting principles in the United States of America. Management evaluates their estimates on an ongoing basis and makes changes to the estimates based on experience and as new information becomes available. Actual results may differ from these estimates under different assumptions or conditions.

The accompanying consolidated financial statements included in Appendix B include disclosures on the significant judgments and estimates used in the preparation of the consolidated financial statements.

Historical Performance

Nine-month Period Ended December 31, 2008 Compared To The Nine-month Period Ended December 31, 2007. Net patient service revenue increased $77.8 million, or 9.4% for the nine months ended December 31, 2008, as compared to the same period in 2007. For the nine months ended December 31, 2008, adjusted discharges and adjusted patient days increased 4.0% and 2.6%, respectively, as compared to the same period in 2007. The increase in net patient service revenue is due to an increase in patient volumes, increased contract rates with payors, an increase in outpatient surgical volumes, and a lower number of uninsured patients. These gains were offset in part by lower trauma volumes, and fewer favorable settlements recognized during the quarter relating to prior periods for Medicare and commercial payors as compared to the same period in 2007. Other operating revenue declined $2.7 million, or 10.6%, in the nine months ended December 31, 2008 as compared to the same period in 2007, primarily due to the receipt of several large unrestricted gifts to the hospital foundations during the prior year.

Total expenses increased by $81.2 million, or 9.9% for the nine months ended December 31, 2008, compared to the same period in 2007. These increases were due to increased patient volumes, salary and benefit increases, and increased costs of other supplies and services. Salary costs increased due to wage increases for nurses and employees, and an increase in the number of employees, offset in part by $2.0 million of capitalized labor and benefits associated with software development projects. Professional fees increased $3.5 million or 13.1% for the nine months ended December 31, 2008, compared to the same period in 2007, due to higher costs associated with the physician emergency call program and physician contracts associated with trauma coverage. Depreciation expense increased $5.3 million or 9.1% due in part to acceleration of depreciation on building improvements that will be replaced by the new patient tower at Emanuel and clinical information systems that will be replaced by the Epic Clinical Information System. The provision for bad debts increased $15.7 million or 29.9% due to an increase in the amount of approved charity care in the nine months ended December 31, 2008 as compared to the same period of 2007. The combined percentage of charity and provision for doubtful accounts to gross patient revenues declined from 8.7% in the nine months ended December 31, 2007, to 8.0% in the same period in 2008, reflective of a relative decline in uninsured patients receiving services. Interest and amortization expense declined $1.2 million or 10.9% due to a reduction in long-term debt, lower short-term interest rates, and capitalized interest on projects in development or construction.

The System's operating margin was 2.7% for the nine months ended December 31, 2008, as compared to 3.7% in the same period in 2007. The decline in operating results was due in part to accelerated depreciation, lower trauma volumes, increased professional fees, a decline in favorable settlements with Medicare and commercial payors related to prior years, and a decline in donations received.

Revenues were less than expenses by $76.1 million for the nine months ended December 31, 2008, compared to Revenues in excess of expenses of $93.9 million for the same period in 2007, primarily due to investment losses. For the nine months ended December 31, 2008, the System experienced a net investment loss of 21.9%, resulting in investment losses of $92.5 million recorded in non-operating income. In the same period during 2007, the System experienced a net investment gain of 6.5% and recognized investment gains of $73.0 million of which $46.3 million was recognized in conjunction with the designation of its investment portfolio as a trading portfolio. For a discussion of investment policy, asset allocation and investment income, see "Liquidity and Capital Resources" below.

Fiscal Year 2008 Compared to Fiscal Year 2007. Net patient service revenue increased $116.0 million, or 11.7% from 2007 to 2008. Discharges and patient days increased 2.9% and 5.1%, respectively, from 2007. The increase in net patient service revenue was due primarily to an increase in patient volumes, and increases in commercial payor contracts and Medicare rates, offset in part by an increase in write-offs for uninsured and underinsured patients.

Total expenses increased by $113.2 million, or 11.4% from 2007 to 2008. These increases were due to an increase in patient volumes, increases in salary and benefit costs and increased costs of other supplies and services. The increase in salaries and benefits expenses was primarily the result of annual salary increases, increased benefit costs and increased use of agency and overtime resulting from the increased volumes of patients. Supplies expense was consistent with 2007 on a volume-adjusted basis. Professional fees increased $4.7 million or 14.8% due to an expanded emergency department physician call program, physician contracts associated with anesthesiology and trauma, and consulting and legal fees. Purchased services increased $7.4 million or 13.7% due to increased repairs and maintenance costs, contract maintenance costs on equipment and software, outside laboratory services, and various contracted services. Depreciation expense increased $6.6 million or 9.0% due to the acquisition and completion of capital improvements to system facilities and medical equipment, and acceleration of the depreciation on building improvements to be replaced by a new patient tower, and existing clinical information systems that will be replaced with a new clinical information system. Interest and amortization expense declined from 2007 due to a reduction in long-term debt, lower interest rates on the variable rate demand bonds, and capitalized interest, offset in part by the amortization of intangible assets related to physician acquisitions during the year. The provision for bad debt increased 45.3% or $20.0 million in 2008, due to an increase in the number of uninsured and underinsured patients. Charity care and the provision for bad debt (combined) increased as a percentage of gross charges, from 8.1% in 2007 to 8.4% in 2008. Utilities, insurance and other expenses increased by $3.8 million, or 7.9%, in 2008 due to increases in utility expenses, taxes (Oregon provider taxes and Washington B&O and use taxes), building

rents for new physician clinics, and the settlement of a class action lawsuit in fiscal 2007, offset by a decrease in professional liability expense due to favorable actuarial adjustments, and lower insurance premiums.

The System's operating margin was 3.1% and 2.8% in 2008 and 2007, respectively. The operating results improved due to higher discharge volumes, improved operating performance of Salmon Creek, increases in commercial payor negotiated rates, effective supply management and improved professional liability claims management.

Revenues in excess of expenses improved from $56.4 million to $73.9 million primarily due to improved operating results, and designating the investment portfolio as trading on April 1, 2007. The System recognized investment income of $52.5 and $39.5 million in 2008 and 2007, respectively, which is recorded in non-operating income. Effective April 1, 2007, the System designated all noncurrent investments and assets limited as to use, with readily determinable fair values, as trading securities. This change in designation of securities from "other than trading" to "trading" resulted in the immediate recognition of accumulated unrealized gains of $46.3 million in investment income and an offsetting decrease of $46.3 million to unrestricted net assets; thus there was no net impact on unrestricted net assets.

Total assets increased by $34.0 million from March 31, 2007 to March 31, 2008. Cash, cash equivalents, short-term investments, assets whose use is limited and noncurrent investments, combined, increased by $19.2 million due primarily to operating cash flows.

Current liabilities declined by $28.2 million due to the execution of a standby bond purchase agreement related to the Series 2003 Bonds (which resulted in the Series 2003 Bonds being reclassified as long-term liabilities; see "Liquidity and Capital Resources" below). Unrestricted net assets increased from $788.0 million at March 31, 2007 to $813.7 million at March 31, 2008.

Fiscal Year 2007 Compared to Fiscal Year 2006. Net patient service revenues increased $139.8 million, or 16.5%, from 2006 to 2007 due primarily to increased discharge volumes related to Salmon Creek. Discharges and patient days increased 11.9% and 8.3%, respectively, from 2006. In addition to increased volumes, the System experienced increased reimbursement from Medicare and from its negotiated rates with commercial payors.

Total expenses increased by $101.8 million, or 11.5%, in 2007 from 2006. Salmon Creek was operational all of fiscal year 2007, where as in 2006 the hospital was only operating for seven months. In addition, many of Salmon Creek's operating departments were maintaining core staffing levels in 2006, so that when patient volumes increased in 2007, minimal additional staffing expenses were incurred. Salary and benefits increased 6.8%, excluding Salmon Creek, on an adjusted patient day basis due to annual merit salary increases, increased use of agency labor and overtime for nursing vacancies, and increased benefit costs. Professional fees increased 13.9% from 2006 due to the expansion of the emergency physician call program, physician fees associated with the trauma program, and the full year of operations at Salmon Creek. Supplies expense increased 6.2% in absolute dollars and decreased 3.5% on an adjusted discharge basis. During 2006, Salmon Creek incurred significant start up expenses that were not incurred in 2007. Excluding Salmon Creek, supplies expense increased 4.4%. Purchased services increased 16.5% from 2006 as a result of increased repairs and maintenance expense at the hospitals, increased contract maintenance associated with software and equipment at Salmon Creek and elsewhere, and various other contracted service increases. Depreciation increased $11.7 million from 2006 due to Salmon Creek, building renovations at the other hospitals, and new computers, software and clinical equipment placed into service. Interest and amortization expense increased 11.2% from 2006 due to the capitalization of interest on the construction of Salmon Creek in 2006, partially offset by a decline in amortization related to certain intangible assets acquired in prior years. Utilities, insurance and other expenses declined by 5.1% due to additional costs associated with the State of Oregon provider tax incurred in 2006, and the timing of the recognition of losses associated with a class action lawsuit accrued in 2006 and settled in 2007. Utility expenses increased 8.2% due to the full year of operations at Salmon Creek as well as higher costs attributable to natural gas and electricity inflation.

The System's operating margin improved from a loss of 1.0% in 2006 to income of 2.8% in 2007. The improvement of the operating performance was due to increased patient volumes, primarily at Salmon Creek, and several positive outcomes on items related to prior years which were previously estimated or uncertain as to their resolution. These included positive Medicare and Medicaid cost report settlements, resolution with both plaintiff's

counsel and an insurance carrier on a class action lawsuit, and other commercial payor settlements. Without these items, the operating margin would have been 1.5% in 2007. In addition, the significant start-up costs incurred in 2006 related to Salmon Creek did not recur in 2007.

Revenues in excess of expenses improved from $27.5 million to $56.4 million primarily related to an improvement in operating results offset in part by a decline in investment returns.

Total assets increased by $86.3 million from March 31, 2006 to March 31, 2007. Cash, cash equivalents, short term investments, assets limited to use, and noncurrent investment increased $58.7 million due to operating cash flows and strong investment performance. In addition, Legacy entered into a securities lending program associated with its marketable securities which is administered by its custodian. The cash collateral held in custody on Legacy's behalf for securities loaned under this program is recognized on the balance sheet as cash and cash equivalents held under the securities lending program, with a corresponding obligation to repay collateral received through the program of $37.5 million.

Total liabilities increased $10.2 million or 2.2% from March 31, 2006 to March 31, 2007. This increase was primarily the result of the obligation to repay the cash collateral held under the securities lending program, offset in part by the change in the minimum pension liability. Unrestricted net assets increased from $712.5 million at March 31, 2006 to $788.0 million at March 31, 2007.

Liquidity and Capital Resources

Investment Policy. The System's investment portfolios are managed according to an investment policy adopted by the LHS Board. The System's investment policy does not apply to the operating cash accounts totaling $94 million as of December 31, 2008 of the System. The operating cash accounts consist of commercial bank deposits, money market funds and a separate account, managed by a professional investment manager and invested in fixed income securities such as government obligations. The LHS Board establishes overall investment objectives and delegates the authority for executing the policy to the Investment Committee of the LHS Board. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting.

The primary investment objective of the LHS Board is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested for the long term, with coordinated policies on spending and investments, which protect the principal and produce inflation-adjusted results over time.

The investment policy includes an asset allocation that provides for investments in equities, fixed income instruments, real estate, market-neutral hedge funds, and alternative investments (which include private equity and distressed debt). The following table presents the target asset allocations, and the actual asset allocations as of March 31, 2007 and 2008, and December 31, 2008.

Investment Allocation

		Actual Allocations		
		as of March 31,		as of December 31,
	Target	2007	2008	2008
Equities	45-69%	58%	56%	46%
Fixed Income	13-26%	27%	20%	25%
Real Estate	9-19%	5%	11%	14%
Market Neutral Hedge Funds	6-16%	7%	10%	12%
Alternative Investments	0-5%	3%	3%	3%
	100%	100%	100%	100%

Investment Performance. As of December 31, 2008 and as of March 31, 2008 and 2007, the System had cash, cash equivalents, short-term investments, assets limited as to use, and noncurrent investments totaling $450.7 million and $431.5 million, respectively. For the fiscal year ended March 31, 2008, the System recognized investment income of $52.5 million. Effective April 1, 2007, Legacy designated all noncurrent investments and assets limited as to use with a readily determinable fair value as trading securities. This change in designation of securities from "other than trading" to "trading" resulted in the immediate recognition of accumulated unrealized gains of $46.3 million, which is included in investment income for the fiscal year ended March 31, 2008. For the fiscal years ended March 31, 2007 and 2006, the System recognized investment income of $39.5 million and $49.3 million, respectively, which included the change in fair value of investments designated as trading securities, and interest rate swaps, during those periods. For the nine months ended December 31, 2008 and 2007, the System recognized investment loss of $92.5 million and income of $73.1 million, respectively. Excluding the impact of designating its investments as trading securities on April 1, 2007, the overall investment portfolio returned net gains of 1.2%, 10.7%, and 13.5% for the years ended March 31, 2008, 2007, and 2006, respectively and net losses of 21.9% and net gains of 6.5% for the nine months ended December 31, 2008 and 2007, respectively.

The ability of the System to generate investment income and realized gains is dependent in large measure on market conditions. The market value of its investment portfolio, as well as its investment income, have shown market volatility in the past and may continue to show market volatility in the future. A portion of the System's investment portfolio is invested in limited liability partnerships and companies that may not have a readily determinable fair value, and consequently those values are estimated based on a variety of factors. These estimates may differ from the values that would have been used had a ready market existed and may also differ from the values at which such investment may be sold. Because of the size of the System's cash and investments, investment earnings or losses may have a material effect on the System's results.

See Notes 1, 6 and 7 to the financial statements included in Appendix B for additional information concerning the System's investments and investment performance.

Pension Fund Investments. The System maintains a defined benefit retirement plan for employees. The pension assets are invested in equity securities, fixed income instruments, real estate, market neutral-hedge funds, and alternative investments (which include private equity and distressed debt). The allocation of the securities at December 31, 2008, which is the plan's most recent measurement date, was 37% equity, 20% fixed income, 17% real estate, 14% market-neutral hedge funds, and 12% alternative investments. Pension expense was $17.2 million, $22.0 million, and $20.8 million in fiscal years 2008, 2007, and 2006, respectively. Since December 31, 2007, the pension fund investments have experienced a significant decline in value reflective of the recent market conditions, and long-term bond yields have experienced significant volatility. These events will likely increase the minimum pension funding requirements, and decrease unrestricted net assets as of the end of fiscal 2009. Depending on market conditions, these effects may be material. Management currently estimates unrestricted net assets declined by $143.6 million as of March 31, 2009, reflective of the unfunded status of the plan. See Notes 1 and 10 to the financial statements included in Appendix B for additional information concerning the System's retirement plans.

Financing Transactions. The Series 2003 Bonds, while subject to a long-term amortization period, may be tendered for purchase at the option of the bondholders. Legacy entered into a five-year standby bond purchase agreement (SBPA) with a national bank effective September 13, 2007. The SBPA replaced the self-liquidity funding option initially selected with the issuance of the Series 2003 Bonds. If tendered Series 2003 Bonds are not successfully remarketed, funds obtained under the SBPA will be used to pay the tender price of the Series 2003 Bonds. As a result, the Series 2003 Bonds are classified as long-term, except for the portion that matures within 12 months after March 31, 2008. Prior to the SBPA, the Series 2003 Bonds were classified as long-term debt subject to short-term remarketing arrangements, a current obligation.

In January 2008, Legacy entered into a capital lease agreement with its clinical information software vendor, resulting in the recognition of a capital lease obligation of approximately $8 million.

In November, 2008 the Hospital Facility Authority of Clackamas County issued $150 million of variable rate demand bonds on behalf of the System, backed by a letter of credit with a national bank. The 2008 Bonds have a final maturity of June 1, 2037. The proceeds from this borrowing will be used to finance various construction

projects and equipment purchases. Unspent construction funds are held by the bond trustee and are invested in two fixed-rate guaranteed investment contracts yielding approximately 3%.

EMPLOYEES

As of December 31, 2008, the System employed approximately 9,900 individuals, representing approximately 7,700 FTE personnel. Of these employees, approximately 30.3 percent or 3,000 employees are registered nurses. Approximately 9.3 percent or 918 employees of the System's employees are members of collective bargaining units, comprised of the following: 470 service employees who work at Emanuel are represented by the Service Employee International Union, Local 49, with a contract that expires on June 30, 2011; 289 employees who work at Good Samaritan are represented by the Service Employee International Union, Local 49, with a contract that expires on June 30, 2009; 85 pharmacists, pharmacy technicians and pharmacy clerks who work at Emanuel are represented by the United Food and Commercial Workers Union, Local 555, with a contract that expires on March 31, 2009; 28 engineers who work at Emanuel are represented by the International Union of Operating Engineers, Local 701, with a contract that expires on June 30, 2009; 27 engineers who work at Good Samaritan are represented by the International Union of Operating Engineers, Local 701, with a contract that expires on June 30, 2010; and 19 nurses who work for LVNA are represented by the Oregon Nurses Association, with a contract that expires on March 31, 2009. As of April 30, 2009, the System has reached agreements with the unions whose contracts expired on March 31, 2009. The System has experienced only one employee work stoppage within the last 20 years, for a 24-hour period during August 2005, and management believes that employee relations are generally good.

COMPLIANCE ACTIVITIES

The System has a compliance policy and program adopted by the Board. The compliance program has five primary components: development of compliance standards and procedures, oversight, communication to and training of employees, monitoring and audit, and consistent enforcement and discipline. The Compliance Officer chairs the Compliance Committee, which includes the Senior Consultant for Corporate Compliance and is comprised of staff in the areas of reimbursement, billing, human resources, medical records, licensing and certification, nursing and medical staff. The Compliance Committee meets monthly and reviews topics relating to regulatory requirements, reimbursement, human resources and accreditation compliance. The Compliance Committee continuously monitors these issues and oversees corrective action. The Board Audit and Medical, Quality and Credentialing Committees provide oversight of these compliance activities.

INSURANCE AND MALPRACTICE

Corporate Liability Insurance/Self-Insurance Coverage

The System maintains insurance coverage for certain liabilities (including corporate, general and professional liability) through a program that combines self-insurance and insurance. The program provides coverage for the System, its directors, officers and all employees while acting within the scope of their duties. Coverage in excess of the self-insured limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004, and through Legacy's captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Island domiciled insurance company created to access the reinsurance markets. LHSIC reinsures its risk with commercial insurance carriers. As of June 1, 2008, the System's self-insured retention is $4 million per occurrence, with an additional $2 million per occurrence buffer layer. The self-insured retention aggregate is $20 million, with an additional $4 million buffer layer. General and professional liability costs have been accrued based upon an actuarial study, discounted at 4.5% and 5.0% at March 31, 2008 and 2007, respectively.

Medical Malpractice Litigation

The System has never incurred or paid any claim (excess of deductibles or self-insured retentions) that was not fully covered by its applicable excess insurance policy. The System currently has no claims or lawsuits pending that, in the opinion of management, have a likely exposure exceeding insurance coverage limits.

LICENSES, ACCREDITATION, AND APPROVALS

The states of Oregon and Washington license the System's hospital operations. The System's hospitals are fully accredited by The Joint Commission, a voluntary organization that conducts evaluations by peers and uses standards developed by those peers for an effective method of ensuring continuing public accountability and commitment to excellence in the provision of healthcare services. The System's laboratories hold medical test site licenses issued by the states of Oregon and Washington and are fully accredited by the College of American Pathologists. A number of programs within the System hold a variety of voluntary accreditations, reflecting the System's intention to provide the highest standard of care and to benchmark the System's practices against other healthcare providers for continuous improvement.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED MARCH 31, 2008 AND 2007

OF LEGACY HEALTH SYSTEM AND AFFILIATES

[THIS PAGE INTENTIONALLY LEFT BLANK]

LEGACY HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

March 31, 2008 and 2007

(With Independent Auditors' Report Thereon)

LEGACY HEALTH SYSTEM AND AFFILIATES

Annual Financial Report

March 31, 2008 and 2007

Table of Contents

	Page
Report of Management	1
Independent Auditors' Report	2
Consolidated Financial Statements:	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

System Office
1919 N.W. Lovejoy Street
Portland, Oregon 97209
(503) 415-5600

Report of Management

The management of Legacy Health System (Legacy) is responsible for the integrity and objectivity of the financial statements of Legacy and all of its affiliates. The annual financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls, and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is the expectation from all covered individuals throughout Legacy to conduct themselves in an ethical and responsible manner. This responsibility is characterized and reflected in Legacy's Standards of Conduct Policy that is distributed throughout Legacy and its affiliates. Management maintains a systematic program to ensure compliance with this policy.

The Audit Committee of the Board of Directors, which is composed of independent Directors who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit Committee's oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit Committee and have access to its individual members.

Legacy engaged KPMG, independent auditors, to audit our financial statements in accordance with auditing standards generally accepted in the United States of America. Their report follows.

Pamela S. Vukovich	Scott H. Johnson
Interim President & Chief Executive Officer	*Interim Chief Financial Officer*

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Legacy Health System:

We have audited the accompanying consolidated balance sheets of Legacy Health System (an Oregon nonprofit corporation) and Affiliates as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Legacy Health System and Affiliates' management. Our responsibility is to express an opinion on these consolidated 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 Legacy Health System and Affiliates' internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Legacy Health System and Affiliates as of March 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with U.S generally accepted accounting principles.

As discussed in notes 1 and 10 to the consolidated financial statements, Legacy Health System and Affiliates adopted the recognition and disclosure provisions of statement of financial and accounting standards No. 158, *Employer's Accounting for Defined Benefit and Other Postretirement Plans*, as of March 31, 2008.

KPMG LLP

June 10, 2008

KPMG, LLP. KPMG LLP, a limited liability partnership, is
a member of KPMG International, a Swiss association.

LEGACY HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

March 31, 2008 and 2007

(Dollars in thousands)

Assets		2008	2007
Current assets:			
Cash and cash equivalents	$	31,398	35,108
Short-term investments		13,228	70,597
Cash and cash equivalents held under securities lending program		32,761	37,548
Accounts receivable from patients, less allowance for uncollectible accounts of $40,626 in 2008 and $58,126 in 2007		145,277	126,640
Settlements receivable from third-party payors, net			618
Other receivables		6,482	5,849
Inventories, at cost		14,070	12,502
Prepaid expenses		10,245	10,437
Total current assets		253,461	299,299
Assets limited as to use:			
Community health fund		9,710	9,672
Noncurrent investments restricted for capital acquisitions		1,546	1,304
		11,256	10,976
Other assets:			
Property, plant, and equipment, net		627,488	633,803
Noncurrent investments		394,795	314,770
Property held for development or sale		23,427	19,348
Prepaid pension asset		4,739	5,644
Other assets		14,122	11,491
		1,064,571	985,056
	$	1,329,288	1,295,331

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets		2008	2007
Current liabilities:			
Accounts payable	$	22,796	20,873
Accrued wages, salaries, and benefits		59,754	49,970
Accrued interest		3,776	4,037
Settlements payable to third-party payors, net		361	
Other current liabilities		21,972	23,022
Payable under securities lending program		32,761	37,548
Long-term debt subject to short-term remarketing arrangements			47,200
Current portion of long-term debt		25,093	12,055
Total current liabilities		166,513	194,705
Long-term debt, less current portion		265,329	236,360
Other liabilities:			
Estimated general and professional claims liability		28,863	20,423
Other noncurrent liabilities		18,743	18,170
		47,606	38,593
Total liabilities		479,448	469,658
Net assets:			
Unrestricted		813,723	788,031
Temporarily restricted		24,909	26,876
Permanently restricted		11,208	10,766
		849,840	825,673
	$	1,329,288	1,295,331

LEGACY HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Operations

Years ended March 31, 2008 and 2007

(Dollars in thousands)

	2008	2007
Net patient service revenues	$ 1,104,286	988,245
Other revenues	33,923	29,604
Total operating revenues	1,138,209	1,017,849
Operating expenses:		
Wages, salaries, and benefits	625,933	562,345
Supplies	167,064	159,331
Professional fees	36,632	31,914
Purchased services	61,199	53,812
Utilities, insurance, and other expenses	52,408	48,573
Depreciation	80,866	74,218
Provision for bad debts	63,973	44,023
Interest and amortization	14,495	15,091
	1,102,570	989,307
Income from operations	35,639	28,542
Other income (expenses):		
Investment income, net	52,543	39,481
Other, net	(14,276)	(11,599)
	38,267	27,882
Revenues in excess of expenses	73,906	56,424
Change in net unrealized gain or loss on other than trading securities	(46,346)	(659)
Net assets released from restriction used for property, plant, and equipment	704	1,367
Effect of implementation of FASB Statement No. 158	(2,572)	
Change in the additional minimum pension liability		18,407
Change in unrestricted net assets	$ 25,692	75,539

See accompanying notes to consolidated financial statements.

LEGACY HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Changes in Net Assets

Years ended March 31, 2008 and 2007

(Dollars in thousands)

		2008	2007
Unrestricted net assets:			
Revenues in excess of expenses	$	73,906	56,424
Change in net unrealized gain or loss on other than trading securities		(46,346)	(659)
Net assets released from restriction used for property, plant and equipment		704	1,367
Effect of implementation of FASB Statement No. 158		(2,572)	
Change in the additional minimum pension liability			18,407
Increase in unrestricted net assets		25,692	75,539
Temporarily restricted net assets:			
Change in net unrealized gain or loss on other than trading securities		342	155
Donor restricted contributions and grants		17,873	17,110
Investment income, net		(904)	1,623
Net assets released from restriction		(19,278)	(18,487)
Increase (decrease) in temporarily restricted net assets		(1,967)	401
Permanently restricted net assets:			
Donor restricted contributions and grants		442	213
Increase in permanently restricted net assets		442	213
Increase in net assets		24,167	76,153
Net assets, beginning of year		825,673	749,520
Net assets, end of year	$	849,840	825,673

See accompanying notes to consolidated financial statements.

LEGACY HEALTH SYSTEM AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007

(Dollars in thousands)

		2008	2007
Cash flows from operating activities and other income:			
Change in net assets	$	24,167	76,153
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		92,212	85,231
Loss (gain) on disposal of assets		361	(950)
Provision for bad debts		63,973	44,023
Change in net realized and unrealized losses (gains) on investments		715	(26,871)
Restricted Contributions		(785)	(539)
Equity earnings from joint ventures and investment companies, net		(3,533)	(8,886)
Change in the additional minimum pension liability			(18,407)
Effect of implementation of FASB Statement No. 158		2,572	
Change in certain current assets and current liabilities		(73,486)	(57,298)
Change in long-term liabilities		6,278	2,719
Net sales (purchases) of trading securities		9,577	(3,985)
Net cash provided by operating activities		122,051	91,190
Cash flows from investing activities:			
Purchase of property, plant and equipment, net		(77,620)	(62,746)
Purchase of land held for development		(4,079)	(959)
Proceeds from sale of assets			3,438
Change in other long-term assets		(1,084)	1,074
Purchases of noncurrent investments			(106,105)
Sales of noncurrent investments			134,509
Investments in joint ventures and investment companies		(32,642)	(37,381)
Distributions from joint ventures and investment companies		2,234	3,683
Net cash used in investing activities		(113,191)	(64,487)
Cash flow from financing activities:			
Repayment of long-term debt		(13,355)	(12,930)
Proceeds from restricted contributions		785	539
Net cash used in financing activities		(12,570)	(12,391)
Increase (decrease) in cash and cash equivalents		(3,710)	14,312
Cash and cash equivalents, beginning of period		35,108	20,796
Cash and cash equivalents, end of period	$	31,398	35,108

Supplemental Disclosures of Cash Flow Information:

Cash paid for interest (net of amount capitalized) in 2008 and 2007 was $14,387 and $15,074, respectively.

Legacy entered into a capital lease obligation in the amount of $8,162 associated with its acquisition of a software license in 2008.

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization and Basis of Consolidation

Legacy Health System and affiliates (Legacy) provide various healthcare and healthcare related services. They are organized primarily as nonprofit corporations under the laws of the State of Oregon or Washington.

The consolidated financial statements include the accounts of Legacy and its direct affiliates as follows:

Legacy Emanuel Hospital & Health Center
Legacy Good Samaritan Hospital and Medical Center
Legacy Meridian Park Hospital
Legacy Mount Hood Medical Center
Legacy Salmon Creek Hospital
Legacy Visiting Nurse Association and Affiliates
Managed HealthCare Northwest, Inc. (MHN)
Legacy Health System Insurance Company (LHSIC)

All significant inter-entity accounts and transactions have been eliminated.

Investments in joint ventures, which represent 20% or more ownership or control, are accounted for by the equity method, and are included in the consolidated balance sheets as other assets.

The consolidated financial statements also include the accounts of Emanuel and Emanuel Children’s Hospital, Good Samaritan, Meridian Park, Mount Hood, and Salmon Creek Hospital Foundations whose activities benefit, and are controlled by the corresponding facilities of Legacy Emanuel Hospital & Health Center, Legacy Good Samaritan Hospital and Medical Center, Legacy Meridian Park Hospital, Legacy Mount Hood Medical Center, and Legacy Salmon Creek Hospital, respectively.

(b) 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. Key estimates include uncollectible and contractual reserves on patient accounts receivable, third party cost report settlements, self-insured liabilities, fair value of investments, and pension obligations.

(c) Income Taxes

Legacy, except for MHN and LHSIC, have been recognized as exempt from federal income taxes, except on unrelated business income under the provisions of the Internal Revenue Code.

Legacy's wholly owned insurance captive, LHSIC, operates in the Cayman Islands and is currently not subject to income taxes.

For the taxable affiliates, income taxes are accounted for on the liability method and, accordingly, deferred income taxes are provided to reflect temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates without anticipation of future changes.

(d) Net Patient Service Revenues

Legacy has agreements with third-party payors that provide for payments to Legacy at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered.

Contractual adjustments arising under reimbursement arrangements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(e) Income from Operations

Income from operations excludes certain items that Legacy deems to be outside the scope of its primary business. Investment income includes interest income, dividends, realized and unrealized gains and losses on short-term and noncurrent investments and equity earnings from investment companies. Other income includes rental income and gains and losses on disposition of property, plant, and equipment.

(f) Performance Indicator

The performance indicator is revenues in excess of expenses. Changes in unrestricted net assets, which are excluded from revenues in excess of expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, changes in the additional minimum pension liability, cumulative effect of changes in accounting principles, and contributions of long-lived assets (including assets acquired using contributions which, by donor restriction, were to be used for the purpose of acquiring such assets).

(g) Charity Care

Legacy provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Since Legacy does not pursue collection of amounts determined to qualify as charity care, they are excluded from net patient service revenues.

(h) Cash and Cash Equivalents

Cash equivalents include investments in highly liquid debt instruments with maturities of three months or less and money market funds.

Legacy maintains cash and cash equivalents on deposit at financial institutions, which at times exceed the limits insured by the Federal Deposit Insurance Corporation. This exposes Legacy to potential risk of loss in the event the financial institution becomes insolvent.

(i) Short-Term Investments

Short-term investments include corporate and government obligation securities, which are included in managed, low-duration portfolios. The maturities of these related securities can exceed one year. Management anticipates the securities will be liquidated within the next year. These investments are considered trading securities.

(j) Securities Lending Program

Legacy participates in securities lending transactions with its custodian whereby Legacy lends a portion of its investments to various brokers in exchange for cash and cash equivalents from the brokers as collateral for the securities loaned. Collateral provided by brokers is maintained at levels approximating 102% of the fair market value of the securities on loan. Legacy maintains effective control, except it waives its right to vote such securities, of the loaned securities through its custodian in that they may be recalled at any time. The market value of the collateral held for loaned securities is reported as cash and cash equivalents held under securities lending program, and a corresponding obligation exists for repayment of such collateral upon settlement of the lending transaction. The market value of the securities on loan (exclusive of collateral) was $32,761 and $37,548 respectively, for the years ended March 31, 2008 and 2007. Legacy recorded income related to the security lending program of $93 and $66, which is included in investment income in the accompanying consolidated statements of operations for the years ended March 31, 2008 and 2007, respectively.

(k) Inventories

Inventories are stated at the lower of average cost, as determined by the first-in, first-out method, or market.

(l) Assets Limited as to Use

Assets limited as to use primarily include designated assets set aside by the Board of Directors to provide funding for certain community health projects. The Board retains control over these assets and may, at its discretion, use these assets for other purposes.

(m) Property, Plant and Equipment

Property, plant, and equipment is reported at cost. Donated items are reported on the basis of fair market value at the date of donation.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. In 2008, Legacy capitalized $186 of interest expense. No interest was capitalized in 2007.

Legacy assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of an asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

Depreciation is computed under the straight-line method over estimated useful lives as follows: building and improvements, 15 to 40 years; equipment, 3 to 15 years; land improvements, 10 to 20 years. Leased assets which have been capitalized are amortized over the term of the leases or the useful life of the asset, whichever is shorter. Leased asset amortization is reported as part of depreciation.

(n) Noncurrent Investments

Noncurrent investments include investments in equity securities of publicly traded U.S. and international companies, investments in foreign government and commercial bank obligations, real estate, market-neutral hedge funds, and alternative investments (which include private equity and distressed debt). Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at market value in the consolidated balance sheets. Investments in limited liability partnerships or companies, which are investment companies, are recorded at the fair value of the underlying assets using the equity method of accounting. As of March 31, 2008, approximately 28% of noncurrent investments require written notice prior to a redemption date of ninety days or less to redeem the securities. For certain of these investments it may take up to ninety days to receive the funds.

Investment income or loss (including realized gains and losses on investments, equity earnings from investment companies, interest and dividends) is included in revenues in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from investment income unless the investments are trading securities, earnings from

investment companies, or if an unrealized loss is determined to be other than temporary for any security that is other than trading.

Effective April 1, 2007, Legacy designated all noncurrent investments and assets limited as to use with a readily determinable fair value as trading securities. This change in designation of securities from an other than trading to trading designation resulted in the immediate recognition of the accumulated unrealized gains of $46,346, which is included in investment income in the accompanying consolidated statements of operations.

(o) Temporarily and Permanently Restricted Net Assets

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

(p) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to Legacy are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts or grants are reported as either temporarily or permanently restricted contributions if they are received with donor or grantor stipulations that limit the use of the donated assets. When the terms of a donor or grantor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations or statements of changes in net assets as net assets released from restriction. Donor or grantor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

(q) Charitable Gift Annuities

Legacy Health System has a certificate of authority from the State of Oregon to receive transfers of money or property upon agreement to pay an annuity. A charitable gift annuity is an arrangement between a donor and Legacy in which the donor contributes assets to Legacy in exchange for Legacy's agreement to pay a fixed amount for a specified period of time to the donor or other individuals and organizations as designated by the donor (annuitant). Upon execution of such an arrangement, Legacy recognizes the assets received at fair market value, and an annuity payment liability at the present value of future cash flows expected to be paid. Unrestricted and restricted contribution revenue is recognized based upon the difference between these two amounts and the donor's intent. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability to reflect amortization of the discount, changes in life expectancy, and death of the annuitant are recognized as other operating expenses. The annuity liability included in other current liabilities as of March 31, 2008 and 2007 is $9, and $10, respectively. The annuities are not issued by an insurance company and are not subject to regulation by the State of Oregon or protected by an insurance guaranty association.

Legacy maintains a separate and distinct trust fund adequate to meet the actuarially determined future payments of the charitable gift annuities as set forth under ORS 731.716. The trust fund is maintained with a bank custodian and as of March 31, 2008 and 2007, held $37 and $36, respectively, of marketable securities. These marketable securities are comprised of cash, cash equivalents and other fixed income instruments.

(r) Environmental Obligations

Legacy follows the provisions of Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47) and SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). FIN 47 states that a company must recognize a liability for the fair value of a legal obligation to perform asset retirement activities that are conditional on a future event if the amount can be reasonably estimated. FIN 47 clarifies that conditional obligations meet the definition of an asset retirement obligation in SFAS 143, and therefore should be recognized if their fair value is reasonably estimable. Application of these pronouncements primarily affects Legacy with respect to required future asbestos remediation. Conditional asset retirement obligations of $2,917 and $3,082 as of March 31, 2008 and 2007, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets.

(s) Recently Adopted Accounting Standards

In September 2006, the FASB issued SFAS No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which requires the employer to recognize the over or under funded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. Under SFAS 158, the measurement of the funded status is the difference between the fair value of the plan assets compared with the projected benefit obligation of

the plan. SFAS 158 requires Legacy to recognize in unrestricted net assets any unrecognized net actuarial gains or losses and any unrecognized prior service costs or credits as they arise. Legacy adopted SFAS 158 effective March 31, 2008. The adoption of SFAS 158 resulted in a charge of $2,572 to unrestricted net assets and an equivalent reduction to the prepaid pension asset for the unrecognized net actuarial losses and prior service costs. Beginning in fiscal year 2009, SFAS 158 will also require Legacy to use a measurement date for these types of plans that is the same as Legacy's fiscal year end. Legacy has historically used a December 31st measurement date. Adopting the change in measurement provision of SFAS 158 is expected to result in a charge to unrestricted net assets of approximately $3,200, and a decrease in the prepaid pension asset in the fourth quarter of 2009.

Legacy adopted FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, on April 1, 2007. FIN 48 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. FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a significant impact on the consolidated financial statements of Legacy.

(t) New Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. Legacy is required to adopt SFAS 157 beginning in fiscal year 2009. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to the beginning balance of net assets in the year of adoption. In November 2007, the FASB proposed a one-year deferral of the fair value measurement requirements for nonfinancial assets and liabilities that are not required or permitted to be measured at fair value on a recurring basis. Management is evaluating the potential impact of SFAS 157.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities that elect the fair value provisions of SFAS 157 to choose to measure many financial instruments and certain other items at fair value. It also provides the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently, without having to apply complex hedge accounting provisions. Accordingly, unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. Legacy is required to adopt SFAS 159 beginning in fiscal year 2009. Management is evaluating the potential impact of SFAS 159, but does not currently expect SFAS 159 to have a material impact on the consolidated financial statements of Legacy.

(u) Reclassifications

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform with the 2008 presentation.

(2) Net Patient Service Revenues

Services are rendered to patients under contractual arrangements with Medicaid and Medicare programs and various other payers including preferred provider and health maintenance organizations (PPOs and HMOs), which provide for payment or reimbursement at amounts different from established rates. Contractual adjustments represent the difference between established rates for services and amounts reimbursed by these third-party payors.

The Medicare program reimburses Legacy at prospectively determined rates for the majority of inpatient and outpatient services rendered to patients, primarily on the basis of diagnosis related groups (DRGs) and ambulatory payment classification groups (APCs), respectively. Nonacute inpatient services, defined capital, certain outpatient services, and defined medical education costs are paid based on a cost reimbursement methodology. The Medicaid program reimburses Legacy primarily at prospectively determined rates for inpatient services, similar to DRGs, and outpatient services under a cost reimbursement methodology. When paid under cost reimbursement, Legacy is reimbursed at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the fiscal intermediaries. PPOs and HMOs generally reimburse Legacy on prospectively negotiated rates or on a percentage of charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 33.1% and 15.1%, respectively, of Legacy's gross patient charges for the year ended March 31, 2008, and 34.0% and 14.8%, respectively, of Legacy's gross patient charges for the year ended March 31, 2007. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. In 2008 and 2007, net patient service revenue includes approximately $7,800 and $10,600, respectively, relating to favorable settlements of prior years' reimbursement from Medicare and Medicaid programs.

A summary of patient revenues is as follows:

		Years ended March 31	
		2008	2007
Gross patient charges:			
Hospital inpatient services	$	1,390,021	1,258,862
Hospital and other outpatient services		846,688	736,654
		2,236,709	1,995,516
Deductions from gross patient charges:			
Charity allowances, based on charges		123,458	118,397
Medicare and Medicaid contractual adjustments		687,329	593,968
Commercial managed care contractual adjustments		321,636	294,906
		1,132,423	1,007,271
Net patient service revenues	$	1,104,286	988,245

Legacy grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from significant third-party payers for 2008 and 2007 were as follows:

	2008	2007
Medicare	13.8%	11.6%
Medicaid	12.3	12.7
Blue Cross	14.6	11.0
Private Pay	21.3	23.0

Legacy provides for an allowance against accounts receivable for amounts that could become uncollectible in the future. Legacy estimates this allowance based on the aging of its accounts receivable, historical and expected net collections, business and economic conditions, trends in federal and state governmental and private employer health care coverage and other collection indicators.

(3) Benefits to the Community

The Board of Directors allocated $10,000 to establish a Community Health Fund (the Fund) in 1999. Five percent of the principal of this Fund ($500 annually) is dedicated to community-sponsored initiatives geared toward improving the health of the community. The Fund is intended to be a permanent and stable source of funding for health initiatives and programs capable of impacting the health of the community either by prevention or health improvement. Initiatives financed by the Fund are determined by the Community Health Committee, of the Board of Directors. Contributions were made to community-sponsored initiatives totaling $462 and $470 in 2008 and 2007, respectively.

In addition to funding selected community health initiatives, Legacy provides services to the community both for people in need and to enhance the health status of the broader community as part of its charitable mission. The following represents the estimated cost of providing certain services to the community, along with a description of selected activities sponsored by Legacy during 2008 and 2007.

	Year ended March 31, 2008			
	In-kind costs	**Other costs**	**Offsetting operating revenues**	**Net cost**
Services for people in need:				
Charity care	$	62,424		62,424
Medicaid		161,464	112,846	48,618
Medicare		205,038	171,913	33,125
		428,926	284,759	144,167
Benefits to the community:				
Medical education and research	1,357	17,053	9,542	8,868
Community health services	1,818	1,792	679	2,931
Community benefit activities	748			748
Donations to charitable organizations	700	698		1,398
Community Health Fund contributions		462		462
	4,623	20,005	10,221	14,407
	$ 4,623	448,931	294,980	158,574
Percentage of total operating expenses				14.4%

LEGACY HEALTH SYSTEM AND AFFILIATES

Notes to Consolidated Financial Statements

March 31, 2008 and 2007

(Dollars in thousands)

	Year ended March 31, 2007			
	In-kind costs	Other costs	Offsetting operating revenues	Net cost
Services for people in need:				
Charity care	$	53,395		53,395
Medicaid		141,077	92,174	48,903
Medicare		196,752	172,663	24,089
Other government programs		10,933	9,854	1,079
		402,157	274,691	127,466
Benefits to the community:				
Medical education and research	1,965	17,955	9,508	10,412
Community health services	1,331	4,544	3,534	2,341
Community benefit activities	760			760
Donations to charitable organizations	565	563		1,128
Community Health Fund contributions		470		470
	4,621	23,532	13,042	15,111
	$ 4,621	425,689	287,733	142,577
Percentage of total operating expenses				14.4%

Services for people in need

In support of its mission, Legacy voluntarily provides medically necessary patient care services that are discounted or free of charge to persons who have insufficient resources and/or who are uninsured. The criteria for charity care is determined based on eligibility for insurance coverage, household income, qualified assets, catastrophic medical events, or other information supporting a patient's inability to pay for services provided. Specifically, Legacy provides an uninsured discount of 15% to patients who have resided within Legacy's primary service area for a period of six months, are uninsured for hospital care, and have a household income of less than $100,000 annually. Further discounts are available for patients, on a sliding scale, whose household income is less than 400% of the federal poverty level or roughly $80,000 for a family of four in Portland, Oregon. For patients whose household income is at or below 200% of the federal poverty level, a full subsidy is available. In addition to the household income criteria, the patients' qualified assets (e.g., 25% of household assets), and other catastrophic or economic circumstances are considered in determining eligibility for charity care.

During 2008 and 2007, Legacy provided charity care on 78,253 and 76,553 patient accounts, respectively, representing 8,323 and 7,596 inpatient accounts respectively, and 70,199 and 68,957 outpatient accounts, respectively. In 2008 and 2007, 19% and 28% of the patients receiving charity care received a full subsidy representing roughly 60% and 70% of the total charity provided in those respective years. The top five services provided to patients qualifying for charity care were emergency/trauma, surgery, cardiovascular, pediatrics, and general acute care.

In addition to charity care, Legacy provides services under various states' Medicaid programs for financially needy patients. The cost of providing services to Medicaid beneficiaries generally exceeds the reimbursement from these programs.

Legacy provides services to Medicare beneficiaries and beneficiaries under other government programs (such as TRICARE), for which the cost of treating these patients exceeds the government payments received.

The cost of services provided under these programs is determined based on the relationship of costs (excluding the provision for doubtful accounts and those costs associated with medical education, research, community health services, and other contributions) to billed charges.

Legacy also employs financial counselors and social workers, who assist patients in obtaining coverage for their healthcare needs. This includes assistance with workers compensation, motor vehicle accident policies, COBRA, veterans' assistance, and public assistance programs, such as Medicaid. During 2008 and 2007, Legacy assisted patients many of which received coverage through a third-party, reducing the patients' financial responsibility. The costs associated with this program were $480 and $430 in 2008 and 2007 respectively.

Benefits to community

Medical education and research includes, among other initiatives, the unreimbursed cost of nursing, graduate medical education and research.

Community health services include classes provided to the community at minimal or no cost, health education for children and parents with young families, resource centers, support groups, health screenings, senior wellness, volunteer programs, caregivers respite, and support for parish nursing programs.

Community benefit activities include activities that develop community health programs and partnerships.

Donations to charitable organizations include direct support provided to community organizations through cash or in-kind donations that support organizations' missions of supporting health and human services, civic and community causes, and business development efforts.

In-kind contributions provided by Legacy include: facility space, staff availability for training and education opportunities, supplies, and professional services in collaboration with charitable, educational, and government organizations throughout our community.

Other Benefits

In furtherance of its mission, Legacy also commits significant time and resources to endeavors and critical services that meet unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include hospice, mental and behavioral health, primary care clinics in underserved neighborhoods, free patient transportation, lodging,

meals and medications for transient patients when needed, participation in blood drives, and the provision of educational opportunities for students interested in pursuing medical-related careers.

Legacy also provides additional benefits to the community through the advocacy of community service by employees. Employees of Legacy serve numerous organizations through board representation, membership in associations and other related activities.

Legacy also pays taxes associated with various states' local business and occupation taxes, and property taxes that local and state governments use to fund healthcare services, civil and education services to the community. Legacy paid $4,679 and $3,824 in local and state taxes in 2008 and 2007, respectively.

(4) Property, Plant, and Equipment

Property, plant, and equipment balances as of March 31 were as follows:

		2008	2007
Buildings and improvements	$	748,807	734,893
Equipment		570,905	528,382
Land improvements		4,852	4,687
		1,324,564	1,267,962
Accumulated depreciation		(750,778)	(669,484)
		573,786	598,478
Construction-in-progress		28,996	10,616
Land		24,706	24,709
	$	627,488	633,803

There were capital expenditure purchase commitments outstanding as of March 31, 2008 for various construction and equipment projects. The estimated cost to complete such projects at March 31, 2008 was $29,907, of which $14,597 was contractually committed.

(5) Long-Term Debt

A summary of long-term debt and capital lease obligations at March 31 is as follows:

	2008	2007
Hospital Revenue Bonds, Series 1999, principal of $9,955 payable in annual installments beginning in 2009 through 2018, at rates ranging from 5.0% to 5.5%, callable on or after June 2009.	$ 99,540	99,540
Hospital Revenue Bonds, Series 2001, payable in installments from $2,835 to $22,550 through 2021, at rates ranging from 4.5% to 5.75%, callable on or after May 2011.	136,355	148,310
Hospital Revenue Bonds, Series 2003, payable in installments through 2030, subject to a seven-day put provision; interest at BMA index plus 8 basis points (2.07% at March 31, 2008).	45,800	47,200
Capital lease obligation, at imputed rate of 4.93%	8,162	
Other notes payable, due October 2008, interest at 5% adjusted annually by 50% of the change in prime interest rate, interest payable monthly, secured by real estate.	565	565
	290,422	295,615
Less long-term debt subject to short-term remarketing arrangements		(47,200)
Less current portion	(25,093)	(12,055)
	$ 265,329	$ 236,360

Interest cost incurred related to funds borrowed and reflected in operating expense in 2008 and 2007 was $14,179 and $15,046 respectively.

Scheduled principal repayments of long-term debt and payments on capital lease obligation are according to their long-term amortization schedule as follows:

	Long-term debt	Capital lease obligation
2009	$ 24,420	$ 936
2010	14,290	1,404
2011	15,040	1,404
2012	15,705	1,404
2013	16,980	1,404
Thereafter	195,825	3,393
	$ 282,260	9,945
Less amount representing interest under capital lease obligation		(1,783)
		$ 8,162

The indenture and other loan agreements contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios. Management believes Legacy was in compliance with these restrictions as of March 31, 2008.

In December 2003, Legacy issued $50,000 of Revenue Bonds Series 2003 (Series 2003 Bonds) which are unsecured, variable rate in an initial short-term interest rate mode, through the Hospital Facility Authority of Clackamas County, Oregon. The proceeds from the Series 2003 Bonds were used for capital expenditures and to pay the expenses incurred in connection with the issuance of the Series 2003 Bonds.

The Series 2003 Bonds, while subject to a long-term amortization period, may be put to Legacy at the option of the bondholders in connection with certain remarketing dates. Legacy entered into a five-year standby bond purchase agreement (SBPA) with a national bank effective September 13, 2007. The SBPA will fund any put made by bond holders. As a result, the Series 2003 Bonds were classified as long-term, except for the portion that matures within 12 months after March 31, 2008. Prior to the SBPA, the Series 2003 bonds were classified as long-term debt subject to short-term remarketing arrangements, a current obligation.

As of March 31, 2008, Legacy had a $4,500 line of credit available to meet short-term cash needs. The line of credit is secured by the underlying securities held by an investment bank. These securities are required to have a market value of approximately $6,000. Interest on the line of credit is at LIBOR plus 125 basis points. There were no amounts borrowed in fiscal 2008 or 2007 and no amounts outstanding under this line of credit as of March 31, 2008 or 2007.

(6) Fair Value of Financial Instruments

The carrying amount of cash and cash equivalents, short-term investments, assets limited as to use and noncurrent investments approximates fair value based primarily on quoted market prices. A portion of Legacy's noncurrent investments are invested in limited liability partnerships or companies. These limited liability partnerships or companies may utilize a multi-manager, fund of funds approach or invest directly in the underlying securities. The underlying securities may include equity, fixed income, commodities, currencies, and derivatives. Certain limited liability partnerships or companies may hold some securities without readily determinable fair values, and consequently, the general partner may estimate fair value for such securities. These estimates may differ from the values that would have been used had a ready market existed and may also differ from the values at which such investment may be sold. Investment securities are exposed to various risks, such as interest rate, credit, liquidity, foreign exchange, and overall market volatility.

Other financial instruments of Legacy include other receivables and accrued interest. The carrying amount of these instruments approximates fair value as these items mature in less than one year.

The carrying amounts reported in the consolidated balance sheets for accounts payable, accrued wages, salaries and benefits, settlements payable to third-party payers, and other current liabilities approximate fair value.

The fair value of long-term debt is estimated based on the discounted cash flows that would be paid using current market rates for debt with the same maturities, assuming the debt was repaid as of the first call date as stipulated in the bond indenture. As of March 31, 2008 and 2007, the fair value of long-term debt exceeded the carrying value by approximately $8,779 and $10,999, respectively.

(7) Investments

Legacy invests in different classes of securities for a variety of financial assets, including short-term investments, assets limited as to use, and noncurrent investments. The composition of these assets is set forth as follows:

		Years ended March 31	
		2008	**2007**
Investments with readily determinable fair value			
Cash and cash equivalents	$	12,993	5,938
Corporate obligations		88,413	65,761
Common stocks - domestic		101,204	120,891
Common stocks - foreign		66,047	63,029
Market neutral hedge funds		21,617	15,373
Government obligations		7,138	37,149
Investments in limited liability partnerships or companies			
Common stocks - domestic		32,484	31,620
Common stocks - foreign		11,073	12,234
Market neutral hedge funds		21,448	13,558
Real estate		44,203	20,788
Private equity funds		9,618	7,838
Interest rate swaps		2,604	1,456
Other		437	708
	$	419,279	396,343

As of March 31, 2008, Legacy has a remaining capital commitment of $1,730 to private equity funds in the form of limited partnership/trust investments. These commitments are due on demand from the general partners/advisors. These private equity funds invest in emerging companies, venture capital funds, and other alternative investments. The termination of these partnerships/trusts are based upon specific provisions in the agreement. In most cases the life of the trusts are for a minimum of ten years. Legacy can only transfer its interest in the investments with the consent of the general partner/advisor. The market values of these investments are determined either by the underlying security value on the open market or by the general partner/advisor. Legacy is accounting for these investments under the equity method, using the most recently available financial statements from the general partner, which is generally December 31.

Interest Rate Swaps

In February 2004, Legacy executed a twenty-year basis swap with an investment-banking firm. The notional amount of the transaction was $82,000 and the cash flows settle semi-annually. Under the transaction, Legacy pays at the BMA index, in exchange for receiving 62% of LIBOR plus 0.814%. The objective of this transaction is to assume the tax basis risk for a portion of the fixed rate exposure on outstanding long-term indebtedness in exchange for positive cash flows.

In May 2004, Legacy entered into a fixed-to-variable interest rate swap with an investment bank for five years, with a $25,000 notional amount. Under the terms of this agreement, Legacy pays at the BMA index, in exchange for a fixed rate of 3.125%.

In September 2006, Legacy entered into a basis swap with an investment-banking firm. The notional amount of the transaction was $82,000 and the cash flows settle semi-annually. Under the transaction, Legacy pays 62% of the LIBOR (1 month) in exchange for 62% of the USD-ISDA swap rate (ten year) minus .392%. This swap is effective October 1, 2007 and runs through February 23, 2024.

These transactions do not meet the criteria for hedge accounting; therefore any changes in fair value under these agreements are recorded as part of investment income.

The fair value of these swaps is determined by the spread in interest rates. The fair value as of March 31, 2008 and 2007 was an asset of $2,604 and $1,456, respectively.

Investment income, gains, and losses for cash and cash equivalents, short-term investments, assets limited as to use and noncurrent investments are comprised of the following:

		Years ended March 31	
		2008	**2007**
Interest and dividend income	$	3,544	5,140
Realized gains on investments		21,983	23,391
Equity earnings from investment companies		3,230	8,589
Change in fair value of trading securities and interest rate swaps		22,882	3,984
Total realized investment income		51,639	41,104
Change in net unrealized gain or loss on investments other than trading securities		(46,004)	(504)
	$	5,635	40,600

(8) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	Years ended March 31	
	2008	2007
Education	$ 5,143	5,633
Patient care	7,452	8,771
Capital acquisition	15	33
Research	6,228	6,437
Other	6,071	6,002
	$ 24,909	26,876

Income from permanently restricted net assets is accounted for in accordance with the donors' instructions.

(9) Functional Expenses

Legacy provides healthcare services to residents within its geographic locations. Expenses related to providing these services are as follows:

	Years ended March 31	
	2008	2007
Healthcare services	$ 945,845	856,027
General and administrative	156,725	133,280
	$ 1,102,570	989,307

(10) Retirement plans

Defined Contribution Pension Plans

Substantially all employees who are twenty-one years of age, have worked 1,000 hours or more during the year and have been continuously employed by Legacy for one or more years are eligible to participate in a jointly contributory tax-sheltered annuity plan. Under this plan Legacy will match up to 2.4% of participating employees' annual salaries.

Expense incurred by Legacy related to this plan was approximately $6,600 and $5,300, for 2008 and 2007, respectively.

Pension Benefit Plans

Legacy sponsors a defined benefit pension plan, the Legacy Employees' Retirement Plan (the Plan), covering the majority of employees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan provides retirement

benefits, which are a function of both years of service and the highest level of compensation for any consecutive five-year period during the last 10 years before retirement. Legacy uses a measurement date of December 31 for the defined benefit pension plan and the pension restoration plan.

Legacy maintains other retirement plans for certain management employees, which include a pension restoration plan, deferred compensation plans, and supplemental executive retirement plans.

As discussed in note 1, effective March 31, 2008, Legacy adopted SFAS 158. SFAS 158 requires companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its balance sheet. The adoption of SFAS 158 caused a reduction in prepaid pension asset and unrestricted net assets of $2,572. All future adjustments to the funded status of the plan will be recognized as increases or decreases to net assets in the corresponding accounting period.

The following table sets forth disclosures related to these plans in accordance with SFAS 132 at January 1, 2008 and 2007 and amounts recognized in the consolidated balance sheets at March 31, 2008 and 2007:

		2008	2007
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	411,803	393,072
Service cost		19,947	18,446
Interest cost		24,024	21,936
Plan amendments		(446)	261
Actuarial (gain) loss		(28,133)	(11,244)
Benefits paid		(11,541)	(10,668)
Projected benefit obligation at end of year	$	415,654	411,803
Change in plan assets:			
Fair value of assets at beginning of year	$	364,656	308,984
Actual return on plan assets		42,300	46,135
Employer contribution		19,000	20,205
Benefits paid		(11,541)	(10,668)
Fair value of assets at end of year	$	414,415	364,656
Reconciliation of funded status:			
Funded status	$	(1,239)	(47,147)
Unrecognized net actuarial loss			45,455
Unrecognized prior service cost			1,336
Employer contribution after January 1		5,978	6,000
Net amount recognized	$	4,739	5,644

Included in unrestricted net assets at March 31, 2008, are unrecognized prior service credit of $457 and unrecognized actuarial losses of $2,115 that have not yet been recognized in net periodic pension cost. The

prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending March 31, 2009, are $271 and $0, respectively.

At March 31, 2007, Legacy recorded a noncash increase to unrestricted net assets to recognize the change in its additional minimum pension liability in accordance with SFAS No. 87, *Employers' Accounting for Pensions* (SFAS 87). SFAS 87 requires an additional minimum pension liability be recorded at year-end in an amount equal to the amount by which the accumulated benefit obligation (ABO) exceeds fair value of the defined benefit plan assets. At March 31, 2007, an additional minimum pension liability was not required, and as a result, the previously recognized amounts were reversed. The additional minimum pension liability adjustments were an increase to unrestricted net assets in 2007 of $18,407.

Net periodic benefit cost for the years ended March 31, included the following components:

		2008	2007
Service cost	$	19,947	18,446
Interest cost		24,024	21,936
Expected return on plan assets		(29,809)	(25,403)
Amortization of prior service costs		432	405
Recognized net actuarial loss		2,636	6,648
Net periodic pension cost	$	17,230	22,032

Assumptions

Legacy used the following actuarial assumptions to determine its benefit obligations at December 31, 2007 and 2006, and its net periodic benefit cost for the years ended March 31, 2008 and 2007, as measured at December 31:

	2007	2006
Benefit obligation:		
Discount rate	6.62%	5.94%
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale
Net periodic benefit cost:		
Discount rate	5.94%	5.68%
Expected long-term rate of return on plan assets	8.50	8.50
Rate of increase in future compensation levels	4% plus longevity scale	4% plus longevity scale

The expected long-term rate of return on plan assets was based on Legacy's asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. Legacy utilizes a nationally recognized investment consultant to assist in the return assumptions used in

determining the expected long-term rate of return. The actual return on pension plan assets was approximately 11.3% and 14.3% during calendar years 2007 and 2006, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

Pension Plan Assets

The asset allocation of Legacy's pension plans at December 31, 2007 and 2006, and the target allocation are as follows:

	Target allocation	2007	2006
Equity securities	33%-57%	48%	50%
Fixed income	12%-25%	16	16
Real estate	10%-18%	13	14
Market neutral hedge funds	10%-18%	14	13
Alternative investments	5%-13%	9	7

Pension plan assets are managed according to an investment policy adopted by the Legacy Health System Employees Retirement Plan Trustees. The Board of Directors establishes overall investment objectives and delegates the authority for executing the policy to the Retirement Plan Trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective of the Board is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation adjusted, terms. The objective includes having funds invested in the long-term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equities, fixed income instruments, real estate, market neutral hedge funds, and alternative investments (which includes private equity and distressed debt). Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

Cash Flows

Legacy's policy with respect to funding the qualified plans is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2009, Legacy expects to contribute, from ongoing cash flows and current assets, $12,700 to its defined benefit pension plans.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

2008	$	16,477
2009		15,954
2010		17,752
2011		19,903
2012		22,146
2013-2016		153,491

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

Management is not aware of any settlements or curtailments that would require additional recognition during 2008 or 2007.

(11) Commitments and Contingencies

(a) Professional and General Liability

Legacy is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits is provided on a claims-made basis through commercial insurance for claims made prior to June 1, 2004 and through its captive insurance company, LHSIC, effective June 1, 2004. LHSIC is a Cayman Island domiciled insurance company created to access the reinsurance markets. General and professional liability costs have been accrued based upon an actuarial determination, discounted 4.5% and 5% at March 31, 2008 and 2007, respectively.

Legacy is involved in litigation arising in the ordinary course of business. Claims, including alleged malpractice, have been asserted against Legacy and are currently in various stages of litigation. Additional claims may be asserted against Legacy arising from services provided to patients through March 31, 2008. In management’s opinion, however, the estimated liability accrued at March 31, 2008 is adequate to provide for potential losses resulting from pending or threatened litigation.

(b) Operating Leases

Legacy leases various equipment and real property under operating leases expiring at various dates through December 2012. The following is a schedule by year of future minimum lease payments under operating leases as of March 31, 2008, with an initial or remaining lease term in excess of one year.

Year ending March 31:		
2009	$	1,264
2010		1,248
2011		1,089
2012		457
2013		42

Generally, the leases contain renewal options and certain leases provide for contingent rents based primarily on the operating results of a hospital department. Rent expense for 2008 and 2007 amounted to $4,696 and $4,788, respectively, including contingent rents of $380 and $930, respectively.

(c) Employee Benefits

Legacy is self-insured for workers' compensation, employee health, and long-term and short-term disability. Legacy provides two employee transition plans (severance) under its ERISA-governed health and welfare plan.

For workers' compensation, employee health, and long-term and short-term disability, Legacy accrues the unpaid portion of claims that have been reported and estimates of claims that have been incurred but not reported, based on an actuarial study.

Legacy recognizes a severance obligation when the amount can be reasonably estimated, typically at the date of a triggering event (i.e., a reduction in force). During 2008 and 2007, Legacy expensed $852 and $591, respectively, associated with these plans.

(12) Compliance with Laws and Regulations

The healthcare industry is governed by various laws and regulations of federal, state, and local governments. These laws and regulations are subject to on-going government review and interpretation, and include matters such as licensure, accreditation, reimbursement for patient services and referrals for Medicare and Medicaid beneficiaries. Compliance with these laws and regulations is required for participation in government healthcare programs. Certain governmental agencies routinely investigate and pursue allegations concerning possible overpayments resulting from violation of fraud and abuse statutes by healthcare providers. These investigations may result in settlements involving fines and penalties as well as repayment of improper reimbursement. Legacy has implemented procedures for monitoring and enforcing compliance with laws and regulations and is not aware of instances of noncompliance.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

The following is a summary of certain provisions of the Master Indenture, Supplement No. 7, the Bond Indenture and the Loan Agreement which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to each of said documents for a full and complete statement of their provisions.

Definitions

The following is a summary of certain terms used in this Summary of Principal Documents. All capitalized terms used but not defined in this Appendix C or elsewhere in this Official Statement have the meanings set forth in the Master Indenture, Supplement No. 7 or the Bond Indenture.

"Act" means Oregon Revised Statutes 441.525 to 441.595 inclusive, as the same is now in effect and as from time to time hereafter amended or supplemented.

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

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

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

"Authority" means the Hospital Facility Authority of Clackamas County, Oregon, a public authority of the State of Oregon.

"Authorized Representative" means with respect to the Corporation such person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation filed with the Bond Trustee in accordance with the Bond Indenture.

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

"Bond Fund" means the fund by that name established pursuant to the Bond Indenture.

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

"Capitalized Interest Fund" shall mean the Capitalized Interest Fund created under the Bond Indenture.

"Certificate" of any Credit Group Member or Representative or of the Master Trustee means, respectively, a written certificate, statement, request, consent or order signed in the name of such Credit Group Member or Representative by its Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Master Indenture, each such instrument shall include the statements provided for in the Master Indenture.

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

"Corporation" means Legacy Health System, an Oregon nonprofit corporation duly organized and existing under the laws of the State of Oregon or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of all or substantially all assets permitted under the Master Indenture.

"Costs of Issuance Fund" means the fund by that name established pursuant to the Bond Indenture.

"Credit Group" or "Credit Group Member" means all Obligated Group Members and Designated Affiliates.

"Credit Group Financial Statements" means the Credit Group Financial Statements, as described in the Master Indenture.

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

"Debt Service Reserve Fund" means the fund by that name established under the Bond Indenture.

"Debt Service Reserve Requirement" means (i) on and as of the Date of Issuance, $7,923,842.90, and (ii) thereafter, a lesser amount to be determined from time to time in accordance with the Bond Indenture.

"Default" means an event that, with the passage of time or the giving of notice or both, would become an Event of Default.

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

"Event of Default" means any of the events specified in the Master Indenture or the Bond Indenture.

"Existing Master Indenture Obligations" means Obligation No. 1, Obligation No. 2, Obligation No. 3, Obligation No. 4, Obligation No. 5 and Obligation No. 6, each issued pursuant to a related supplement to the Master Indenture.

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

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

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

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

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

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

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

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

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

"Fitch" means Fitch, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns.

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

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

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

"Government Obligations" means: (i) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of

America) or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by the United States of America; (ii) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest Rating Categories of a Rating Agency; (iii) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (i) and/or (ii), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (iv) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to 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 of cash and/or obligations described in clauses (i), (ii) and/or (iii).

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

"Gross Revenues" means all gross revenues, receipts and income of the Obligated Group Members arising in any manner with respect to, incident to or on account of the Obligated Group Members' operations (including, without limitation, the Obligated Group Members' rights under agreements with insurance companies, Medicare, Medicaid, governmental units and prepaid health organizations, including rights to Medicare and Medicaid loss recapture under applicable regulations) and all rights to receive the foregoing, whether now owned or hereafter acquired by any Obligated Group Member and regardless of whether generated in the form of accounts, accounts receivable, contract rights, chattel paper, documents, instruments, investment property and all proceeds of the foregoing, whether or not in the form of cash; excluding, however, gifts, grants, bequests, donations, contributions and pledges made to any Obligated Group Member, and the income and gains derived from them.

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

"Holder" or "Bondholder," whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

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

"Income Available for Debt Service" means, unless the context provides otherwise, with respect to the Credit Group as to any period of time, net income, or excess of revenues over expenses (excluding income from all Irrevocable Deposits) before depreciation, amortization, and interest expense, as determined in accordance with GAAP and as shown on the Credit Group Financial Statements; provided, that no determination thereof shall take into account: (a) any revenue or expense of a Person which is not a Member of the Credit Group; (b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses; (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (d) any gain or loss resulting from the extinguishment of Indebtedness; (e) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business; (f) any gain or loss resulting from any discontinued operations; (g) any gain or loss resulting from pension terminations, settlements or curtailments; (h) any unusual charges for employee severance; (i) adjustments to the value of assets or liabilities resulting from changes in GAAP; (j) unrealized gains or losses on investments, including "other than temporary" declines in Book Value; (k) gains or losses resulting from changes in valuation of any hedging, derivative, interest rate exchange or similar contract, (l) any Financial Product Extraordinary Payments or similar payments on any hedging, derivative, interest rate exchange or similar contract that does not constitute a Financial Products Agreement; (m) unrealized gains or losses from the write-down, reappraisal or revaluation of assets, or (n) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

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

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

"Initial Designated Affiliates" means the entities identified in the Master Indenture.

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

(a) United States Government Obligations;

(b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America:

(i) Export-Import Bank;

(ii) Rural Economic Community Development Administration;

(iii) U.S. Maritime Administration;

(iv) Small Business Administration;

(v) U.S. Department of Housing & Urban Development (PHAs);

(vi) Federal Housing Administration; and

(vii) Federal Financing Bank.

(c) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

(i) Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);

(ii) Obligations of the Resolution Funding Corporation (REFCORP); and

(iii) Senior debt obligations of the Federal Home Loan Bank System.

(d) U.S. dollar denominated deposit accounts, federal fund, demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits, and certificates of deposit and bankers' acceptances with domestic commercial banks (including the Bond Trustee or any of its affiliates) which have a rating on their short term certificates of deposit on the date of

purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase;

(e) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1" or "A-1+" by S&P and which matures not more than 360 calendar days after the date of purchase;

(f) Investments in money market mutual funds rated "AAAm" or "AAm-G" or better by S&P and having a rating in the highest investment category granted thereby from Moody's, including, without limitation any mutual fund for which the Bond Trustee or an affiliate of the Bond Trustee serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Bond Trustee or an affiliate of the Bond Trustee receives fees from funds for services rendered, (ii) the Bond Trustee collects fees for services rendered pursuant to the Bond Indenture, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Bond Indenture may at times duplicate those provided to such funds by the Bond Trustee or an affiliate of the Bond Trustee;

(g) Repurchase and reverse repurchase agreements collateralized with securities described in (a) and (b) above, including those of the Bond Trustee or any of its affiliates.

(h) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on irrevocable escrow account or fund (the "escrow"), in the highest Rating Category of Moody's or S&P or any successors thereto; or

(ii) (a) which are fully secured as to principal, interest and redemption premium, if any, by an escrow consisting only of cash or United States Government Obligations, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (b) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate.

(i) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P; and

(j) Investment agreements, including without limitation, guaranteed investment contracts, forward purchase agreements and reserve fund put agreements.

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

"Legacy" means Legacy Health System, an Oregon nonprofit corporation, and its successors and assigns.

"Lien" means any mortgage or pledge of, or security interest in, or lien or encumbrance on any Property of an Obligated Group Member (i) which secures any Indebtedness or any other obligation of such Obligated Group Member or (ii) which secures any obligation of any Person other than an Obligated Group Member, and excluding

liens applicable to Property in which an Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of that Obligated Group Member.

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

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

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

"Master Indenture" means that certain Amended and Restated Master Trust Indenture, among the Members of the Obligated Group and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

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

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

(a) with respect to a Guaranty, (i) if the Credit Group Members have made a payment pursuant to such Guaranty, one hundred percent (100%) of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty shall be included in the calculation of Annual Debt Service in the year in which such payment was made and for two Fiscal Years thereafter and (ii) otherwise, there shall be included in the calculation of Annual Debt Service a percentage of the Annual Debt Service (calculated as if such Person were a Credit Group Member) guaranteed by the Credit Group Members under the Guaranty, based on the ratio of Income Available for Debt Service of the Person whose indebtedness is guaranteed by the Credit Group Member (calculated as if such Person were a Credit Group Member), over the Maximum Annual Debt Service of such Person (calculated as if such Person were a Credit Group Member) (the "Ratio"). If the Ratio is less than 1.25, one hundred percent of Annual Debt Service on such indebtedness shall be included in the calculation of Annual Debt Service. If the Ratio is greater than or equal to the values set forth below, the applicable percentage of Annual Debt Service on such indebtedness shall be included in the calculation of Annual Debt Service, as follows:

Ratio	Percentage of Annual Debt Service on such Indebtedness to be Included
1.25 to 1.50	75%
1.50 to 2.0	25%
2.0 or greater	0%

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (or if Financial Product Payments under an Identified Financial Products Agreement or Financial Product Receipts under an Identified Financial Products Agreement are determined pursuant to a variable rate formula), the interest rate on such Long-Term Indebtedness (or the variable rate formula for such Financial Product Payments under an Identified Financial Products Agreement or Financial Product Receipts under an Identified Financial Products Agreement) for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to (i) if such Long-Term Indebtedness (or Identified Financial Products Agreement) was Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the interest rates per annum which were in effect, and (ii) if such Long-Term Indebtedness (or Identified Financial Products Agreement)

was not Outstanding during the twelve (12) calendar months immediately preceding the date of calculation, an average of the SIFMA Index during the twelve (12) calendar months immediately preceding the date of calculation, all as specified in either, at the election of the Credit Group Representative, a Certificate of the Credit Group Representative or a written statement from a investment banking or financial advisory firm;

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

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

(e) with respect to Balloon Indebtedness, at the option of the Credit Group Representative, such Balloon Indebtedness shall be treated as Long-Term Indebtedness with substantially level debt service over a period of thirty (30) years from the date of incurrence of such Balloon Indebtedness at an interest rate equal to a fixed rate equal to the Thirty-Year Revenue Bond Index most recently published in The Bond Buyer; provided, however, that the entire principal amount of such Balloon Indebtedness shall be included in the calculation of Maximum Annual Debt Service if such calculation is made within twelve months of the maturity of such Balloon Indebtedness.

"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.

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

"Obligated Group" means all Obligated Group Members.

"Obligated Group Members" or "Member" means each Person that is obligated hereunder from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

"Obligation No. 7" means the obligation issued under the Master Indenture and Supplement No. 7.

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

"Opinion of Bond Counsel" when used with reference to the Master Indenture means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

"Opinion of Counsel" means a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel for the Credit Group Representative.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture) all Bonds authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Bonds canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Bond

Indenture, including Bonds (or portions of Bonds) referred to in the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

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

"Permitted Liens" means and includes:

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

(b) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property, to (A) terminate such right, power, franchise, grant, license or permit, provided that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the Value thereof, or (B) purchase, condemn, appropriate or recapture, or designate a purchase of, such Property; (ii) any liens on any Property for taxes, assessments, levies, fees, water and sewer charges, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not delinquent, or the amount or validity of which are being contested and execution thereon is stayed or, with respect to liens of mechanics, materialmen and laborers, have been due and payable or which are not delinquent, or the amount or validity of which, are being contested or, with respect to liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days, or the amount or validity of which are being contested; (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the Value thereof; and (iv) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the Value thereof;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(t) Liens junior to Liens in favor of the Master Trustee;

(u) Liens in favor of banking or other depository institutions arising as a matter of law encumbering the deposits of any Member held in the ordinary course of business by such banking institution (including any right of setoff or statutory bankers' liens) so long as such deposit account is not established or maintained for the purpose of providing such Lien, right of setoff or bankers' lien;

(v) Uniform Commercial Code financing statements filed with the Secretary of State of the State (or such other office maintaining such records) in connection with an operating lease entered into by any Member in the ordinary course of business so long as such financing statement does not evidence the grant of a Lien other than a Permitted Lien;

(w) Rights of tenants under leases or rental agreements pertaining to Property, Plant and Equipment owned by any Member so long as the lease arrangement is in the ordinary course of business of the Member;

(x) Deposits of Property by any Member to meet regulatory requirements for a governmental workers' compensation, unemployment insurance or social security program, other than any Lien imposed by ERISA;

(y) Deposits to secure the performance of another party with respect to a bid, trade contract, statutory obligation, surety bond, appeal bond, performance bond or lease (other than a lease that is treated as Indebtedness under GAAP), and other similar obligations incurred in the ordinary course of business of a Member;

(z) Liens resulting from deposits to secure bids from or the performance of another party with respect to contracts incurred in the ordinary course of business of a Member (other than contracts creating or evidencing an extension of credit to the depositor or otherwise for the payment of Indebtedness);

(aa) present or future zoning laws, ordinances or other laws or regulations restricting the occupancy, use or enjoyment of Property, Plant and Equipment of any Member which, in the aggregate, are not substantial in amount, and which do not in any case materially impair the Fair Market Value or use of such Property, Plant and Equipment for the purposes for which it is used or could reasonably be expected to be held or used;

(bb) Any Lien on inventory that does not exceed 25% of the Value thereof;

(cc) Any Lien on Property due to the rights of third-party payors for recoupment of amounts paid to any Credit Group Member;

(dd) Any Lien existing for not more than 10 days after the Credit Group Member shall have received notice thereof; and

(ee) Any other Lien on Property provided that the Value of all Property encumbered by all Liens permitted as described in this clause (ee) does not exceed 25% of the sum of the Value of all Property of the Credit Group Members, calculated at the time of creation of such Lien.

"Person" means an individual, corporation, limited liability company, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Property" means any and all rights, titles and interests in and to any and all assets of any Credit Group Member, whether real or personal, tangible or intangible and wherever situated, other than donor restricted funds as determined in accordance with GAAP.

"Property, Plant and Equipment" means all Property of any Credit Group Member which is property, plant and equipment of such Credit Group Member under GAAP.

"Qualified Provider" means any financial institution or insurance company or corporation which is a party to a Financial Products Agreement if (i) the unsecured long-term debt obligations of such provider (or of the parent or a subsidiary of such provider if such parent or subsidiary guarantees or otherwise assures the performance of such provider under such Financial Products Agreement), or (ii) obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such provider (or such guarantor or assuring parent or subsidiary), are rated in one of the three highest Rating Categories of a Rating Agency at the time of the execution and delivery of the Financial Products Agreement.

"Rating Agency" means Moody's, Fitch or S&P and their respective successors and assigns and any other Person now or hereafter created meeting the criteria established by the Securities and Exchange Commission as a "rating agency." Initially the Rating Agencies are Moody's and S&P.

"Rating Category" means one of the general rating categories of any Rating Agency, 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 under the Bond Indenture.

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

"Related Bond Indenture" means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds are issued.

"Related Bond Issuer" means the Governmental Issuer of any issue of Related Bonds.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

"Related Bonds" means the revenue bonds or other obligations (including, without limitation, certificates of participation) issued by any Government Issuer, the proceeds of which are loaned or otherwise made available to a Credit Group Member in consideration of the execution, authentication and delivery of a Master Indenture Obligation or Master Indenture Obligations to or for the order of such Government Issuer.

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

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

"Responsible Officer" means, with respect to the Master Trustee, any managing director, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above designated or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Master Indenture.

"Restricted Moneys" means the proceeds of any grant, gift, bequest, contribution or other donation (and, to the extent subject to the applicable restrictions, the investment income derived from the investment of such proceeds) specifically restricted by the donor or grantor to an object or purpose inconsistent with their use for the payment of Required Payments.

"Revenues" means all amounts received by the Authority or the Bond Trustee pursuant or with respect to the Loan Agreement or Obligation No. 7, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments, any late charges, and whether paid from any source), prepayments of all or any part of the Loan Repayments, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any amounts in the Rebate Fund, any Administrative Fees and Expenses or proceeds of any right of indemnification under the Loan Agreement or any other Additional Payments.

"S&P" means Standard & Poor's Ratings Services, 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.

"Short-Term Indebtedness" means all Indebtedness having an original maturity less than or equal to one year and not renewable at the option of a Credit Group Member for a term greater than one year from the date of

original incurrence or issuance, or Indebtedness with a maturity or renewable at the option of a Credit Group Member with a term greater than one year, if by the terms of such Indebtedness, no Indebtedness is permitted to be Outstanding thereunder for a period of at least twenty (20) consecutive days during each calendar year. For purposes of this definition, (i) only the stated maturity of Indebtedness (and not any tender or put right of the holder of such Indebtedness) shall be taken into account in determining if such Indebtedness constitutes Short-Term Indebtedness hereunder and (ii) classification of Indebtedness as current or short-term under GAAP shall not be controlling.

"SIFMA Index" means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any Person acting in cooperation with or under the sponsorship of SIFMA or if such index is no longer available "SIFMA Swap Index" shall refer to an index recommended by the Remarketing Agent for the obligations in question and acceptable to the Credit Group Representative and the Bond Trustee.

"State" means the State of Oregon.

"Subordinated Indebtedness" means Long-Term Indebtedness specifically subordinated as to payment and security to the payment of all Required Payments and other obligations of the Credit Group Members under the Master Indenture.

"Supplement No. 7" means the Supplemental Master Trust Indenture for Obligation No. 7 between the Corporation, as Credit Group Representative, and the Master Trustee, pursuant to which Obligation No. 7 is issued, as originally executed and as amended or supplemented from time to time in accordance with the terms of the Master Indenture.

"Surviving Entity" has the meaning set forth in the Master Indenture.

"Tax Agreement" means the Tax Agreement dated the date of delivery of the Bonds, concerning certain matters pertaining to the use and investment of proceeds of the Bonds, among the Corporation, the Authority and the Bond Trustee, including any and all exhibits attached thereto, as originally executed and as it may be amended or supplemented from time to time 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 (other than the tax on unrelated business income under Section 511 of the Code), or corresponding provisions of federal income tax laws from time to time in effect.

"Total Revenues" means, for the period of calculation in question, the sum of operating revenue (including net patient service revenue, premium revenue and other revenue and nonoperating gains (losses)), as shown on the Credit Group Financial Statements for the most recent Fiscal Year.

"Transaction Test" means, with respect to any specified transaction, that no Event of Default or Default then exists and, following such transaction, the Credit Group could satisfy the conditions for the issuance of $1.00 of additional Long-Term Indebtedness set forth in the Master Indenture.

"Value" means, when used with respect to Property, the aggregate value of such Property, with each component of such Property valued, at the option of the Credit Group Representative, at either its Fair Market Value or its Book Value.

MASTER INDENTURE

The following is a summary of certain provisions of the Master Indenture. This Summary of Principal Documents does not purport to be complete or definitive and reference is made to the Master Indenture for the complete terms thereof.

General

The Master Indenture authorizes the issuance of Master Indenture Obligations by the Obligated Group and provides for the security therefor. A Master Indenture Obligation is stated in the Master Indenture to be a joint and several obligation of each Obligated Group Member.

Designated Affiliates

Transfers from Designated Affiliates. Each Controlling Member covenants and agrees that it shall cause each of its Designated Affiliates to pay, loan or otherwise transfer to the Credit Group Representative such amounts as are necessary to enable the Obligated Group Members to comply with the provisions of the Master Indenture; provided, however that nothing in the Master Indenture shall be construed to require any Controlling Member to cause its Designated Affiliate to pay, loan or otherwise transfer to the Credit Group Representative any amounts that constitute Restricted Moneys.

Designation of Designated Affiliates. The Credit Group Representative by resolution of its Governing Body may from time to time designate Persons as Designated Affiliates. In connection with such designation, the Credit Group Representative shall designate for each Designated Affiliate an Obligated Group Member to serve as the Controlling Member for such Designated Affiliate. The Credit Group Representative shall at all times maintain an accurate and complete list of all Persons designated as Designated Affiliates (and of the Controlling Members for such Designated Affiliates) and file such list with the Master Trustee and any Related Bond Issuer that shall request such list in writing annually on or before April 1 of each year.

Except in the case of the Initial Designated Affiliates, each Controlling Member shall cause each of its Designated Affiliates to provide to the Credit Group Representative a resolution of its Governing Body accepting such Person's designation as a Designated Affiliate and acknowledging the provisions of the Master Indenture which affect the Designated Affiliates.

Each Controlling Member covenants and agrees that it will cause each of its Designated Affiliates to comply with any and all directives of the Controlling Member given pursuant to the provisions of the Master Indenture.

Any Person may cease to be a Designated Affiliate (and thus not subject to the terms of the Master Indenture) provided that prior to such Person ceasing to be a Designated Affiliate the Master Trustee receives: (i) a resolution of the Governing Body of the Credit Group Representative declaring such Person no longer a Designated Affiliate; and (ii) an Officer's Certificate to the effect that immediately following such Person ceasing to be a Designated Affiliate neither a Default, nor an Event of Default would exist.

Membership in the Obligated Group

Additional Obligated Group Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a copy of a resolution of the Governing Body of the proposed new Obligated Group Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture; and

(b) a Related Supplement executed by the Credit Group Representative, the new Obligated Group Member and the Master Trustee pursuant to which the proposed new Obligated Group Member (i) agrees to become an Obligated Group Member, and (ii) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Master Indenture Obligations, and (iii) irrevocably appoints the Credit Group Representative as its agent and attorney-in-fact and grants to the Credit Group Representative the requisite power and authority to execute Related Supplements authorizing the issuance of Master Indenture Obligations or Series of Master Indenture Obligations and to execute and deliver Master Indenture Obligations; and

(c) an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee to the effect that (i) the proposed new Obligated Group Member has taken all necessary action to become an Obligated Group Member, and upon execution of the Related Supplement, such proposed new Obligated Group Member will be bound by the terms of the Master Indenture, (ii) the addition of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (iii) the addition of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Obligated Group Member, the Transaction Test would be satisfied; and

(e) so long as any Related Bonds that are tax-exempt obligations are Outstanding, an Opinion of Bond Counsel in form and substance reasonably satisfactory to the Master Trustee, to the effect that the addition of the proposed new Obligated Group Member (1) will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation; and (2) will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Withdrawal From the Obligated Group

Any Obligated Group Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, and any Obligated Group Member may be redesignated as a Designated Affiliate, provided that prior to such withdrawal or redesignation the Master Trustee receives:

(a) an Officer's Certificate to the effect that the Credit Group Representative has approved the withdrawal of such Obligated Group Member (and, if applicable, redesignation of such Obligated Group Member as a Designated Affiliate);

(b) an Officer's Certificate to the effect that immediately following the withdrawal of such Obligated Group Member, the Transaction Test would be satisfied; and

(c) an Opinion of Counsel in form and substance reasonably satisfactory to the Master Trustee to the effect that (i) the withdrawal (or redesignation) of such Obligated Group Member would not adversely affect the validity of any Master Indenture Obligation then Outstanding and (ii) the withdrawal (or redesignation) of such Obligated Group Member will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Authorization and Issuance of Obligations

Authorization of Master Indenture Obligations. Each Obligated Group Member authorizes to be issued from time to time Master Indenture Obligations or Series of Master Indenture Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement.

Issuance of Master Indenture Obligations. From time to time when authorized by the Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture or in a Related Supplement, the Credit Group Representative may authorize the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations by entering into a Related Supplement. The Master Indenture Obligation or the Master Indenture Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Each Related Supplement authorizing the issuance of a Master Indenture Obligation or a Series of Master Indenture Obligations shall specify the purposes for which such Master Indenture Obligation or Series of Master Indenture Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Master Indenture Obligations; the date or dates of maturity or other final expiration of the term of such Master Indenture Obligations; the date of issuance of such Master Indenture Obligations; and any other provisions deemed advisable or necessary by the Credit Group Representative. Each Related Supplement authorizing the issuance of a Master Indenture Obligation shall also specify and determine the principal amount of such Master Indenture Obligation (if any) for purposes of calculating the percentage of Holders of Master Indenture Obligations required to take actions or give consents pursuant to the Master Indenture (which, if such Master Indenture Obligation does not evidence or secure Indebtedness, shall be equal to zero, except with respect to any action which requires the consent of all of the Holders of Master Indenture Obligations). The designation of zero as a principal amount of a Master Indenture Obligation shall not in any manner affect the obligation of the Members to make Required Payments with respect to such Master Indenture Obligation.

Particular Covenants of Each Member of the Obligated Group

Payment of Required Payments. Each Obligated Group Member jointly and severally covenants, to pay or cause to be paid promptly all Required Payments at the place, on or before the dates and in the manner provided in the Master Indenture, or in any Related Supplement or Master Indenture Obligation. Each Obligated Group Member acknowledges that the time of such payment and performance is of the essence of the Master Indenture Obligations under the Master Indenture. Each Obligated Group Member further covenants to faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Master Indenture Obligation.

Covenants of Corporate Existence, Maintenance of Properties, Etc. Each Obligated Group Member agrees, and each Controlling Member agrees to cause each of its Designated Affiliates:

(a) Except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualification; provided, however, that nothing herein contained 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 or affairs.

(b) At all times to cause its Property, Plant and Equipment to be maintained, preserved and kept in good repair, working order and condition, reasonable wear and tear excepted, and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this subsection shall be construed to (i) prevent it from ceasing to operate any immaterial portion of its Property, Plant and Equipment, (ii) prevent it from ceasing to operate any material portion of its Property, Plant and Equipment if in its judgment it is advisable not to operate the same, and within a reasonable time endeavors to effect disposition of such material portion of its Property, Plant and Equipment, or (iii) obligate it to retain, preserve, repair, renew or replace any Property, Plant and Equipment no longer used or, 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 or affairs and operations in such manner as to comply in all material respects with any and all applicable laws of the United States and the several states thereof and to duly observe and conform in all material respects to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business or affairs and the ownership of its Property (except for such non-observance and non-conformance as could not reasonably be expected to have a material adverse effect on the business, operations, properties, prospects or condition (financial or otherwise) of the Credit Group, taken as a whole); provided, however, that nothing herein 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) To pay promptly when due (i) all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property, including, but not limited to, all sales, use, occupation, real and

personal property taxes, all permit and inspection fees, occupation and license fees and all water, gas, electric, light, power or other utility charges assessed or charged on or against its Property or on account of its use or occupancy thereof or the activities conducted thereon or therein, and (ii) all taxes, assessments and impositions, general and special, ordinary and extraordinary, of every name and kind, which shall be taxed, levied, imposed or assessed during the term of the Master Indenture upon its interest or the interest of any Related Bond Trustee or the interest of any Related Bond Issuer in the Master Indenture or the amounts payable hereunder or under the Master Indenture Obligations; provided, however, that it shall have the right to contest in good faith any of the foregoing or the collection of any such sums and pending the final outcome of such contest may delay or defer payment thereof. If, under applicable law, any such tax, levy, charge, fee, rate, imposition or assessment may at the option of the taxpayer be paid in installments, any Member of the Credit Group may exercise such option.

(e) To pay promptly or otherwise satisfy and discharge all of its Indebtedness and all demands and claims against it as and when the same become due and payable other than any thereof (exclusive of the Master Indenture Obligations Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(f) At all times to comply in all material respects 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 unless noncompliance is waived by the holder of such Lien.

(g) To procure and maintain all necessary licenses and permits pertaining to all its health care Property and the status of its health care Property (other than that not currently having such status or not having such status on the date a Person becomes a Member of the Credit Group) as providers of health care services eligible for payment under those third party payment programs which its Governing Body determines are appropriate; provided, however, that it need not comply with this subsection if and to the extent that its Governing Body shall have determined in good faith, evidenced by a resolution of the Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due.

(h) Not take any action or suffer any action to be taken by others, including any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which, or fail to take any action which failure, in the Opinion of Bond Counsel, would adversely affect the exclusion of interest on any Related Bond from gross income for federal income tax purposes. The foregoing notwithstanding, any Member of the Credit Group that is a Tax-Exempt Organization may take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if (i) prior thereto there is delivered to the Master Trustee an Opinion of Bond Counsel to the effect that such action would not adversely affect the validity of any Related Bond, would not adversely affect the exclusion of interest on any Related Bond from gross income for federal income tax purposes and would not adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member of the Credit Group and (ii) prior thereto there is delivered to the Master Trustee either (A) an Opinion of Counsel for such Member of the Credit Group to the effect that such actions would not subject any Related Bond or any Master Indenture Obligation to registration under the Securities Act of 1933, as amended, or any state securities law, or require the qualification of any Related Bond Indenture, loan document or the Master Indenture or any Supplement under the Trust Indenture Act of 1939, as amended, or any state securities law, or (B) an Opinion of Counsel that such Related Bond or Master Indenture Obligation has been so registered and such Related Bond Indenture, loan document or Master Indenture or Supplement has been so qualified.

(i) To operate its Property so as not to discriminate on a legally impermissible basis.

Against Encumbrances.

(a) Each Obligated Group Member agrees that it will not, and each Controlling Member covenants that it will not permit any of its Designated Affiliates to, create or suffer to be created or permit the existence of any Lien upon Property now owned or hereafter acquired by it other than Permitted Liens. Each Obligated Group Member, respectively, further covenants and agrees that if such a Lien is nonetheless created by someone other than an Obligated Group Member or Designated Affiliate and is assumed by any Obligated Group Member or Designated Affiliate, the Credit Group Representative will make or cause to be made effective a provision whereby all Master Indenture Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien.

(b) Upon written request of the Credit Group Representative, the Master Trustee shall execute and deliver such releases, subordinations, requests for reconveyance, termination statements or other instruments as may be reasonably requested by the Credit Group Representative in connection with (1) the disposition of Property in accordance with the provisions of the Master Indenture and the applicable provisions of any Related Supplement, (2) the withdrawal of a Member pursuant to the Master Indenture and the applicable provisions of any Related Supplement and (3) the granting by a Credit Group Member of any Lien which constitutes a Permitted Lien hereunder, as certified to the Master Trustee in writing by the Credit Group Representative.

Debt Coverage.

(a) Each Obligated Group Member agrees to manage its business such that the combined or consolidated Income Available for Debt Service for the Credit Group, calculated at the end of each Fiscal Year, commencing with the first full Fiscal Year following the execution of the Master Indenture, will not be less than 1.10 times the Maximum Annual Debt Service.

(b) If for any Fiscal Year the Income Available for Debt Service is not sufficient to satisfy subsection (a) above, the Credit Group Representative covenants to retain an Independent Consultant to make recommendations to increase Income Available for Debt Service in the following Fiscal Year to the level required or, if in the opinion of the Independent Consultant the attainment of such level is impracticable, to the highest level attainable. The Credit Group Representative agrees that within 10 days following receipt of such recommendations, a copy thereof will be transmitted to the Master Trustee and the Related Bond Issuers. Each Obligated Group Member agrees to consider any recommendations of the Independent Consultant and shall be obligated to implement such recommendations to the extent such recommendations are feasible. In no event may the ratio of Income Available for Debt Service to the Debt Service Requirement for any Fiscal Year be less than 1.00.

(c) If a report of an Independent Consultant is delivered to the Master Trustee and the Related Bond Issuers, which report shall state that Government Restrictions have been imposed which make it impossible for the Income Available for Debt Service to satisfy the requirement of subsection (a) above, then the required amount of Income Available for Debt Service shall be reduced to the maximum coverage permitted by such Government Restrictions but in no event less than an amount to pay the debt service on all Indebtedness of the Credit Group for such Fiscal Year; but in no event may the ratio of Income Available for Debt Service to the Debt Service Requirement for any Fiscal Year be less than 1.00.

(d) Nothing in the Master Indenture shall be construed as prohibiting any Credit Group Member which is a Tax-Exempt Organization from providing indigent care at reduced or no cost to the extent required to maintain the status of such entity as a Tax-Exempt Organization.

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

(a) After giving effect to the Merger Transaction, the Surviving Entity is an Obligated Group Member, or the Surviving Entity shall (i) be a corporation or a political subdivision organized and existing under the laws of the United States of America or any state thereof, and (ii) become an Obligated Group Member pursuant to the Master Indenture and, pursuant to the Related Supplement, shall expressly assume in writing the due and punctual payment of all Required Payments of the disappearing Obligated Group Member under the Master Indenture;

(b) The Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied in connection with the Merger Transaction;

(c) So long as any Related Bonds that are tax-exempt obligations are Outstanding, the Master Trustee receives an Opinion of Bond Counsel, in form and substance reasonably satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of the Merger Transaction, in and of itself, would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation;

(d) The Master Trustee receives an Opinion of Counsel, in form and substance reasonably satisfactory to the Master Trustee, to the effect that (i) all conditions in the Master Indenture relating to Merger Transaction have been complied with and the Master Trustee is authorized to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Entity meets the conditions described in this section and all Master Indenture Obligations then Outstanding; (iii) the Merger Transaction will not adversely affect the validity of any Master Indenture Obligations then Outstanding and such Master Indenture Obligations then Outstanding are enforceable against the Surviving Entity in accordance with their respective terms, and (iii) the Merger Transaction will not cause the Master Indenture or any Master Indenture Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Surviving Entity shall be substituted for its predecessor in interest in all Master Indenture Obligations and agreements then in effect which affect or relate to any Master Indenture Obligation, and the Surviving Entity shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

Limitation on Disposition of Assets. Each Obligated Group Member covenants that it will not, and each Controlling Member agrees that it will not permit its Designated Affiliates to, sell, lease or otherwise dispose of any part of its Property in any Fiscal Year (other than (A) in the ordinary course of business, or (B) as part of a disposition of all or substantially all of its assets as permitted by the Master Indenture), with a net book value in excess of 5% of the net book value of the Property of the Credit Group, unless prior to said disposition:

(a) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that such Property is inadequate, obsolete, unsuitable, undesirable or unnecessary for the operation and functioning of the primary business of the Credit Group Members; or

(b) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Value of the Property so disposed of by the Credit Group Members in any Fiscal Year pursuant to the provision described in this clause (ii) does not exceed five percent (5%) of Total Revenues; or

(c) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the disposition is for Fair Market Value and such disposition will not impair the structural soundness of the remaining Property and does not materially adversely affect the operations of the Credit Group; or

(d) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

Limitation on Indebtedness. Each Obligated Group Member covenants that it will not, and each Controlling Member covenants that it will not permit its Designated Affiliates to, incur any Indebtedness except that the Obligated Group Members and Designated Affiliates may incur the following Indebtedness:

(a) Long-Term Indebtedness, if prior to the date of incurrence of the Long-Term Indebtedness there is delivered to the Master Trustee an Officer's Certificate to the effect that:

(i) the Debt Service Coverage Ratio for each of the two most recent Fiscal Years with respect to all Long-Term Indebtedness then Outstanding at the time of such certification and the additional Long-Term Indebtedness to be incurred, but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred, was not less than 1.25:1.00; or

(ii) (A) the Debt Service Coverage Ratio for each of the two most recent Fiscal Years was not less than 1.25:1.0 and (B) the Debt Service Coverage Ratio for each of the two Fiscal Years beginning with the Fiscal Year commencing after the estimated completion of the facilities financed by the newly incurred Indebtedness) with respect to all Long-Term Indebtedness projected to be outstanding (including the additional Long-Term Indebtedness to be incurred but excluding any Long-Term Indebtedness to be refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is not less than 1.25:1.0.

(b) Completion Indebtedness; provided that the Master Trustee receives an Officer’s Certificate to the effect that the issuance of such Completion Indebtedness would not increase Maximum Annual Debt Service by more than fifteen percent (15%), calculated without regard to clause (d) of the definition of Maximum Annual Debt Service.

(c) Short-Term Indebtedness provided that the provisions described in subsection (a) above are satisfied calculated as if such Short-Term Indebtedness was Long-Term Indebtedness or an Officer's Certificate is delivered to the Master Trustee stating that:

(i) the total amount of such Short-Term Indebtedness shall not exceed fifteen percent (15%) of Total Revenues; and

(ii) the total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision of the Master Indenture described below in clause (g) of this Section then Outstanding shall not exceed twenty-five percent (25%) of Total Revenues; and

(iii) In every Fiscal Year, there shall be at least a consecutive twenty (20) day period when the balances of such Short-Term Indebtedness is reduced to an amount which shall not exceed three percent (3%) of Total Revenues.

(d) Nonrecourse Indebtedness provided that an Officer's Certificate is delivered to the Master Trustee stating that the proceeds of Nonrecourse Indebtedness shall not be used to acquire or construct facilities which replace existing facilities of the Credit Group Members which generated more than ten percent (10%) of Total Revenues.

(e) Long-Term Indebtedness, if such Long-Term Indebtedness is issued to refund Long-Term Indebtedness and the Master Trustee receives an Officer’s Certificate to the effect that the issuance of such Long-Term Indebtedness would not increase Maximum Annual Debt Service by more than ten percent (10%).

(f) Subordinated Indebtedness, without limitation.

(g) Any other Indebtedness, provided that an Officer's Certificate is delivered to the Master Trustee stating that the aggregate principal amount of such Indebtedness, together with the aggregate principal amount of Indebtedness incurred pursuant to the provisions described in the immediately preceding subsection (c) above, does not, as of the date of incurrence, exceed 25% of Total Revenues.

Default and Remedies

Events of Default. Each of the following events shall be an Event of Default under the Master Indenture:

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

(b) Any Obligated Group Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Master Indenture Obligation) and shall not have cured such failure within sixty (60) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Credit Group Representative by the Master Trustee or to the Credit Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate principal amount of Outstanding Master Indenture Obligations (provided that if such failure can be remedied but not within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Credit Group Representative shall diligently proceed to remedy the failure).

(c) Any Credit Group Member shall default in the payment of Indebtedness (other than (1) Subordinated Indebtedness, (2) Nonrecourse Indebtedness, and (3) Indebtedness secured by a Master Indenture

Obligation, which shall be governed by the provisions of the Master Indenture described in subsection (a) of this Section) in an aggregate outstanding principal amount equal to the greater of one million dollars ($1,000,000) or one percent (1%) of the aggregate principal amount of all Long-Term Indebtedness of the Obligated Group then Outstanding, and any grace period for such payment shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which such Indebtedness is secured or evidenced, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of the provisions of the Master Indenture described in this Section if, within sixty (60) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (1) any Credit Group Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) A court having jurisdiction shall enter a decree or order for relief in respect of any Credit Group Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Credit Group Member or for any substantial part of the Property of any Obligated Group Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(e) Any Credit Group Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Credit Group Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any Related Bond Indenture.

(g) An event of default shall exist under any agreement with the insurer of any Related Bonds or Master Indenture Obligations.

The Credit Group Representative agrees in the Master Indenture that, as soon as practicable, and in any event within ten (10) days after such event, the Credit Group Representative shall notify the Master Trustee of any event which is an Event of Default under the Master Indenture which has occurred and is continuing, which notice shall state the nature of such event and the action which the Obligated Group Members propose to take with respect thereto.

Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than a majority in aggregate principal amount of Outstanding Master Indenture Obligations shall, by notice to the Credit Group Representative, declare all Outstanding Master Indenture Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Master Indenture Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Master Indenture Obligations issued pursuant to such Related Supplement, the Master Indenture Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Master Indenture Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, and all other amounts due thereunder, shall be due and payable on the Master Indenture Obligations.

(b) At any time after the Master Indenture Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(i) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Master Indenture Obligations (other than payments then due only because of such declaration); and

(ii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due; and

(iii) the Obligated Group Members have paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group under the Master Indenture; and

(iv) every Event of Default (other than a default in the payment of the principal or other payments of such Master Indenture Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Additional Remedies and Enforcement of Remedies.

(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 a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction by the Credit Group for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders under the Master Indenture by such proceedings as may be deemed expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect amounts due or becoming due under the Master Indenture Obligations;

(ii) Civil action upon all or any part of the Master Indenture Obligations;

(iii) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Master Indenture Obligations to account as if it were the trustee of an express trust for the Holders of Master Indenture Obligations;

(iv) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Master Indenture Obligations;

(v) Civil action to obtain a writ of mandate against any Obligated Group Member or Controlling Member, or against any officer or member of the Governing Body any Obligated Group Member or Controlling Member to compel performance of any act specifically required by the Master Indenture or any Master Indenture Obligation; and

(vi) Enforcement of any other right or remedy of the Holders conferred by law or the Master Indenture.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security 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. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request. Nothing in the Master Indenture shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement,

adjustment, or composition affecting the Master Indenture Obligations or the right of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

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

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

> First: To the payment of all Required Payments then due on the Master Indenture Obligations (including Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by a Master Indenture Obligation and Parity Financial Product Extraordinary Payments), in the order of their due dates, including Senior Financial Product Payments, in the order of their due dates, and, if the amount available is not sufficient to pay in full all Required Payments due on the same date, then to the payment thereof ratably, according to the Required Payments due on such date, without any discrimination or preference; and
>
> Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Products Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), in the order of their due dates, and, if the amount available is not sufficient to pay in full all Financial Product Extraordinary Payments due on the same date, then to the payment thereof ratably, according to the amounts of Financial Product Extraordinary Payments due on such date, without any discrimination or preference.

(b) If all Outstanding Master Indenture Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of the Master Indenture):

> First: To the payment of all Required Payments then due on the Master Indenture Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by a Master Indenture Obligation and (ii) Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority, according to the amounts due respectively, without any discrimination or preference; and
>
> Second: To the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Products Agreement secured or evidenced by a Master Indenture Obligation (other than Parity Financial Product Extraordinary Payments), and, if the amount available is not sufficient to pay in full all such Financial Product Extraordinary Payments, then to the payment thereof ratably, without any discrimination or preference.

Supplements and Amendments

Supplements Not Requiring Consent of Holders.

The Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

(a) To correct any ambiguity or formal defect or omission in the Master Indenture which does not materially and adversely affect the interests of the Holders;

(b) To correct or supplement any provision which may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising under the Master Indenture and which does not materially and adversely affect the interests of the Holders;

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Obligated Group Members;

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;

(e) To create and provide for the issuance of a Master Indenture Obligation or Series of Master Indenture Obligations as permitted under the Master Indenture;

(f) To obligate a successor to any Obligated Group Member as provided in the Master Indenture; or

(g) To add a new Obligated Group Member as provided in the Master Indenture.

In entering into any Related Supplement, the Master Trustee may rely on an Opinion of Counsel as described in the Master Indenture.

Supplements Requiring Consent of Holders.

(a) Other than Related Supplements and subject to the terms contained in the Master Indenture, the Holders of not less than a majority in aggregate principal amount of the Outstanding Master Indenture Obligations shall have the right to consent to and approve the execution by the Credit Group Representative (acting for itself and as agent for each Obligated Group Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained in the Master Indenture; provided, however, that nothing shall permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Master Indenture Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on or reduce any other Required Payment on any Master Indenture Obligation without the consent of the Holder of such Master Indenture Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Master Indenture Obligations in default to compel the Master Trustee to declare the principal of all Master Indenture Obligations to be due and payable, without the consent of the Holders of all Outstanding Master Indenture Obligations; or

(iii) Reduce the aggregate principal amount of Outstanding Master Indenture Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Master Indenture Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(i) a Request of the Credit Group Representative to enter into such Related Supplement; and

(ii) a certified copy of the resolution of the Governing Body of the Credit Group Representative approving the execution of such Related Supplement; and

(iii) the proposed Related Supplement; and

(iv) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Master Indenture Obligations specified in the Master Indenture for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Master Indenture Obligation giving such consent and upon any subsequent Holder of such Master Indenture Obligation and of any Master Indenture Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Master Indenture Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Master Indenture Obligation or Master Indenture Obligations are transferable by delivery, proof that such Master Indenture Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Master Indenture Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Credit Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required principal amount or number of the Outstanding Master Indenture Obligations have consented to the execution of such Related Supplement, no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Credit Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Satisfaction and Discharge of Master Indenture

The Master Indenture shall cease to be of further effect (except as described in the Master Indenture) if: (a) all Master Indenture Obligations previously authenticated (other than any Master Indenture Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation; or (b) all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid; or (c) a deposit is made in trust with the Master Trustee (or with one or more banks or trust companies acceptable to the Master Trustee pursuant to one or more agreements between an Obligated Group Member and such banks or trust companies in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Master Indenture Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest or other payments (including Financial Product Payments and Financial Product Extraordinary Payments) due or to become due to such date of maturity, redemption date or payment date, as the case may be; and all other sums payable under the Master Indenture by the Obligated Group Members are also paid.

SUPPLEMENT NO. 7

The following is a summary of certain provisions of Supplement No. 7. This Summary of Principal Documents does not purport to be complete or definitive and reference is made to Supplement No. 7 for the complete terms thereof.

General

Supplement No. 7 provides for the issuance of Obligation No. 7 pursuant to the Master Indenture, and provides the terms and form thereof.

Payments on Obligation No. 7; Credits

Principal of and interest and any applicable redemption premium on Obligation No. 7 are payable in any coin or currency of the United States of America that on the payment date is legal tender for the payment of public and private debts. Except as provided in the following paragraph with respect to credits, and in the section described under the heading "Prepayment of Obligation No. 7," payments on the principal of and premium, if any, and interest on Obligation No. 7 shall be made at the times and in the amounts specified in Obligation No. 7 by the Members depositing or causing to be deposited the same with or to the account of the Bond Trustee at or prior to the opening of business on the day such payments shall become due or payable, and giving notice to the Master Trustee and the Bond Trustee of each payment of principal, interest or premium on Obligation No. 7, specifying the amount paid, identifying such payment as a payment on Obligation No. 7 and identifying the Obligated Group Member on whose behalf such payment is made.

The Members shall receive credit for payment on Obligation No. 7, in addition to any credits resulting from payment or prepayment from other sources, as follows: (a) on installments of interest on Obligation No. 7 in an amount equal to moneys deposited in the Bond Fund created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 7; (b) on installments of principal of Obligation No. 7 in an amount equal to moneys deposited in the Bond Fund created under the Bond Indenture, to the extent such amounts have not previously been credited against payments on Obligation No. 7; and (c) on installments of principal and interest, respectively, on Obligation No. 7 in an amount equal to moneys deposited in the Bond Fund pursuant to the Loan Agreement in connection with a prepayment of Loan Repayments.

Prepayment of Obligation No. 7

So long as all amounts that have become due under Obligation No. 7 have been paid, the Members shall have the right, at any time and from time to time, to pay in advance all or part of the amounts to become due under Obligation No. 7. Prepayments may be made by payments of cash or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Bond Fund as provided in the Loan Agreement and the Bond Indenture and, at the request of and as determined by the Credit Group Representative, credited against payments due under Obligation No. 7 or used for the redemption or purchase of Outstanding Bonds (in the manner and subject to the terms and conditions set forth in the Bond Indenture and the Loan Agreement). Notwithstanding any such redemption or surrender of Bonds, as long as any Bonds remain Outstanding under the Bond Indenture or any additional payments required to be made under Supplement No. 7 remain unpaid, the Members of the Obligated Group shall not be relieved of their obligations under Supplement No. 7. Prepayments made under Supplement No. 7 shall be credited against amounts to become due on Obligation No. 7 as provided in Supplement No. 7 and the Loan Agreement. The Members of the Obligated Group may also prepay all of the Required Payments under Obligation No. 7 by providing for the payment of Bonds in accordance with the Bond Indenture.

Registration, Number, Negotiability and Transfer of Obligation No. 7

Except as described in the next sentence, Obligation No. 7 shall consist of a single Master Indenture Obligation without coupons registered as to principal and interest in the name of the Bond Trustee and no transfer of Obligation No. 7 shall be registered under the Master Indenture except for transfers to a successor Bond Trustee. Upon the principal of all Master Indenture Obligations then Outstanding being declared immediately due and payable upon and during the continuance of an Event of Default, Obligation No. 7 may be transferred, if and to the extent the Bond Trustee requests that the restrictions described in the preceding sentence on transfers be terminated.

Right to Redeem

Obligation No. 7 shall be subject to redemption, in whole or in part, prior to maturity, at the times and in the amounts applicable to redemption of the Bonds as specified in the Bond Indenture and in the manner provided in Supplement No. 7; provided that in no event shall Obligation No. 7 be redeemed unless a corresponding amount of Bonds is also redeemed.

THE BOND INDENTURE

The following is a summary of certain provisions of the Bond Indenture. This summary does not purport to be complete or definitive and reference is made to the Bond Indenture for the complete terms thereof.

General

The Bond Indenture sets forth the terms of the Bonds, the nature and extent of security, the various rights of the Holders of the Bonds, the rights, duties and immunities of the Bond Trustee and the rights and obligations of the Authority.

Establishment of Funds

The Bond Indenture creates a Bond Fund, a Costs of Issuance Fund, a Debt Service Reserve Fund, a Capitalized Interest Fund, a Rebate Fund and a Project Fund, all of which are to be held by the Bond Trustee. References to funds in this section shall be deemed to be references to the applicable funds established under the Bond Indenture.

Bond Fund. Pursuant to the Bond Indenture, a fund is established to be designated as the "Bond Fund." The money in the Bond Fund shall be held by the Bond Trustee in trust and applied as provided in the Bond Indenture and, pending such application, the Bond Fund and the money therein shall be subject to a lien and charge in favor of the Bond Trustee for the benefit of the Holders and for the security of the Holders. The Bond Trustee shall also create such other funds and accounts under the Bond Indenture as shall be requested in writing by the Corporation from time to time as necessary to facilitate proper administration thereunder.

Costs of Issuance Fund. The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund." The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Bond Trustee to pay the Costs of Issuance upon requisition of the Corporation stating the Person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against the Costs of Issuance Fund. On the date specified in the Bond Indenture, or upon the earlier request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Bond Fund.

Debt Service Reserve Fund and *Rebate Fund*. The Bond Trustee shall establish a Debt Service Reserve Fund and a Rebate Fund for the Bonds. The Bond Trustee shall hold and manage the Debt Service Reserve Fund and the Rebate Fund as provided in the Bond Indenture and as further described below under the subheadings "Application of Debt Service Reserve Fund" and "Rebate Fund," respectively.

Capitalized Interest Fund. The Bond Trustee shall establish, maintain and hold in trust a special fund designated as the "Capitalized Interest Fund." Moneys in the Capitalized Interest Fund shall be transferred to the Bond Fund on or before each Interest Payment Date and applied to the payment of the interest becoming due and payable on the Bonds. Upon receipt of a Certificate of the Corporation stating that the funds on deposit in the Capitalized Interest Fund are no longer needed, the Bond Trustee shall transfer any remaining funds on deposit in such fund to the Project Fund.

Project Fund. The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used and withdrawn by the Bond Trustee to pay the costs of the Project. No moneys in the Project Fund shall be used to pay Costs of Issuance. When all costs of the Project have been reimbursed to the Corporation from the Project Fund, there shall be delivered to the Bond Trustee a Certificate of the Corporation to such effect. Upon receipt of such Certificate, the Bond Trustee shall, as directed by said Certificate, transfer any remaining balance in the Project Fund to the Bond Fund.

Pledge and Assignment of Revenues and Rights Under Loan Agreement; Bond Fund

Subject only to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, 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 the Bond Indenture, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account (except the Rebate Fund) established pursuant to the Bond Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery by the Bond Trustee of the Bonds, without any physical delivery thereof or further act.

The Authority transfers in trust, grants a security interest in and assigns to the Bond Trustee, for the benefit of the Holders from time to time of the Bonds, all of the Revenues and other assets pledged and all of the right, title and interest of the Authority in, to and under the Loan Agreement (except for the right to receive any Administrative Fees and Expenses to the extent payable to the Authority, the rights of the Authority to give consents and approvals under the Loan Agreement and the right of the Authority to be indemnified by the Corporation pursuant to the Loan Agreement) and Obligation No. 7. The Bond Trustee shall be entitled to and shall receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee. The Bond Trustee also shall be entitled to and shall (subject to the provisions of the Bond Indenture) take all steps, actions and proceedings reasonably necessary in its judgment to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement and Obligation No. 7 that are assigned and pledged to the payment and security of the Bonds pursuant to the Bond Indenture.

Application of Bond Fund

Except for payments of investment earnings to the Corporation pursuant to the Bond Indenture, all amounts in the Bond Fund shall be used and withdrawn by the Bond Trustee solely for the purpose of paying principal of, and premium, if any, and interest on the Bonds, as the same shall become due and payable, whether at maturity or upon acceleration of or redemption prior to maturity. Any amounts remaining in the Bond Fund when all of the Bonds are no longer Outstanding shall be withdrawn by the Bond Trustee and paid to the Corporation.

At any time prior to giving notice of redemption, the Bond Trustee may apply amounts on deposit in the Bond Fund for the optional or special redemption of Bonds to the purchase of Bonds at public or private sale or the cancellation of Bonds pursuant to the Loan Agreement, as and when and at such prices (including brokerage and other charges) as directed by the Corporation, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to such Bonds; and provided further that in the case of optional redemption in lieu of redemption at such next succeeding date of redemption, or in combination therewith, or for cancellation of Bonds pursuant to the Loan Agreement, amounts in the Bond Fund for optional redemption or cancellation may be credited against Loan Repayments in order of their due date as set forth in a request of the Corporation.

Application of Debt Service Reserve Fund

Money in the Debt Service Reserve Fund shall be used solely to pay the principal, premium, if any, and interest on the Bonds in case money in the Bond Fund is insufficient to make such payments when due, whether on an Interest Payment Date, redemption date, maturity date, or otherwise. Upon an Event of Default and acceleration by the Bond Trustee pursuant to the Bond Indenture, any money in the Debt Service Reserve Fund shall be transferred by the Bond Trustee to the Bond Fund. On the final maturity date of the Bonds, the amount of deposit in the Debt Service Reserve Fund shall be used on such final maturity date to pay the principal and interest on the Bonds.

When the balances in the Debt Service Reserve Fund equal or exceed all remaining obligations for the payment of the principal and interest on all Bonds then Outstanding, the Corporation may use those balances to make such payments or may transfer to the Bond Fund to provide for such payments, and the reductions in balances need not be restored.

After the Date of Issuance, the Debt Service Reserve Requirement shall be reduced proportionally in connection with any optional redemption of the Bonds under the Bond Indenture, by the same proportion that the principal amount of Bonds optionally redeemed bears to the principal amount of Bonds Outstanding immediately prior to such optional redemption. Subject to the provisions of the Bond Indenture, upon a reduction in the Debt Service Reserve Requirement, moneys on deposit in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement shall be transferred from the Debt Service Reserve Fund (i) to the Project Fund, so long as the Project Fund has not been closed or the Bond Trustee has not received the certificate provided for in the Bond Indenture, and (ii) thereafter, to the Bond Fund.

Rebate Fund

To the extent required by the Bond Indenture and the Tax Agreement, certain amounts will be deposited in the Rebate Fund, and thereafter paid to the federal government to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement). Any funds remaining in the Rebate Fund after redemption and payment of all of the Bonds and payment and satisfaction of any Rebate Requirement, or provision made therefor, will be withdrawn and 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 as further described in the Bond Indenture.

Events of Default

Each of the following is an Event of Default under the Bond Indenture: (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, by declaration or otherwise, except if a purported optional or extraordinary redemption has been voided pursuant to the Bond Indenture; (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 (other than as referred to in clauses (a) or (b) above), if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Corporation by the Bond Trustee, or to the Authority, the Corporation and the Bond Trustee by the Holders of more than 50% in aggregate principal amount of the Bonds at the time Outstanding; and (d) a Loan Default Event shall have occurred and shall not have been remedied or waived. The Bond Trustee shall, as soon as is practicable, but in any event within five (5) days, send notice to the Master Trustee and the Authority of the occurrence of any Event of Default of which the Bond Trustee has actual knowledge.

Acceleration of Maturities

Provisions applicable to the Bonds in regard to the acceleration of maturities are described in the front part of this Official Statement under the heading "THE BONDS—Redemption of Bonds—Acceleration."

Bond Trustee to Represent Bondholders

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 more than 50% in aggregate principal amount of the Bonds then Outstanding, and upon being indemnified to its reasonable satisfaction in accordance with the Bond Indenture, shall proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it or such Holders shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Bond Indenture, or in aid of the execution of any power granted in the Bond Indenture, 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. 7, the Tax Agreement, the Act or any other law; and upon instituting such proceeding, the Bond Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Bond Indenture or the Bonds, pending such proceedings.

Bondholders' Direction of Proceedings

Anything in the Bond Indenture to the contrary notwithstanding, the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method of conducting all remedial proceedings taken by the Bond Trustee hereunder, provided that such direction shall not be otherwise than in accordance with law and the provisions of the Bond Indenture, and that the Bond Trustee shall have the right to decline to follow any such direction which in the opinion of the Bond Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

Limitation on Bondholders' Right to Sue

No Holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Bond Indenture, the Loan Agreement, Obligation No. 7, the Act or any other applicable law with respect to such Bond unless (a) such Holder previously shall have given to the Bond Trustee written notice of the occurrence of an Event of Default, (b) the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted to it under the Bond Indenture or to institute such suit, action, proceeding in its own name, (c) such Holder or said Holders shall have tendered to the Bond Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request and (d) 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 the tender of indemnity shall have been made to, the Bond Trustee.

Modification or Amendment of Bond Indenture

The Bond Indenture may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, in accordance with the Bond Indenture, which the Authority and the Bond Trustee may enter into when there shall have been filed with the Bond Trustee the written consent of the Holders of more than 50% in aggregate principal amount of the Bonds then Outstanding; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Bond Indenture. No such modification or amendment shall (a) extend the fixed maturity of any Bond, or change the method of determining the rate of interest thereon, or reduce the amount of principal of any Bond, or reduce the rate of interest on any Bond, or extend the time of payment of interest on any Bond, or reduce any premium payable upon the redemption on any Bond without the written consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the written consent of the Holders of all Bonds then Outstanding.

Amendment of Loan Agreement

The Authority shall not amend, modify or terminate any of the terms of the Loan Agreement, or consent to any such amendment, modification or termination, without the prior written consent of the Bond Trustee. The Bond Trustee shall give such written consent only (a) as evidenced by an Opinion of Counsel delivered to the Bond Trustee, such amendment, modification or termination will not materially adversely affect the interests of the Bondholders or result in any material impairment of the security hereby given for the payment of the Bonds, (b) if the Bond Trustee first obtains the written consent of the Holders of 50% or more of the principal amount of Bonds then Outstanding, provided that such amendment, modification or termination shall not reduce the amount of Loan

Repayments to be made to the Authority or the Bond Counsel by the Corporation pursuant to the Loan Agreement, or extend the time for making such payment, or (c) if the Bond Trustee first obtains the written consent of the Holders of all of the Bonds then Outstanding to such amendment, modification or termination, if such amendment, modification or termination shall reduce the amount of Loan Repayments to be made to the Authority or the Bond Trustee by the Corporation pursuant to the Loan Agreement, or extend the time for making such payments.

Defeasance

The Bonds may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Bond Indenture by the Authority and related to such Bonds: (a) by paying or causing to be paid the principal or Redemption Price of and interest on Outstanding Bonds, as and when the same become due and payable; (b) by depositing with the Bond Trustee, in trust, at or before maturity, money or securities in the amount necessary (as provided in the Bond Indenture) to pay or redeem Outstanding Bonds; or (c) by delivering to the Bond Trustee, for cancellation by it, Outstanding Bonds.

Limited Liability of the Authority

Notwithstanding anything in the Bond Indenture or in the Bonds, the Authority shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Bond Indenture for any of the purposes in the Bond Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Bond Indenture. The Authority may, but shall not be required to, advance for any of the purposes under the Bond Indenture any funds of the Authority which may be made available to it for such purposes.

LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. This summary does not purport to be complete or definitive and reference is made to the Loan Agreement for the complete terms thereof.

The Loan Agreement provides the terms of a loan of the proceeds of the Bonds by the Authority thereof to the Corporation and the repayment of the loan by the Corporation.

Loan Repayments

The Corporation agrees to duly and punctually pay, "Loan Repayments" in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts described in the Loan Agreement and the Bond Indenture to be made to the Bond Fund. Notwithstanding any schedule of payments set forth in Obligation No. 7 or in the Loan Agreement, the Corporation agrees to make payments under the Loan Agreement and upon Obligation No. 7, at the times and in the amounts required 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 shall 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 all taxes and assessments charged to the Authority or the Bond Trustee, all reasonable fees, charges and expenses of the Bond Trustee under the Bond Indenture and all amounts payable to the Bond Trustee by the Authority or the Corporation pursuant to the Bond Indenture and the Loan Agreement, the reasonable fees and expenses of accountants, consultants, attorneys, bond counsel and other experts engaged by the Authority or the Bond Trustee, all reasonable fees and expenses of the Authority pursuant to the Loan Agreement and all other reasonable and necessary fees and expenses attributable to the Loan Agreement or Obligation No. 7.

Prepayment

The Corporation shall have the right, so long as all amounts which have become due under the Loan Agreement have been paid, at any time or from time to time, upon expiration of the applicable call protection period described in the Bond Indenture and sixty (60) days prior written notice to the Bond Trustee, to prepay all or any part of the Loan Repayments and Obligation No. 7 and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered by the Corporation. Prepayments may be made by payments of cash or surrender of Bonds. All such prepayments (and the additional payment of any amount necessary to pay the applicable premium, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Bond Fund and, at the request of and as determined by the Corporation, credited against Loan Repayments and payments due under Obligation No. 7 or used for the redemption or purchase of Outstanding Bonds in the manner and subject to the terms and conditions set forth in the Bond Indenture. Notwithstanding any such prepayment or any 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 shall not be relieved of its obligations under the Loan Agreement.

Obligations Unconditional

The obligations of the Corporation to make Loan Repayments and Additional Payments and to pay the principal and interest on Obligation No. 7 as required under the Loan Agreement and under Obligation No. 7 are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 7, the Master Indenture or the Bond Indenture. Until the Bonds are no longer Outstanding, the Loan Agreement is terminated and all payments under the Loan Agreement are made, the Corporation: (a) will pay all amounts required under the Loan Agreement and Obligation No. 7 without abatement, deduction or set-off; (b) will not suspend or discontinue any payments due under Obligation No. 7 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 expressly permitted in 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, or any political subdivision of either 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 shall be construed to release the Authority from the performance of any of the agreements on its part, contained in the Loan Agreement, and in the event the Authority should 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 shall 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.

Continuing Disclosure

The Corporation covenants and agrees in the Loan Agreement that, simultaneously with the execution and delivery of the Loan Agreement, the Corporation will enter into, comply with and carry out all of the provisions of a disclosure agreement with respect to the Bonds that complies with the provisions of Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, in form and substance satisfactory to the participating underwriters and bond counsel to the Authority. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to enter into and comply with such disclosure agreement shall not be considered a Loan Default Event; however, the Bond Trustee or any Bondholder or Beneficial Owner may and, upon the written direction of any participating underwriter or any Bondholders owning not less than 25% in aggregate principal amount of all of the Bonds then Outstanding, the Bond Trustee shall, subject to receipt of indemnity as provided in the Bond Indenture, take such actions as may be deemed necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Corporation to comply with its obligations under the Loan Agreement.

Loan Default Events

Each of the following events shall be a Loan Default Event under the Loan Agreement: (1) failure by the Corporation to pay, or cause to be paid, in full any payment required by the Loan Agreement or Obligation No. 7 when due; (2) 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. 7 or the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (3) 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 clauses (1) or (2) above, 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 or the Bond Trustee or to the Corporation and the Bond Trustee by the Holders of more than 50% 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, such failure or breach shall not become a Loan Default Event for so long as the Corporation shall diligently proceed to remedy same; and (4) any Event of Default under the Master Indenture shall occur and be continuing.

Remedies on Default

If a Loan Default Event shall occur under the Loan Agreement, the Bond Trustee on behalf of the Authority, at its option but subject to its rights and protections under the Bond Indenture and the limitations in the Loan Agreement and the Bond Indenture as to the enforcement of remedies, may among other things, 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. The Authority or the Bond Trustee may also take any action, at law or in equity, to collect the Loan Repayments and payments then due under Obligation No. 7 or to otherwise enforce the performance, observance or compliance by the Corporation of any covenant, condition, agreement or provision of the Corporation under the Loan Agreement.

Amendments to Loan Agreement

The Loan Agreement may be amended, supplemented or modified only as provided in the Bond Indenture.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this "Certificate") is executed and delivered by Legacy Health System (the "Corporation"), on behalf of itself and the other Members of the Obligated Group (as defined below), in connection with the issuance by the Hospital Facility Authority of Clackamas County, Oregon (the "Authority") of its Revenue Bonds (Legacy Health System), Series 2009A in the aggregate principal amount of $113,860,000 (the "Bonds"). The Bonds will be issued pursuant to a Bond Indenture dated as of May 1, 2009 (the "Bond Indenture"), between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"). The proceeds of the Bonds will be loaned by the Authority to the Corporation pursuant to a Loan Agreement dated as of May 1, 2009 (the "Loan Agreement"), between the Authority and the Corporation. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Bond Indenture and the Amended and Restated Master Trust Indenture dated as of May 1, 2009 (the "Master Indenture"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the "Master Trustee"). The Corporation covenants as follows:

SECTION 1. Purpose of this Certificate. In accordance with Section 6.01 of the Loan Agreement, this Certificate is being executed and delivered by the Corporation on behalf of itself and on behalf of the Obligated Group for the benefit of the registered and beneficial holders of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Bond Indenture and Master Indenture, as applicable, which apply to any capitalized term used in this Certificate unless otherwise defined in this Certificate, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Obligated Group pursuant to, and as described in, Section 3 of this Certificate.

"Audited Financial Statements" shall have the meaning ascribed thereto in Section 3.

"Central Post Office" shall mean the DisclosureUSA website (currently http://www.disclosureusa.org) maintained by the Municipal Advisory Council of Texas or any successor thereto or any other organization or method approved by the staff or members of the SEC as an intermediary through which issuers may make filings in compliance with the Rule, including, without limitation, the Municipal Securities Rulemaking Board Electronic Municipal Market Access system when authorized to accept filings under the Rule by the SEC.

"NRMSIR" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities Exchange Commission are listed at http://sec.gov/info/municipal/nrmsir.htm.

"Obligated Group" or "Obligated Group Member" shall mean the Corporation and any future person designated as a Member of the Obligated Group pursuant to the terms of the Master Indenture.

“Obligated Group Financial Statements” shall have the meaning ascribed thereto in Section 3.

“Official Statement” shall mean the Official Statement, dated May 13, 2009, relating to the Bonds.

“Quarterly Report” shall mean any Quarterly Report provided by the Obligated Group pursuant to, and as described in, Section 3 of this Certificate.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SEC” means the federal Securities and Exchange Commission.

“SID” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC. As of the date of this Certificate, there is no SID.

“State” shall mean the State of Oregon.

SECTION 3. Quarterly and Annual Reports.

(a) The Corporation, hereby agrees to provide or cause to be provided at least annually to each Nationally Recognized Municipal Securities Information Repository for purposes of the Rule (the “NRMSIRS”) and to the state information depository, if any, located in the State of Oregon (the “SID”), certain financial information and operating data of the type described in this Section 3 (the “Annual Report”). The Annual Report will be provided no later than 120 days after the end of the Corporation’s preceding fiscal year, beginning with the fiscal year ending March, 31, 2009. The Annual Report will consist of:

(1) Audited Financial Statements, substantially in the form attached as Appendix B to the Official Statement. If the Corporation’s financial statements are not available by the time the Annual Report is required to be filed pursuant to this Section 3, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement and the Audited Financial Statements shall be filed in the same manner as the Annual Report when they become available.

(i) one or more financial reports which, in the aggregate, shall include each Member of the Obligated Group for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Representative prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Member of the Obligated Group in accordance with generally accepted accounting principles and containing an audited combined balance sheet as of the end of such Fiscal Year, an audited combined statement of operations and changes in net assets for such Fiscal Year and an audited combined statement of cash flows for such Fiscal Year. The financial reports referred to in this paragraph (i) shall be accompanied by a certificate of the chief financial officer of the Credit Group Representative stating that no event that constitutes an Event of Default under the Master Indenture has occurred and is continuing as

of the end of such fiscal year, or specifying the nature of such event and the actions taken and proposed to be taken by the Members of the Obligated Group to cure such Event of Default.

(ii) if the reports referred to in (i) above do not include the results of operations of any Designated Affiliate, for each Designated Affiliate, a financial report for or including such Designated Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Representative, prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Designated Affiliate in accordance with generally accepted accounting principles, and containing an audited combined balance sheet as of the end of such Fiscal Year and an audited combined statement of changes in operations and changes in net assets for such Fiscal Year and an audited combined statement of cash flows for such Fiscal Year..

(iii) a balance sheet, statement of operations and changes in net assets including all the Members of the Obligated Group and Designated Affiliates prepared on a combined basis to reflect only the operations of the Members of the Obligated Group and Designated Affiliates based on audited financial statements described in (i) and (ii) above (such balance sheet, statement of operations and changes in net assets being referred to herein as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Representative stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations in accordance with clauses (A) and (B) below of this paragraph (iii)) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members of the Obligated Group and Designated Affiliates, and all Members of the Obligated Group and Designated Affiliates are included.

In preparing the Obligated Group Financial Statements, the Obligated Group Representative shall apply the following principles:

(A) Revenues and expenses shown on the audited financial statements of Members of the Obligated Group as a result of the consolidation or combination of results of the Members of the Obligated Group with any Person which is not a Member of the Obligated Group or a Designated Affiliate shall be excluded from such calculations (even if such combination or consolidation is required in accordance with generally accepted accounting principles) but, subject to the principal described in clause (B) below, shall instead be recharacterized as a separate single line item of income or revenue in accordance with the "equity method" (as defined by generally accepted accounting principles); and

(B) After the application of the principle described in clause (A) above, income or revenue shown on such financial statements which reflect the income or revenue of any Person which is not a Member or a Designated Affiliate (whether as a result of the application of the aforementioned "equity method" or otherwise) shall be excluded from such calculations except to the extent such income or revenue represents assets actually transferred to a Member of the Obligated Group or a Designated Affiliate during the Fiscal Year for which such financial statements were prepared.

(iv) Notwithstanding the foregoing, the audited and unaudited financial statements referred to in this definition may include the results of operation and financial position of Immaterial Affiliates which are not Designated Affiliates, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Members of the Obligated Group and the Designated Affiliates for all purposes of this definition.

(2) The names of the current Obligated Group Members, Designated Affiliates and Immaterial Affiliates and financial information and operating data of the type set forth in Appendix A to the Official Statement under the following table headings:

(i) "MEDICAL STAFF;" and

(ii) "SUMMARY OF FINANCIAL INFORMATION AND OPERATING DATA – Hospital Utilization," "– Summary of Revenues and Expenses – Operating Revenues and Expenses," "– Sources of Patient Service Revenue," "– Historical and Proforma Maximum Annual Debt Service Coverage," and "Capitalization."

(b) In addition to the Annual Report to be filed pursuant to subsection (a), the Corporation hereby also agrees to provide to the NRMSIRS, the SID, if any, and, upon written request delivered to the Corporation at the address listed in Section 11.07 of the Bond Indenture, to any registered initial holder of the Bonds and any subsequent registered owner of $5 million or more aggregate principal amount of Bonds, a balance sheet, statement of operations and changes in net assets for each quarter of each fiscal year (beginning with the quarter commencing April 1, 2009), in a format similar to the Audited Financial Statements, except that such statements need not be audited, need not include footnotes and need not be accompanied by certificates, letters or other statements of any certified public accountants or officers of the Obligated Group Representative, not later than 60 days after the end of such quarter (the "Quarterly Report").

(c) Certain items of the Annual Report and the Quarterly Report may be provided by way of cross-reference to other documents previously provided to each NRMSIR, to the SID, if any, or filed with the SEC. If the cross-referenced document is a final official statement within the meaning of the Rule, it shall be available from the Municipal Securities Rulemaking Board (the "MSRB"). If the Corporation's fiscal year changes, the Corporation will give notice of such change in the same manner as described in Section 3 below.

SECTION 4. Material Events. The Corporation agrees to provide, or cause to be provided, in a timely manner, (i) to each NRMSIR or to the MSRB, and (ii) to the SID, if any, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financial difficulties;

(5) Substitution of credit or liquidity provider or their failure to perform;

(6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(7) Modifications to rights of holders of the Bonds;

(8) Optional, contingent or unscheduled bond calls;

(9) Defeasances;

(10) Release, substitution or sale of property securing repayment of the Bonds; and

(11) Rating changes.

Notice of events listed in (8) or (9) above need not be given earlier than notice of such event is required under the Bond Indenture. The Corporation may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if, in the judgment of the Corporation, such other event is material with respect to the Bonds, but the Corporation does not undertake any commitment to provide such notice of any event except those events listed above.

SECTION 5. Failure to File Annual Report or Quarterly Report. The Corporation agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the SID, if any, notice of a failure by the Corporation to provide the Annual Report or the Quarterly Report on or prior to the time set forth in Section 3.

SECTION 6. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to asset the Corporation in disseminating information hereunder (the "Dissemination Agent"). The Corporation may discharge any Dissemination Agent with or without appointing a successor Dissemination Agent.

SECTION 7. Termination of Reporting Obligation. The Corporation's obligation to provide the Annual Report, Quarterly Report and notice of material events, as set forth above, shall terminate upon either redemption in full of the Bonds, or legal defeasance of the Bonds.

SECTION 8. Enforceability and Remedies. The Corporation agrees that this Certificate is intended to be for the benefit of the registered and beneficial holders of the Bonds and shall be enforceable by or on behalf of any such holder in accordance with Section 6.01 of the Loan Agreement; provided that, the right of any Bondholder to challenge the adequacy of the information furnished hereunder shall be limited to an action by or on behalf of bondholders representing at least 25% of the aggregate principal amount of the Bonds. Any failure by the Corporation to comply with the provisions of this undertaking shall not be a Loan Default Event or

an Event of Default under the Bond Indenture or the Loan Agreement. This Certificate confers no rights on any person or entity other than the Corporation, holders of the Bonds, and any Dissemination Agent.

SECTION 9. Amendment. The Corporation may amend this Certificate without the consent of the holders of the Bonds under the following conditions:

(a) The amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in identity, nature or status of a Person or the type of business conducted;

(b) This Certificate, as amended, would have complied with the Rule at the time of the primary offering (as if the Rule were applicable to the primary offering), after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment (i) does not, materially impair the interest of the holders of the Bonds, as determined either by parties unaffiliated with the Corporation (such as the Bond Trustee or nationally recognized bond counsel), or (ii) is approved by the Bondholders in the same manner as provided in the Bond Indenture.

The Annual Report or Quarterly Report next following an amendment shall explain, in narrative form, the reasons for the amendment and the effect of the change in the type of operating data or financial information being provided.

SECTION 10. Choice of Law. This Certificate shall be governed by the laws of the State, provided that to the extent this Certificate addresses matters of federal securities laws, including the Rule, this Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

SECTION 11. Delivery to the Central Post Office. Notwithstanding the foregoing, any provision herein requiring delivery of a notice or other information to the NRMSIRS or SID shall be satisfied through delivery of such notice or other information to the Central Post Office. The Corporation shall submit all information, notices and reports required hereunder in electronic formal suitable for submission to the Central Post Office, together with any identifying information required by the Central Post Office.

Dated: May 21, 2009.

LEGACY HEALTH SYSTEM

By: ____
Treasurer, Senior Vice President and Chief Financial Officer

[This Page Intentionally Left Blank]

APPENDIX E

FORM OF BOND COUNSEL OPINION

May ___, 2009

Hospital Facility Authority of
Clackamas County, Oregon
2051 Kaen Road
Oregon City, Oregon 97045

$113,860,000
Hospital Facility Authority of Clackamas County, Oregon
Revenue Bonds
(Legacy Health System)
Series 2009A
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Hospital Facility Authority of Clackamas County, Oregon (the "Authority") in connection with issuance of $113,860,000 aggregate principal amount of the Hospital Facility Authority of Clackamas County, Oregon Revenue Bonds (Legacy Health System), Series 2009A (the "Bonds"), issued pursuant to a bond indenture, dated as of May 1, 2009 (the "Bond Indenture"), between the Authority and Wells Fargo Bank, National Association, as bond trustee (the "Bond Trustee"). The Bond Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Legacy Health System (the "Borrower") pursuant to a loan agreement, dated as of May 1, 2009 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Certificate"), between the Authority and the Borrower, an opinion of counsel to the Borrower, certificates of the Authority, the Bond Trustee, the Borrower and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Davis Wright Tremaine LLP, counsel to the Borrower, regarding, among other matters, the current qualification of the Borrower and certain other users of bond-financed facilities (collectively, the "Users") as organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that the opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Borrower and the Users regarding the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Borrower or the Users within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Borrower does not address Section 513 of the Code. Failure of the Borrower or the Users 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, or use of the bond-financed facilities in activities that are considered unrelated trade or business activities of the Borrower or the Users within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Indenture, the Loan Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Indenture, the Loan Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public authorities in the State of Oregon. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Bond Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Authority.

2. The Bond Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Bond Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts held by the Bond Trustee in any fund or account established pursuant to the Bond Indenture, except the Rebate Fund, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Bond Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Authority.

4. The Bonds are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the State of Oregon or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds are not a debt of the State of Oregon, and said State is not liable for the payment thereof.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of Oregon personal income taxes. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is excluded from adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

Printed by: ImageMaster, Inc.

HOSPITAL FACILITY AUTHORITY OF CLACKAMAS COUNTY, OREGON • REVENUE BONDS, SERIES 2009A