

**NEW ISSUE  
BOOK-ENTRY ONLY**

See “RATINGS” herein

*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, as amended. 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 and is not included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.*

**\$100,000,000  
WASHINGTON HEALTH CARE FACILITIES AUTHORITY  
REVENUE BONDS, SERIES 2009A  
(Swedish Health Services)**



**Dated: Date of Issue**

**Due: as shown below**

The Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services) (the “Bonds”) are being issued by Washington Health Care Facilities Authority (the “Authority”) to provide moneys for a loan by the Authority to Swedish Health Services, a Washington nonprofit corporation, (the “Corporation”), for all or portion of the funds needed for the (a) reimbursement of certain capital expenditures incurred for the remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities including the expansion of its orthopedic services located in Seattle, Washington; (b) financing costs of certain capital expenditures to be incurred by the Corporation for remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities; (c) funding of a Reserve Account; and (d) payment of certain costs of issuing the Bonds.

Interest on the Bonds is payable on May 15 and November 15 of each year, commencing November 15, 2009 (a period of approximately 8 months from the Date of Issue) to the maturity or prior redemption of the Bonds. The Bonds will be subject to optional, special and mandatory redemption and to acceleration prior to maturity, all as described herein.

The Bonds are issuable in the form of fully registered bonds without coupons, in the principal amount of \$5,000 or any integral multiple thereof, and, when issued, will be registered in the name of Cede & Co., as Holder and nominee of The Depository Trust Company, New York, New York (“DTC”). As long as the Bonds are in book-entry form, DTC (or another custodian utilized by the Authority at the request of the Corporation) will act as securities depository of the Bonds and purchases of beneficial ownership interests will be made in book-entry form only. Beneficial Owners of the Bonds will not receive physical certificates representing the Bonds purchased, but will receive a credit balance on the books of the nominees of such Beneficial Owners. Principal of, and premium, if any, and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A. (the “Bond Trustee”) to DTC solely as provided in the Bond Indenture (hereinafter defined), which is obligated in turn to remit such principal, premium, if any, and interest to the applicable DTC participants for subsequent disbursement to the Beneficial Owners of the Bonds, as described herein. See APPENDIX G hereto for a description of DTC and its book-entry system.

The Bonds are special fund revenue obligations of the Authority, payable solely from the Bond Fund created under the Bond Indenture and held by the Bond Trustee, to be funded primarily from Loan Repayments made by the Corporation, pursuant to the Loan Agreement and/or payments made by the Obligated Group pursuant to Obligation No. 3. Obligation No. 3 evidences the joint and several obligations of the Corporation and any future Members of the Obligated Group to make the Loan Repayments under the Loan Agreement. The Corporation is currently the sole Member of the Obligated Group. Obligation No. 3 is issued under the Master Indenture and is secured thereunder along with any additional Obligations. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS.”

**THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL OR MORAL, OF THE STATE OF WASHINGTON, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF WASHINGTON, OR A GENERAL OBLIGATION OF THE AUTHORITY. THE HOLDERS (INCLUDING BENEFICIAL HOLDERS) OF THE BONDS HAVE NO RIGHT TO REQUIRE THE STATE OF WASHINGTON OR THE AUTHORITY, NOR HAS THE STATE OF WASHINGTON OR THE AUTHORITY ANY OBLIGATION OR LEGAL AUTHORIZATION, TO LEVY ANY TAXES OR APPROPRIATE OR EXPEND ANY OF THEIR RESPECTIVE FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST OR ANY PREMIUM ON THE BONDS.**

**Maturity Schedule**

\$36,270,000, 6.500%	Term Bonds due November 15, 2030, Yield 6.580%, CUSIP <sup>†</sup> 93978E3K6
\$63,730,000, 6.500%	Term Bonds due November 15, 2033, Yield 6.730%, CUSIP <sup>†</sup> 93978E3L4

*The Bonds are offered when, as and if issued by the Authority and received by the Underwriters, subject to prior sale, to renewal or to modification of the offer without notice and to approval of the 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 the Corporation and the Swedish Medical Center Foundation by their special counsel, Foster Pepper PLLC; for the Authority by its special counsel, Orrick, Herrington & Sutcliffe LLP; and for the Underwriters by their counsel, Gottlieb Fisher PLLC. It is expected that the Bonds in book-entry form will be available for delivery through the services of DTC, on or about March 19, 2009.*

**CITI**

**Merrill Lynch & Co.**

Dated March 5, 2009\*

\* The information herein under the headings “THE PLAN OF FINANCE—Proposed Issuance of Variable Rate Indebtedness,” “FISCAL YEAR DEBT SERVICE REQUIREMENTS” and in the table in APPENDIX A under the heading “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Estimated Debt Service Coverage” is dated as of March 12, 2009.

<sup>†</sup> Copyright 2009, American Bankers Association. CUSIP data herein is provided by Standard & Poor’s CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP numbers are provided for convenience of reference only. The Authority, the Corporation and the Underwriters assume no responsibility for the accuracy of such numbers.

## ABOUT THIS OFFICIAL STATEMENT

Each party listed below has provided the information under the caption or captions following its name. Each party is responsible only for the information provided under the captions following its name, unless otherwise stated.

<b>Authority:</b>	“INTRODUCTION – The Authority,” “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION – The Authority.”
<b>DTC:</b>	APPENDIX G – “BOOK-ENTRY SYSTEM.”
<b>Bond and Master Trustee:</b>	“THE BOND TRUSTEE AND MASTER TRUSTEE.”
<b>Underwriters:</b>	“UNDERWRITING.”

All other information has been provided by the Corporation or other identified source.

The CUSIP numbers are included on the cover of this Official Statement for convenience of the holders and potential holders of the Bonds. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the Date of Issue of the Bonds.

You should rely only on the information contained in this Official Statement. No one has been authorized to provide you with information different from that contained in this Official Statement. The information in this Official Statement is accurate only as of the date of this Official Statement, regardless of the time of delivery of this Official Statement or of any sale of the Bonds.

Caution Regarding Forward-Looking Statements. This Official Statement contains forward-looking statements that involve risks and uncertainties. In some cases you can identify forward-looking statements by terms such as “plan,” “expect,” “estimate,” “budget,” or similar expressions intended to identify forward-looking statements. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions “PLAN OF FINANCE” and “BONDHOLDERS’ RISKS” in the forepart of this Official Statement and the statements contained under the caption “FINANCIAL INFORMATION” in APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP.” These statements reflect the current views of the Corporation with respect to future events and are based on assumptions and subject to risks and uncertainties. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. You should not place undue reliance on forward-looking statements. Each forward-looking statement speaks only as of the date of the particular statement. The Authority and the Corporation undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or other information. In light of these risks, results could differ materially from those stated, implied or inferred from the forward-looking statements contained in this Official Statement.

In connection with the offering of the Bonds, the Underwriters may over allot or effect transactions that stabilize or maintain the market price of the Bonds offered by this Official Statement at levels above those which otherwise might prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

This Official Statement is not an offer to sell the Bonds and it is not soliciting an offer to buy the Bonds, in any jurisdiction where the offer or sale is not permitted under the securities law of such jurisdiction.

The Bonds and Obligation No. 3 have not been registered under the Securities Act of 1933, as amended, and the Bond Indenture and the Master Indenture have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with the 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 of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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## OFFICIAL STATEMENT

**\$100,000,000**

**WASHINGTON HEALTH CARE FACILITIES AUTHORITY  
REVENUE BONDS, SERIES 2009A  
(Swedish Health Services)**

### INTRODUCTION

#### **Purpose of this Official Statement**

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 Washington Health Care Facilities Authority (the “Authority”) of \$100,000,000 Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services) (the “Bonds”).

All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Bond Indenture, dated as of March 1, 2009 (the “Bond Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (together with any successor thereto as trustee, the “Bond Trustee”), or in the Master Trust Indenture, dated as of April 15, 1998, as supplemented and amended by Supplemental Master Indenture No. 1, dated as of April 15, 1998 and Supplemental Master Indenture No. 2, dated as of December 1, 2006, and as to be supplemented by Supplemental Master Indenture No. 3 Implementing Amendments (the “Amending Supplement”), and by Supplemental Master Indenture No. 4 (“Supplement No. 4”), each dated the Date of Issue (as so supplemented and amended, the “Master Indenture”), each by and between Swedish Health Services (the “Corporation”) and The Bank of New York Mellon Trust Company, N.A., as successor master trustee (the “Master Trustee”). See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – DEFINITIONS OF CERTAIN TERMS” and “APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – MASTER INDENTURE DEFINITIONS.” The descriptions and summaries of various documents hereinafter set forth 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.

#### **The Corporation and the Obligated Group**

The Corporation is currently the only member of the Obligated Group created pursuant to the Master Indenture. The Corporation is a Washington nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (a “501(c)(3) Organization”) that owns and operates an integrated health care delivery system providing inpatient, outpatient and other health care services at multiple locations in the greater Seattle area. See “THE OBLIGOR – The Corporation” and APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP” for further information on the Corporation.

Under the Master Indenture, the Corporation, as Obligated Group Agent, may designate “Obligated Group Affiliates” from time to time and may rescind any such designation at any time. Obligated Group Affiliates are not obligated to make payments with respect to the Obligations or any other Obligations issued under the Master Indenture, but may be required to pay or otherwise transfer to the Obligated Group Agent amounts necessary to enable the Corporation to pay when due the principal of and premium, if any, and interest on the Obligations outstanding under the Master Indenture. The only Obligated Group Affiliate that has been designated by the Corporation is the Swedish Medical Center Foundation (the “Foundation”). The Foundation is a Washington nonprofit corporation and a 501(c)(3) Organization of which the Corporation is

the sole corporate member. Its purpose is to provide funding and other support to the Corporation. See “THE OBLIGOR – Obligated Group Affiliates” and APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP” for further information on the Corporation and the Obligated Group Affiliates.

### **Purpose of the Bonds**

The Bonds will be issued pursuant to the laws of the State, Chapter 70.37 Revised Code of Washington, as amended (the “Act”) and Resolution No. 2009-05 of the Authority. The Bonds will be issued pursuant to the Bond Indenture, and the proceeds of the sale of the Bonds will be used to make a loan to the Corporation pursuant to a Loan and Security Agreement (the “Loan Agreement”) dated as of March 1, 2009, by and between the Authority and the Corporation, for the purposes of providing all or a portion of the funds needed for the (i) reimbursement of certain capital expenditures incurred for the remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities including the expansion of its orthopedic services located in Seattle, Washington; (ii) financing costs of certain capital expenditures to be incurred by the Corporation for remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities (collectively, the “Project”) (iii) funding of a Reserve Account; and (iv) payment of certain costs of issuing the Bonds. For a further description of the uses of Bond proceeds, see “ESTIMATED SOURCES AND USES OF FUNDS” herein. For a more detailed description of the Project, see APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – PROJECT.” For further information about other potential sources of funds which may be available to pay for a portion of the Project, and for uses of proceeds of the Bonds for purposes other than the Project, see “PLAN OF FINANCE” herein.

### **Source of Payment and Security for the Bonds**

The Bonds will be special fund revenue obligations of the Authority, payable solely from the money and investments in the Bond Fund created pursuant to the Bond Indenture (including the Reserve Account) and held by the Bond Trustee. The Bond Fund will be funded primarily from the Loan Repayments to be made by the Corporation under the Loan Agreement. The Corporation 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 Bond Fund will also be funded, under certain circumstances, from payments by the Members of the Obligated Group with respect to the principal of and premium, if any, and interest due on Master Note Obligation No. 3 (“Obligation No. 3”) to be issued by the Corporation on behalf of itself and any future Members of the Obligated Group to the Bond Trustee, as assignee of the Authority, pursuant to Supplement No. 4, which payments 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 any other obligations due under the Loan Agreement. Obligation No. 3 will evidence the joint and several obligation of the Corporation and any future Members of the Obligated Group to make Loan Repayments and certain additional payments under the Loan Agreement and to perform all other obligations of the Corporation under the Loan Agreement.

The Members of the Obligated Group will be jointly and severally liable on all Obligations that are issued pursuant to the Master Indenture, including Obligation No. 3. The ability of the Corporation and any future Member of the Obligated Group to incur additional indebtedness is limited by the provisions of the Master Indenture. See “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS” and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – AMENDING SUPPLEMENT – Limitation on Additional Indebtedness.”

The Bonds are secured by a security interest in and statutory lien and claim against the money and investments on deposit in the Bond Fund, and by a security interest in and lien and claim against the money and investments in the Costs of Issuance Fund and the Project Fund (until such money and investments have been applied or transferred as provided in the Bond Indenture). The Bonds are further secured by an assignment of the right, title and interest of the Authority in the Loan Agreement and in Obligation No. 3 (to the extent and as more particularly described in the Bond Indenture).

### **The Authority**

The Authority was created in 1974 by the Legislature of the State pursuant to the Act. The Authority is empowered to issue special fund revenue bonds and to make the proceeds thereof available to private, nonprofit corporations and municipal corporations authorized to operate health care facilities for the purpose of minimizing the costs of providing such facilities. See “THE AUTHORITY.”

### **Limited Obligations**

The Bonds do not constitute an obligation, either general, special or moral, of the State, or a pledge of the faith and credit of the State, or a general obligation of the Authority. The Holders (including Beneficial Holders) of the Bonds have no right to require the State or the Authority, nor has the State or the Authority any obligation or legal authorization, to levy any taxes or appropriate or expend any of their respective funds for the payment of the principal thereof or the interest or any premium on the Bonds. For more information about the security for the Bonds, see “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS.”

### **Bondholders’ Risks**

Payment of the Loan Repayments by the Corporation and payment with respect to Obligation No. 3, if any, by the Corporation and the future Members of the Obligated Group are expected to be made from revenues to be derived from the operations of those entities. Certain risks are inherent in the production of such revenues. See “BONDHOLDERS’ RISKS” herein for a discussion of these and other risks.

### **Continuing Disclosure**

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

## **THE BONDS**

### **General**

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 a more detailed description of these provisions. The discussion herein is qualified by such reference.

The Bonds shall be issued as fully registered Bonds without coupons in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof (hereinafter sometimes referred to as authorized denominations). The Bonds shall be registered in the name of “CEDE & CO.,” as the initial nominee of DTC.

The Bonds shall mature on the dates and in the amounts shown on the front cover of this Official Statement. The Bonds shall be dated as of the Date of Issue. Each Bond shall bear interest, payable in lawful money of the United States of America, from the Date of Issue until payment of the principal or Redemption Price thereof shall have been made or provided for in accordance with the provisions of the Bond Indenture, whether upon maturity, redemption or otherwise.

Interest on the Bonds shall be computed upon the basis of a 360-day year, consisting of twelve 30-day months. Each Bond shall bear interest on overdue principal at the same rate as set forth on the front cover of this Official Statement for such Bond until such Bond, both principal and interest, is paid in full.

Subject to the provisions of the Bond Indenture relating to Bonds held in the Book-Entry System (see APPENDIX G – “BOOK-ENTRY SYSTEM”), interest on the Bonds shall be payable on each Interest Payment Date by the Bond Trustee by check mailed on the Interest Payment Date to the Holders of the Bonds at the close of business on the Regular Record Date in respect of such Interest Payment Date at the registered addresses of Holders as shall appear on the registration books of the Bond Trustee. In the case of any Holder of Bonds in an aggregate principal amount in excess of \$1,000,000 as shown on the registration books of the Bond Trustee who, prior to the Record Date next preceding any Interest Payment Date, shall have provided the Bond Trustee with written wire transfer instructions for an account within the United States of America, interest payable on such Bonds shall be paid in immediately available funds in accordance with the wire transfer instructions provided by the Holder of such Bond and at the Holder’s risk and expense.

If available funds are insufficient on any Interest Payment Date to pay the interest then due on the Bonds, interest shall continue to accrue thereon but shall cease to be payable to the Holder on such Record Date. If sufficient funds for the payment of such overdue interest thereafter become available, the Bond Trustee shall (i) establish a “special interest payment date” for the payment of the overdue interest and a “Special Record Date” (which shall be a Business Day) for determining the Bondholders entitled to such payment and (ii) mail notices by first class mail of such dates as soon as practicable. Notice of each such date so established shall be mailed to each Bondholder at least ten days prior to the Special Record Date but not more than thirty days prior to the special interest payment date. The overdue interest shall be paid on the special interest payment date to the Holders, as shown on the registration books of the Bond Trustee as of the close of business on the Special Record Date.

### **Book-Entry System**

Notwithstanding the provisions of Bond Indenture summarized above under the heading “General,” the Bonds shall initially be issued in the form of one fully registered Bond with respect to each maturity thereof, without coupons, for the aggregate principal amount of such maturity of the Bonds and shall be registered in the name of CEDE & CO., as nominee of DTC. Except as provided in the Bond Indenture with respect to discontinuation of the book-entry system and summarized below, all Bonds shall be registered in the registration books kept by the Bond Trustee in the name of CEDE & CO., as nominee of DTC; provided that if DTC shall request that the Bonds be registered in the name of a different nominee, the Bond Trustee shall exchange all or any portion of the Bonds for an equal aggregate principal amount of Bonds registered in the name of such nominee or nominees of DTC. No Person other than DTC or its nominee shall be entitled to receive from the Authority or the Bond Trustee either a Bond or any other evidence of ownership of the Bonds, or any right to receive any payment in respect thereof unless DTC or its nominee shall transfer record ownership of all or any portion of the Bonds on the registration books maintained by the Bond Trustee, in connection with discontinuing the book-entry system as provided in the Bond Indenture or otherwise.

So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all payments of the principal or redemption price of or interest on such Bonds shall be made to DTC or its nominee in same day funds on the dates provided for such payments under the Bond Indenture. Each



such payment to DTC or its nominee shall be valid and effective to fully discharge all liability of the Authority or the Bond Trustee with respect to the principal, or redemption price of or interest on the Bonds to the extent of the sum or sums so paid.

The Authority, the Bond Trustee and the Corporation may treat DTC or its nominee as the sole and exclusive Holder of the Bonds registered in its name for the purposes of payment of the principal or redemption price of, or interest on the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under the Bond Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and none of the Authority, the Bond Trustee or the Corporation shall be affected by any notice to the contrary. None of the Authority, the Bond Trustee or the Corporation shall have any responsibility or obligation to any Participant in DTC, any Person claiming a beneficial ownership interest in the Bonds under or through DTC or any such Participant, or any other Person which is not shown on the registration books of the Bond Trustee as being a Bondholder, with respect to any of the following: (i) the Bonds; or (ii) the accuracy of any records maintained by DTC or any such Participant; or (iii) the payment by DTC or any such Participant of any amount in respect of the principal or redemption price of, purchase price of, or interest on, the Bonds; or (iv) the delivery to any such Participant or any Person claiming a beneficial ownership interest in the Bonds of any notice which is permitted or required to be given to Bondholders under the Bond Indenture; or (v) the selection by DTC or any such Participant of any Person to receive payment in the event of a partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC as Bondholder.

So long as the Bonds or any portion thereof are registered in the name of DTC or any nominee thereof, all notices required or permitted to be given to the Bondholders under the Bond Indenture shall be given to DTC as provided in the Representation Letter in such form as is acceptable to the Bond Trustee, the Authority, the Corporation and DTC.

In connection with any notice or other communication to be provided to Bondholders pursuant to the Bond Indenture by the Authority or the Bond Trustee with respect to any consent or other action to be taken by Bondholders, DTC shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, unless the Authority or the Bond Trustee has established a special record date for such consent or other action. The Authority or the Bond Trustee shall give DTC notice of such special record date not fewer than fifteen calendar days in advance of such special record date to the extent possible.

The book-entry system for registration of the ownership of the Bonds may be discontinued at any time if either: (i) DTC determines to resign as Depository for the Bonds; or (ii) the Corporation determines (and notifies the Authority in writing of its determination and the Authority provides thirty days' notice of such discontinuation to the Bond Trustee and DTC) to discontinue the system of book-entry transfers through DTC (or through a successor Depository). Upon occurrence of either such event, the Authority may, at the request of the Corporation, attempt to establish a Depository book-entry relationship with another Depository. If the Authority does not do so, or is unable to do so, and after the Authority has notified DTC and upon surrender to the Bond Trustee of the Bonds held by DTC, the Authority will issue and the Bond Trustee will authenticate and deliver the Bonds in registered certificate form in authorized denominations, at the expense of the Corporation, to such Persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Authority, the Corporation or the Bond Trustee for the accuracy of such designation. Whenever DTC requests the Authority or the Bond Trustee to do so, the Authority or the Bond Trustee shall cooperate with DTC in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

Also see the information in APPENDIX G – “BOOK-ENTRY SYSTEM.”

## Redemption of Bonds

### Terms of Special and Mandatory Redemption.

(a) The Bonds are subject to redemption prior to their respective stated maturities, at the option of the Corporation in whole or in part (in such amounts as may be specified by the Corporation) on any date as soon as practicable following receipt by the Bond Trustee of, and to the extent of, amounts paid in respect of the extraordinary redemption of Obligation No. 3 pursuant to Supplement No. 3, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. Such extraordinary redemption of Obligation No. 3 shall occur upon written request from the Obligated Group, in whole or in part on any date, from and to the extent of any available net proceeds of insurance or condemnation awards, upon the occurrence of any of the following events:

(1) Any portion of the Property, Plant and Equipment of the Obligated Group shall have sustained loss or damage resulting in receipt of net proceeds of insurance in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group;

(2) Condemnation of all or any of the Property, Plant and Equipment of the Obligated Group resulting in receipt of net proceeds of an award therefor in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group; or

(3) Insured loss of title to any of the Property, Plant and Equipment of the Obligated Group resulting in receipt of net proceeds of insurance in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group.

The Master Trustee shall redeem all or such portion of Obligation No. 3, together with all other Obligations (or portions thereof) which provide for such extraordinary optional redemption, on a pro rata basis to the extent that they can be extraordinarily redeemed from and to the extent of net proceeds available therefor, without priority or preference of any such Obligation over any other such Obligation.

(b) The Bonds maturing on November 15, 2030 are also subject to redemption prior to their stated maturity in part on November 15, 2029, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, from Mandatory Sinking Account Payments as follows:

Mandatory Sinking Account Payment Date (November 15)	Mandatory Sinking Account Payments
2029	\$17,565,000
2030*	18,705,000

\* Maturity

(c) The Bonds maturing on November 15, 2033 are also subject to redemption prior to their stated maturity in part and to payment at maturity on any November 15 on or after November 15, 2031, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium, from Mandatory Sinking Account Payments as follows:

Mandatory Sinking Account Payment Date (November 15)	Mandatory Sinking Account Payments
2031	\$19,920,000
2032	21,215,000
2033*	22,595,000

\* Maturity

Terms of Optional Redemption. The Bonds shall be subject to redemption prior to their stated maturity at the option of the Corporation, in whole or in part (in such amounts as may be specified by the Corporation) on any date on or after November 15, 2014, in such maturities that may be specified by the Corporation and by lot within a maturity, at 100% of the principal amount of Bonds called for redemption, plus interest accrued thereon, if any, to the date fixed for redemption, without premium. The Bond Indenture permits the Corporation to purchase Bonds subject to optional redemption under certain circumstances. See “Purchase in Lieu of Redemption” below.

Notice of Redemption. Notice of redemption shall be mailed by the Bond Trustee by first class mail, not less than fifteen days nor more than sixty days prior to the redemption date, to the respective Holders of any Bonds designated for redemption at their addresses appearing on the bond registration books of the Bond Trustee. Each notice of redemption shall state the date of such notice, the Date of Issue of the Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Bond Trustee), 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.

Failure by the Bond Trustee to give notice pursuant to the Bond Indenture summarized above, 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 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.

Any notice of optional redemption may be rescinded by written notice given to the Bond Trustee by the Corporation no later than two Business Days prior to the date specified for redemption. The Bond Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner, and to the same persons, as notice of such redemption was given pursuant to the Bond Indenture.

Partial Redemption; Selection of Bonds for Redemption. Upon surrender of any Bond redeemed in part only, the Authority shall execute (but need not prepare) and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of the Corporation, a new Bond or Bonds of authorized denominations, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered. Whenever provision is made in the Bond Indenture for the redemption of less than all of the Bonds, the Bond Trustee shall select the Bonds to be redeemed within a maturity, from all such Bonds subject to redemption or such given portion thereof not previously called for redemption, by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair.

Effect of Redemption. Notice of redemption having been duly given as provided in the Bond Indenture, 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 being held by 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 to the date fixed for redemption from funds held by the Bond Trustee for such payment.

### **Purchase in Lieu of Redemption**

Each Holder, by purchase and acceptance of any Bond, irrevocably grants to the Corporation the option to purchase such Bond at any time such Bond is subject to optional redemption as described in the Bond Indenture and described above under the heading “Redemption of Bonds – Terms of Optional Redemption”. Such Bond is to be purchased at a purchase price equal to the then applicable Redemption Price of such Bond, plus accrued interest. The Corporation may only exercise such option after the Corporation shall have delivered a Favorable Opinion of Bond Counsel to the Bond Trustee, and shall have directed the Bond Trustee to provide notice of purchase, such notice to be provided, as and to the extent applicable, in accordance with the provisions of the Bond Indenture relating to notice of redemption. Bonds to be so purchased shall be selected by the Bond Trustee in the same manner as Bonds called for redemption pursuant to the Bond Indenture. On the date fixed for purchase of any Bond in lieu of redemption as described in this paragraph, the Corporation shall pay the purchase price of such Bond to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the Holders of the Bonds being purchased against delivery thereof. No purchase of any Bond in lieu of redemption as described in this paragraph shall operate to extinguish the indebtedness of the Authority evidenced by such Bond. No Holder or Beneficial Holder may elect to retain a Bond subject to purchase in lieu of redemption.

### **Events of Default and Remedies**

Events of Default. The Bond Indenture provides that the following events shall be Events of Default:

(a) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption from Mandatory Sinking Account Payments, by declaration of acceleration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(c) default by the Authority in the observance of any of the other covenants, agreements or conditions on its part contained in the Bond Indenture or in the Bonds, if such default shall have continued for a period of thirty 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 not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(d) a Loan Default Event. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE LOAN AGREEMENT – “Loan Default Events” and “—Remedies on Default” for information regarding events of default and remedies under the Loan Agreement.

Upon a Responsible Officer having actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify the Corporation, the Authority, the Holders of the Bonds and the Master Trustee in writing as soon as practicable; provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if the Corporation has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the Authority and the Master Trustee. If the Bond Trustee is notified by the Master Trustee of a Default or Event of Default (as such terms are defined in the Master Indenture) the Bond Trustee shall notify the Bondholders in writing as soon as practicable.

Remedies; Acceleration. Whenever any Event of Default under the Bond Indenture shall have happened and be continuing, the Bond Trustee may take the following remedial steps:

(a) In the case of any Event of Default described in clause (a) or (b) above under the heading “Events of Default,” the Bond Trustee may notify the Master Trustee of such Event of Default, make a demand for payment under Obligation No. 3 and request the Master Trustee in writing to give notice pursuant to the Master Indenture to the Members of the Obligated Group declaring the principal of all Obligations issued under the Master Indenture then outstanding to be due and immediately payable. Upon any such declaration by the Master Trustee, whether as a result of a request by the Bond Trustee or otherwise, the Bond Trustee may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration by the Bond Trustee the same shall become and shall be immediately due and payable, anything in the Bond Indenture to the contrary notwithstanding. In addition, the Bond Trustee may take whatever action at law or in equity is necessary or desirable to collect the payments due under Obligation No. 3;

(b) In the case of any Event of Default described in clause (c) above under the heading “Events of Default,” the Bond Trustee may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Authority with any covenant, condition or agreement by the Authority under the Bond Indenture; and

(c) In the case of an Event of Default described in clause (d) above under the heading “Events of Default,” the Bond Trustee may take whatever action the Authority would be entitled to take, and shall take whatever action the Authority would be required to take, pursuant to the Loan Agreement.

Any such declaration, however, is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Corporation shall deposit with the Bond Trustee a sum sufficient to pay all the principal or redemption price of and installments of interest on the Bonds, payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds, and the reasonable charges and expenses of the Bond Trustee, and if the Bond Trustee has received notification from the Master Trustee that the declaration of acceleration of Obligation No. 3 has been annulled pursuant to the Master Indenture and any and all other defaults actually known to a Responsible Officer of the Bond Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Bond Trustee or provision deemed by the Bond Trustee to be adequate shall have been made therefor, then, and in every such case, the Bond Trustee shall, on behalf of the Holders of all of the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission and annulment shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Immediately after any acceleration under the Bond Indenture, the Bond Trustee, to the extent it has not already done so, shall notify in writing the Authority and the Corporation of the occurrence of such acceleration.

Notice of such declaration having been given as aforesaid, anything to the contrary contained in the Bond Indenture or in the Bonds notwithstanding, interest shall cease to accrue on such Bonds from and after the date set forth in such notice (which shall be not more than seven days from the date of such declaration).

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE BOND INDENTURE – Application of Revenues and Other Funds After Default” for further information about the effects of the occurrence of an Event of Default.

### **Bond Register; Transfer and Exchange of Bonds**

The Bond Indenture provides that the Bond Trustee will keep or cause to be kept sufficient books for the registration and transfer of the Bonds, which shall at all times (during regular business hours at the location where such books are kept) be open to inspection by any Bondholder or his agent duly authorized in writing, the Authority or the Corporation; and, upon presentation for such purpose, the Bond Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on such books, Bonds as described below.

Subject to the provisions of the Bond Indenture summarized above under the heading “Book-Entry System,” Bonds may be exchanged at the designated corporate trust office of the Bond Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and, the Bond Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Authority in connection with such exchange. The Bond Trustee shall not be required to exchange (a) any Bond during the fifteen days next preceding the date on which notice of redemption of Bonds is given or (b) any Bond called for redemption.

Subject to the provisions of the Bond Indenture and summarized above under the heading “Book-Entry System,” any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Indenture, by the Person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Corporate Trust Office of the Bond Trustee, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer and the conditions set forth in the immediately preceding paragraph have been satisfied, the Authority shall execute and the Bond Trustee shall authenticate and deliver a new Bond or Bonds of the same maturity and for a like aggregate principal amount. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Bond Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Authority in connection with such transfer. The Bond Trustee shall not be required to transfer (a) any Bond during the fifteen days next preceding the date on which notice of redemption of the Bonds is given, or (b) any Bond called for redemption.

## **THE OBLIGOR**

### **The Corporation**

The Corporation is currently the only member of the Obligated Group created pursuant to the Master Indenture. The Corporation is a Washington nonprofit corporation and an organization described in

Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (a “501(c)(3) Organization”) that owns and operates an integrated health care delivery system providing inpatient, outpatient and other health care services at multiple locations in the greater Seattle area. The Corporation was originally incorporated in 1908 as The Swedish Hospital, a 24-bed hospital in downtown Seattle. In 1978, Seattle General Hospital, The Doctors Hospital, and Swedish Hospital merged to form Swedish Medical Center. In 1992, Ballard Community Hospital merged into Swedish Medical Center. In 1993, Swedish Medical Center changed its name to Swedish Health Services. In 2000, Providence Medical Center merged into the Corporation. Currently, the Corporation owns and operates hospital facilities with a total of 1,245 acute-care licensed beds located on three campuses in Seattle, Washington: Swedish Medical Center/First Hill (the “First Hill Campus”), Swedish Medical Center/Cherry Hill (the “Cherry Hill Campus”) and Swedish Medical Center/Ballard (the “Ballard Campus”). Swedish also operates an emergency department and other outpatient services in Issaquah, Washington (the “Issaquah Campus”), a community approximately twenty miles east of Seattle, and has been granted a certificate of need to establish a new 175-bed hospital in Issaquah. See APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP” and APPENDIX B – “SWEDISH HEALTH SERVICES COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006.”

### **Obligated Group Affiliates**

Under the Master Indenture, the Corporation, as Obligated Group Agent, may designate “Obligated Group Affiliates” from time to time and may rescind any such designation at any time. Obligated Group Affiliates are not obligated to make payments with respect to the Obligations or any other Obligations issued under the Master Indenture, but may be required to pay or otherwise transfer to the Obligated Group Agent amounts necessary to enable the Corporation to pay when due the principal of and premium, if any, and interest on the Obligations outstanding under the Master Indenture.

The only Obligated Group Affiliate that has been designated by the Corporation is the Swedish Medical Center Foundation (the “Foundation”). The Foundation is a Washington nonprofit corporation and a 501(c)(3) Organization of which the Corporation is the sole corporate member. Its purpose is to provide funding and other support to the Corporation. The Foundation is governed by a 19 member board of directors elected by the Corporation’s board of trustees and including three ex-officio nonvoting members, the Corporation’s Chief Legal Counsel and Executive Vice President/Chief Financial Officer and the Foundation Executive Director. The Foundation’s audited financial statements are consolidated with those of the Corporation. See APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP” and APPENDIX B – “SWEDISH HEALTH SERVICES COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006.”

## **SOURCE OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The enforcement of the obligations and agreements described under this section will depend upon the availability and enforceability of remedies. For a description of certain possible limitations on such remedies and thus the obligations and agreements, see the information under “BONDHOLDERS’ RISKS – Risks Relating to Security and Enforcement of Remedies.”

### **Limitation of State and Authority Liability**

The Bonds do not constitute an obligation, either general, special or moral, of the State, or a pledge of the faith and credit of the State, or a general obligation of the Authority. The Holders (including Beneficial

Holder(s) of the Bonds have no right to require the State or the Authority, nor has the State or the Authority any obligation or legal authorization, to levy any taxes or appropriate or expend any of their respective funds for the payment of the principal thereof or the interest or any premium on the Bonds.

### **Source of Payment for the Bonds**

Loan Repayments. The Corporation agrees in the Loan Agreement to make payments, or cause payments to be made, 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 (the “Loan Repayments”). The Loan Agreement provides that the obligations of the Corporation thereunder and pursuant to Obligation No. 3, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 3, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 4, the Master Indenture or the Bond Indenture. For further information about Loan Repayments and credits against such required payments, see APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE LOAN AGREEMENT – Payments of Principal, Premium and Interest” and “—Credits for Payments.”

Obligation No. 3. In consideration of the issuance of the Bonds by the Authority and the application of the proceeds thereof as provided in the Bond Indenture, the Corporation agrees in the Loan Agreement to issue, or cause to be issued, pursuant to the Master Indenture and Supplement No. 4, concurrently with the issuance and delivery of the Bonds, Obligation No. 3 which evidences the joint and several obligation of the Members to make payments required of the Corporation pursuant to the Loan Agreement. The Authority agrees that Obligation No. 3 shall be registered in the name of the Bond Trustee. Obligation No. 3 is secured on a parity with other outstanding Obligations under the Master Indenture, including Obligation No. 1, Obligation No. 2A and Obligation No. 2B. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE – Series, Designation and Amount of Obligations” and “— AMENDING SUPPLEMENT — Limitation on Additional Indebtedness” for further information about the Obligations, including the circumstances under which the Corporation may issue additional Obligations which also will be secured on a parity with Obligation No. 3.

All Members of the Obligated Group are jointly and severally liable with respect to the payment of each such Obligation. Although the Corporation is the only Member of the Obligated Group as of the date hereof, other Members may join the Obligated Group following the issuance of the Bonds, and existing Members may withdraw, upon compliance with the applicable requirements of the Master Indenture. For a discussion of admission to or withdrawal from membership in the Obligated Group, see APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE – Entrance Into the Obligated Group” and “– Cessation of Status as a Member of the Obligated Group.” The Corporation covenants in Supplement No. 4 that it will continue to be a Member of the Obligated Group for so long as Obligation No. 3 is Outstanding under the Master Indenture. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – SUPPLEMENTAL INDENTURE NO. 4 AND OBLIGATION NO. 3 – Status as Member.”

Special Fund Obligations. The principal of and interest and premium, if any, on the Bonds shall be payable solely from the Bond Fund, a special fund consisting of the Principal Account, the Interest Account, the Redemption Account and the Reserve Account. See information below under the caption “Reserve Account” for further information about that account. The money and investments held in the accounts in the Bond Fund shall be held in trust by the Bond Trustee, separate and apart from all other funds and accounts of the Authority, the Corporation and the Bond Trustee, and shall be maintained as long as any



Bonds remain Outstanding. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE BOND INDENTURE – Trust Estate; Establishment and Application of Bond Fund” for further information about the Bond Fund.

Other than the Authority’s special limited obligation to apply the money and investments in the Bond Fund from time to time to the payment of the Bonds, neither the State nor the Authority has any legal or moral obligation or ability to pay or contribute to the payment of the Bonds. See “Limitation of State and Authority Liability” herein.

### **Security for the Bonds Under the Bond Indenture and the Loan Agreement**

Security Interest in Trust Estate Under the Bond Indenture. In order to secure the payment of the principal of the Bonds, and the interest and the premium, if any, thereon, the Authority grants, pursuant to the Bond Indenture a lien against and a security interest in, the following (collectively, the “Trust Estate”):

(a) All rights, title and interests of the Authority in and under the Loan Agreement and Obligation No. 3 (with certain reservations and exceptions noted in the Loan Agreement), including, but not limited to, the lien against and security interests in the Corporation’s interests, if any, in the money and investments in the Bond Fund and the Costs of Issuance Fund and the Project Fund, and the present and continuing right thereunder to (i) make claim for, collect or cause to be collected, receive or cause to be received all sums payable or receivable thereunder, (ii) to bring actions and proceedings thereunder or for the enforcement thereof, and (iii) to do the things which the Authority is or may become entitled to do under the Loan Agreement and Obligation No. 3; and

(b) All rights, title and interests of the Authority in and to the rents, issues, profits, income, revenues and receipts derived by the Authority from the Trust Estate or any part thereof, it being the intent and purpose that the assignment and transfer to the Bond Trustee of the rents, issues, profits, income, revenues and receipts derived from the Trust Estate shall be effective and operative immediately and shall continue in full force and effect, and the Bond Trustee shall have the right to collect and receive said rents, issues, profits, income, revenues and receipts derived from the Trust Estate for application in accordance with the provisions of the Bond Indenture, at all times during the period from and after the date of the Bond Indenture until the Bonds shall have been fully paid and discharged or the lien of the Bond Indenture shall have been defeased in accordance thereof; and

(c) The Revenues, the Bond Fund, the Costs of Issuance Fund and the Project Fund, and the amounts on deposit therein from time to time, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions as set forth therein; and

(d) Any and all other Property, or interest therein, of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, pledged, assigned or transferred, or security interests with respect thereto granted, as and for additional security for the Bonds by the Authority or the Corporation or by anyone on its behalf or with their written consent in favor of the Bond Trustee, which is authorized by the Bond Indenture to receive any and all such property at any and all times and to hold and apply the same subject to the terms thereof; and

(e) All revenues, money, investments, general intangibles and instruments and the income, interest and proceeds of any of the foregoing and on any of the foregoing.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE BOND INDENTURE – DEFINITIONS OF CERTAIN TERMS” for capitalized terms used and not otherwise herein defined.

The Authority's Covenant Against Encumbrances. The Authority covenants in the Bond Indenture that it shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned thereunder while any of the Bonds are Outstanding, except the pledges and assignments created by the Bond Indenture, and will assist the Bond Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Security Interest in the Corporation's Interest in Certain Funds. To secure the obligation to make the Loan Repayments and the other obligations, agreements and covenants to be performed and observed under the Loan Agreement, the Corporation grants to the Authority, pursuant to the Loan Agreement, security interests in its interests, if any, in the money and investments in the Bond Fund, the Costs of Issuance Fund and the Project Fund. Said security interests shall attach at the moment of acquisition of any such money and investments belonging to said Funds, and shall be free and clear of all prior liens, encumbrances and defects.

The Loan Agreement further provides that the Authority shall endorse and assign all of its right, title and interest in Obligation No. 3 and the money and investments in the Bond Fund, the Costs of Issuance Fund and the Project Fund to the Bond Trustee, in trust and without recourse, to secure all Outstanding Bonds as and to the extent described in the Granting Clauses of the Bond Indenture. See "Security Interest in Trust Estate Under the Bond Indenture" above.

The Reserve Account. The Bond Indenture establishes a Reserve Account within the Bond Fund which shall be initially funded on the Date of Issue in an amount equal to the Reserve Account Requirement of \$9,790,382.91, which is equal to 10% of the proceeds of the Bonds.

The Bond Indenture provides that all amounts in the Reserve Account shall be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account or (together with any other money available therefor) for the redemption of all Bonds then Outstanding.

Amounts on deposit in the Reserve Account shall be valued by the Bond Trustee at their market value on (i) each date that the Bond Trustee withdraws any amounts therein for the purpose of making up any deficiency in the Interest Account or the Principal Account and (ii) each November 15, if no valuation of the Reserve Account is required on such date pursuant to the immediately preceding clause (i). The Bond Trustee shall promptly notify the Corporation of the results of each such valuation and if such valuation was conducted pursuant to the immediately preceding clause (i) or clause (ii). If the amount on deposit in the Reserve Account on any day following such valuation is less than the Reserve Account Requirement due to a valuation of such amount as set forth in clause (ii) above, the Bond Trustee shall promptly notify the Corporation and the Corporation shall, pursuant to the Loan Agreement, deposit the amount necessary to increase the balance in said account to the Reserve Account Requirement within three Business Days of receipt of notice. If the amount on deposit in the Reserve Account is less than the Reserve Account Requirement due to a valuation of such amount as set forth in clause (i) above, the Corporation shall transfer to the Bond Trustee on or before the tenth Business Day of each calendar month, commencing with the calendar month immediately succeeding receipt of such notice, one-twelfth of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or the Principal Account; provided that no such payment need be made to the extent the balance in such account shall be at least equal to the Reserve Account Requirement or if the Reserve Account is not required to be funded as provided in the Bond Indenture. If the amount on deposit in the Reserve Account on any day following such valuation is more than the Reserve Account Requirement, the amount in excess of the Reserve Account Requirement shall be withdrawn by the Bond Trustee from the Reserve Account and transferred to the Interest Account.

See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT – THE BOND INDENTURE – Establishment of Funds and Account — *Reserve Account*.”

Gross Receivables Pledge. Pursuant to the Master Indenture, each Obligated Group Member pledges and assigns to the Master Trustee a security interest in the Gross Receivables of that Obligated Group Member and the proceeds thereof, subject to Permitted Encumbrances. See “—Security Under the Master Indenture – Gross Receivables Pledge” below.

### **Security Under the Master Indenture**

General. Under the Master Indenture, the Corporation or any future Member of the Obligated Group is authorized (with the approval of the Corporation) to incur, pursuant to a supplement to the Master Indenture, for itself and on behalf of the other Members of the Obligated Group, Obligations to evidence or secure Indebtedness (or other obligations of a Member not constituting Indebtedness). Concurrently with the delivery of the Bonds, the Corporation, as the only Member currently of the Obligated Group, and the Master Trustee will enter into Supplement No. 4 providing for the issuance of Obligation No. 3.

Obligation No. 3. The Corporation’s obligations under the Loan Agreement will be additionally evidenced by Obligation No. 3 issued by the Corporation as a Member of the Obligated Group. Obligation No. 3 is the fourth Obligation to be issued under the Master Indenture and evidences the obligations of the Corporation to make payments under the Loan Agreement as provided therein. Obligation No. 3 will be delivered to the Bond Trustee, as assignee of the Authority. In addition to Obligation No. 3, the Corporation, as the only current Member of the Obligated Group, has previously issued its (i) Obligation No. 1 to the Authority in the aggregate principal amount of \$258,520,000, to evidence the obligations of the Corporation and any future Members of the Obligated Group with respect to the Authority’s Revenue Bonds, Series 1998 (Swedish Health Services) (the “Series 1998 Bonds”); (ii) Obligation No. 2A to the Authority in the aggregate principal amount of \$200,000,000 in connection with the issuance of the Authority’s Revenue Bonds, Series 2006 (Swedish Health Services) (the “Series 2006 Bonds”); and, (iii) Obligation No. 2B in the aggregate principal amount of \$203,353,425 to a bank providing a letter of credit which supports payment and purchase of the Series 2006 Bonds. Obligation No. 3 will be secured on a parity with Obligation Nos. 1, 2A and 2B. See “PLAN OF FINANCE.”

Gross Receivables Pledge. The Amending Supplement provides that to secure the payment of Required Payments and the performance by the Obligated Group Members of their other obligations under the Master Indenture, each Obligated Group Member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all of its right, title and interest, whether now owned or hereafter acquired, in and to (a) the Gross Receivables of that Obligated Group Member, and (b) the proceeds thereof (collectively, the “Collateral”), subject to Permitted Encumbrances.

#### Liens on Property.

The Master Indenture provides that Members shall not, and a Controlling Member shall not permit any of its Obligated Group Affiliates to, create or incur or permit to be created or incurred or to exist any Lien on any Property of any Member or any Obligated Group Affiliate, except Permitted Encumbrances. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE DEFINITIONS.” Each Member shall, and each Controlling Member shall cause its Obligated Group Affiliates to, report to the Obligated Group Agent, the creation of a Lien on its Property prior to the creation of the Lien to the extent within its power and control. The Obligated Group Agent shall monitor the compliance of the Members and Obligated Group Affiliates

with this provision of the Master Indenture, and the Master Trustee shall have no duty to monitor such compliance by the Members and Obligated Group Affiliates.

Covenants Under Master Indenture. The Master Indenture includes financial and reporting covenants. See the information herein under the heading “CERTAIN COVENANTS OF THE OBLIGATED GROUP” and in APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE – Coverage Test,” “ – Financial Statements, Etc.” and “ – SUPPLEMENT NO. 4 AND OBLIGATION NO. 3 – Excess of Revenues over Expenses Covenant.”

Obligated Group Members. As of the date of issuance and delivery of the Bonds, the Corporation will be the only Member of the Obligated Group, and as such will be solely liable for payment of the Obligations issued under the Master Indenture. The Corporation and any future Members of the Obligated Group will be jointly and severally liable with respect to the payment of each Obligation, including Obligation No. 3, incurred 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. 3 and all other Obligations Outstanding under the Master Indenture; however, management of the Corporation has no intention of adding additional Members to the Obligated Group in the immediately foreseeable future. Additionally, in accordance with the Master Indenture, Members may withdraw from the Obligated Group from time to time. For a more detailed discussion of entry to or withdrawal from the Obligated Group under the Master Indenture, see APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE – Entrance into the Obligated Group” and “– Cessation of Status as a Member of the Obligated Group.” The Corporation will covenant in Supplement No. 4 to continue to be a Member of the Obligated Group for so long as Obligation No. 3 remains outstanding under the Master Indenture.

Obligated Group Affiliates. Under the Master Indenture, the Corporation, as the Obligated Group Agent, may, by resolution, designate “Obligated Group Affiliates” from time to time, and may rescind any such designation at any time. See information above under the caption “THE OBLIGOR – Obligated Group Affiliates” and APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – RELATED ENTITIES – Obligated Group Affiliates.” Also see “BONDHOLDERS’ RISKS – Risks Related to Security and Enforcement of Remedies” for additional information regarding limitations on the enforcement of the Master Indenture against Obligated Group Affiliates.

Substitution of Obligations. The Corporation covenants and agrees in Supplement No. 4 that so long as Obligation No. 3 remains Outstanding under the Master Indenture it will not exercise the option to substitute all Obligations issued under the Master Indenture in accordance with the Master Indenture without the prior written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – SUPPLEMENTAL INDENTURE NO. 4 AND OBLIGATION NO. 3 – Substitution of Obligations.”

Additional Indebtedness. The ability of the Corporation and any future Member of the Obligated Group or Obligated Group Affiliate to incur additional indebtedness, including additional indebtedness evidenced by Obligations, and the amount and terms of such additional indebtedness, is limited by the provisions of the Master Indenture. See “CERTAIN COVENANTS OF THE OBLIGATED GROUP – Limitations on Additional Indebtedness” below and APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – AMENDING SUPPLEMENT – Limitation on Additional Indebtedness.”

Assignment of Rights Under Obligation No. 3 to Bond Trustee. The Authority will assign, without recourse, its rights in Obligation No. 3 to the Bond Trustee for the benefit of the Holders of all Outstanding Bonds.

## PLAN OF FINANCE

### **The Project; Uses of Proceeds of Variable Rate Indebtedness**

The Bonds are being issued for the purposes of providing all or a portion of the funds needed for the (i) reimbursement of certain capital expenditures incurred by the Corporation for the remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities including the expansion of its orthopedic services located in Seattle, Washington; (ii) financing costs of certain capital expenditures to be incurred by the Corporation for remodeling constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities (collectively, the “Project”); (iii) funding of a Reserve Account; and (iv) payment of certain costs of issuing the Bonds. See APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – PROJECT” for further information about the Project. A portion of the costs of the Project are expected to be paid with the proceeds of variable rate indebtedness. See “– Proposed Issuance of Variable Rate Indebtedness” below.

### **Proposed Issuance of Variable Rate Indebtedness**

In addition to the Bonds, the Corporation has requested that the Authority issue one or more series of variable rate bonds (collectively, the “Series 2009 Variable Rate Bonds”) in the aggregate principal amount of \$150,000,000, the proceeds of which, if issued, will be loaned to the Corporation for the purposes of providing funds for a portion of the Project as well as for the refunding of a portion of the Series 2006 Bonds. The issuance of the Series 2009 Variable Rate Bonds was approved by the Authority on March 12, 2009. If issued by the Authority, the Series 2009 Variable Rate Bonds are expected to be issued simultaneously with the issuance of the Bonds. If the Series 2009 Variable Rate Bonds are issued concurrently with the Bonds, obligations of the Corporation to make payments under the loan agreement relating to the Series 2009 Variable Rate Bonds and the reimbursement Obligations of the Corporation under agreement(s) with one or more liquidity provider(s) with respect to the Series 2009 Variable Rate Bonds are expected to be evidenced by Obligations to be issued under the Master Indenture simultaneously with the issuance of Obligation No. 3. **Although the Authority has approved the issuance of the Series 2009 Variable Rate Bonds, there is no guaranty that such variable rate bonds will be issued.** The Corporation has received commitment(s) from one or more commercial bank(s) with respect to the issuance of letter(s) of credit which would support payment of principal, interest and purchase price of the Series 2009 Variable Rate Bonds. Without such letter(s) of credit, the Series 2009 Variable Rate Bonds will not be issued.

The Series 2006 Bonds were originally issued to finance (i) the acquisition, construction, remodeling, renovation, and equipping of certain of the Corporation’s health care and related facilities located at or near the Corporation’s First Hill, Ballard, and Providence campuses, including the construction and equipping of a neuroscience institute, heart and vascular facilities, infrastructure at the Providence Center Building, and routine capital expenditures for the 2006 and 2007 fiscal years and (ii) the payment of costs relating to issuing the Series 2006 Bonds, including without limitation amounts paid for a letter of credit supporting payment and purchase of the Series 2006 Bonds.

The Series 2006 Bonds were originally issued in the aggregate principal amount of \$200,000,000. It is anticipated that after the issuance of the Bonds and the Series 2009 Variable Rate Bonds, and the refunding of a portion of the Series 2006 Bonds, \$100,000,000 aggregate principal amount of the Series 2006 Bonds will remain outstanding.

## FISCAL YEAR DEBT SERVICE REQUIREMENTS

The amounts required in each Fiscal Year ending December 31 for the payment of the principal of (at maturity or by mandatory sinking fund redemption) and interest on the Bonds, the Series 1998 Bonds, the Series 2006 Bonds which will remain outstanding after the Series 2009 Variable Rate Bonds are issued and the Series 2009 Variable Rate Bonds (see “PLAN OF FINANCE” above) are set forth in the following table:

Fiscal Year Ending December 31	Bonds		Series 1998 Bonds Total	Series 2006	Series 2009	Total Debt Service
	Principal	Interest		Bonds Total <sup>(1)</sup>	Variable Rate Bonds Total <sup>(2)</sup>	
2009	--	\$4,261,111	\$17,264,194	\$3,913,167	\$3,127,000	\$28,565,472
2010	--	6,500,000	17,263,444	3,180,000	4,770,000	31,713,444
2011	--	6,500,000	17,260,669	3,180,000	4,770,000	31,710,669
2012	--	6,500,000	17,259,350	8,465,787	4,770,000	36,995,137
2013	--	6,500,000	17,263,075	8,461,490	4,770,000	36,994,565
2014	--	6,500,000	17,259,800	8,461,911	4,770,000	36,991,711
2015	--	6,500,000	17,263,700	8,461,748	4,770,000	36,995,448
2016	--	6,500,000	17,259,288	8,465,825	4,770,000	36,995,112
2017	--	6,500,000	17,262,906	8,458,878	4,770,000	36,991,784
2018	--	6,500,000	17,262,950	8,460,993	4,770,000	36,993,943
2019	--	6,500,000	17,263,394	8,461,731	4,770,000	36,995,125
2020	--	6,500,000	17,262,956	8,460,931	4,770,000	36,993,888
2021	--	6,500,000	17,260,356	8,463,418	4,770,000	36,993,774
2022	--	6,500,000	17,259,313	8,463,890	4,770,000	36,993,202
2023	--	6,500,000	17,263,288	8,462,189	4,770,000	36,995,476
2024	--	6,500,000	17,259,688	8,463,138	4,770,000	36,992,825
2025	--	6,500,000	17,261,438	8,461,436	4,770,000	36,992,874
2026	--	6,500,000	17,261,438	8,461,908	4,770,000	36,993,345
2027	--	6,500,000	17,262,850		4,770,000	28,532,850
2028	--	6,500,000	17,259,800		4,770,000	28,529,800
2029	\$17,565,000	6,500,000			4,770,000	28,835,000
2030	18,705,000	5,358,275			4,770,000	28,833,275
2031	19,920,000	4,142,450			4,770,000	28,832,450
2032	21,215,000	2,847,650			4,770,000	28,832,650
2033	22,595,000	1,468,675			4,770,000	28,833,675
2034					29,575,000	29,575,000
2035					29,576,201	29,576,201
2036					26,912,280	26,912,280
2037					26,912,189	26,912,189
2038					26,908,089	26,908,089
2039					26,909,344	26,909,344

<sup>(1)</sup> The Corporation intends to refund a portion of the Series 2006 Bonds with funds expected to be loaned to the Corporation from the Authority in connection with the proposed issuance of the Series 2009 Variable Rate Bonds. See “PLAN OF FINANCE – Proposed Issuance of Variable Rate Indebtedness.” The debt service in this column assumes (i) that such partial refunding will occur simultaneously with the issuance of the Series 2009 Variable Rate Bonds and (ii) that the average interest rate on the Series 2006 Bonds is 3.18%.

<sup>(2)</sup> Assumes issuance of the Series 2009 Variable Rate Bonds in the aggregate principal amount of \$150,000,000 and that the average interest rate on the Series 2009 Variable Rate Bonds is 3.18%. See “PLAN OF FINANCE – Proposed Issuance of Variable Rate Indebtedness.”

The Corporation’s actual historical debt service coverage ratio as of December 31, 2006 and December 31, 2007 was 5.61x and 5.13x, respectively. See APPENDIX A “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Estimated Debt Service Coverage” for further information regarding debt service coverage including the assumptions used to determine these ratios.

## ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds and the sale of the Series 2009 Variable Rate Bonds, together with other available funds, are expected to be applied as follows:

### Sources of Funds

Par Amount of Bonds	\$100,000,000.00
Minus Original Issue Discount	(2,096,170.90)
Par Amount of Series 2009 Variable Rate Bonds <sup>(1)</sup>	<u>150,000,000.00</u>
Total Sources of Funds	<u>\$247,903,829.10</u>

### Uses of Funds

Deposit to Project Funds <sup>(2)</sup>	134,313,955.44
Deposit to Reserve Account for the Bonds <sup>(3)</sup>	9,790,382.91
Issuance Costs <sup>(4)</sup>	3,799,490.75
Refunding of portion of Series 2006 Bonds <sup>(5)</sup>	<u>100,000,000.00</u>
Total Uses of Funds	<u>\$247,903,829.10</u>

<sup>(1)</sup> See “PLAN OF FINANCE – Proposed Issuance of Variable Rate Indebtedness” above.

<sup>(2)</sup> Includes the Project Fund for the Bonds and the project fund with respect to the Series 2009 Variable Rate Bonds.

<sup>(3)</sup> Equal to the amount necessary to fully fund the Reserve Account at the Reserve Account Requirement on the Date of Issue with respect to the Bonds.

<sup>(4)</sup> Includes Underwriters’ discount, fees and expenses of the Bond Trustee, Master Trustee and rating agencies, legal, accounting and other fees and expenses of issuance of the Bonds and the Series 2009 Variable Rate Bonds. Also includes costs relating to the initial letters of credit to support payment and purchase of the Series 2009 Variable Rate Bonds.

<sup>(5)</sup> See “PLAN OF FINANCE – Proposed Issuance of Variable Rate Indebtedness” above.

## CERTAIN COVENANTS OF THE OBLIGATED GROUP

The Master Indenture requires the Members of the Obligated Group to comply with certain financial covenants contained therein. Some, but not all of these provisions are summarized below. See APPENDIX D – “SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – THE MASTER INDENTURE” for further information with respect to these and other financial and operating covenants; and “—MASTER INDENTURE DEFINITIONS” for capitalized terms used in this section and not otherwise defined herein. Further, each Member covenants in the Master Indenture that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained therein.

### Coverage Test

Each Member covenants and agrees in the Master Indenture to provide, and each Controlling Member covenants and agrees to cause each of its Obligated Group Affiliates to provide, funds sufficient to pay promptly all payments due on its Indebtedness and other liabilities, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture to the extent permitted by law. Each Member further covenants and agrees in the Master Indenture that it will, and each Controlling Member covenants that it will cause each of its Obligated Group Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its methods of operation and its rates, fees and charges in such manner as may be necessary or proper to comply with this provision of the Master Indenture.

No later than six months following the end of each Fiscal Year, the Obligated Group Agent is required to deliver an Officer’s Certificate to the Master Trustee and each Related Issuer, Related Bond

Trustee and Related Bond Insurer showing a calculation of the Historical Debt Service Coverage Ratio for the Obligated Group and the Obligated Group Affiliates for the prior Fiscal Year. If, for any Fiscal Year, the Coverage Test was not met, the Obligated Group Agent is to retain a Consultant to make written recommendations to increase the Historical Debt Service Coverage Ratio for subsequent Fiscal Years to at least meet the Coverage Test or, if in the written opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member covenants and agrees in the Master Indenture, and each Controlling Member covenants in the Master Indenture to cause each of its Obligated Group Affiliates to follow the recommendations of the Consultant, to the extent feasible. So long as the Obligated Group Agent retains a Consultant and the Member follows, and each Controlling Member causes each of its Obligated Group Affiliates to follow, such Consultant's recommendations to the extent feasible, the failure to meet the Coverage Test will not constitute a Master Indenture Default, unless and until the Historical Debt Service Coverage Ratio falls below 1.0:1. Notwithstanding the foregoing, the Obligated Group Agent is not required to retain a Consultant more frequently than every two years.

The Master Indenture provision summarized above is not to be construed to prohibit any Member or Obligated Group Affiliate which is a Tax-Exempt Organization from serving indigent patients or from serving any other class or classes of patients without charge or at reduced rates to the extent necessary to preserve such status as a Tax-Exempt Organization.

See APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Estimated Debt Service Coverage.”

#### **Excess of Revenues over Expenses Covenant**

(a) Supplement No. 4 requires that within 15 days following receipt of the Obligated Group Financial Statements for any Fiscal Year, the Corporation provide an Officer's Certificate of the Obligated Group Agent showing (1) the Excess of Revenues over Expenses for each of the four full Fiscal Years ending with the Fiscal Year which is the subject of such Obligated Group Financial Statements, and (2) the Cushion Ratio for the then-current Fiscal Year to the Authority and the Master Trustee.

(b) If the Officer's Certificate described in clause (a) above discloses that (i) the Excess of Revenues over Expenses was negative for the previous two full Fiscal Years, with the Excess of Revenues over Expenses for the most recent Fiscal Year being less than the Excess of Revenues over Expenses for the penultimate Fiscal Year, or (ii) the Excess of Revenues over Expenses was negative for three of the past four full Fiscal Years, then, unless the Cushion Ratio for the current Fiscal Year is greater than 2.50:1, not later than the 15<sup>th</sup> day following delivery of such Officer's Certificate, the Obligated Group must retain, at its expense, a Consultant to make recommendations as to the methods of operation of the Obligated Group which are intended to result in a positive Excess of Revenues over Expenses in the next following Fiscal Year or sooner; and require such Consultant to submit its recommendations in writing within 90 days after being retained. Copies of the Consultant's recommendations are to be filed with the Authority and the Master Trustee; provided, however, that if either (A) the Cushion Ratio for the current Fiscal Year is greater than the 2.50:1, or (B) the Authority waives the enforcement of this covenant by a written instrument delivered to the Master Trustee, then the Obligated Group will be excused from retaining the Consultant otherwise required in the Master Indenture and described in this clause (b).

(c) If the Obligated Group is required to retain a Consultant as described above in clause (b), then, promptly upon receipt of such Consultant's recommendations, each Member will, and each Controlling Member will cause each of its Obligated Group Affiliates to, revise its methods of operations and take such other actions as shall be in conformity with such recommendations to the extent feasible; provided, however, that if any Member or Obligated Group Affiliate determines in good faith, by Board Resolution passed by at least two-thirds of its full Governing Body, that any such recommendation is impossible or wholly



detrimental to its operations or purposes, states the reasons for such determination, and delivers to the Authority and the Master Trustee true and correct copies of such Board Resolution, then such Member or Obligated Group Affiliate will be excused from compliance with the applicable recommendation of the Consultant.

(d) If and so long as each Member and each Obligated Group Affiliate complies in all material respects with the recommendations of the Consultant, as evidenced by an Officer's Certificate of the Obligated Group Agent, or has been excused from compliance as provided in the Master Indenture and described above in clause (c) above, the failure of the Obligated Group to meet these requirements in the full Fiscal Year following the Fiscal Year during which such recommendations are submitted will not constitute a default under the Master Indenture; provided, however, that the provisions summarized in this paragraph (d) may not be construed as in any way excusing such Member or Obligated Group Affiliate from taking any action or performing any other duty required under the Master Indenture, or be construed as constituting a waiver of any other defaults thereunder; and provided further, that the Obligated Group is not required to retain a Consultant to make recommendations pursuant to this provision more frequently than biennially.

### **Limitations on Additional Indebtedness**

Each Member of the Obligated Group covenants in the Amending Supplement that it will not incur, and that it will not permit its Obligated Group Affiliates to incur, any Indebtedness so long as any Obligation is Outstanding, except that the Members and Obligated Group 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 Long-Term 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 Long-Term Debt Service Coverage Ratio for each of the two most recent Fiscal Years was not less than 1.25:1.0 and (B) the Long-Term 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 projected to be 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 15%, calculated without regard to clause (d) of the definition of Maximum Annual Debt Service (see APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF MASTER INDENTURE DOCUMENTS – MASTER INDENTURE DEFINITIONS.")

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

(i) The total amount of such Short-Term Indebtedness will not exceed 15% of Total Revenues; and

(ii) The total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision described in paragraph (h) below then Outstanding will not exceed 25% of Total Revenues; and

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

(d) Nonrecourse Indebtedness, provided that, as certified in an Officer's Certificate delivered to the Master Trustee, the proceeds of Nonrecourse Indebtedness shall not be used to acquire or construct facilities which replace existing facilities of the Members or the Obligated Group Affiliates which generated more than 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 10%.

(f) Subordinated Indebtedness, without limitation.

(g) The Bonds, the Series 2009 Variable Rate Bonds and liquidity support reimbursement obligations in connection therewith.

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

For the purposes of this limitation of Additional Indebtedness, a Guarantee by any Member or Obligated Group Affiliate of Indebtedness of any other Member or Obligated Group Affiliate, or principal or interest on Indebtedness of a Member or Obligated Group Affiliate to any other Member or Obligated Group Affiliate, will not constitute Indebtedness. If more than one Member or Obligated Group Affiliate has incurred or assumed a Guaranty of a Person (other than a Member or Obligated Group Affiliate), or if more than one Member or Obligated Group Affiliate is obligated to pay any obligation, such Guaranty or obligation will be included as "Indebtedness" only one time.

## **THE AUTHORITY**

The Authority was created in 1974 by the Legislature of the State of Washington (the "State"), pursuant to the Act and is empowered to issue special fund revenue bonds and to make the proceeds thereof available to private, nonprofit corporations and municipal corporations authorized to operate healthcare facilities ("Healthcare Participants") for the purpose of minimizing the costs of providing such facilities. The Authority has the statutory power to make loans of such proceeds to Healthcare Participants for such purpose, to accept security for the repayment thereof, to refund its outstanding bonds and existing obligations of participating healthcare institutions for completed projects, to create special funds for the payment of its bonds and other powers related thereto.

The Act requires the Authority, upon request of an applicant for bond financing, to investigate and determine the need and feasibility of providing such bonds. In making such investigation, the Authority necessarily relies upon certain information provided by the applicant and others, including, but not limited to, the applicant's accountants and the certificate of need division of the State's Department of Health and the Authority does not undertake to verify independently such information. SUCH INVESTIGATION AND

DETERMINATION ARE MADE FOR THE LIMITED PURPOSE OF SATISFYING THE AUTHORITY'S STATUTORY OBLIGATION TO FIND THAT PROVIDING SUCH FINANCING IS NECESSARY OR ADVISABLE FOR THE BENEFIT OF THE PUBLIC HEALTH, AND SHOULD NOT BE REGARDED AS THE AUTHORITY'S RECOMMENDATION OF THE BONDS TO, OR OTHERWISE BE RELIED UPON BY, THE OFFEREEES OR PURCHASERS OF THE BONDS.

The Authority is composed of the persons holding the offices of Governor, Lieutenant Governor, Insurance Commissioner and Secretary of the Department of Health. The fifth member is appointed by the Governor and serves for a term of four years. Pursuant to the Act, the Governor has designated Victor A. Moore, an employee of the Governor's office, to attend and vote at meetings on behalf of the Governor and the Insurance Commissioner has designated Carol Sureau, an employee of the Insurance Commissioner's office, to attend and vote at meetings on behalf of the Insurance Commissioner.

The members of the Authority are presently:

<u>Member</u>	<u>Office or Affiliation</u>
Christine Gregoire, Chairman	Governor, State of Washington
Brad Owen	Lieutenant Governor, State of Washington
Mike Kreidler	Insurance Commissioner, State of Washington
Mary C. Selecky	Secretary of the Department of Health, State of Washington
Ronald K. Sperling	Public Member

The administration and overall operation of the Authority is the responsibility of its Executive Director, who is appointed by and serves at the discretion of the members of the Authority. Ms. Donna A. Fincke was appointed the Executive Director, effective January 11, 2007. She had served as an Assistant Executive Director of the Authority since 1999.

Unless specifically provided otherwise, each series of bonds or other obligations of the Authority is secured by a separate trust indenture; consequently, each issue of bonds (with the exception of additional bonds with respect to that series) is separate and distinct as to security and source of payment; and the owners of such other obligations shall have no claim on the security for the Bonds, and the Holders of the Bonds shall have no claims on the security for any such other obligations. All of such obligations are special fund revenue obligations of the Authority payable solely from funds pledged to their payment and are not general obligations of the Authority. The Authority may authorize other series of bonds or obligations for the financing of projects of other public or private nonprofit healthcare facilities in the State. The Authority has issued, prior to this date, obligations aggregating over \$9.9 billion in original principal amount in 333 series.

#### **THE BOND TRUSTEE AND MASTER TRUSTEE**

The Authority has appointed The Bank of New York Mellon Trust Company, N.A. as Bond Trustee and the Corporation has appointed The Bank of New York Mellon Trust Company, N.A. as Master Trustee (collectively, the "Trustees"). The Trustees are to carry out such duties as are set forth in the Bond Indenture and the Master Indenture (collectively, the "Indentures"), respectively. The Trustees are undertaking no duties except in accordance with the terms of the respective Indentures. Except for the contents of this section, the Trustees have not reviewed or participated in the preparation of the Official Statement and assume no responsibility for the nature, contents, accuracy or completeness of the information set forth in the Official Statement.

The Trustees have not evaluated the risks, benefits, or propriety of any investment in the Bonds and make no representation, and have reached no conclusions, regarding the value or condition of any assets

pledged or assigned as security for the Bonds, the technical or financial feasibility of the Project, or the investment quality of the Bonds, about all of which the Trustees express no opinion and expressly disclaim the expertise to evaluate.

## **BONDHOLDERS' RISKS**

Any purchase of the Bonds will involve investment risks, certain of which are described below. The order in which such risks is discussed is not indicative of their significance. Further, the presentation is not intended, and should not be assumed, to be definitive or exhaustive. Each prospective purchaser of the Bonds should take into consideration all of the information set forth in this Official Statement, and should otherwise make an independent evaluation of all risks, in order to make an informed investment decision.

### **Payments of Principal and Interest**

Payment of the principal of and interest on the Bonds, when regularly scheduled to be due and upon any redemption or acceleration of such obligations prior to maturity, is payable solely from deposits made to the Bond Fund established under the Bond Indenture. The Bond Fund will be funded primarily from Loan Repayments made by the Corporation under the Loan Agreement, and from payments made by the Obligated Group (including the Corporation and future Members of the Obligated Group, if any), under Obligation No. 3. No representation can be made or assurance given that the Corporation will be able to make payments under the Loan Agreement or that the Obligated Group will be able to make payments under Obligation No. 3, and thus, that funds sufficient to pay the principal, Purchase Price and Redemption Price of and interest on the Bonds will be available to make such payments, when due.

For information concerning the financial condition of the Corporation for previous fiscal years, see APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP” and APPENDIX B – “SWEDISH HEALTH SERVICES COMBINED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006.”

### **General Economic Factors**

The past several years have seen dramatic declines in the housing market nationally, with falling home prices and increasing foreclosures, leading to significant write-downs of asset values by financial institutions, including major commercial and investment banks. Problems that began with failure of the sub-prime mortgage industry have had and may continue to have negative repercussions, not only upon the national economy, but also upon the global economy. Among other impacts, it has led to a lack of available credit; lack of confidence in the financial sector; severe volatility in the financial markets; increase in variable interest rates; reduced business activity; and increased business failures. In response, Congress passed and the President signed on October 3, 2008 the Emergency Economic Stabilization Act of 2008 (the “Stabilization Act”), which authorizes the U.S. Treasury to purchase up to \$700 billion of mortgage-debt and other securities from financial institutions and take other actions for the purpose of stabilizing the financial markets. Congress recently passed and the President signed on February 17, 2009, the American Recovery and Reinvestment Act of 2009 (“H.R. 1”). No assurance can be given concerning what the impact of the Stabilization Act or H.R. 1 will be; the possibility exists that the current economic crisis could become more severe and could be prolonged.

It should be noted that the current economic 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. A continued weakening of the economy could have a material adverse effect upon not only the Corporation, but also on banks, and could impair the ability of banks to pay draws made on the letter of credit expected to be issued in connection with the proposed

issuance of the Series 2009 Variable Rate Bonds (see “PLAN OF FINANCE – Proposed Issuance of Variable Rate Indebtedness” above) or the Series 2006 Bonds, to pay the principal of, interest on, and redemption price and purchase price of the Series 2009 Variable Rate Bonds or the Series 2006 Bonds. Further, the ability of a Bondholder to tender its Series 2009 Variable Rate Bond or its Series 2006 Bond for purchase is dependent on the ability of the remarketing agent for those bonds to remarket tendered Series 2009 Variable Rate Bonds or Series 2006 Bonds or the ability of a bank to purchase such Series 2009 Variable Rate Bonds or Series 2006 Bonds. Upheavals in the financial markets may make remarketing Series 2009 Variable Rate Bonds or Series 2006 Bonds difficult or impossible. No assurance can be given that the remarketing agent for the Series 2009 Variable Rate Bonds or the Series 2006 Bonds will continue in the municipal market or in fact that it will continue as an entity. The recent departure of certain investment banking firms from the securities market and the bankruptcy of others has reduced the number of firms willing to serve as remarketing agents. Without a remarketing agent, it will not be possible to remarket tendered Series 2009 Variable Rate Bonds or Series 2006 Bonds. In addition, these developments and others in the financial markets could result in an inability of the Corporation to obtain an extension of the letters of credit providing liquidity support for the Series 2009 Variable Rate Bonds or the Series 2006 Bonds beyond their initial expiration dates or to obtain an alternate credit and/or liquidity facility for the Series 2009 Variable Rate Bonds or the Series 2006 Bonds.

The Corporation has significant holdings in a broad range of investments. Investment income has contributed significantly to the Corporation’s financial results over recent years. Market fluctuations have affected and will likely continue to affect the value of those investments. For further discussion of the impact of the market disruption on the Corporation’s investments, see APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Management’s Discussion and Analysis of Financial Information” and “– Liquidity and Investment Policy.”

The current conditions in credit markets will likely cause the Corporation’s ability to borrow to fund capital expenditures to be more limited and such borrowing to be more expensive. This has resulted in the postponement or revision of planned and approved capital projects.

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 the Corporation. The financial condition of the Corporation 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.

In addition to these economic trends, health care providers like the Corporation are subject to extensive governmental regulation, which has increased and is likely to continue to increase the cost and risk of doing business. The Corporation is subject to actions by, among others, the Centers for Medicare and Medicaid Services (“CMS”), the U.S. Department of Health and Human Services (“DHHS”), the National Labor Relations Board, The Joint Commission (formerly known as the Joint Commission on Accreditation of Healthcare Organizations), and other federal, state and local governmental agencies. Federal and state governments continuously revise laws, regulations and policies related to care, accounting, billing and payment, and audit and monitor compliance with Medicare and Medicaid programs. The Corporation is also subject to potential investigation, fines, litigation and extensive regulation in connection with these activities,

employment practices, environmental compliance, business relationships with physicians and antitrust and fair competition concerns. The status of the Corporation as a tax-exempt organizations also is subject to government regulation, policy and enforcement efforts that may result in investigations and fines. In addition, compliance with other regulatory requirements at the federal, state and local levels impose uncertainty and potentially significant capital and operating cost increases.

These and other risks, any of which may adversely affect the Corporation (which currently is the sole Member of the Obligated Group) and jeopardize its ability to make Loan Repayments and payments on the Obligations, when due, are described in greater detail below. Wherever in this discussion of risks reference is made to the Corporation, the risks described may be applicable also to future Members of the Obligated Group.

### **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. Legislation or regulation on any of the above or related topics could have a material adverse effect on the Corporation's future financial condition.

### **Risks Related to Rules Governing Reimbursement for Healthcare Services**

The Medicare and Medicaid Programs. For the Fiscal Years ended December 31, 2007 and 2006, approximately 35% and 36% of the gross patient service revenues of the Corporation, respectively, was derived from the Medicare program, which provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. For the Fiscal Years ended December 31, 2007 and 2006, approximately 12% of the gross patient service revenues of the Corporation was derived from the Medicaid program, a program funded jointly by the federal government and the states which provide medical assistance to certain needy individuals and families.

Significant changes have been made and may be made in the Medicare and Medicaid programs that could have a material adverse impact on the financial condition of the Corporation, for example, by decreasing the amount of reimbursement for services. In addition, the requirements for Medicare and Medicaid certification are subject to change, and to remain qualified for the programs, it may be necessary for the Corporation to effect changes from time to time in its facilities, equipment, personnel, billing processes, policies and services.

Medicare Reimbursement of Hospitals. Under a prospective payment system ("PPS"), the amount paid to the provider by Medicare for an episode of care is established by federal regulation and is not related to the provider's charges or costs of providing that care. Presently, inpatient and outpatient services, skilled nursing care, and home health care are paid on the basis of a PPS. Under inpatient PPS, fixed payment amounts per inpatient discharge are established based on the patient's assigned diagnosis related group, or DRG. DRGs classify treatments for illnesses according to the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis. All services paid under the PPS for hospital outpatient services are classified into groups called ambulatory payment classifications, or APCs. Services in each APC are similar clinically and in terms of the resources they require. A payment rate is established for each APC. The capital component of care is paid on a fully prospective basis.

From time to time, the factors used in calculating the prospective payments for units of service are modified by CMS, which may reduce revenues for particular services. Additionally, as part of the federal budgetary process, Congress has regularly amended the Medicare law to reduce increases in payments that are otherwise scheduled to occur, or to provide for reductions in payments for particular services. These actions could adversely affect the revenues of the Corporation.

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

Additional payments may be made to individual providers. Hospitals that treat a disproportionately large number of low-income patients (Medicaid and Medicare patients eligible to receive supplemental Social Security income) currently receive additional payments in the form of disproportionate share payments. Additional payments are made to hospitals that treat patients who are costlier to treat than the average patient; these additional payments are referred to as "outlier payments." Hospitals are paid for a portion of their direct and indirect medical education costs. These additional payments are also subject to reductions and modifications in otherwise scheduled increases as a result of amendments to relevant statutory provisions.

The costs of providing a unit of care may exceed the revenues realized from Medicare for providing that service. Additionally, the aggregate costs to a provider of providing care to Medicare beneficiaries may exceed aggregate Medicare revenues received during the relevant fiscal period.

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

Hospital Outpatient and Other Services. Hospitals are also paid a pre-determined payment amount for most outpatient services based upon ambulatory payment classification ("APC") groups. An APC group includes various services and procedures determined to be similar. The APC payment, which bases payment on APC groups rather than on individual services, may not be sufficient to cover the actual costs of the outpatient services. Medicare payment for skilled nursing services, psychiatric services, inpatient rehabilitation services, and home health services are based on regulatory formulas or pre-determined rates.

Inpatient Rehabilitation Facilities ("IRFs"). IRFs are free-standing rehabilitation hospitals and rehabilitation units in acute care hospitals. They provide an intensive rehabilitation program and patients who are admitted must be able to tolerate three hours of intense rehabilitation services per day. These facilities are exempt from the Medicare Hospital PPS and are paid under the IRF Prospective Payment System ("IRF PPS"). In order to be paid under the IRF PPS, the facility must submit the IRF-PAI (patient assessment instrument). 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.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the “2003 Medicare Act”), which created the prescription drug benefit under a new Part D of the Medicare program, also affects payment rates for Part A and B services. Beginning in 2008, the 2003 Medicare Act subjects acute care hospitals’ payment updates to new standards requiring submission of hospital quality data to the Secretary of HHS. Failure to submit the required data in the form and time frame established by the Secretary may result in a 0.4% reduction in the hospital’s payment update for the fiscal year in which the failure occurred. There is no guarantee that Medicare reimbursement rates, even given the adjustments in the 2003 Medicare Act, will cover the actual costs of providing services to Medicare patients incurred by the Corporation.

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 facilities of the Corporation applicable to Medicare patient stays or will provide flexibility for hospitals to meet changing capital needs.

Payment for Physician Services. The Medicare program pays for physician services on the basis of a resource based relative value scale fee schedule. The fee schedule uses three types of relative value units (“RVUs”) to determine the amount of payment for a particular physician service: (1) physician work; (2) practice expense; and (3) malpractice expense. The RVUs are adjusted by a geographic adjustment factor, then multiplied by a national conversion factor. The conversion factor is adjusted annually by (1) an inflation factor (as measured by a Medicare Economic Index (“MEI”)) and (2) a target factor (as measured by a Sustainable Growth Rate (“SGR”)). The target factor specifies a desired rate of growth in Medicare expenditures on physician services in a given fiscal year. If the actual rate of growth in Medicare payments to doctors for a fiscal year exceeds the target, the MEI for the next calendar year is reduced, while if the rate of growth is lower than the target, the MEI is increased. The SGR target may not result in an MEI increase of more than 3% nor a decrease of more than 7% in a calendar year.

Medicare Trust Funds. Two trust funds are maintained as part of the Medicare Program. The Part A Trust Fund, or Medicare Part A, helps to pay for hospital, home health, skilled nursing facility, and hospice care for the aged and disabled (including certain individuals with end-stage renal disease) and is financed primarily by payroll taxes paid by workers and employers. The Part B Trust Fund, or Medicare Part B, pays for physician, outpatient, and other services for the aged and disabled, and is financed primarily by transfers from the general fund of the U.S. Treasury and by monthly premiums paid by beneficiaries.

The Boards of Trustees of the Medicare trust funds delivered its annual report (the “Annual Report”) to Congress on March 25, 2008. The Annual Report indicated that the Part A Trust Fund is not adequately financed and is projected to be exhausted in 2019, one year earlier than projected in 2006. The Part B Trust Fund is expected to remain adequately financed over the next 10 years. The Trustees believe that a substantial reduction of expense and/or substantial increases in tax revenues are required to ensure the long-range financial stability of the program, and recommend that immediate steps be taken to preserve flexibility in addressing these issues, including the projected increase in costs expected from increased enrollment as the baby boom generation reaches retirement. Accordingly, it is likely that statutory and regulatory attempts to contain increases in Medicare costs will continue in the future. The effect of such future initiatives on the Corporation cannot be predicted.

Reimbursement Under the Medicaid Program. Under Medicaid, the federal government provides grants to states that have medical assistance programs that meet federal standards. Competing pressures on the federal budget and the State’s attempt to address its own budgetary needs have also resulted in uncertainty with respect to Medicaid spending. Such decreases in spending may have a material adverse impact on the future financial condition of the Corporation.



Under federal law, Medicaid coverage is mandatory for persons receiving assistance from Temporary Assistance for Needy Families (previously known as Aid to Families With Dependent Children) or the federal Supplemental Social Security (“SSI”) program and for certain categories of children and pregnant women. Implementation of the Medicaid program falls to each state, however, and there are significant variations in virtually all aspects of the Medicaid program across states. 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.

CMS approved the State’s demonstration proposal under Section 1115 of the Federal Social Security Act which implemented a statewide Medicaid managed care delivery system. The State’s Medicaid health care delivery system, entitled, “Healthy Options,” provides payment for health care services through a managed care provider network. The Corporation treats patients enrolled through CUP in the Health Options program, and also those covered by traditional Medicaid.

Washington State is facing a budget deficit for the 2009-2011 biennium of over \$5 billion. The Governor’s budget, which is subject to change before approval by the State legislature, proposes significant reductions in payments for health care providers, health insurance coverage for low income populations and the State supported mental health system. The Governor’s budget proposes a 4% reduction in payment for hospital services that would reduce Medicaid payments to hospitals for inpatient and outpatient services by approximately \$100 million over the biennium. The Governor’s budget also proposes reducing rates for the Medicaid Healthy Options program by approximately \$87 million. Significant reductions in funding for the Basic Health Plan (approximately 42% or \$250 million) are also included in the proposed budget, which will reduce the number of people insured, the benefits available under the program and payment rates for those services. State spending on mental health services will also decline with the elimination or reduction of the General Assistance-Unemployable program with a proposed cost savings of approximately \$400 million and further cuts to inpatient and outpatient mental health services. While the proposed budget is subject to change through the legislative approval process and reductions on Medicaid spending may be greater or less than current estimates, these reductions will likely adversely affect the revenues of the Corporation.

Medicare and Medicaid Conditions of Participation. Health care facilities must comply with standards called “Conditions of Participation” in order to be eligible for Medicare and Medicaid reimbursement. CMS is responsible for ensuring that hospitals meet these regulatory Conditions of Participation. Under the Medicare rules, hospitals, such as the Corporation, that are accredited by The Joint Commission are deemed to meet the Conditions of Participation (“Deemed Status”). However, CMS may request that the state agency responsible for licensing hospitals, on behalf of CMS, conduct a “sample validation survey” of a hospital to determine whether it is complying with the Medicare or Medicaid Conditions of Participation. Failure to maintain accreditation by The Joint Commission or otherwise to comply with the Conditions of Participation could have a material adverse effect on the Corporation’s financial condition.

Audits and Withholds. Participating providers are subject to audits and retroactive audit adjustments with respect to the Medicare and Medicaid programs. Such adjustments could exceed reserves and could be substantial. Medicare and Medicaid regulations also provide for withholding payments in certain circumstances. The Corporation is not currently the subject of any material Medicaid audits or retroactive audit adjustments. However, any withholds that may occur could have a material adverse impact on the future financial condition of the Corporation. Management of the Corporation is not aware of any material payment withhold by either Medicare or Medicaid.

### **Private Health Plans and Insurers**

Certain private insurance companies contract with hospitals and other providers on an “exclusive” or a “preferred” provider basis and have introduced plans known as “preferred provider organization plans”

("PPOs"). Under such PPOs, there generally are financial incentives for enrollees to use those contracted providers. Under health maintenance organization ("HMO") plans, private payors may direct patients away from participating providers by limiting coverage for services provided by them.

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

For the fiscal years ended December 31, 2007 and 2006, contracted managed care and other non-governmental payors, including self-pay, constituted approximately 53% and 52%, respectively, of gross patient service revenues of the Corporation. See APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Sources of Patient Services Revenue."

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

For each of the fiscal years ended December 31, 2007 and 2006, capitated payments constituted less than one percent of gross patient service revenues of the Corporation. See APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Sources of Patient Services Revenue."

Often, payor 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 payor is able to pay the hospital. Hospitals from time to time have disputes with payors concerning payment and contract interpretation issues.

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

## **Regulatory Environment**

General. The Corporation is subject to a wide variety of federal, state and local regulatory actions and legislative and policy changes that could have a significant impact on the Corporation. Federal, state and local legislative bodies have broad discretion in altering or eliminating programs that contribute significantly to the revenues of the Corporation, including the Medicare and Medicaid programs. In addition, such entities may enact legislation that imposes significant new burdens on the operations of the Corporation. There can be no assurance that such legislative bodies will not make legislative policy changes (or direct governmental

agencies to promulgate regulatory changes) that have adverse effects upon the ability of the Corporation to generate revenues or upon the favorable utilization of their facilities.

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

Federal and state governments have a broad range of criminal, civil and administrative sanctions available to penalize and remediate health care fraud, including the exclusion of a hospital or other health care provider from participation in the Medicare/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 apply to hospitals and other health care providers, and to nearly all individuals and entities with which a hospital or other health care provider does business. Fraud investigations, settlements, prosecutions and related publicity can have an adverse effect on hospitals and other health care providers. See “ – Enforcement Activity” below. Major elements of these often highly technical laws and regulations are generally summarized below.

Criminal Fraud and Abuse Liability. Both individuals and organizations are subject to prosecution under the criminal fraud and abuse statutes. Criminal conviction for an offense may result in substantial fines and/or the provider’s exclusion and debarment from all government programs.

Criminal False Claims Act. The criminal False Claims Act or Criminal FCA prohibits anyone from knowingly submitting a false, fictitious or fraudulent claim to the federal government. There are numerous specific rules that a health care provider must follow with respect to the submission of claims. Violation of the Criminal FCA can result in imprisonment of five years and a fine of up to \$250,000 for an individual or \$500,000 for an organization.

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

Violation or alleged violation of the Anti-Kickback Law can result in settlements that require multi-million dollar payments and compliance agreements. The Anti-Kickback Law can be prosecuted either criminally or civilly. Each violation is a felony, subject to a fine of up to \$25,000 for each act (which may be each item or each bill sent to a federal program), imprisonment and/or exclusion from the Medicare and Medicaid programs. This fine may be increased to \$250,000 for individuals and \$500,000 for organizations. In addition, civil monetary penalties of \$10,000 per item or service in noncompliance (which may be each item or each bill sent to a federal program) or an “assessment” of three times the amount claimed may be imposed.

Civil Fraud and Abuse Liability. Unlike criminal statutes, which require the government to prove that the health care provider intended to violate the law, civil statutes may be violated simply by the provider's participation in a prohibited financial arrangement or the provider having knowledge that its claims procedures are not in full compliance with the law.

Civil False Claims Act. The civil False Claims Act, or Civil 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. Civil 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 Civil FCA can result in settlements that require multi-million dollar payments and compliance agreements. The Civil 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 Civil FCA has become one of the government's primary weapons against health care fraud. Civil FCA violations or alleged violations could lead to settlements, fines, exclusion or reputation damage that could have a material adverse impact on a hospital or other health care provider.

Physician Self-Referral Law. The federal Physician Self-Referral Law ("Stark") prohibits the referral by a physician of Medicare patients for certain designated health services (including inpatient and outpatient hospital services, clinical laboratory services, and various diagnostic imaging services) to entities with which the referring physician has a financial relationship. It also prohibits a hospital or other health care provider furnishing the designated services from billing Medicare or individual, for services performed pursuant to a prohibited referral. The government does not need to prove that the entity knew that the referral was prohibited to establish a Stark violation. Many ordinary business practices and economically desirable arrangements between physicians and hospitals or other health care providers arguably constitute "financial relationships" within the meaning of the Stark statute. The prohibition on referrals and billing would be triggered by the financial relationship unless the relationship fully complied with one of several exceptions. Most providers of designated health services with physician relationships have some exposure to liability under the Stark statute.

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

Washington Statutes. In addition to the federal laws prohibiting kickbacks and other types of exchanges of remuneration for referrals of patients, State law also prohibits such conduct. Subject to certain exceptions, RCW 19.68.010 provides criminal and civil penalties for licensed facilities and individuals who make or receive payments for referrals of patients for health care services. Entities and individuals found to have violated this provision are subject to loss of licensure, fines and/or imprisonment. The statute contains several ambiguities, has been sparsely reviewed or interpreted, and the exact scope and extent of its prohibition are still subject to interpretation. Based on its internal processes, the Corporation believes that it is in compliance with RCW 19.68; however, there can be no assurance that enforcement authorities or courts of law would agree.

Civil Monetary Penalties Law. The federal Civil Monetary Penalties Law (“CMPL”) provides for administrative sanctions against health care providers for a broad range of billing and other abuses. A health care provider is liable under the CMPL if it knowingly presents, or causes to be presented, improper claims for reimbursement to a federal or state agency, such as those that administer the Medicare and Medicaid programs. A hospital that participates in arrangements known as “gainsharing,” through which the hospital pays physicians to limit or reduce services to Medicare fee-for-service beneficiaries also may be subject to substantial civil monetary penalties.

A health care provider may be found liable under the CMPL even if it did not have actual knowledge of the impropriety of the claim. It is sufficient that the provider “should have known” that the claim was false. Ignorance of the Medicare regulations is no defense. The Secretary of DHHS, acting through the Office of the Inspector General, also has both mandatory and permissive authority to exclude individuals and entities from participation in federal health care programs pursuant to this statute.

HIPAA – Administrative Simplification. In addition to provisions governing the portability of health insurance and health care fraud, HIPAA includes administrative simplification provisions (“AS Provisions”) intended to reduce costs and administrative burdens in the health care industry by standardizing the electronic transmission of many administrative and financial transactions that currently are carried out manually on paper or in many different electronic formats. The AS Provisions also impose privacy and security requirements on entities covered by HIPAA (“Covered Entities”) as well as mandate other standards such as national identifiers. Covered Entities are health plans; health care clearinghouses; and health care providers, such as the Corporation, that engage in covered transactions. Additionally, Covered Entities must enter into contracts with their business associates with whom they share protected health information to assure that such information is appropriately safeguarded and that other HIPAA requirements are met.

Under the final transaction and code set regulations promulgated by HHS, Covered Entities must use the prescribed standards for designated electronic transactions. The final HIPAA privacy regulations impose requirements on the use and disclosure of protected health information, create individual rights, and mandate certain administrative requirements for Covered Entities. Covered Entities were expected to be in compliance with the privacy regulations. Additionally, security regulations require Covered Entities to assess risks and develop and implement appropriate security measures to protect individually identifiable health information, with particular focus on administrative procedures, physical safeguards, technical security services, and technical security mechanisms. Covered Entities such as the Corporation must comply with the security regulations as well.

Penalties for noncompliance with the AS provisions include civil monetary penalties of up to \$100 for any violation not to exceed \$25,000 in any calendar year for identical violations. Criminal penalties include up to \$50,000 in fines and/or one year imprisonment for wrongful disclosure of individually identifiable health information; \$100,000 and/or imprisonment of not more than five years for wrongful disclosure under false pretenses; and up to \$250,000 and/or 10 years imprisonment for wrongful disclosure with the intent to sell, transfer, or use individually identifiable health information for commercial advantage, personal gain, or malicious harm.

The Corporation endeavors to comply with all of the AS provisions and to work with the fiscal intermediaries, electronic claim submission clearing houses, and the insurance carriers as necessary to ensure that all financial transaction data sets are compliant with the new regulations.

Exclusions from Medicare or Medicaid Participation. The government may exclude from Medicare/Medicaid program participation a hospital or other health care provider that is convicted of a criminal offense relating to the delivery of any item or service reimbursed under Medicare or a state health care program, any criminal offense relating to patient neglect or abuse in connection with the delivery of health care, felony fraud against any federal, state or locally financed health care program or a felony offense

relating to the illegal manufacture, distribution, prescription or dispensing of a controlled substance. The government also may exclude individuals or entities under certain other circumstances, such as an unrelated conviction of fraud or other financial misconduct relating either to the delivery of health care in general or to participation in a federal, state or local government program. Exclusion from the Medicare/Medicaid program means that a hospital or other health care provider would be terminated from participation and no program payments can be made. Any hospital exclusion could be a materially adverse event, even within a large hospital system.

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

Enforcement Activity. Enforcement activity against health care providers in connection with the health care fraud laws mentioned above has been aggressive and continues to increase. Health care providers are subject to audits, investigations and other inquiries, which can lead to both administrative and criminal sanctions, including but not limited to monetary sanctions which could be significant. Enforcement authorities are often in a position to compel settlements by providers charged with kickback, referral, billing practice, or false claims violations by withholding or threatening to withhold Medicare, Medicaid and/or similar payments and/or by instituting criminal action, or imposing other sanctions. In addition, the cost of defending an action, the time and management attention consumed, and the facts of a case may dictate settlement. Therefore, regardless of the merits of a particular case, a hospital or other health care provider could experience materially adverse settlement costs, as well as materially adverse costs associated with implementation of any settlement agreement. Prolonged and publicized investigations could be damaging to the reputation and business of a hospital or other health care provider, regardless of outcome, and could have a material adverse impact upon its financial condition. Certain acts or transactions may result in violation or alleged violation of a number of the federal health care fraud laws described above and, therefore, penalties or settlement amounts can be compounded. In addition, the Internal Revenue Service has stated that violations by a tax-exempt entity of certain of the fraud and abuse laws may also result in revocation of the entity's tax exempt status. Generally these risks are not covered by insurance.

Voluntary Corporate Compliance. The Corporation has adopted and implemented a voluntary corporate compliance program, that is designed to detect and deter violations of law. One of the major goals of such a plan is to identify and address issues involving the submission of claims to governmental payers such as Medicare and Medicaid and whether those claims comply with statutes, regulations and other guidance provided by the programs. Integral components of the Compliance Plan include a code of conduct, adoption of written standards, education, policies and procedures, auditing and monitoring, remediation of identified issues, and encouraging employees to identify potential issues.

It is possible that the Compliance Plan may bring to the attention of the Corporation issues with respect to prior practices and payments. Depending upon the nature of the issue and whether an overpayment has occurred, such a discovery may result in either voluntary or involuntary refunds to governmental payers. Enforcement authorities take into account the existence and efficacy of a provider's voluntary compliance efforts in assessing the application and severity of penalties for a violation of federal or state rules governing reimbursement to or business relationships among providers of medical services; however, the decision of whether and how much weight to attach to voluntary compliance efforts is solely within the enforcement authorities' discretion.

Voluntary Disclosures and Refunds. The Corporation strives to be a good corporate citizen, including full compliance with all laws and regulations. If the Corporation learns that it has submitted claims that do not comply with statutes, regulations or other guidance provided by governmental programs, then one of its options is the voluntary disclosure to the affected program of the issue and a voluntary repayment.

EMTALA. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress enacted an "anti-dumping" statute known as the Emergency Medical Treatment and Active Labor Act ("EMTALA"). 42 U.S.C.A. § 1395dd. Outpatient facilities that are included as part of a hospital by virtue of a provider-based status designation are required to adhere to EMTALA's requirements, regardless of whether they are located on or away from the hospital's main campus. Failure to comply with the law can result in exclusion from the Medicare and/or Medicaid programs, as well as civil and criminal penalties. Substantial failure of a health care provider like the Corporation to meet its responsibilities under EMTALA could materially adversely affect its financial condition.

Certificate of Need. The State employs a certificate of need program, whereby health care facilities are required to obtain approval from the State before undertaking certain projects, including constructing or developing a new health care facility, selling, purchasing or leasing part or all of any existing hospital, changing bed capacity in a manner which increases the total number of licensed beds or redistributes beds, and/or offering a new tertiary health service.

Business and Occupation Taxes. Hospitals in the State are subject to a 1.5% business and occupation tax on gross receipts, which is used to fund a health plan for people otherwise uninsured. Under State tax law, any hospital meeting the definition of a "health or social welfare organization" is allowed to deduct revenues received from Medicare, Medicaid and other governmental programs in calculating the business and occupation tax, except that the State has denied the deduction for such revenues if processed through a managed care organization for the period ending July 14, 2001. The Corporation believes that it meets the definition of a health or social welfare organization and is currently deducting such revenues. The amount of the tax and the continued ability to deduct governmental revenues is subject to change by the State legislature.

Licensing and Accreditation. Health care providers are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements (including, among others, those imposed by 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, certifications or accreditations could reduce hospital utilization or revenues, or a hospital's ability to operate all or a portion of its facilities.

Renewal and continuance of certain of these licenses, certifications and accreditations are based on inspections, surveys, audits, investigations or other reviews, some of which may require or include affirmative action or response by the Corporation. These activities generally are conducted in the normal course of business of health facilities. Management of the Corporation currently anticipates no difficulty in renewing or maintaining currently held licenses, certifications or accreditation, and does not anticipate a reduction in third-party payments that would materially adversely affect the operations or financial conditions of the Corporation due to licensing, certification or accreditation difficulties. Nevertheless, actions in any of these areas could result in a reduction in utilization or revenues or both, or the loss of the Corporation's ability to operate all or a portion of its health facilities, and, consequently, could have a material adverse effect on the Corporation's financial condition.

Environmental Laws Affecting Health Care Facilities. Hospitals and other healthcare facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. Among the types of regulatory requirements faced by hospitals are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos, hospital, medical and infectious waste, polychlorinated biphenyls, and radioactive substances;

requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital; requirements for worker safety and training employees in the proper handling and management of hazardous materials and waste; and other requirements. In their role as owners and operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off the property. Typical healthcare operations include, in various combinations, the handling, use, storage, transportation, disposal and discharge of infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, healthcare facility operations are particularly susceptible to the practical financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their costs or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks could have a material adverse effect on the Corporation's financial condition.

Antitrust. Enforcement of antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third party contracting, physician relations, joint venture, merger, virtual merger, formation of provider networks, diversification of hospitals into non-traditional hospital services and affiliation and acquisition activities. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. The Department of Justice may bring criminal and civil actions to enforce the antitrust laws. Private litigants may bring actions for treble damages.

From time to time, the Corporation is or will be involved in a variety of activities that could receive scrutiny under antitrust laws, and it cannot be predicted when or to what extent liability may arise. With respect to payer contracting, the Corporation may, from time to time, be involved in joint contracting activity with other hospitals or providers. The precise degree to which this or similar joint contracting activities may expose the participants to antitrust risk from governmental or private sources is dependent on a myriad of factual matters that may change from time to time.

Some court decisions have held hospitals liable for abusing their local market power by steering business to ancillary health care businesses in which they have an interest. Such activities may result in monetary liability for the participating hospitals under certain circumstances where a competitor suffers damage.

Furthermore, hospitals, including the Corporation, regularly have disputes regarding credentialing and peer review, and may be subject to liability in this area. In addition, hospitals occasionally indemnify medical staff members who are involved in such credentialing or peer review activities, and may also be liable with respect to such indemnity.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of health care providers to fulfill their strategic plans. Liability in any of these or other antitrust areas may be substantial, depending on the facts and circumstances of each case.

### **Other Risk Factors Generally Affecting Health Care Facilities**

Hospital Pricing. Recently, focus has increased on nonprofit health care institutions with respect to the provision of charity care and their pricing policies and billing and collection practices involving the underinsured and uninsured. This increased focus has resulted in congressional hearings, governmental inquiries and private class action litigation against a number of nonprofit health care institutions generally alleging that such institutions have overcharged underinsured and uninsured patients. Inflation in hospital



costs also may evoke action by legislatures, payers or consumers. It is possible that legislative action at the state or national level may be taken with regard to the pricing of health care services. Major purchasers of hospital services could also 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. For a discussion of the Corporation's charity care policy, see APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP."

Technology and Services. Scientific and technological advances, new procedures, drugs and devices, preventive medicine, occupational health and safety, and outpatient health care delivery may reduce utilization and revenues of the Corporation in the future. Technological advances in recent years have accelerated the trend toward the use by hospitals of sophisticated and costly equipment and services, and hospitals may have to incur significant costs to acquire the equipment needed to maintain or enhance their competitive position. President Bush has called for the establishment of a nationwide electronic medical records system by 2014 and created a national health information technology office within DHHS to lead the effort. The costs to acquire and implement an electronic medical records system are significant but it is widely believed that such systems will lead to greater efficiencies in the provision of patient care and improved quality of care. The acquisition and operation of certain equipment and services may continue to be a significant factor in hospital utilization, but the ability of the Corporation to offer such equipment or services may be subject to the availability of equipment and specialists, governmental approval and the ability to finance such acquisitions and operations. DHHS published a safe harbor to the Anti-Kickback Law and an exception to Stark allowing hospitals to provide to physicians certain electronic medical record and electronic prescribing technology below the hospital's cost. This resulting increase in demand for hospitals to provide covered technology could have a material adverse consequence on the financial condition of the Corporation.

Employment and Labor Issues. The Corporation is a major employer, its work force combining a complex mix of professional, quasi-professional, technical, clerical, housekeeping, maintenance, dietary and other types of workers in a single operation. As with all large employers, the Corporation bears a wide variety of risks in connection with its employees. These risks include strikes and other related work actions, contract disputes, difficulties in recruitment, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, interpersonal torts, risks related to its benefit plans, and other risks that may flow from the relationships between employer and employee or between physicians, patients and employees. Many of these risks are not covered by insurance, and certain of them cannot be anticipated or prevented in advance. The Corporation believes that its retirement plans are in material compliance with the Employee Retirement Income Security Act of 1974, as amended, the Code and other applicable laws. The Corporation is subject to all of the risks listed above, and such risks, alone or in combination, could have material adverse consequences to the financial condition or operations of the Corporation. At the present time, the Corporation is a party to certain collective bargaining agreements, see APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – EMPLOYEES."

Physician, Nursing and Other Staff Shortages. In recent years, the health care industry has suffered from a scarcity of physician specialists and subspecialists, nursing personnel, respiratory therapists, pharmacists and other trained health care technicians. A significant factor underlying this trend includes a decrease in the number of persons entering such professions. This is expected to intensify in the future, aggravating the general shortage and increasing the likelihood of hospital-specific shortages. Competition for employees, coupled with increased recruiting and retention costs will increase hospital operating costs, possibly significantly, and growth may be constrained. This trend could have a material adverse impact on the Corporation.

Competition. Competition from health care providers that may locate or expand services in the Corporation's service area may adversely affect revenues. See APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – SERVICE AREA AND COMPETITION."

Professional Liability Claims and 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 are often filed against health care providers. Insurance does not provide coverage for judgments for punitive damages.

"Never events" are to be identified by CMS in its final rule on the hospital inpatient prospective payment system for fiscal 2008; such events will include specific preventable adverse events (such as performing surgery on the wrong body part). Beginning in October 2008, CMS will not reimburse hospitals for medical costs arising from "never events" and it is anticipated that HMOs and other private insurers are likely to follow suit. The occurrence of "never events" may be more likely to be publicized and may negatively impact a hospital's reputation, thereby reducing future utilization and potentially increasing the possibility of liability claims.

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

Many hospitals and health care providers are having difficulty renewing or obtaining all types of commercial insurance, including insurance against malpractice and general liability claims, at reasonable cost. The insurers are mandating lower amounts of coverage, requiring greater deductibles, and charging more in premium. Policy issued may not be renewed or renewable. The ability of, and the cost to the Corporation to continue to insure or otherwise protect itself against various claims is unknown. See APPENDIX A – "INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – INSURANCE COVERAGE AND LITIGATION."

Cost Increases. Cost increases without corresponding increases in revenue could result from, among other factors: increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology, or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its physical plants.

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

## **Nonprofit Healthcare Environment**

The Corporation is a nonprofit tax-exempt organization, subject to federal, State and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, hospitals conduct complex business transactions and typically are major employers in their geographic area. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a health care organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the 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 healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

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

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

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

Internal Revenue Service Examination of Compensation Practices. In August 2004, the Internal Revenue Service (the “IRS”) announced a new enforcement effort to address abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The IRS announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures. This examination project is ongoing.

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

Challenges to Real Property Tax Exemptions. In recent years, the real property tax exemptions afforded to certain nonprofit healthcare providers by state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While the Corporation is not aware of any current challenge to the tax exemption afforded to any material real property of the Corporation, there can be no assurance that these types of challenges will not occur in the future.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for healthcare

organizations, including the Corporation. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Corporation.

Negative Rankings Based on Clinical Outcomes, Cost, Quality, Patient Satisfaction and Other Performance Measures. Health plans, Medicare, Medicaid, employers, trade groups and other purchasers of health services, private standard-setting organizations and accrediting agencies increasingly are using statistical and other measures in efforts to characterize, publicize, compare, rank and change the quality, safety and cost of health care services provided by hospitals and physicians. Published rankings such as “score cards” tiered hospital networks with higher co-payments and deductibles for non-emergent use of lower-ranked providers, “pay for performance” and other financial and non-financial incentive programs are being introduced to affect the reputation and revenue of hospitals and the members of their medical staffs and to influence the behavior of consumers and providers such as the Corporation. Prevalent currently are measures of quality based on clinical outcomes of patient care, reduction in costs, patient satisfaction, and investment in health information technology. Measures of performance set by others that characterize a hospital negatively may adversely affect its reputation and financial condition.

### **Risks Related to Hospital Management Discretion**

Affiliation, Merger, Acquisition and Divestiture. As part of its on-going planning process, the Corporation has considered and will continue to consider the potential acquisition of operations or properties which may merged into or otherwise become part of the Obligated Group 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 which make up the Obligated Group may change from time to time.

Integrated Delivery Systems. Many health care providers are exploring ways to further develop their integrated system for the delivery of health care services within their geographic service areas. Integrated health care delivery systems involve the coordinated delivery of services by hospitals, physician groups, other health care professionals and payor organizations. This coordination may be achieved through formal corporate affiliations such as the merger of existing corporate entities or through contractual agreements to implement and coordinate services or some combination of both. Examples of such integrated delivery systems include management service organizations, which provide physician and physician groups with a combination of financial and contracting services, and hospital-based clinics or medical practice foundations which purchase and operate physician practices and provide administrative services to physicians. The development of these integrated delivery systems may require that assets be transferred out of the Corporation or that new entities be brought into the Corporation. Although any such transfer or entry would require compliance with the applicable provisions of the Master Indenture, such action could, nevertheless, result in a reduction in the net income available for debt service of the Corporation. Further, such integrated delivery systems also, in some instances, depending on the structure and operation of such systems, may raise certain legal or regulatory risks, including questions relating to compliance with the antitrust laws, Medicare/Medicaid anti-self referral laws, and anti-kickback laws and federal or state tax exemption issues. No prediction can be made as to the potential impact of such risks on the Corporation.

### **Risks Related to Tax-Exempt Status of Members and the Bonds**

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 proceeds of the Bonds, limitations on the investment earnings of proceeds of the Bonds prior to expenditure, a requirement that certain investment earnings on proceeds of the Bonds be paid periodically to the United States, and a requirement that the Authority file an information report with the IRS. The Authority and the Corporation have covenanted in the Tax Certificate and Agreement relating to the Bonds, that they will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in

the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. In such event, the Bond Indenture does not contain any specific provision for mandatory acceleration of the Bonds nor does it provide that any additional interest will be paid to the Holders of the Bonds. See “THE BONDS – Events of Default and Remedies.”

IRS officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector, with specific review of private use. In addition, the IRS states that it has sent post-issuance compliance questionnaires to several hundred nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower’s (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property, (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies, and (v) voluntary compliance and education. IRS representatives indicate that after analyzing responses from the first wave of questionnaires, more will be sent to additional nonprofit organizations.

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 new schedule also requests detailed information related to all outstanding bond issues of nonprofit borrowers, including information regarding operating, management and research contracts as well as private use compliance.

There can be no assurance that responses by the Corporation to a questionnaire, if it receives one, 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 the Corporation. Additionally, the Bonds or other tax-exempt obligations issued for the benefit of the Corporation may be, from time to time, subject to examinations or audits by the IRS.

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 from the IRS, however, and opinions of counsel are not binding on the IRS or the courts. There can be no assurance that an examination of the Bonds will not adversely affect the Bonds or the market value of the Bonds. See “TAX MATTERS” herein.

Tax-Exempt Status of the Corporation. The tax-exempt status of the Bonds presently depends upon the maintenance by the Corporation and any future Members of the Obligated Group that use the facilities refinanced by the Bonds, of their status as organizations 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 purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which 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 modern health care organizations.

In order to retain tax-exempt status under Section 501(c)(3) of the Code, a hospital must satisfy a “community benefit” standard, set out initially in IRS Revenue Ruling 69-545, issued in 1969, and refined in Revenue Ruling 83-157, issued in 1983. The standard is applied on a facts and circumstances basis, and there is no bright-line test that determines when the standard is met. Elements include the operation of an emergency room open to all regardless of ability to pay; participation in public programs, such as Medicare and Medicaid; use of revenues to support medical training, research and education; an open medical staff policy; and a board drawn from the community. While the standard does not specifically require the provision of medical care to indigents outside the emergency room context, this may be an important factor in the analysis. At the federal level, the IRS has ruled in Revenue Ruling 69-545 that the tax-exempt status of

non-profit hospitals is not dependent upon their acceptance of patients who cannot pay. This holding may also apply to other healthcare facilities. It is also possible that future legislative, administrative or judicial proceedings will have the effect of requiring the Corporation to increase services to indigent patients to retain its tax-exempt status. Increased services to indigent patients could have an adverse effect on the revenues of the Corporation. With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations that own and operate hospitals in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a “closing agreement.” The Corporation may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

In recent years, the IRS has issued a number of formal and informal statements of policy and interpretation that have increased uncertainty over the IRS’s position on a wide variety of activities commonly undertaken by health care organizations. As a result, tax-exempt hospitals and other providers currently are subject to an increased degree of scrutiny and potential enforcement by the IRS concerning transactions with physicians. The IRS has also recently increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt health care organizations. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit or a violation of certain regulations or rulings is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of tax-exempt organizations that own and operate hospitals, it could do so in the future.

As an alternative or in addition to such revocation in instances involving inurement or unlawful private benefit, the IRS may impose intermediate sanctions against persons related to the exempt organization. In 1996, Congress enacted legislation creating a monetary penalty for use by the IRS as an alternative to revoking an organization’s exempt status. The monetary penalty, referred to as intermediate sanctions, may be made against certain individuals or entities who receive “excess benefits” from an exempt organization or who participate in an excess benefit transaction. The intermediate sanctions law defines an “excess benefit transaction” to mean (1) a transaction in which an economic benefit is provided directly or indirectly to or for the use of a disqualified person; (2) by certain tax-exempt organizations; (3) if the value of the economic benefit provided to the disqualified person exceeds the value of the consideration (including the performance of services) received for such benefit. The term “disqualified person” includes any person who was in a position to exercise substantial influence over the affairs of an organization.

The loss of tax-exempt status by the Corporation could result in loss of tax-exemption of interest on the Bonds, and defaults in covenants regarding the Bonds would likely result. Loss of tax-exempt status could also result in substantial tax liabilities on income of the Corporation. For these reasons, loss of the Corporation’s tax-exempt status could have a material adverse effect on the financial condition of the Obligated Group.

### **Risks Related to Security and Enforcement of Remedies**

General. The legal right and practical ability of the Bond Trustee to enforce its rights and remedies under the Loan Agreement, the Bond Indenture and the Bonds and of the Master Trustee to enforce its rights and remedies against the Corporation under the Master Indenture and the Obligations are subject to bankruptcy, insolvency, reorganization and other state and federal laws affecting the enforcement of creditors’ rights and to general principles of equity. In addition, the Bond Trustee’s and Master Trustee’s abilities 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 be limited. A claim for payment of the principal of or interest on the Bonds could be made subject to any statutes that may be constitutionally enacted by the

United States Congress or the State legislature affecting the time and manner of payment or imposing other constraints upon enforcement.

Bankruptcy. In the event of bankruptcy of the Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the federal Bankruptcy Code. If the Corporation were to file a petition in bankruptcy, payments made during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of the Bond Trustee and the Master Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of the Bond Trustee and Master Trustee therein. The rights of the Bond Trustee and the Master Trustee to enforce their security interests and other liens could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. 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 the Corporation, 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 Holders for federal income tax purposes.

Limitations on Enforceability. The legal right and practical ability of a Bond Trustee to enforce its rights and remedies under the Loan Agreement and the Bond Indenture, and of the Master Trustee to enforce its rights and remedies against the Corporation under the Master Indenture, the Obligations and related documents, may be limited by laws relating to bankruptcy, insolvency, fraudulent conveyance, reorganization or other laws affecting the enforceability of creditors' rights generally and by the availability of equitable remedies, and, with respect to the enforcement of payments under the Loan Agreement and the Obligations, to the extent that such payments (i) are requested to be made from assets which are donor-restricted or which are subject to a direct, express or charitable trust which does not permit the use of such assets for such payments; or (ii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Corporation.

Under both the Federal Bankruptcy Code and state fraudulent transfer laws, a transfer by an obligor of cash, collateral, or any other thing of value can present the risk that creditors of the obligor may attempt to avoid the transfer. For such fraudulent conveyance or fraudulent transfer laws to apply, the transfer must have been made at a time when the transferor was insolvent or undercapitalized (or the transfer must have rendered the transferor insolvent), and the transferor must not have received reasonably equivalent value in exchange. Courts which have applied these laws have diverged widely in the meanings given to these terms, resulting in a conflicting body of case law.

There exists common law authority and authority under state statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court's own motion or pursuant to a petition of the state attorney general or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses. In one case, the attorney general of the State of Connecticut, under a charitable trust theory, obtained a temporary injunction enjoining a convalescent home, constructed and maintained in large part with private contributions, from transferring assets or making payments to an out-of-state affiliate pursuant to a proposed loan agreement.

The obligation described herein of the Corporation or any future Members of the Obligated Group or Obligated Group Affiliates to make payments or other transfers of moneys or assets for payment of any liability (including without limitation, the Bonds or the Obligations under the Master Indenture), the proceeds of which were not loaned or otherwise made available to such Member or Obligated Group Affiliate, may not be enforceable under the laws of the State: (A) to the extent such transfers (i) are requested to make payments on any obligations that are issued for a purpose which is not consistent with the charitable purposes of the Member or Obligated Group Affiliate from which such transfer is requested or that are issued for the benefit of any 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; (ii) are requested to be made from any moneys or assets which are donor or grantor restricted, or that are subject to a charitable or other trust which does not permit the use of such moneys or assets for such a transfer; (iii) are requested to be made from money or assets that are pledged or otherwise restricted by such Member or Obligated Group Affiliate to any other purpose, including the repayment of loans, or (iv) that result in the cessation or discontinuation of any material portion of the health care, or research or related services previously provided by the Member or Obligated Group Affiliate from which such transfer is requested; or (B) as and to the extent that enforceability may be affected by the laws of bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance (discussed below) and other similar laws affecting the rights and remedies of creditors generally, and by the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, whether applied by a court of law or equity and the exercise of judicial discretion in accordance with the laws of equity. Due to the absence of clear legal precedent in this area, the extent to which the assets of the Corporation, or any future Members of the Obligated Group or Obligated Group Affiliates, fall within the category referred to in clause (A) above cannot now be determined. The amount of such assets which fall within such category could be substantial. Additionally, State courts may consider extrinsic evidence of the circumstances surrounding the making of the Master Indenture, the Loan Agreement and other documents to ascertain the intent of the parties in using the language employed therein, even when such language is unambiguous and may incorporate additional or supplementary terms into those documents in order to effectuate the intent of the parties.

Risks Related to Master Indenture Financings; Fraudulent Transfer or Conveyance Statutes. It is possible that the joint and several obligations of a Member of the Obligated Group to make payments under Obligations in respect of moneys used by another Member may be avoided in an action brought by creditors of the first Member pursuant to the State's fraudulent conveyance statutes or may be avoided for the benefit of other creditors by a debtor or trustee in bankruptcy in the event of the bankruptcy of such Member. Depending upon whether the federal Bankruptcy Code or the State's fraudulent conveyance statutes are applicable, an obligation may be avoided if (a) the obligation was incurred without receipt by the Member of "fair consideration" or "reasonably equivalent value," and (b) the obligation renders the Member "insolvent," as such terms are defined under the applicable statute. Interpretation by the courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. For example, joint and several obligation under the Master Indenture to pay all Obligations issued



thereunder, including payments in respect of funds used for the benefit of other Members, may be held to be a “transfer” which makes such Members “insolvent,” in the sense that the total amount due under all Obligations could be considered as causing liabilities to exceed its assets. Also, a Member may be deemed to have received less than “fair consideration” for its joint and several obligation because only a portion of the proceeds of the Certificates are to be used to finance facilities occupied or used by a Member. While a Member may benefit generally from facilities financed with proceeds of the Certificates for the other Members, the actual cash value of this benefit may be less than the value of the Member’s joint and several obligation.

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

### **Construction Costs**

The development and construction of health care facilities (including Corporation construction projects that are now in progress; see APPENDIX A – “INFORMATION CONCERNING SWEDISH HEALTH SERVICES OBLIGATED GROUP – FACILITIES”) are susceptible to various risks and uncertainties, such as:

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

The cost of any construction project may vary significantly from initial expectations, and there may be a limited amount of capital resources to fund cost overruns. If cost overruns cannot be financed on a timely basis, the completion of the projects may be delayed until adequate funding is available. The completion date of the projects could also differ significantly from expectations for construction-related or other reasons. Assurances cannot be given that Corporation construction projects currently in progress will be completed, if at all, on time or within established budgets, or that such projects will result in increased earnings. Significant delays, cost overruns, or failure of the construction projects could have a material adverse effect on the Corporation’s business, financial condition and results of operations.

In addition, although hospital construction is generally planned to have minimal impact on ongoing operations, no assurances can be given that the construction will not disrupt the Corporation’s ongoing operations or that it will be implemented as planned.

## TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, 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 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 and is not included in adjusted current earnings in calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX F 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. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority and the Corporation have made certain representations and have covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. 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 Foster Pepper PLLC, counsel to the Corporation and the Foundation, regarding the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code. Such opinion is subject to a number of qualifications

and limitations. Bond Counsel has also relied upon representations of the Corporation concerning the Corporation's "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor counsel to the Corporation and the Foundation has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor counsel to the Corporation and the Foundation can give or has given any opinion or assurance about the future activities of the Corporation, any future Members of the Obligated Group, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the IRS. Failure of the Corporation to be organized and operated in accordance with the IRS's requirements for the maintenance of its status as an organization 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 the Corporation's charitable purpose under Section 513(a) of the Code, may result in interest payable with respect to the Bonds being included in federal gross income, possibly from the date of the original issuance of the Bonds.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, 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 IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Members of the Obligated Group, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Corporation have covenanted, however, to comply with the requirements of the Code.

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

## **ABSENCE OF MATERIAL LITIGATION**

### **The Authority**

There is not now pending or, to the current actual knowledge of the Authority's officers, threatened any litigation seeking to restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings or authority under which they are to be issued. There is no litigation currently pending or, to the current actual knowledge of the Authority's officers, threatened, that in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement or to secure the Bonds in the manner provided in the Bond Indenture.

### **The Corporation**

There is no controversy or litigation of any nature now pending or, to the knowledge of its officers, threatened, against the Corporation, restraining or enjoining the issuance, sale, execution or delivery of the Bonds or of Obligation No. 3 or in any way contesting or affecting the validity of the Bonds or Obligation No. 3, any proceedings of the Corporation taken concerning the issuance or sale thereof, the pledge or application of any money or security provided for the payment of the Bonds or of Obligation No. 3, or the existence or powers of the Corporation relating to the issuance of the Bonds or of Obligation No. 3. There is no litigation of any nature currently pending against the Corporation or, to the current actual knowledge of its officers, threatened that in any manner questions the right of the Corporation to use the proceeds of the Bonds as described herein or to enter into the Loan Agreement, or which in any manner questions the validity or enforceability of such document. There is no litigation of any nature now pending against the Corporation or, to the knowledge of its officers, threatened, which, if successful, would materially adversely affect the operations or financial condition of the Corporation.

## **CONTINUING DISCLOSURE**

Because the Bonds are special fund revenue obligations of the Authority, payable solely from amounts received from the Corporation, financial or operating data concerning the Authority is not material to an evaluation of the offering of the Bonds or to any decision to purchase, hold or sell the Bonds, and the Authority is not providing any such information. The Corporation, on behalf of itself and any future Members of the Obligated Group, has undertaken all responsibilities for any continuing disclosure to Holders or Beneficial Owners of the Bonds, as described below, and the Authority shall have no liability to the Holders or Beneficial Owners of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Corporation has covenanted to provide or cause to be provided certain annual information to the Dissemination Agent (hereinafter defined) and each Beneficial Owner of Bonds who requests the same in writing pursuant to the Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), between the Corporation and the Bond Trustee, as the initial dissemination agent (the "Dissemination Agent"), and acknowledged by the Authority, and to each then existing nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository ("SID") operated or designated by the State for purposes of the Rule, if one is created, not later than 150 days following the end of each Fiscal Year commencing with the Fiscal Year ending December 31, 2008. Pursuant to its Continuing Disclosure Agreement, the Corporation will file annually, commencing with the annual report for the Fiscal Year ending December 31, 2008, certain financial information and operating data related to the Obligated Group and notices of certain enumerated events in a timely manner pursuant to the requirements of the Continuing Disclosure Agreement. The Corporation also has covenanted that it will provide to the Dissemination Agent and each Beneficial Owner of Bonds who requests the same in writing pursuant to the Continuing Disclosure Agreement, quarterly unaudited financial statements for each of the first three quarters of each Fiscal Year, not later than 60 days following the end of the applicable quarterly fiscal period.

A copy of the Continuing Disclosure Agreement in substantially the form expected to be executed by the Corporation and the Dissemination Agent is attached to this official statement as APPENDIX E.

The Corporation has previously entered into a continuing disclosure undertaking in connection with the issuance of the Series 1998 Bonds and the Series 2006 Bonds. During the last five years the Corporation has complied with all of its prior undertakings in all material respects in connection with the annual updates required by the Rule. However, the Corporation failed to timely file notices of material events under the Rule in connection with downgrades of the Series 1998 Bonds resulting from downgrades of the bond insurer guaranteeing payments of the Series 1998 Bonds. On February 12, 2009, the Corporation filed all required material events notices relating thereto and is currently in compliance with the Rule in all material respects.

## **CERTAIN LEGAL MATTERS; CONFLICTS OF INTEREST**

### **Certain Legal Matters**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Approval of other legal matters will be passed upon for the Corporation and the Foundation by its special counsel, Foster Pepper PLLC; for the Authority by its special counsel, Orrick, Herrington & Sutcliffe LLP; and for the Underwriters by their counsel, Gottlieb Fisher PLLC.

### **Conflicts of Interest**

From time to time, Bond Counsel serves as counsel to the Underwriters in transactions other than the issuance of the Bonds. From time to time Underwriters' Counsel serves as bond counsel and special counsel to the Authority in transactions other than the issuance of the Bonds. From time to time the Corporation's special counsel serves as counsel to the Underwriters in transactions other than the issuance of the Bonds. None of the members or other officers of the Authority have interests in the issuance of the Bonds that are prohibited by applicable law.

## **RATINGS**

The Bonds have received the ratings of "A2" by Moody's Investors Service, Inc. and "A+" by Fitch Ratings ("Fitch"). An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that they will not be suspended, revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. The Underwriters have taken no responsibility either to bring to the attention of the Holders of the Bonds any proposed suspension, revision in or withdrawal of any rating or to oppose any such proposed suspension, revision or withdrawal. Any suspension, revision or withdrawal of a credit rating could have an effect on the market price and marketability of the Bonds.

## **UNDERWRITING**

Under a bond purchase agreement (the "Bond Purchase Agreement") entered into by and among the Authority, Citigroup Global Markets Inc., as representative of the underwriters (the "Representative"), and the Corporation, the Bonds are being purchased by the Representative and Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriters") at a price equal to \$96,702,816.60 (representing the

aggregate principal amount of the Bonds minus an original issue discount of \$2,096,170.90, less an Underwriters' discount of \$1,201,012.50). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds, if any are purchased. The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions contained in the Bond Purchase Agreement.

The Bond Purchase Agreement requires the Underwriters to make a public offering of the Bonds. The Underwriters reserve the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriters may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices.

The Corporation has agreed in the Bond Purchase Agreement to indemnify the Underwriters and the Authority against certain liabilities. The Underwriters have agreed in the Bond Purchase Agreement to indemnify the Authority and the Corporation against certain liabilities.

### **INDEPENDENT ACCOUNTANTS**

The combined financial statements of the Corporation as of December 31, 2007 and 2006 and for each of the years then ended included in APPENDIX B to this Official Statement have been audited by KPMG LLP, independent accountants, as stated in their report appearing therein.

### **OTHER MATTERS**

All quotations from, and summaries and explanations of, the Act, the Master Indenture, the Amending Supplement, Supplement No. 4, the Bond Indenture, the Loan Agreement, Obligation No. 3 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 the Corporation 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.

### **FINANCIAL ADVISORS**

The PFM Group serves as financial advisors to the Authority in connection with the issuance of the Bonds.

Ponder & Co. ("Ponder") has served as financial advisor to the Corporation for purposes of assisting with the development and implementation of bond structure in connection with the Bonds. Ponder is a national consulting firm which acts as capital advisor to health care organizations particularly in the areas of debt financing, derivatives, mergers and acquisitions and overall capital planning. Any information contained in this Official Statement concerning the Corporation has not been independently verified by Ponder and the inclusion of such information is not, and should not be construed as, a representation by Ponder as to its accuracy or otherwise.



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**APPENDIX A**

**INFORMATION CONCERNING SWEDISH HEALTH SERVICES  
OBLIGATED GROUP**

*The information contained in this Appendix A to this Official Statement  
has been obtained from Swedish Health Services*

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## INTRODUCTION

Swedish Health Services (“Swedish”) is a Washington nonprofit corporation and an entity that 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 “Tax-Exempt Entity”). Swedish owns and operates an integrated health care delivery system providing inpatient, outpatient and other health care services at multiple locations in the greater Seattle area. Currently, Swedish owns and operates hospital facilities with a total of 1,245 licensed acute care beds at Swedish Medical Center/First Hill (the “Swedish/First Hill Campus”), Swedish Medical Center/Cherry Hill (the “Swedish/Cherry Hill Campus”) and Swedish Medical Center/Ballard (the “Swedish/Ballard Campus”). Swedish also operates an emergency department and other outpatient services in Issaquah (the “Swedish/Issaquah Campus”), a community approximately twenty miles east of Seattle, and has been granted a certificate of need to construct a new 175-bed hospital in Issaquah.

## OBLIGATED GROUP

Swedish is the sole member of the Obligated Group under the Master Indenture and the only entity directly obligated to make payments under the Master Indenture.

## RELATED ENTITIES

### Obligated Group Affiliates

The Swedish Medical Center Foundation is the sole Obligated Group Affiliate under the Master Indenture. Obligated Group Affiliates are not responsible for payments on obligations issued under the Master Indenture; however, their resources may be available to pay debt service if directed by the member of the Obligated Group.

**Swedish Medical Center Foundation.** The Swedish Medical Center Foundation (the “Foundation”) is a Washington nonprofit corporation and a Tax-Exempt Entity. Swedish is the sole corporate member of the Foundation and its purpose is to provide funding and other support to Swedish. The Foundation is governed by a 19-member board of governors elected by the Swedish board of trustees and including three *ex-officio* nonvoting members: the Chief Legal Counsel of Swedish, the Executive Vice President/Chief Financial Officer of Swedish and the Executive Director of the Foundation. The audited financial statements of the Foundation are consolidated with those of Swedish.

### Immaterial Affiliates

Swedish also controls, in whole or in part, the following entities that have not been designated as Obligated Group Affiliates under the Master Indenture. The total net assets of each of these affiliates individually, as of December 31, 2007, was less than 5 percent of the combined or consolidated net assets of Swedish and the Foundation and the total net assets of all of these affiliates in the aggregate, as of December 31, 2007, was less than 10 percent of the combined or consolidated net assets of Swedish and the Foundation. The audited financial statements Swedish Physicians, LLC, Swedish Heart Institute Medical Group, LLC, Swedish Visiting Nurse Services, Swedish Heart Alliance Foundation and Arnold Condominium, LLC are consolidated with those of Swedish, while Swedish Medical Center - Radia Issaquah Imaging Center LLC, Swedish First Hill Diagnostic Imaging LLC, PET/CT Imaging at Swedish Cancer Institute, LLC, and HealthServices NW, LLC are accounted for using the equity method.

**Swedish Physicians, LLC.** Swedish is the sole member of Swedish Physicians, LLC, a Washington limited liability company. Swedish Physicians, LLC bills and collects for the professional services of primary care physicians employed by Swedish.

**Swedish Heart Institute Medical Group, LLC.** Swedish is the sole member of Swedish Heart Institute Medical Group, LLC, a Washington limited liability company. Swedish Heart Institute Medical Group, LLC bills and collects for the professional services of cardiologists and cardiac surgeons employed by Swedish.

**Swedish Visiting Nurse Services.** Swedish Visiting Nurse Services, formerly known as Visiting Nurse Services - Northwest (“VNS”), is a Washington nonprofit corporation and a Tax-Exempt Entity. VNS provides home health services in the greater Seattle area for patients recovering from illness, accident or surgery and for patients living with chronic illness, disabilities and life limiting conditions. As of October 1, 2008, Swedish became the sole corporate member of VNS. During 2009, Swedish intends to combine VNS’ assets, liabilities and services into Swedish’s existing home care service under a single program operating under the name Swedish Visiting Nurse Services. See “PROGRAMS AND SERVICES – Other Services – Swedish Home Care Services” below.

**Seattle Heart Alliance Foundation.** Swedish is the sole member of the Seattle Heart Alliance Foundation (“SHAF”), a Washington nonprofit corporation and Tax-Exempt Entity. SHAF’s purpose is to obtain funds from state and federal government agencies to support continued development of Swedish’s cardiac program.

**Arnold Condominium, LLC.** Swedish is the sole member of Arnold Condominium, LLC, a Washington limited liability company. Arnold Condominium, LLC was established to manage Swedish’s condominium properties located at 1221 Madison Street on the Swedish/First Hill Campus. The services located at this property and operated by Swedish include the Swedish Cancer Institute, the Eye Center offering ophthalmic surgical procedures, and the GI Lab offering diagnostic and therapeutic endoscopic procedures.

**Swedish Medical Center - Radia Issaquah Imaging Center LLC.** Swedish Medical Center - Radia Issaquah Imaging Center LLC (“Swedish-Radia Imaging”) is a Washington limited liability company owned 70 percent by Swedish and 30 percent by Radia Technical Imaging, LLC. Swedish – Radia Imaging owns and operates a freestanding imaging facility on the Swedish/Issaquah Campus.

**Swedish First Hill Diagnostic Imaging LLC.** Swedish First Hill Diagnostic Imaging LLC (“Swedish Diagnostic Imaging”) is a Washington limited liability company owned 70 percent by Swedish and 30 percent by Imaging Services, Inc. Swedish Diagnostic Imaging owns and operates a freestanding imaging facility on the Swedish/First Hill Campus.

**PET/CT Imaging at Swedish Cancer Institute, LLC.** PET/CT Imaging at Swedish Cancer Institute, LLC (“PET/CT LLC”) is a Washington limited liability company owned 63 percent by Swedish, 18.5 percent by Seattle Nuclear Medicine/Ultrasound Associates, PLLC, and 18.5 percent by Tumor Institute Radiation Oncology Group LLP. PET/CT LLC owns and operates a freestanding PET/CT imaging facility at the Swedish Cancer Institute on the Swedish/First Hill Campus.

**HealthServices NW, LLC.** HealthServices NW, LLC is a Washington limited liability company owned 50 percent by Swedish and 50 percent by Providence Health & Services – Washington. This entity was created to operate as a regional billing office providing billing services to Swedish and Providence Health & Services – Washington.

## CORPORATE GOVERNANCE

### Swedish Board of Trustees

Swedish is governed by a board of trustees (the “Board”) composed of community members. The role of the Board is to establish policy, promote performance improvement and provide for necessary resources and organizational management and planning. Trustees serve in the category of “Active” or “Emeritus.” Trustees who have served at least nine consecutive years have the option to become an Emeritus trustee with certain limited rights to participate in Board activities, but not the right to vote on matters before the Board.

Each Active trustee is elected for a three-year term. The governing board bylaws of Swedish require that there be at least eight and not more than twenty Active trustees, three of whom must be physicians. One Active trustee position is filled by the Chair of the Board of Governors of the Foundation and at least two Active trustee positions must be filled from representatives nominated by Providence Health & Services – Washington. The current chief of the medical staff of Swedish and the chief executive officer of Swedish serve on the Board as *ex-officio* non-voting members.

The trustees serve on a voluntary basis and receive no compensation for their services. The names of the current Active and *ex-officio* trustees, their occupations and years of service are as follows:

### Swedish Board of Trustees

Name/Title	Years of Service	Occupation
Teresa Bigelow	2 years	Retired, Attorney
Don Brennan	8 years	Retired, Providence Health System Executive
Jonathan Chinn, M.D.	16 years	Retired, Physician, Otolaryngologist
John Connors	1 year	Finance Executive, Ignition Partners, LLC
Ned Flohr	16 years	Manufacturer’s Representative
Cheryl Gossman	1 year	Chair, Board of Governors, Swedish Medical Center Foundation
Rodman L. Hooker, Jr., <i>Vice Chair</i>	9 years	Retired, Bank Executive
Rodney F. Hochman, M.D.*	2 years	Chief Executive Officer, Swedish
Michael Kelly, M.D.	10 years	Physician, Nephrology & Internal Medicine
William W. Krippachne, Jr.	8 years	Retired, Executive, Fisher Communications, Inc.
Chuck Lytle	2 years	President, Lytle Enterprises, LLC, Senior Housing
Kirby McDonald	10 years	President/CEO, Remote-Site Services Company
John Nordstrom	2 years	Retired, Executive, Nordstrom, Inc.
Martin Siegel, M.D., <i>Board Chair</i>	8 years	Physician, Infectious Disease
Stuart Sloan	16 years	Director, Anixter International, Inc.
Todd Strumwasser, M.D.*	1 year	Physician, Anesthesiology
Janet Truec	3 years	Retired, American Enterprise Institute
Henry “Ned” Turner	38 years	Vice President, Mt. Adams Orchards

\**ex-officio* trustee

## Relationships with Board Members

Swedish is permitted to enter into transactions from time to time with business organizations with which one or more of Swedish's officers or trustees are affiliated. Pursuant to existing policy of the Board, such transactions or affiliations are permitted only after full disclosure of potential conflicts of interest to the Board and approval by a majority of the disinterested members of the Board. Interested Board members are not permitted to vote or to use personal influence on the matter and such Board member is not counted in determining the quorum for a meeting when Board action is to be taken on the matter. The minutes of the meeting must reflect that a disclosure was made, the abstention from voting and the quorum satisfaction. There are currently no conflicts of interest with trustees relating to the Bonds.

## Executive Management

Brief biographies of the executive management of Swedish follow:

*Rodney F. Hochman, M.D., Chief Executive Officer.* Dr. Hochman assumed his role as CEO on April 2, 2007. Before joining Swedish, Dr. Hochman had been since 2004 executive vice president of Sentara Healthcare, a major medical system with seven acute-care hospitals, 1,722 beds and 17,000 employees based in Norfolk, Virginia. In that role, he was responsible for the operation of five hospitals, as well as the organization's medical group, legal and corporate compliance divisions. Before that position, he served as Sentara's chief medical officer and senior vice president. Before joining Sentara, Dr. Hochman held numerous executive-level positions during five years with Cincinnati-based Health Alliance of Greater Cincinnati and he spent nearly ten years with Guthrie Healthcare System in Sayre, Pennsylvania. Dr. Hochman's medical background is in Rheumatology and Internal Medicine, and he has served as a Clinical Fellow in Internal Medicine at Harvard Medical School and Dartmouth Medical School. Dr. Hochman is a Fellow of the American College of Physicians, a Fellow of the American College of Rheumatology and a member of the American College of Healthcare Executives. In April 2008, Dr. Hochman was honored by *Modern Physician* magazine as one of the 50 Most Powerful Physician Executives in Healthcare. Dr. Hochman earned his medical degree from Boston University School of Medicine and his bachelor's degree from Boston University.

*Calvin K. Knight, President and Chief Operating Officer.* Mr. Knight became the President and Chief Operating Officer of Swedish in April 2008. Prior to that role, he served as executive vice president and chief operating officer and as chief operating officer of the Swedish/First Hill Campus. Mr. Knight has authority over all operations across Swedish and oversees Swedish's four campuses, outpatient services, nursing operations, physician division, support functions, and all service lines and institutes. Mr. Knight joined Swedish in April 1995 as the Senior Internal Consultant for Business Development. Prior to joining Swedish, Mr. Knight was Senior Vice President of Operations for OrNda Healthcorp where he operated a division of community hospitals and related medical businesses in four states. He held a similar position with Seattle-based Safecare Health Services until it was acquired by OrNda in 1992. Prior to working for Safecare and OrNda, Mr. Knight served as a community hospital CEO working for National Medical Enterprises and AmeriHealth, Inc. Originally from Iowa, Mr. Knight earned a Bachelor of Arts degree from Western Washington University, a master's degree in speech and hearing from Western Washington University, and a master's degree in business administration from the University of Iowa.

*Jeffrey D. Veilleux, Executive Vice President and Chief Financial Officer.* Mr. Veilleux assumed the position of executive vice president in April 2008 and has been chief financial officer of Swedish since July 2007. Before that, Mr. Veilleux served for two years as Swedish's director of finance. Prior to joining Swedish, Mr. Veilleux served as chief financial officer for The Polyclinic, chief financial officer for the Northwest region of Dynacare Inc, and director of finance for Mainehealth, a multi-facility, multi-service health-care corporation. Mr. Veilleux received his bachelor's degree in accounting from the University of Southern Maine, and he is a certified public accountant. He served as an adjunct professor of taxation and accounting



at New Hampshire College in Brunswick, Maine, and was on the advisory board of the University of Southern Maine's School of Accounting. He is a founding board member of Roberts Music Institute in Bellevue, Washington.

*Marcel Loh, Senior Vice President and Chief Administrative Officer, Swedish/Cherry Hill Campus.* Mr. Loh is the senior executive responsible for the Swedish Heart & Vascular Institute and the Swedish Neuroscience Institute. He works directly with executive and administrative directors of the institutes to plan and coordinate continued development and growth. In addition, he is the senior operations executive for the Swedish/Cherry Hill Campus. Mr. Loh joined Swedish's senior leadership team in December 2000 with twenty years of health care management experience. Before joining Swedish, he served as President and CEO of Kadlec Medical Center in Richland, Washington. Mr. Loh holds a bachelor's degree in business administration from the University of North Dakota and a master's degree in hospital administration from the University of Iowa. Mr. Loh also served as an Army Officer in the Medical Service Corp and retired from the Army Reserve. In addition to being a past chairman of the Washington State Hospital Association, he is a Fellow in the American College of Healthcare Executives ("ACHE") and is the ACHE Regent for the State of Washington. Mr. Loh has also served on numerous boards including the American Hospital Association Regional Policy Board, Washington State Chapter of the American Heart Association, the Association of Washington Business, United Way, and March of Dimes. He is also a past member of Rotary International and a Paul Harris Fellow.

*Kevin Brown, Chief Strategic Officer, Senior Vice President and Chief Administrative Officer Swedish/Issaquah Campus, Swedish/Ballard Campus and Swedish Physician Division.* Kevin Brown has been the Chief Strategic Officer at Swedish since March 2008. In his role, Mr. Brown leads the development and oversight of Swedish's strategic planning and project management office. He also has operational responsibility for the Swedish/Issaquah Campus, Swedish/Ballard Campus, and the Swedish's physician division. Prior to joining Swedish, Mr. Brown worked for the Providence Health System leading various strategic and business development projects. Mr. Brown is currently president of the SafeCrossings Foundation, which funds a grieving program for children who have lost a loved one. In September 2004, Mr. Brown was chosen as one of the Puget Sound Business Journal's "Top 40 Under 40". Mr. Brown earned his bachelor's degree in business administration-marketing from the University of Wisconsin-Eau Claire and a master's degree in health care administration from Arizona State University.

## FACILITIES

### Existing Swedish Facilities

Facility Overview. Swedish was originally established in 1908 as The Swedish Hospital, a 24-bed hospital in downtown Seattle. In 1978, Seattle General Hospital and The Doctors Hospital merged into The Swedish Hospital. In 1992, Ballard Community Hospital merged into The Swedish Hospital and in 1993, Swedish changed its name to Swedish Health Services. In 2000, Providence Seattle Medical Center, a 385-bed hospital owned by Providence Health System – Washington, was acquired by Swedish through a reorganization of the Providence Seattle Medical Center assets followed by a merger into Swedish. Currently, Swedish provides hospital services under two licenses on four campuses: the Swedish/First Hill Campus, the Swedish/Cherry Hill Campus, the Swedish/Ballard Campus and the Swedish/Issaquah Campus. The Swedish/First Hill Campus and the Swedish/Ballard Campus operate under a single license with a combined total of 860 licensed beds. The Swedish/Cherry Hill Campus is separately licensed for 385 beds. The Swedish/Issaquah Campus is under development and has received certificate of need approval to operate 175 beds. The Swedish/Issaquah Campus is currently planned to open for inpatient care in late 2011 or 2012. Swedish also operates a number of primary and specialty care clinics throughout the greater Seattle area.

Swedish/First Hill Campus. The Swedish/First Hill Campus is located adjacent to the Seattle downtown business district and covers approximately eleven city blocks. Swedish/First Hill currently

operates 563 set-up acute care beds and the facility is comprised of the main building with four patient care wings. The Swedish/First Hill Campus also includes five medical office buildings, seven parking garages, and multiple other buildings housing ancillary services and support staff. The Swedish Orthopedic Institute, described under Programs and Services below, is located on the Swedish/First Hill Campus.

Swedish/Cherry Hill Campus. The Swedish/Cherry Hill Campus is located in the central district of Seattle, less than a mile east of the Swedish/First Hill Campus. The campus was established in 1909 by the Sisters of Providence, a Catholic charity, as a replacement hospital for the first hospital in Seattle, which was established in 1877 by the Sisters of Providence. Since Swedish's acquisition of the Swedish/Cherry Hill Campus, it has undergone more than \$100 million in new construction and renovation, including new neurosurgery and cardiovascular surgery operating rooms and interventional suites. The Swedish/Cherry Hill Campus currently operates 198 set-up acute care beds.

Swedish/Ballard Campus. The facility located on the Swedish/Ballard Campus was originally built in 1928 and has undergone major expansions and remodels over the years. It currently operates 71 set-up acute care beds. Swedish's plan to develop an ambulatory care center on the Swedish/Ballard Campus is described under "CAPITAL IMPROVEMENT PLANS – Swedish/Ballard Campus Ambulatory Care Center" below.

Swedish/Issaquah Campus. Swedish currently operates an emergency room and specialty center at 2005 N.W. Sammamish Road in Issaquah, a growing community approximately 18 miles east of Seattle. The specialty center operates under the Swedish/First Hill Campus hospital license and its services include primary care, imaging, sleep medicine, clinical lab and other specialty care services. Swedish also received a certificate of need from the Department of Health ("DOH") in May of 2007 to establish a 175-bed hospital in the Issaquah Highlands, a few miles from the specialty center. Swedish's certificate of need has been appealed by two local area hospitals. The appeal is limited to the proposed inpatient facility and does not challenge the services currently provided at the specialty center or Swedish's proposed development of an ambulatory care center at Issaquah Highlands in 2009. Swedish management believes the appeal lacks merit. Swedish intends to complete construction of and open the new hospital late 2011 or 2012. See "CAPITAL IMPROVEMENT PLANS – Swedish/Issaquah Campus" below.

Swedish Physician Clinics. Swedish operates a network of twelve primary care clinics spread throughout Seattle and the areas to the east of Seattle. The clinics offer primary care services through more than eighty board-certified physicians, advanced registered nurse practitioners and physician assistants employed by Swedish. The map below shows the location of the Swedish hospital campuses and the Swedish physician clinics:



 Swedish hospital locations (future location in Issaquah)

 Swedish physician clinics

### Bed Complement

Swedish is licensed to operate 1,245 licensed beds and as of September 30, 2008, operated 832 beds. The complement of available beds as of that date was as follows:

Service	Available Bed Complement		
	First Hill	Cherry Hill	Ballard
Acute Care	485	135	71
Critical Care	78	27	0
Rehabilitation	0	36	0
Total	563	198	71

*Source:* Swedish management.

## PROGRAMS AND SERVICES

### General

Swedish is one of the largest integrated healthcare delivery systems in the Pacific Northwest. Swedish provides an array of primary, secondary and tertiary care services, including the following key specialty services:

Swedish Orthopedic Institute. The Swedish Orthopedic Institute opened in June 2008 on the Swedish/First Hill Campus. It is the only dedicated orthopedic hospital facility in Washington state and one of the largest in the United States. All orthopedic and many spine services are combined in the Swedish Orthopedic Institute to provide access to technology and support services at a single location. The services provided at the Swedish Orthopedic Institute include joint replacement, orthopedic surgery, spine, back and neck, bone and tissue tumors, hand and upper extremity, sports medicine, pediatric orthopedics, and rehabilitation services. The medical staff who practice at the Swedish Orthopedic Institute currently includes approximately 50 orthopedic surgeons. The Swedish Orthopedic Institute consists of a 372,000 square foot facility connected to the main hospital building on the Swedish/First Hill Campus by a sky bridge and tunnel. The Swedish Orthopedic Institute includes: 84 private patient rooms (28 on each of three floors); 10 dedicated orthopedic operating rooms; 15 pre-operating/stage 2 recovery beds; 12 post-anesthesia care unit beds; an outpatient pharmacy; and a café, pre-admission areas and conference rooms.

Swedish Neuroscience Institute. The Swedish Neuroscience Institute is located on the Swedish/Cherry Hill Campus. The Swedish Neuroscience Institute is dedicated to providing high quality, compassionate and accessible care to patients with neurological diseases and disorders. The Swedish Neuroscience Institute provides a range of services from diagnostic services to advanced rehabilitation resources and offers medical and surgical treatments in the neurological field. The medical staff who practice at the Swedish Neuroscience Institute currently includes approximately 25 neurologists, neurosurgeons and subspecialists. Through an affiliation agreement, the Swedish Neuroscience Institute provides neurosurgical professional services and neuro-oncology medical director services to Providence Regional Medical Center Everett, located approximately thirty miles north of the Swedish/First Hill Campus.

Swedish Heart & Vascular Institute. The Swedish Heart & Vascular Institute provides a comprehensive cardiovascular program, including preventative, diagnostic, and interventional services on a regionally integrated basis. The cardiac surgery program on the Swedish/Cherry Hill Campus is a focal point of the Institute offering an open-heart surgery program with a dedicated team of experts in the field of cardiac surgery. The medical staff who practice at the Swedish Heart & Vascular Institute currently include approximately 90 cardiac and vascular specialists, including cardiologists, surgeons, radiologists, anesthesiologists and vascular specialists. Through alliance agreements with other area hospitals (Valley Medical Center, Highline Medical Center and Stevens Hospital), the Swedish Heart & Vascular Institute works with the hospitals to provide a variety of activities designed to improve the cardiac health.

Swedish Cancer Institute. The Swedish Cancer Institute provides comprehensive cancer care, including external beam radiation therapy, radioactive implant therapy, intra-operative radiation therapy, hyperthermia, chemotherapy, counseling services, nutritional services, and patient education. Over 20 oncologists and surgeons practice at the Swedish Cancer Institute. In addition, the Swedish Cancer Institute performs research on the prevention and treatment of cancer. The Swedish Cancer Institute is based on the Swedish/First Hill Campus and Swedish maintains affiliations with other area hospitals (Northwest Hospital, Highline Medical Center and Stevens Hospital) to jointly provide outpatient cancer treatment at those facilities.

## **Other Services**

Swedish Home Care Services. Swedish Home Care Services serves the needs of patients of all ages who are recovering from illnesses, accidents or surgery. The program also provides assistance to patients who are living with chronic illness, disabilities or life-limiting conditions. The home care service promotes independence for patients by providing a broad range of services in the areas of home health care, including infusion therapy and palliative and hospice care. A variety of support services for family members and caregivers is also available. As of October 1, 2008, Swedish became the sole corporate member of VNS, which also provides home care services in Swedish's service area. See "RELATED ENTITIES – Swedish Visiting Nurse Services" above.

Swedish Physician Division. Swedish employs approximately 300 physicians, the majority of whom provide their services through an operating division of Swedish known as the "Swedish Physician Division." The physicians employed by Swedish staff primary care clinics; specialty-care clinics at the Swedish Heart & Vascular Institute and the Swedish Neuroscience Institute; specialty care clinics in pediatrics, general surgery, otolaryngology and midwifery; the emergency room at the Swedish/Cherry Hill Campus; and Swedish's inpatient facilities as hospitalists. The Swedish Physician Division also provides billing and collection services to several of Swedish's joint ventures.

## **Other Activities**

Graduate Medical Education. Swedish operates two fully-accredited residency training programs in family practice and surgery. Forty-four full-time residents participate in the two programs. In addition, through affiliations with the University of Washington School of Medicine, Providence Regional Medical Center Everett, Virginia Mason Medical Center and Madigan Hospital, an additional 60 to 70 residents and students participate each month in medical education at Swedish. These rotations are primarily in the areas of orthopedics, obstetrics/gynecology and diagnostic radiology.

Other Education Programs. Swedish participates in other education programs for a variety of patient care professions. These programs include registered nurse, certified nursing assistant, physical therapist, surgical technician and respiratory therapist training programs.

Continuing Medical Education. Continuing education courses for physicians are offered in a variety of current topics at Swedish. In 2007, the number of formally accredited conferences numbered over 33. Additionally, more than 10 separate recurring monthly activities on a variety of topics and learning formats were held. Over 38,000 educational contact hours were logged through Swedish's continuing medical education in 2007.

Community Health Education. Swedish offers a variety of courses for the community, as well as for patients and families. The Health Resources Center located off the main lobby of the Swedish/First Hill Campus also provides such resources as videos and books, Web access, audiotapes, equipment loans and rentals.

Research. Physicians at Swedish have been involved in national research projects and clinical trials for well over twenty years. Sources of funding for research include the National Institutes of Health, a wide variety of pharmaceutical companies, medical device companies and private foundations. At any one time, more than 200 treatment protocols are under investigation in dozens of specialties. Swedish's programs with strong research activity include the Swedish Cancer Institute, the Swedish Neurosciences Institute and the Swedish Heart & Vascular Institute.

Management Services. Swedish provides certain health care services and/or management services to other health care providers throughout the Puget Sound. For example, Swedish provides radiation oncology

services at Northwest Hospital and at Highline Medical Center, neurosurgical services at Providence Regional Medical Center Everett, and mammography management services at Stevens Hospital (Snohomish County Public Hospital District No. 2, a Washington State municipal corporation). Swedish and Stevens Hospital are currently in discussions related to an expansion of the scope of management services provided by Swedish to Stevens Hospital. Swedish management believes that such an arrangement would not have a material impact on the financial performance of Swedish, as Stevens Hospital would remain responsible for all of its liabilities, including capital investments, and Swedish would be paid a fair market value management fee for all services provided.

Charity Care. Swedish offers free or discounted hospital services for those who cannot afford to pay. At Swedish, a patient with an annual income of less than 200% of the federal poverty level will qualify for a full uncompensated care write-off. In 2007, the cost to Swedish of providing charity care was \$15.2 million. More than 5,500 patients paid nothing for their medical care at Swedish, and an additional 11,390 patients received partial charity care and financial assistance. Swedish provides financial assistance on a sliding scale for uninsured patients in cases when the yearly family income is between 200% and 400% of the federal poverty level, and ensures that financial constraints are not a barrier to the provision of care. In addition, Swedish funds and operates several specialty-care clinics that provide follow-up care to the homeless, uninsured and underinsured who have been treated in our emergency rooms, family medicine residency clinics or at local community clinics.

## **PROJECT**

As described more fully in the forepart of this Official Statement under the caption “PLAN OF FINANCE”, proceeds of the Bonds will be used to pay all or a portion of each of the following: (1) the costs of reimbursing Swedish for certain capital expenditures previously incurred to remodel, construct, acquire and equip its inpatient, outpatient and administrative facilities including the expansion of its orthopedic services; (2) the cost of certain capital expenditures to be incurred by Swedish in the future to remodel, construct, acquire and equip its inpatient, outpatient and administrative facilities; (3) the costs of funding a Reserve Account for the Bonds; and (4) the cost of issuing the Bonds. Proceeds of the Bonds will be used primarily to reimburse Swedish for the cost of constructing, acquiring and equipping the Swedish Orthopedic Institute (see “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Liquidity and Investment Policy” below).

## **CAPITAL IMPROVEMENT PLANS**

2009 Capital Budget. The 2009 capital budget is approximately \$40 million. Swedish has an option to purchase land for the future Issaquah site that it expects to exercise in 2009 for approximately \$20 million. An additional \$2 million is planned to be spent on the Swedish/Ballard Campus Ambulatory Care Center described below. Planned spending on equipment is estimated to be \$7 million with an additional \$5 million allocated to routine information technology purchases. The remaining balance of approximately \$6 million will be spent on various capital projects and equipment purchases at Swedish’s facilities.

Swedish/Issaquah Campus. The future development of the Swedish/Issaquah Campus will be comprised of three major components: a medical office building, an ambulatory care center and an acute care community hospital. Together, these facilities will offer inpatient/outpatient services, including but not limited to: oncology; emergency medicine; interventional cardiology; general and specialty surgery; interventional radiology; pediatrics; pain management; obstetrics and gynecology; physical, occupational and speech therapy; gastro-intestinal laboratory; primary care; full sub-specialty diagnostic imaging; telemedicine; and community health education.

The first component of the project, the medical office building, will be financed and developed by Hammes Company, which will construct the building and lease certain portions of the building to Swedish

after the building is completed. Swedish and Hammes Company are in the process of selecting an architect and contractor and Swedish expects construction to commence in the Fall of 2009, with occupancy of the building expected late in 2010 or early the following year. Swedish is also in the process of selecting an architect for the ambulatory care center and the hospital building. Once an architect is selected, design work will commence and then a contractor will be selected. Construction of the ambulatory care center is expected to commence in late 2009 or early 2010 with the hospital construction to follow. Swedish expects to open the first 80 inpatient beds in late 2011 or 2012 with the remaining beds expected to be open in 2018.

The capital expenditure amount approved by DOH in the certificate of need for the new hospital (which does not include the medical office building or ambulatory care center) was \$197 million, which was developed based upon costs estimates in 2004 when the certificate of need application was submitted and, as required by DOH, did not include an adjustment for inflation. Due to escalation in the cost of construction since 2004, the actual cost to construct the facility will likely exceed the approved capital amount. Swedish intends to fund the construction from available sources, including but not limited to, cash reserves.

Swedish/Ballard Campus Ambulatory Care Center. Swedish is in the design phase for a new ambulatory care center on the Swedish/Ballard Campus, which Swedish expects to house a new emergency department and imaging facilities. The new ambulatory care center will be connected to the main hospital facility via a sky bridge and will be developed as a condominium, with Swedish owning up to approximately 25% of the building. The remainder of the building will be owned by a third party developer and developed as medical office space. Swedish has selected Mortenson as the contractor for the project and expects to have a construction contract in place and construction to commence by mid-2009 once the design modifications are finalized. The construction time line is expected to be one year and Swedish's cost for the project is estimated to be between \$20 and \$30 million, depending on the final design of the building and the portion of the building to be owned by Swedish. Swedish has not yet determined the financing plan for the Swedish/Ballard Campus Ambulatory Care Center.

### **THE SERIES 2009 VARIABLE RATE BONDS**

As described more fully in the forepart of this Official Statement under the caption "PLAN OF FINANCE", in addition to the Bonds, Swedish has requested that the Washington Health Care Facilities Authority (the "Authority") issue one or more series of variable rate bonds (collectively, the "Series 2009 Variable Rate Bonds") to fund a portion of the costs of the Project, the costs of refunding and redeeming a portion of the Series 2006 Bonds, and costs of issuing the Series 2009 Variable Rate Bonds (including costs of credit enhancement for such obligations). The Series 2009 Variable Rate Bonds are expected to be issued simultaneously with the issuance of the Bonds.

### **SERVICE AREA AND COMPETITION**

Composition of Service Area. Swedish's primary service area (the "Service Area") is defined by management as King County. As shown on the map below, this includes the cities of Seattle, Mercer Island, Bellevue, Issaquah, Kirkland, Redmond, Auburn and Bainbridge Island. The secondary service area is defined as Snohomish County and includes the cities of Lynnwood, Mill Creek and Everett.



Demographic Information. King and Snohomish Counties’ economic base includes aerospace, technology, life sciences, transportation, trade and tourism. Below is certain demographic information for the Service Area.

**Estimated Service Area Population**

<b>Year</b>	<b>Primary Service Area</b>	<b>Secondary Service Area</b>	<b>Total</b>
2005	1,808,300	655,800	2,464,100
2006	1,835,300	671,800	2,507,100
2007	1,861,300	686,300	2,547,600

*Source:* Washington State Office of Financial Management, Forecasting Division.

**Median Household Income**

<b>Year</b>	<b>Primary Service Area</b>	<b>Secondary Service Area</b>
2005	\$63,205	\$63,311
2006	\$65,845	\$65,485
2007	\$68,152	\$66,755

*Source:* Washington State Office of Financial Management, Forecasting Division.



### Average Unemployment Rate

Year	Primary Service Area	Secondary Service Area
2005	4.6%	5.1%
2006	4.1%	4.5%
2007	3.7%	5.0%
2008	4.2%	5.0%

Source: State of Washington Employment Security Department, Labor Market and Economic Analysis Branch.

Patient Origin by Service Area. The following tables show patient volume and gross charges in the Service Area for Swedish during 2007.

### 2007 Patient Statistics

Service Area Patient Origin	Hospital			
	Inpatient		Outpatient	
	Cases	%	Cases	%
Primary	39,671	78.9%	455,359	79.4%
Secondary	3,827	7.6%	36,535	6.4%
Out of Area	6,806	13.5%	81,472	14.2%
Total All Areas	50,304	100%	573,366	100%

Source: Swedish's Management based on year ended December 31, 2007 + Intellimed Inc, CHARS Data 2007.

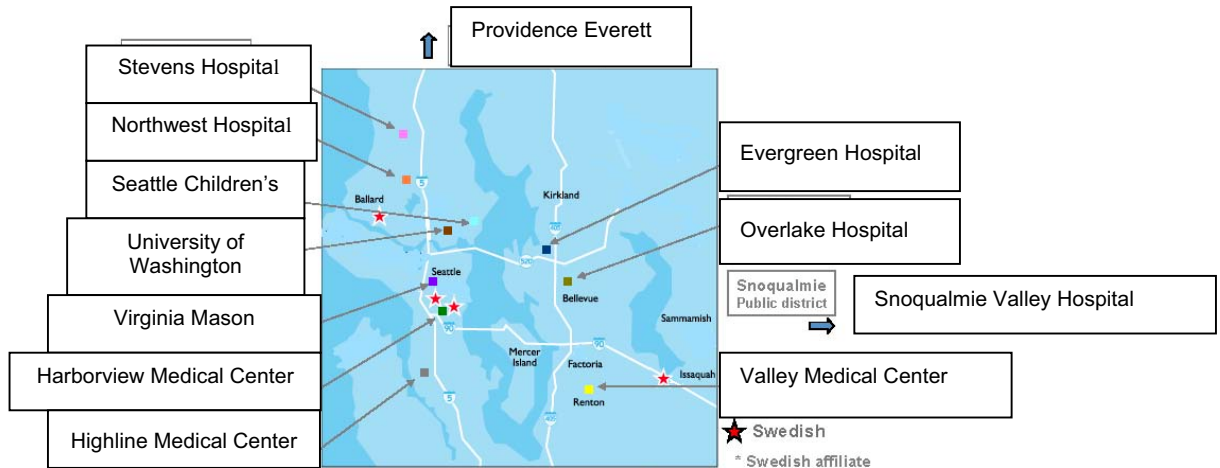
### 2007 Gross Charges

Service Area Patient Origin	Hospital			
	Inpatient		Outpatient	
	(000)s	%	(000)s	%
Primary	1,140,558	70.7%	808,349	69.1%
Secondary	141,879	8.8%	101,331	8.7%
Out of Area	331,455	20.5%	260,065	22.2%
Total All Areas	1,613,892	100%	1,169,745	100%

Source: Intellimed

### Competition in Service Area

Other Area Hospitals. Other hospitals located within the service area are identified in the map below.



Comparative bed capacity and inpatient utilization statistics for the Swedish/First Hill and Swedish/Ballard Campuses, the Swedish/Cherry Hill Campus, and the four largest acute-care hospitals in the primary service area and competitive with Swedish, are summarized in the following table.

**Seattle Area Acute Care Hospitals: Hospital Volume Comparison\*\***

<b>Hospital</b>	<b>2005</b>	<b>% of Total</b>	<b>2006</b>	<b>% of Total</b>	<b>2007</b>	<b>% of Total</b>
<b>Harborview Medical Center<sup>(1)</sup></b>						
Available Beds	369	16.71%	368	16.64%	368	17.09%
Discharges	18,722	15.1%	18,472	14.7%	18,632	14.6%
Patient Days	126,986	21.7%	129,983	22.4%	134,585	23.0%
Daily Census	348	21.7%	356	22.4%	369	23.0%
<b>Overlake Hospital<sup>(2)</sup></b>						
Available Beds	232	10.51%	232	10.49%	232	10.78%
Discharges	21,224	17.1%	21,459	17.1%	21,018	16.5%
Patient Days	70,171	12.0%	68,570	11.8%	65,899	11.2%
Daily Census	192	12.0%	188	11.8%	181	11.2%
<b>University of Washington Medical Center<sup>(3)</sup></b>						
Available Beds	392	17.75%	390	17.63%	390	18.11%
Discharges	19,397	15.6%	19,768	15.7%	20,096	15.8%
Patient Days	115,006	19.6%	113,092	19.5%	113,239	19.3%
Daily Census	315	19.6%	310	19.5%	310	19.3%
<b>Virginia Mason Medical Center<sup>(2)</sup></b>						
Available Beds	309	13.99%	295	13.34%	324	15.05%
Discharges	15,990	12.8%	16,294	13.0%	17,417	13.7%
Patient Days	72,371	12.4%	70,246	12.1%	73,646	12.6%
Daily Census	198	12.4%	192	12.1%	202	12.6%
<b>Swedish/First Hill and Ballard</b>						
Available Beds	685	31.02%	703	31.78%	615	28.56%
Discharges	40,544	32.6%	41,006	32.6%	41,491	32.6%
Patient Days	159,465	27.2%	156,606	27.0%	157,183	26.8%
Daily Census	437	27.2%	429	27.0%	431	26.8%
<b>Swedish/Cherry Hill</b>						
Available Beds	221	10.01%	224	10.13%	224	10.40%
Discharges	8,543	6.9%	8,755	7.0%	8,813	6.9%
Patient Days	41,379	7.1%	41,278	7.1%	41,518	7.1%
Daily Census	113	7.1%	113	7.1%	114	7.1%
<b>Total of Six Hospitals</b>						
Available Beds	2,208	100%	2,212	100%	2,153	100%
Discharges	124,470	100%	125,754	100%	127,467	100%
Patient Days	585,378	100%	579,775	100%	586,070	100%
Daily Census	1,604	100%	1,588	100%	1,606	100%

<sup>(1)</sup> Owned by King County, Washington; operated by the University of Washington.

<sup>(2)</sup> Owned by a nonprofit corporation.

<sup>(3)</sup> Owned by a state agency.

\*\* Available beds and daily census represent the 12-month average for the respective year.

*Source:* Swedish's data is provided by management. Other hospitals: Intellimed. Daily Census is a calculation of the total patient days divided by 365.

The following table shows the comparative market shares of the Swedish/First Hill and Swedish/Ballard Campuses, the Swedish/Cherry Hill Campus, and the four other hospitals identified above:

**Service Area Acute Care Hospitals: 2007 Market Share Comparison**

	Discharges						Gross Inpatient Charges (000)s					
	Primary Service Area		Secondary Service Area		Combined Service Area		Primary Service Area		Secondary Service Area		Combined Service Area	
	Area	%	Area	%	Area	%	Area	%	Area	%	Area	%
Swedish												
First Hill/Ballard	33,433	37.1%	3,121	27.8%	36,554	36.1%	841,174	36.3%	92,758	25.5%	933,932	34.8%
Cherry Hill	6,228	6.9%	706	6.3%	6,934	6.8%	299,384	12.9%	49,121	13.5%	348,505	13.0%
<b>Swedish Total</b>	<b>39,671</b>	<b>44.1%</b>	<b>3,827</b>	<b>34.1%</b>	<b>43,498</b>	<b>43.0%</b>	<b>1,140,588</b>	<b>49.2%</b>	<b>141,879</b>	<b>39.0%</b>	<b>1,282,467</b>	<b>47.8%</b>
Harborview	11,101	12.3%	1,645	14.7%	12,746	12.6%	396,654	17.1%	77,542	21.3%	474,196	17.7%
Overlake	18,194	20.2%	1,719	15.3%	19,913	19.7%	316,860	13.7%	30,075	8.3%	346,935	12.9%
U of WA	10,586	11.8%	2,450	21.8%	13,036	12.9%	249,695	10.8%	78,572	21.6%	328,267	12.2%
VM	10,462	11.6%	1,582	14.1%	12,044	11.9%	213,358	9.2%	35,574	9.8%	248,932	9.3%
<b>Total</b>	<b>90,014</b>	<b>100%</b>	<b>11,223</b>	<b>100%</b>	<b>101,237</b>	<b>100%</b>	<b>2,317,125</b>	<b>100%</b>	<b>363,642</b>	<b>100%</b>	<b>2,680,767</b>	<b>100%</b>

Source: Intellimed

**MEDICAL STAFF**

General. As of January 2009, the combined medical staff of the Swedish/First Hill Campus, the Swedish/Cherry Hill Campus and the Swedish/Ballard Campus consisted of 1,410 physicians. The average age of the medical staff is approximately 47 years. For the twelve months ended December 31, 2008, the top twenty admitting physicians, whose average age was 47 years, accounted for approximately 16.75% of Swedish’s inpatient admissions, excluding newborns as separate admissions.

Active Physicians by Specialty. The following table lists Swedish’s active physicians by specialty as of January 2009.

<u>Specialty</u>	<u>Active Physicians</u>	<u>Board Certified</u>	<u>% Board Certified</u>	<u>Average Age</u>
Addiction Medicine	3	3	100%	49
Allergy and Immunology	3	3	100%	42
Anesthesiology	96	81	84%	45
Cardiology	65	63	97%	50
Dentistry	4	2	67%	43
Dermatology/Dermatopathology	10	10	100%	49
Emergency Medicine	61	52	85%	44
Endocrin/Metabolism	10	7	70%	52
Family Medicine with Obstetrics	198	178	90%	45
Gastroenterology	29	28	97%	48
Geriatrics	4	3	75%	45
Gynecology	13	12	96%	52
Hematology	1	1	100%	43
Infectious Diseases	6	5	83%	48
Infertility	1	1	100%	41
Internal Medicine	158	150	95%	45
Nephrology	9	8	89%	42
Neurology	28	26	93%	49
Ob/Gyn	64	50	78%	45
Oncology	22	21	95%	51

<u>Specialty</u>	<u>Active Physicians</u>	<u>Board Certified</u>	<u>% Board Certified</u>	<u>Average Age</u>
Ophthalmology	37	37	100%	51
Otolaryngology/Otorhinolaryngology	24	22	92%	50
Pain Management	8	6	75%	44
Pathology	25	24	96%	46
Pediatrics	108	103	95%	46
Physiatry	21	19	90%	45
Podiatry	27	22	81%	47
Psychiatry	22	18	82%	55
Pulmonary Disease	19	18	95%	46
Radiology	140	138	97%	49
Rheumatology	12	12	100%	47
Sleep Medicine	9	8	89%	48
Sports Medicine	1	1	100%	32
Surgery	158	143	90.5%	50
Urology	14	13	93%	47
<b>Grand Total</b>	<b>1410</b>	<b>1288</b>	<b>91%</b>	<b>47</b>

Two large multi-specialty clinics (Polyclinic and Minor & James) are located near the Swedish/First Hill Campus. Swedish's medical staff includes 138 physicians from the Polyclinic and 76 physicians from Minor & James.

## SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION

### Sources of Patient Services Revenue

The following table shows the percentage of gross patient revenues by payor for the fiscal years ended December 31, 2005, 2006 and 2007, and the eleven months ended November 30, 2008.

### Sources of Revenue

	<u>Total Gross Revenues</u>			
	<u>Fiscal Year Ended</u>			<u>Eleven Months Ended</u>
	<u>December 31, 2005</u>	<u>December 31, 2006</u>	<u>December 31, 2007</u>	<u>November 30, 2008</u>
Medicare	37%	36%	35%	34%
Medicaid	12%	12%	12%	12%
Premiera/Blue Cross	13%	13%	14%	14%
Regence/Blue Shield	11%	11%	12%	13%
Other Payors*	25%	26%	24%	24%
Non-Insured	2%	2%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

\* Payors in this category individually constitute 10% or less of Swedish's total gross revenues.

## Historical Utilization

	Fiscal Year Ended			Eleven Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2007	November 30, 2007	November 30, 2008
<b>Hospital Statistics:</b>					
Beds In Service	909	945	852	788	825
Admissions	43,411	43,253	43,128	39,684	40,339
Patient Days	197,050	188,707	184,624	169,651	172,305
Average Length of Stay (Days)	4.5	4.4	4.3	4.3	4.3
Average Daily Census	540.0	517.0	506.0	508	516
Percent Occupancy	59.4%	54.7%	59.4%	64.5%	62.5%
Emergency Room Visits	91,465	96,845	104,048	96,568	99,170
Deliveries	7,235	7,477	7,839	7,271	6,734
<b>Surgical Cases:</b>					
Inpatient	14,263	13,988	16,263	16,397	14,029
Outpatient	18,911	17,918	18,164	16,351	15,733

### Summary of Financial Information

The following statement of operations and balance sheet of the Obligated Group for the fiscal year ended December 31, 2007, is determined by management from the combined schedules for the statements of operations and changes in net assets, and balance sheets of Swedish and Affiliates, which is included with the “Supplemental Information” following the audited consolidated financial statements in APPENDIX B (the “Audited Financial Statements”).

The summary of financial information should be read in conjunction with the consolidated financial statements and related notes contained in APPENDIX B. See Note 1 to the consolidated financial statements for a description of the significant accounting policies followed by Swedish in the preparation of its financial statements.

The financial information for the eleven months ended November 30, 2008, and November 30, 2007, is derived by management from the internal unaudited financial statements of the Obligated Group. The unaudited financial data for the eleven months ended November 30, 2008, and November 30, 2007, includes all adjustments that Swedish’s management considers necessary to fairly present such information in accordance with accounting principles generally accepted in the United States. Operating results for the eleven months ended November 30, 2008, are not necessarily indicative of the results which may be expected for the entire fiscal year ending December 31, 2008.

**Statements of Operations of the Obligated Group**  
**Condensed and Consolidated**  
**(Dollars in Thousands)**

	Fiscal Years Ended			Eleven Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2007	November 30, 2007 (Unaudited)	November 30, 2008 (Unaudited)
Net Patient Service Revenue	\$ 986,564	\$1,039,785	\$1,097,147	1,004,455	1,111,422
Other Operating Revenue	43,453	47,471	56,183	51,023	52,964
<b>TOTAL OPERATING REVENUE</b>	<b>1,030,017</b>	<b>1,087,256</b>	<b>1,153,330</b>	<b>1,055,478</b>	<b>1,164,386</b>
Operating Expenses:					
Salaries and Benefits	536,927	575,981	614,400	562,221	629,284
Professional Fees	35,676	45,726	45,495	41,622	42,558
Supplies	177,237	183,373	180,267	166,859	177,678
Purchased Services	69,349	77,420	83,855	77,593	83,461
Depreciation and Amortization	61,165	60,759	64,684	59,159	75,168
Interest	14,305	14,489	18,815	17,385	12,512
Provision for bad debt	32,339	40,638	42,500	38,426	35,192
Other	69,449	64,694	72,544	66,183	79,937
<b>TOTAL OPERATING EXPENSES</b>	<b>996,447</b>	<b>1,063,080</b>	<b>1,122,560</b>	<b>1,029,448</b>	<b>1,135,790</b>
<b>INCOME FROM OPERATIONS</b>	<b>33,570</b>	<b>24,176</b>	<b>30,770</b>	<b>26,030</b>	<b>28,596</b>
Nonoperating Revenues/Expenses:					
Investment Income, Net	19,473	29,472	31,575	30,845	(85,147)
Foundation contributions	3,954	2,664	2,325	2,205	1,169
Gain on the sale of assets	2,219	2,195	2,725	2,392	3,109
Distribution to Providence	(3,390)	(2,386)	(3,127)	0	0
<b>TOTAL NONOPERATING REVENUES/EXPENSES</b>	<b>22,256</b>	<b>31,945</b>	<b>33,498</b>	<b>35,442</b>	<b>(80,869)</b>
<b>EXCESS OF REVENUE OVER EXPENSES</b>	<b>55,826</b>	<b>56,121</b>	<b>64,268</b>	<b>61,472</b>	<b>(52,273)</b>
Change to minimum pension liability	4,014	1,383	66,317	3,092	(5,000)
Effect of adoption provision—SFAS 158	-	-	(57,813)	-	-
Cumulative effect adjustment	(6,975)	-	-	-	-
Affiliation with VNS					3,277
Transfers from (to) Foundation, restricted contributions and other changes in net assets	3,413	4,295	6,060	423	3,847
<b>INCREASE IN NET ASSETS</b>	<b>56,278</b>	<b>61,799</b>	<b>78,832</b>	<b>64,987</b>	<b>(50,149)</b>
<b>NET ASSETS, BEGINNING OF THE PERIOD</b>	<b>448,840</b>	<b>505,118</b>	<b>566,917</b>	<b>566,917</b>	<b>645,749</b>
<b>NET ASSETS, END OF THE PERIOD</b>	<b>505,118</b>	<b>566,917</b>	<b>645,749</b>	<b>631,904</b>	<b>595,600*</b>

\*See note 13 to the Audited Financial Statements at APPENDIX B regarding the decrease in net assets as of December 31, 2008.

**Balance Sheet of the Obligated Group**  
**Condensed and Consolidated**  
**(Dollars in Thousands)**

	Fiscal Years Ended			Eleven Months Ended	
	December 31, 2005	December 31, 2006	December 31, 2007	November 30, 2007 (Unaudited)	November 30, 2008 (Unaudited)
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and Cash Equivalents	\$ 21,096	\$12,463	\$43,626	32,675	46,621
Patient accounts receivable, net of allowance for doubtful accounts	162,595	176,972	184,969	185,441	204,091
Other Receivables	5,985	5,557	7,757	6,444	12,431
Inventories	4,987	5,258	9,841	8,157	9,783
Prepaid expenses	6,502	5,710	5,079	4,305	6,253
<b>TOTAL CURRENT ASSETS:</b>	<b>201,165</b>	<b>205,960</b>	<b>251,272</b>	<b>237,022</b>	<b>279,179</b>
Investments	281,518	338,263	336,956	334,616	252,350
Property and equipment, net	487,813	557,264	666,655	658,875	734,718
Donor-restricted assets in Foundation	20,480	23,462	25,304	27,038	20,249
Trustee held funds	37	82,195	20,761	25,567	12
Other Assets	27,581	28,693	26,366	26,905	24,038
<b>TOTAL ASSETS</b>	<b>1,018,594</b>	<b>1,235,837</b>	<b>1,327,314</b>	<b>1,310,023</b>	<b>1,310,546</b>
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES:</b>					
Current portion of long-term debt	8,520	5,754	6,023	5,924	6,267
Line of Credit borrowings	-	-	-	-	44,956
Accounts payable	53,627	56,276	70,324	69,795	61,099
Accrued expenses	57,966	61,905	74,159	65,262	67,986
Accrued interest	1,990	1,460	1,921	1,102	603
Third-party payor settlements	5,345	3,992	9,005	9,977	8,990
Current portion of professional and general liability	-	5,690	4,790	4,790	5,556
<b>TOTAL CURRENT LIABILITIES:</b>	<b>127,448</b>	<b>135,077</b>	<b>166,222</b>	<b>156,850</b>	<b>195,457</b>
<b>NONCURRENT LIABILITIES:</b>					
Long-term debt, less current portion	250,596	409,944	405,389	404,321	400,831
Accrued pension liability	58,779	54,433	45,886	51,341	50,886
Other liabilities	76,653	69,466	64,068	65,607	67,772
<b>TOTAL NONCURRENT LIABILITIES</b>	<b>386,028</b>	<b>533,843</b>	<b>515,343</b>	<b>521,269</b>	<b>519,489</b>
<b>TOTAL LIABILITIES</b>	<b>513,476</b>	<b>668,920</b>	<b>681,565</b>	<b>678,119</b>	<b>714,946</b>
<b>TOTAL NET ASSETS</b>	<b>505,118</b>	<b>566,917</b>	<b>645,749</b>	<b>631,904</b>	<b>595,600</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>1,018,594</b>	<b>1,235,837</b>	<b>1,327,314</b>	<b>1,310,023</b>	<b>1,310,546</b>

## Management's Discussion and Analysis of Financial Information

For the fiscal year ended December 31, 2007, Swedish reported Net Patient Service Revenue totaling approximately \$1.097 billion, in comparison to \$1.040 billion in 2006 and \$0.986 billion in 2005. The approximate \$57 million (or 5.5%) increase compared to 2006 and \$111 million (or 11.3%) increase compared to 2005, is due primarily to growth in outpatient services. Inpatient volume, as measured by admissions, has declined slightly compared to prior years. Growth was experienced in the outpatient setting with total outpatient visits for the year at 495,596, a 2.0% increase over the prior year. Swedish's emergency department experienced growth of 7.5% while outpatient surgeries declined 6.4% over the prior year. For the interim eleven-month periods ended November 30, 2008 and 2007, Net Patient Service Revenue totaled approximately \$1,111.4 million and \$1,004.5 million, respectively. The year-over-year growth of approximately 10.6% is the result of an affiliation with VNS in 2008 (which added net patient service revenue of \$13.4 million), additionally increased admissions of 1.7%, and price gains with contracted health insurance companies.

For the fiscal year ended December 31, 2007, Swedish reported Other Operating Revenue of approximately \$56.2 million, in comparison to \$47.5 million in 2006 and \$43.5 million in 2005, increases of 18.4% and 29.3%, respectively. Other Operating Revenue consists of revenue earned primarily through retail pharmacy sales, cafeteria sales, rental income for medical office buildings, grant revenue, and revenues from the executive health screening clinic and joint ventures. For the interim eleven-month periods ended November 30, 2008 and 2007, Other Operating Revenue totaled approximately \$53.0 and \$51.0 million, respectively.

Salaries and benefits for the fiscal year ended December 31, 2007 totaled \$614.4 million, a 6.7% increase over the 2006 total of \$576.0 million and a 14.4% increase over the 2005 total of \$537.0 million. The increase in salaries and benefits is largely attributable to annual salary increases combined with increased benefit costs, primarily medical insurance. Swedish continues to manage agency costs with the 2007 amounts at approximately 4% of productive labor. Swedish's annual overall turnover rate remains below 9% for the eleven-month period ending November 30, 2008. For the eleven months ended November 30, 2008 and 2007, salaries and benefits totaled approximately \$629.3 million and \$562.2 million, respectively. VNS contributed \$11.1 million of the increase over the period ending November 30, 2008.

Professional fees represent Swedish's investment in certain physician coverage programs and medical directorships. Examples of coverage programs include contract physician hospitalists and intensivists, as well as call coverage, to provide needed patient care. For the fiscal years ended December 31, 2007, 2006 and 2005, Swedish reported professional fees of \$45.5 million, \$45.7 million, and \$35.7 million, respectively. For the eleven months ended November 30, 2008 and 2007, professional fees totaled approximately \$42.6 million and \$41.6 million, respectively. VNS contributed \$0.9 million of the increase over the period ending November 30, 2008.

Swedish participates in a group purchasing organization for the benefit of volume discounts on supply purchases. Supplies expense for the fiscal year ended December 31, 2007 totaled approximately \$180.3 million. This represents a decrease of 1.7% over the 2006 total of \$183.4 million and an increase of 1.7% over the 2005 supplies expense. The fluctuations are due to variable costs associated primarily with inpatient volumes. For the eleven months ended November 30, 2008 and 2007, supplies expense totaled approximately \$177.7 million and \$166.9 million, respectively. VNS contributed \$0.9 million of the increase over the period ending November 30, 2008.

Purchased services for the fiscal year ended December 31, 2007 totaled approximately \$83.9 million, as compared to \$77.4 million and \$69.3 million, respectively, for the years ended 2006 and 2005. Purchased services include such items as medical services, including lab services, repairs and maintenance, and software-related maintenance fees. For the eleven months ended November 30, 2008 and 2007, purchased services



totaled approximately \$83.5 million and \$77.6 million, respectively. VNS contributed \$0.4 million of the increase over the period ending November 30, 2008.

For the fiscal year ended December 31, 2007, depreciation and amortization expense totaled approximately \$64.7 million, as compared to \$60.8 million and \$61.2 million, respectively, for the years ended 2006 and 2005. For the eleven months ended November 30, 2008 and 2007, depreciation and amortization expense totaled approximately \$75.2 million and \$59.2 million, respectively. The 27% increase in depreciation from 2007 to 2008 is primarily due to two major capital projects placed in service in 2008, the Orthopedic Institute and the clinical patient information system, EPIC. VNS contributed \$0.5 million of the increase over the period ending November 30, 2008.

Interest expense totaled approximately \$18.8 million for the fiscal year ended December 31, 2007, as compared to approximately \$14 million for the two prior years. The increase in the interest expense was primarily due to the addition of \$200 million of debt in the form of a variable rate bond obligation which closed in late December 2006. For the eleven months ended November 30, 2008, Swedish incurred \$12.5 million of interest expense, as compared to \$17.4 million for the same prior year period. The favorable variance in interest was primarily due to lower interest rates on the variable rate bonds in 2008 compared to 2007.

Provisions for doubtful accounts totaled \$42.5 million for the fiscal year ended December 31, 2007, as compared to \$40.6 million and \$32.3 million, respectively, for the years ended 2006 and 2005. For the eleven months ended November 30, 2008 and 2007, provisions for doubtful accounts totaled approximately \$35.2 million and \$38.4 million, respectively.

Total other operating expenses, including sales and use taxes, utilities, rent, insurance and other expenses totaled \$72.5 million, \$64.7 million and \$69.5 million for the years ended December 31, 2007, 2006 and 2005, respectively. For the eleven months ended November 30, 2008 and 2007, other operating expenses totaled approximately \$79.9 million and \$66.2 million, respectively. The 20.7% increase is primarily due to increases in professional liability insurance costs as well as increases in rental expense; additionally, VNS contributed \$1.8 million of other operating expense over the period ending November 30, 2008.

The Obligated Group's EBIDA for fiscal years ended December 31, 2007, 2006 and 2005 was approximately \$114.3 million, \$99.4 million and \$109.0 million, respectively. The Obligated Group's EBIDA for the eleven months ended November 30, 2008 and 2007 was approximately \$116.3 million and \$102.6 million, respectively. VNS contributed a loss in EBIDA of \$1.2 million for the period ending November 30, 2008.

During the month of December 2008, Swedish's operations were disrupted due to a severe snow storm that impacted the Puget Sound region for over a week. Many patients and staff were unable to reach the hospitals and clinics, which negatively impacted patient volumes and revenue. Due to staffing shortages, the hospitals implemented emergency procedures requiring all available staff to remain on-site and work additional shifts to cover for physicians and staff who were unable to reach the hospitals, resulting in higher than budgeted expense. While Swedish experienced a net operating loss in the last quarter of 2008 (which as noted, management believes was due primarily to severe weather conditions in Seattle in December), Swedish's operations overall have remained financially strong. Operating revenue grew 6.1% in the fiscal year ended December 31, 2007 and 10.3% (including VNS) or 9.0% (excluding VNS) in the eleven-month period ending November 30, 2008, compared with the period ending November 30, 2007. Operating expenses have increased approximately 5.6% in the fiscal year ended December 31, 2007 and 10.3% (including VNS) or 8.8% (excluding VNS) in the eleven-month period ending November 30, 2008, compared with the period ending November 30, 2007. Swedish continues to be successful in its execution of an ambulatory strategy providing community-based service offerings and partnerships, in addition to implementing certain cost containment strategies, and focusing on recruitment and retention and maintaining market share in its

primary and surrounding service areas. Given the current economic conditions, Swedish plans to reorganize its leadership structure and eliminate approximately 200 non-clinical positions. Management expects additional downward pressure from payors and employers on rate increases in 2009 and expects the number of uninsured or underinsured in the service area to grow. Management expects, however, to maintain overall positive operating margins and strong cash flow margins by managing expenses while continuing to invest in affiliations, programs and technologies to maintain and then grow market share.

Significant disruptions in the global credit markets through the first half of 2008 continue to have broad and sweeping effects on companies across all industry sectors, with the most significant impacts on the financial sector. These disruptions began to surface in the subprime mortgage sector but have spread to and adversely affected a broader group of market participants. The current conditions in the credit markets have made determination of fair value for many types of investments significantly more complex. In addition, certain investments have become far less liquid as a result of the market credit crunch. Certain of Swedish's investments have allocations to underlying funds which invest in subprime or structured credit product strategies. Please see "SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Liquidity and Investment Policy" for a more detailed discussion. Investment loss of the Obligated Group for the eleven-month period ended November 30, 2008 totaled \$85.2 million, in comparison to a \$30.8 million gain for the same period during the year prior. For the eleven months ended November 30, 2008, Swedish yielded a loss on board-designated investments of approximately 25.1%. Approximately 93% of the loss recognized represents unrealized losses associated with market volatility.

Swedish has designated its investment portfolio as "trading," one of the options available in accordance with the AICPA Audit and Accounting Guide, Health Care Organizations (the "Guide"). Consistent with this designation and Guide requirements, the changes in unrealized gains and losses on marketable securities designated as "trading" are reported within the excess of revenue over expenses from operations. Investment income for the fiscal years ended December 31, 2007, 2006 and 2005 totaled \$31.6 million, \$29.5 million and \$19.5 million, respectively. Investment income reported in the Combined Statement of Operations represented the net result of realized and unrealized gains and losses on investment activity, as well as dividend and interest income. The fluctuation in periods is due to changes in market conditions. Swedish yielded investment return on board-designated investment reserves of approximately 8.6% for the twelve-month period ended December 31, 2007. Given economic conditions in 2008, this same yield calculated for the portfolio was a loss of approximately 25.1% primarily due to unrealized losses associated with the market fluctuations.

Investment (loss) income has been a significant component of the Obligated Group's profitability. For the fiscal year ended December 31, 2007 and the prior two fiscal years, investment income represented approximately 27.6%, 29.6% and 17.9% of net income before interest, depreciation and amortization ("EBIDA"), respectively. For the eleven-month period ended November 30, 2008, Swedish experienced a loss of \$85.2 million on its investments due to declines in fair market values.

Swedish experienced a decrease in net assets from the fiscal year ended December 31, 2007 to December 31, 2008 of approximately \$244 million (see note 13 to the Audited Financial Statements at APPENDIX B). Approximately 80% of the decrease is attributable to the increase in pension liability of approximately \$195 million as measured as of December 31, 2008 (see "RETIREMENT PLAN" below). The remaining decrease of approximately \$49 million is attributable primarily to the investment losses described above, offset by Swedish's operating income for the fiscal year ended December 31, 2008.

For the fiscal year ended December 31, 2007, the Foundation generated excess of revenues over expenses of \$3.0 million due primarily to contributions and investment income. For the eleven-month period ended November 30, 2008, the Foundation generated excess of revenues over expenses of (\$6.4) million. The Foundation's Other Operating Revenues and Other Expenses are incorporated in the above discussions of individual line items of the Obligated Group's statement of operations.

## Liquidity and Investment Policy

At November 30, 2008, the Obligated Group had approximately \$298.9 million of unrestricted cash and cash equivalents and investments. The following table sets forth the Obligated Group's unrestricted cash and investments for fiscal years ended December 31, 2006 and 2007 and the eleven months ended November 30, 2008. Cash and cash equivalents consist mainly of bank deposits and short-term investments in money market funds.

	Market Value (in 000's)					
	December 31, 2006		December 31, 2007		November 30, 2008	
<b>Cash &amp; Cash Equivalents</b>	\$ 12,463	3.6%	\$ 43,626	11.5%	\$ 46,621	15.6%
<b>Board-Designated Portfolio</b>						
Fixed Income Securities	124,041		131,682		131,545	
U.S. Equity	165,783		155,005		87,379	
International Equity	32,600		32,896		18,146	
Hedge Fund	15,839		17,373		15,280	
<b>Total Long-Term Portfolio</b>	<b>338,263</b>	<b>96.4%</b>	<b>336,956</b>	<b>88.5%</b>	<b>252,350</b>	<b>84.4%</b>
<b>Total Cash &amp; Investments<sup>(1)</sup></b>	<b>\$350,726</b>	<b>100.0%</b>	<b>\$380,582</b>	<b>100.0%</b>	<b>\$298,971</b>	<b>100.0%</b>

<sup>(1)</sup> Total Cash & Investments does not include donor-restricted assets in the Foundation and assets held by trustee under indenture agreement which totaled \$105.7 million and \$46.1 million as of December 31, 2006 and 2007, respectively. The total amount of assets held by the trustee under indentures was \$12,000 as of November 30, 2008.

Swedish's Board-designated investments are invested pursuant to an investment policy approved by the Board. The policy specifies allowable investments, liquidity needs, performance benchmarks and asset allocation guidelines. The Board has delegated the implementation of this policy to the Finance Committee, which consists of members of the Board and other appointed members.

At the beginning of 2006, Swedish completed and implemented an asset allocation study for the board-designated investment portfolio (\$337.0 million as of December 31, 2007). Swedish relied on an external investment consultant to conduct a study which reviewed the existing investment pool and associated allocations and the efficiency of the investment pool's performance to date. The investment advisor at the direction of Swedish management considered the operating characteristics, including time horizon, liquidity requirements, return expectations and risk tolerance, as well as the overall objective for the investment pool for incorporation into its investment policy and asset allocations. The allocation targets for the investment pool (approximately \$252.4 million as of November 30, 2008) were established as follows: 37% fixed income, 49% domestic equity, 9% international equity and 5% hedge funds. These target allocations are based upon a long-term outlook, performance is monitored regularly and adjustments will be made if necessary. Actual allocations may differ from target allocations in the short-term or during periods of significant market fluctuations and there can be no assurance that Swedish will always rebalance its investment portfolios.

A portion of the proceeds of the Bonds and the Series 2009 Variable Rate Bonds will be applied to reimburse Swedish for capital assets purchased and in service and replenish operating cash used to fund such purchases.

**The investment policies are subject to revision from time to time by the Finance Committee. There can be no assurance that Swedish will achieve its investment objectives or that it will receive any return on its investments. Investment performance may be volatile and Swedish may lose a**

significant portion of its investment portfolio. Adverse economic and market conditions or other events could result in substantial or total loss to Swedish in respect of some or all of its investments.

Achievement of investment income is subject to significant risks and Swedish can give no assurance that its investments will generate any particular level of return. See “**BONDHOLDERS’ RISKS**” in the forepart of this Official Statement and “**SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Liquidity and Investment Policy**” above. If Swedish suffers investment losses, its business plans and financial results could be materially impacted.

### Certain Indebtedness and Liabilities

In June 2008, Swedish renewed its existing credit agreement with Wells Fargo (the “Bank”), where the Bank provided an operating line of credit in the amount of \$50 million. Swedish uses loan proceeds from this credit facility to manage its day-to-day liquidity needs. As of November 30, 2008, \$45.0 million was outstanding on the line of credit.

### Capitalization

The following table sets forth the capitalization for the Obligated Group as of the fiscal year ended December 31, 2007. Pro forma capitalization has been adjusted to reflect the issuance of the Bonds and the Series 2009 Variable Rate Bonds, and the refunding and redemption of a portion of the Series 2006 Bonds, all in accordance with the plan of finance for the Project and refunding more fully described under the caption “**PLAN OF FINANCE**” in the forepart of this Official Statement, as if such transactions had occurred on December 31, 2007.

	Market Value (in 000's)	
	Actual December 31, 2007	Pro Forma December 31, 2007
Series 1998 Revenue Bonds	\$ 216,125	\$ 216,125
Series 2006 Revenue Bonds	200,000	200,000
Other	133	133
Subtotal	\$ 416,258	\$ 416,258
Unamortized Bond Discount	(4,846)	(4,846)
Outstanding Long-Term Debt	\$ 411,412	\$ 411,412
Less: Redemption of 2006 Bonds		(100,000)
Plus: The Bonds and Series 2009 Variable Rate Bonds		250,000
Subtotal	\$ 411,412	\$ 561,412
Total Net Assets	645,749	645,749*
Total Capitalization	\$1,057,161	\$1,207,161
Percent Long-Term Debt to Capitalization	38.9%	46.5%

\*See note 13 to the Audited Financial Statements at APPENDIX B regarding the decrease in net assets of Swedish as of December 31, 2008.

### Estimated Debt Service Coverage

The following table sets forth the Obligated Group’s actual annual debt service coverage ratios for the fiscal years ended December 31, 2006 and December 31, 2007, based upon actual debt service requirements during those periods. It also presents the Obligated Group’s pro forma maximum annual debt service coverage ratio for the fiscal year ended December 31, 2007, based upon projected future maximum annual debt service assuming (a) the issuance of the Bonds and the Series 2009 Variable Rate Bonds in the aggregate principal amount of \$250 million, and (b) the refunding and redemption of \$100 million in

aggregate principal amount of Series 2006 Bonds, as if such transactions had occurred on January 1, 2007, all in accordance with the plan of finance for the Project and refunding more fully described under the caption “PLAN OF FINANCE” in the forepart of this Official Statement.

	<b>Actual December 31, 2006</b>	<b>Actual December 31, 2007</b>	<b>Pro Forma December 31, 2007</b>
Excess of Revenue over Expenses	\$ 56,121	\$ 64,268	\$ 64,268
Depreciation	60,759	64,684	64,684
Adjustment for Change in Unrealized Gain	(3,285)	(4,378)	(4,378)
Non-cash gain on sale of assets	(2,195)	(2,725)	(2,725)
Interest	14,489	18,815	18,815
Income Available for Debt Service	125,889	140,664	140,664
Actual Annual Debt Service	\$ 22,427	\$ 27,409	n/a
Maximum Annual Debt Service <sup>(1)</sup>	n/a	n/a	\$ 36,995
Actual Annual Debt Service Coverage Ratio (times)	5.61x	5.13x	n/a
Pro Forma Maximum Annual Debt Service Coverage Ratio (times)	n/a	n/a	3.80x

- <sup>(1)</sup> Maximum Annual Debt Service shown above has been calculated based on the following assumptions regarding future interest rates: (i) for the 1998 Bonds, the actual interest rates; (ii) for the Series 2006 Bonds, 3.18% per annum, which is the 20 year average of SIFMA; (iii) for the Bonds, the actual interest rates; and (iv) for the Series 2009 Variable Rate Bonds, 3.18% per annum, which is the 20 year average of SIFMA. Variable rate assumptions do not include credit support costs. Further, the actual interest rates may vary from these assumptions and could have the effect of increasing or decreasing Maximum Annual Debt Service and resulting Debt Service Coverage Ratios.

Maximum Annual Debt Service shown above (and consequently, the Pro Forma Maximum Annual Debt Service Coverage Ratio) does not take into account future principal and interest requirements in connection with short term indebtedness, including without limitation the line of credit, outstanding as of November 30, 2008 in the amount of approximately \$45 million, which is more particularly described above under the caption “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION – Certain Indebtedness and Liabilities.” Interest on short-term indebtedness is included in the computation of Excess of Revenue over Expenses, Interest, Actual Annual Debt Service and the Actual Annual Debt Service Coverage Ratio.

## EMPLOYEES

Swedish employs over 7,000 persons, of which nearly 57% are represented by labor unions. Swedish negotiates four collective bargaining agreements with labor unions and recently completed negotiations with Service Employees International Union (“SEIU”). SEIU represents Swedish’s approximately 4,500 registered nurses, service employees and technical staff. Those three agreements are up for renegotiation on June 30, 2011. International Union of Operating Engineers represents just under 100 engineering staff. That contract is up for renegotiation on October 31, 2012. For information about Swedish’s employed physicians, see the discussion under “PROGRAMS AND SERVICES” above.

## RETIREMENT PLAN

Swedish maintains a qualified noncontributory defined benefit plan (the “Defined Benefit Plan”) covering a majority of employees, and provides benefits based on the number of years of credited service and compensation earned during participation in the Defined Benefit Plan. Effective January 1, 2007, the Defined Benefit Plan was frozen to new participants. Existing participants had a one-time option to elect to continue to accrue benefits under the Defined Benefit Plan or commence participation in the Swedish Health Services Retirement Plan (the “401(k) Plan”), a defined contribution plan introduced in 2007. Starting in 2007, new employees to Swedish, upon meeting eligibility requirements, participate in the 401(k) Plan.

The date used to measure the funded status of the Defined Benefit Plan each year is December 31. The calculation is performed by external actuaries on an annual basis and includes various assumptions associated with the plan including the discount rate, retirement age of participants, mortality rate, rate of return on assets, etc. The actuarial calculation regarding the funded status of the plan as of December 31, 2008 indicates an increase in the under-funded status of the plan of approximately \$195 million compared to the prior year. The change in the funded status and the cause of the significant adjustment is related to the decline in investment balances due to market disruptions occurring in late 2008 as well as declines in the discount rate measured on December 31, 2008.

Swedish also administers a noncontributory defined benefit postretirement plan offering medical benefits to employees retired from Providence Health & Services – Washington between May 1979 and June 1985. The benefit obligation and accrued postretirement liability are \$2.5 million and \$2.4 million as of December 31, 2007 and 2006, respectively.

Swedish recorded expense related to the 401(k) Plan of \$6.3 million for the year ended December 31, 2007.

### **INSURANCE COVERAGE AND LITIGATION**

Swedish maintains insurance that includes general and professional liability coverage for its entire operations. The insurance provides coverage in amounts consistent with those normally maintained by similar healthcare facilities.

Swedish maintains a risk management program to avert and mitigate potential losses through early reporting and intervention. Claims are managed cooperatively between Swedish's risk manager and Swedish's primary insurance carrier.

Currently, there are no known claims against Swedish with the potential of exceeding the limits of coverage available under the insurance plan.

Swedish is involved in various liability disputes, governmental and regulatory inspections, inquiries, investigations, proceedings and litigation matters that arise from time to time in the ordinary course of business. Swedish is self-insured with respect to professional liability, medical, dental and workers compensation claims and comprehensive general liability risks, subject to certain limitations. Professional and comprehensive general healthcare liability risks in excess of \$3 million per occurrence are reinsured with major independent insurance companies up to an aggregate liability of \$50 million.

### **PHILANTHROPY**

The Foundation seeks charitable donations from individuals, corporations, foundations and other organizations on behalf of Swedish. The Foundation has established programs in major gifts, planned giving, annual gifts, tribute and memorial gifts, and in-kind gifts. The Foundation also conducts numerous fundraising events throughout the year such as Celebrate Swedish (a gala and auction), the Swedish SummeRun (fundraising walk and run to support ovarian cancer research), and the Women's Wellness Luncheon. In 2007, the Foundation raised over \$14 million, an increase of almost \$4 million over its 2006 achievement. In 2008, the Foundation raised over \$12.4 million as of November 30, 2008.

### **LICENSES, ACCREDITATION AND APPROVALS**

Swedish's hospitals are licensed by DOH and accredited by The Joint Commission. The Joint Commission's accreditation process seeks to help organizations identify and correct problems to improve the

safety and quality of care and services provided. The process focuses on systems critical to the safety and quality of care, treatment and services.

Swedish Home Care Services is also accredited by The Joint Commission and is licensed to practice in King, Snohomish and Skagit Counties.

Swedish's laboratories hold medical test site licenses issued by the State of Washington and are accredited by the College of American Pathologists.

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**APPENDIX B**

**SWEDISH HEALTH SERVICES AND COMBINED FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2007 AND 2006**

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**SWEDISH HEALTH SERVICES**

Combined Financial Statements  
and Supplemental Information

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

## SWEDISH HEALTH SERVICES

### Combined Financial Statements and Supplemental Information

December 31, 2007 and 2006

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**KPMG LLP**  
Suite 900  
801 Second Avenue  
Seattle, WA 98104

## **Independent Auditors' Report**

The Board of Trustees  
Swedish Health Services:

We have audited the accompanying combined balance sheets of Swedish Health Services (Swedish) as of December 31, 2007 and 2006, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of Swedish's management. Our responsibility is to express an opinion on these combined 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 Swedish's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Swedish Health Services as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in the notes 1 and 9 to the combined financial statements, Swedish adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, as of December 31, 2007.

Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows for the individual companies. The combining information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

**KPMG LLP**

April 25, 2008

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## SWEDISH HEALTH SERVICES

### Combined Balance Sheets

December 31, 2007 and 2006

(In thousands)

<b>Assets</b>	<b>2007</b>	<b>2006</b>
Current assets:		
Cash and cash equivalents	\$ 43,626	12,463
Patient accounts receivable, net	184,969	176,972
Other receivables	7,757	5,557
Inventories	9,841	5,258
Prepaid expenses	5,079	5,710
Total current assets	251,272	205,960
Investments	336,956	338,263
Property and equipment, net	666,655	557,264
Donor-restricted assets in Foundation	25,304	23,462
Trustee held funds	20,761	82,195
Other assets	26,366	28,693
Total assets	\$ 1,327,314	1,235,837
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 6,023	5,754
Accounts payable	70,324	56,276
Accrued payroll, taxes, and employee benefits	74,159	61,905
Accrued interest	1,921	1,460
Third-party payor settlements	9,005	3,992
Current portion of professional and general liability	4,790	5,690
Total current liabilities	166,222	135,077
Long-term debt, less current portion	405,389	409,944
Accrued pension liability	45,886	54,433
Other liabilities	64,068	69,466
Total liabilities	681,565	668,920
Commitments and contingencies		
Net assets:		
Unrestricted	616,518	543,416
Temporarily restricted	23,973	19,424
Permanently restricted	5,258	4,077
Total net assets	645,749	566,917
Total liabilities and net assets	\$ 1,327,314	1,235,837

See accompanying notes to combined financial statements.

## SWEDISH HEALTH SERVICES

### Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2007 and 2006

(In thousands)

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Net patient service revenue	\$ 1,097,147	1,039,785
Other operating revenue	56,183	47,471
Total operating revenues	<u>1,153,330</u>	<u>1,087,256</u>
Operating expenses:		
Salaries and benefits	614,400	575,981
Professional fees	45,495	45,726
Supplies	180,267	183,373
Purchased services	83,855	77,420
Depreciation	64,684	60,759
Interest and amortization	18,815	14,489
Provision for bad debts	42,500	40,638
Other	72,544	64,694
Total operating expenses	<u>1,122,560</u>	<u>1,063,080</u>
Excess of revenues over expenses from operations	<u>30,770</u>	<u>24,176</u>
Nonoperating income (loss):		
Unrestricted Foundation contributions	2,325	2,664
Investment gain	31,575	29,472
Gain on sale of assets	2,725	2,195
Distribution to Providence Health System – Washington	(3,127)	(2,386)
Total nonoperating income, net	<u>33,498</u>	<u>31,945</u>
Excess of revenues over expenses	<u>64,268</u>	<u>56,121</u>



## SWEDISH HEALTH SERVICES

### Combined Statements of Operations and Changes in Net Assets

Years ended December 31, 2007 and 2006

(In thousands)

	<b>2007</b>	<b>2006</b>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 64,268	56,121
Contributions and amounts released from restriction for property and equipment	161	1,051
Net asset transfers	169	859
Decrease to minimum pension liability	66,317	1,383
Effect of adoption of recognition provision of SFAS 158	(57,813)	—
Increase in unrestricted net assets	73,102	59,414
Temporarily restricted net assets:		
Contributions	7,064	5,150
Net investment activity	6	1,242
Net assets released from restrictions	(2,521)	(3,350)
Increase in temporarily restricted net assets	4,549	3,042
Permanently restricted net assets:		
Contributions	1,345	202
Net investment activity	5	—
Net asset transfers	(169)	(859)
Increase (decrease) in permanently restricted net assets	1,181	(657)
Increase in net assets	78,832	61,799
Net assets, beginning of year	566,917	505,118
Net assets, end of year	\$ 645,749	566,917

See accompanying notes to combined financial statements.

**SWEDISH HEALTH SERVICES**  
 Combined Statements of Cash Flows  
 Years ended December 31, 2007 and 2006  
 (In thousands)

	<b>2007</b>	<b>2006</b>
Cash flow from operating activities:		
Increase in net assets	\$ 78,832	61,799
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Decrease to minimum pension liability	(66,317)	(1,383)
Effect of adoption of recognition provision of SFAS 158	57,813	—
Depreciation and amortization	66,019	60,759
Provision for bad debts	42,500	40,638
Amortization of deferred gain	(2,609)	(2,195)
Equity income from joint ventures	(2,908)	(755)
Permanently restricted and capital contributions	(1,446)	(744)
Changes in certain assets and liabilities:		
Patient accounts receivable	(50,497)	(55,015)
Inventories	(4,583)	(271)
Other current assets	(1,569)	1,220
Investments	1,307	(56,745)
Accounts payable	12,998	1,827
Accrued liabilities	12,715	3,409
Third-party payor settlements	5,013	(1,353)
Other liabilities	(3,732)	(2,293)
Net cash provided by operating activities	143,536	48,898
Cash flow from investing activities:		
Purchases of property and equipment	(173,025)	(129,360)
Increase in donor-restricted assets	(1,842)	(2,982)
Capital contributions to joint ventures	(6,623)	(858)
Distributions from joint ventures	3,830	1,793
Decrease (increase) in other assets	7,609	(692)
Decrease (increase) in funds held by trustee	61,434	(82,158)
Net cash used in investing activities	(108,617)	(214,257)
Cash flow from financing activities:		
Repayment of long-term debt	(5,621)	(42,854)
Net proceeds from long-term debt	—	199,436
Change in deferred financing costs	419	(600)
Permanently restricted and capital contributions	1,446	744
Net cash (used in) provided by financing activities	(3,756)	156,726
Net increase (decrease) in cash and cash equivalents	31,163	(8,633)
Cash and cash equivalents, beginning of year	12,463	21,096
Cash and cash equivalents, end of year	\$ 43,626	12,463
Supplemental disclosure of cash flow information:		
Interest paid	\$ 19,083	14,072

See accompanying notes to combined financial statements.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

#### (1) Organization and Significant Accounting Policies

##### (a) *Organization*

Swedish Health Services (Swedish) provides comprehensive inpatient, outpatient, and emergency health care services through three acute care hospitals, a network of primary care medical clinics, an emergency service center, and other medical organizations, primarily in the surrounding Seattle, Washington area. Swedish also operates the Swedish Medical Center Foundation (Foundation) to provide fundraising to further the charitable, educational, health care, and scientific activities of Swedish.

##### (b) *Principles of Combination*

The combined financial statements include the accounts of Swedish and its Foundation after elimination of all significant inter-entity accounts and transactions.

##### (c) *Cash and Cash Equivalents*

Cash and cash equivalents include highly liquid investments with original maturities of three months or less at date of purchase.

##### (d) *Investments*

Investment gain or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues over expenses unless the gain or loss is restricted by donor or law. For purposes of recognizing investment returns as a component of excess of revenues over expenses, all investments are considered to be trading securities.

##### (e) *Inventories*

Inventories, consisting principally of pharmaceuticals, central supplies, and surgical items, are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

##### (f) *Property and Equipment*

Property and equipment are recorded at cost. Property and equipment donated for hospital operations are recorded as a contribution and stated at fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful lives, ranging from 3 to 40 years, of the assets.

##### (g) *Temporarily and Permanently Restricted Net Assets*

Temporarily restricted net assets are those whose use by Swedish has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity, the earnings of which are to support health care services. When a donor restriction expires, restricted net assets are transferred to unrestricted net assets for capital or included in other operating revenue for operations.

Gift annuity funds held by the Foundation totaled \$0.8 million at December 31, 2007 and 2006, with a corresponding liability of \$0.8 million, at each respective year-end.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

A reclassification was recorded in 2007 and 2006, which reduced permanently restricted net assets and increased unrestricted net assets by \$0.2 million and \$0.9 million, respectively, based upon clarification received by donors.

**(h) *Net Patient Service Revenue***

Patient service revenue is derived from patients who are primarily concentrated in the Seattle, Washington area. Net revenues from the Medicare and Medicaid programs accounted for approximately 28% in 2007 and 33% in 2006 of Swedish's net patient service revenue. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors.

Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount as cost report adjustments become known or as cost report years are no longer subject to audit. During 2007, the impact of the change in the estimated third-party payor settlements was a decrease to net patient service revenue of \$1.1 million. In 2006, the impact was an increase to net patient service revenue of \$7.1 million.

**(i) *Concentrations of Credit and Market Risk***

Financial instruments that potentially subject Swedish to concentrations of credit and market risk consist primarily of cash and cash equivalents, equity securities, and patient accounts receivable. While cash and cash equivalents held by financial institutions at times exceed federally insured limits, management does not believe that any significant credit or market risk exposure exists due to the high quality of the financial institutions. Equity securities are managed by professional investment managers within the guidelines established by the Board of Trustees.

Swedish grants credit to its patients without collateral. Management believes that concentrations of credit risk related to patient accounts receivable are limited due to the large number of payors that comprise Swedish's total patient accounts receivable. An allowance for doubtful patient accounts receivable totaling \$21.9 million and \$22.6 million has been recorded at December 31, 2007 and 2006, respectively. Gross patient accounts receivable were concentrated in Medicare (25% in 2007 and 25% in 2006), Medicaid (14% in 2007 and 13% in 2006), self-pay (10% in 2007 and 11% in 2006), and other third-party payors (51% in 2007 and 2006).

**(j) *Fair Value of Financial Instruments***

Cash and cash equivalents, accounts receivable, accounts payable, and third-party payor settlements approximate their fair value based on their liquidity and short-term nature. Fair values for investments in equity and debt securities are based on quoted market prices, if available, or estimated using quoted market prices for similar securities (see note 2). Fair values of long-term debt are estimated using market values for bonds outstanding and a discounted cash flow analysis based on equivalent incremental borrowing rates for similar types of borrowing arrangements. The fair value

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

of long-term debt was \$421.3 million and \$428.9 million at December 31, 2007 and 2006, respectively. The carrying value of long-term debt was \$416.1 million and \$421.7 million at December 31, 2007 and 2006, respectively.

**(k) *Excess of Revenues over Expenses***

Excluded from excess of revenues over expenses, the operating indicator, in the accompanying combined statements of operations and changes in net assets, are contributions of long-lived assets, adjustments to the minimum pension liability, and the impact of adoption of certain accounting standards, as applicable, that are required by U.S. generally accepted accounting principles to be reported separately.

**(l) *Income Taxes***

The Internal Revenue Service has determined that Swedish is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. There was no significant taxable unrelated business income during 2007 and 2006 and, accordingly, no provision for income taxes has been made in the combined financial statements.

**(m) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

**(n) *Impact of Recently Adopted Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires the employer to recognize the overfunded or underfunded 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 to the projected benefit obligation of the plan. SFAS 158 requires Swedish to recognize in unrestricted net assets any unrecognized net actuarial gains or losses and any unrecognized prior service costs or credits as they arise, and disclose in the notes to the financial statements additional information about the effect on net periodic benefit cost on the next fiscal year that arise from the delayed recognition of these items. Swedish adopted the provisions of SFAS 158 effective December 31, 2007. The adoption of SFAS 158 resulted in a charge of \$57.8 million to unrestricted net assets. Refer to note 9 for more information regarding Swedish's pension plan disclosures under SFAS 158. SFAS 158 also requires employers, beginning in fiscal year 2008, to use a measurement date for these types of plans that is the same as Swedish's fiscal year-end. Swedish has historically used a September 30 measurement date. This change in the measurement date is not expected to have a material impact in the determination of pension expense for the year ended December 31, 2008.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

**(o) *Impact of Pending Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurement*. SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS 157 does not require any new fair value measures. SFAS 157 is effective for fair value measures already required or permitted by other standards for fiscal years after November 15, 2007. Swedish is required to adopt SFAS 157 beginning in fiscal year 2008. 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 required or permitted to be measured at fair value on a recurring basis. Management is evaluating the potential impact of SFAS 157, but does not currently expect SFAS 157 to have a material impact on the combined financial statements of Swedish.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits an organization to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS permits organizations to choose, at specified election dates, to measure certain items at fair value and report unrealized gains and losses on such items in earnings. SFAS 159 is effective for Swedish beginning in fiscal year 2008. Management is evaluating the potential impact of SFAS 159, but does not currently expect SFAS 159 to have a material impact on the combined financial statements of Swedish.

In March of 2008, the FASB issued SFAS No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133*. SFAS 161 requires enhanced disclosures about an entity's derivatives and hedging activities including how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The objective of SFAS 161 is to improve transparency in financial reporting by incorporating the underlying risks with the accounting designation. Swedish will be required to adopt the provisions of SFAS 161 in fiscal year 2009.

**(p) *Reclassifications***

Certain reclassifications have been made to the 2006 combined financial statements to conform to the 2007 presentation.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

#### (2) Investments

Investments are stated at fair value and are comprised of the following at December 31 (in thousands):

	Investments		Donor-restricted assets in Foundation	
	2007	2006	2007	2006
Mutual funds	\$ 286,687	289,825	19,854	17,102
Equity securities	32,896	32,599	2,797	2,163
Other	17,373	15,839	2,653	4,197
	\$ 336,956	338,263	25,304	23,462

Other investments above include an alternative investment with an estimated fair value of \$17.4 million and \$15.8 million as of December 31, 2007 and 2006, respectively. Alternative investments can include limited partnerships, limited liability corporations, investment trusts, institutional funds, and off shore investment funds. These financial instruments involve varying degrees of risk. The fair value of these alternative investments was recorded by management using information provided by the fund managers. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

The composition of investment gain is as follows for the years ended December 31 (in thousands):

	2007	2006
Interest and dividend income	\$ 15,668	8,064
Net unrestricted realized gains on sales of investments	11,402	16,284
Net unrestricted unrealized gains on investments	4,505	5,124
	\$ 31,575	29,472

#### (3) Property and Equipment

Property and equipment are comprised of the following at December 31 (in thousands):

	2007	2006
Land and land improvements	\$ 31,370	31,370
Buildings and leasehold improvements	547,534	519,486
Equipment	644,057	557,913
Construction-in-progress (estimated costs to complete of \$157.8 million at December 31, 2007)	148,968	89,232
	1,371,929	1,198,001
Less accumulated depreciation and amortization	705,274	640,737
	\$ 666,655	557,264

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

During 2004, Swedish sold certain medical office buildings and other properties. Swedish's net gain on the sale was \$32.3 million, of which \$17.7 million had been deferred in 2004 because of its continuing lease commitment. Swedish recognized a gain of \$2.6 million and \$2.2 million in 2007 and 2006, respectively.

Interest capitalized on internally generated and borrowed funds expended for construction is a component of the cost of plant additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the plant addition is placed into service. Swedish capitalized \$2.1 million of interest costs during the year ended December 31, 2007.

#### (4) Joint Ventures

The carrying value of Swedish's investment in joint ventures is approximately \$15.0 million and \$9.2 million at December 31, 2007 and 2006, respectively. These investments are accounted for using the equity method and are included in other assets in the accompanying combined balance sheets. The equity in earnings from these joint ventures totaled approximately \$2.9 million and \$0.8 million for the years ended December 31, 2007 and 2006, respectively, which is included in other operating revenue in the accompanying combined statements of operations and changes in net assets.

The following represents unaudited summary financial information for certain of Swedish's joint ventures as of and for the year ended December 31, 2007 (in thousands):

	<b>Swedish Radia Issaquah Imaging Center, LLC</b> (Unaudited)	<b>First Hill Diagnostic Imaging</b> (Unaudited)	<b>PET/CT Imaging at Swedish Cancer Institute</b> (Unaudited)	<b>Health Services Northwest</b> (Unaudited)
Total assets	\$ 5,340	2,854	4,275	6,259
Revenue	\$ 5,313	5,205	5,971	33,445
Expenses	5,037	3,810	3,109	33,640
Net income (loss)	\$ 276	1,395	2,862	(195)
Swedish's investment balance as of December 31, 2007	\$ 3,479	6,675	2,365	955

#### (5) Line of Credit

Swedish has a line of credit facility with a bank under which it can borrow up to \$50 million and \$30 million as of December 31, 2007 and 2006, respectively. There was no outstanding balance at December 31, 2007 and 2006. Borrowings on the line of credit bear interest, payable monthly, at prime minus an applicable margin (4.85% at December 31, 2007). Outstanding principal on the line is due upon maturity of the line of credit on June 1, 2008 and may be extended on an annual basis thereafter. Swedish is required to comply with certain debt covenants contained in the line of credit facility agreement. The line of credit provides for a security interest in certain investments. Swedish is required to pay a commitment fee (0.07%) on the average daily unused amount of the line of credit.



## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

#### (6) Long-term Debt

Long-term debt is comprised of the following at December 31 (in thousands):

	<b>2007</b>	<b>2006</b>
Series 1998 Revenue Bonds	\$ 216,125	221,705
Series 2006 Revenue Bonds	200,000	200,000
Other	133	174
	416,258	421,879
Unamortized bond discount	(4,846)	(6,181)
	411,412	415,698
Less current portion	6,023	5,754
	\$ 405,389	409,944

Washington Health Care Facilities Authority Revenue Bonds (Series 1998 Revenue Bonds) are tax-exempt, have effective interest rates ranging from 4.6% to 5.5%, and principal due in amounts ranging from \$5.9 million in 2008 to \$16.4 million due in 2028. Under the terms of the bond agreement, trust funds have been established for the deposit of debt service funds (which are paid out semiannually in May and November). In addition, Swedish is required to maintain compliance with certain debt covenants. Interest costs on the Series 1998 Revenue Bonds were \$11.7 million and \$11.9 million in 2007 and 2006, respectively. Deferred financing costs, net on the Series 1998 Revenue Bonds were \$1.4 million and \$1.8 million in 2007 and 2006, respectively.

Washington Health Care Facilities Authority Revenue Bonds (Series 2006 Revenue Bonds) are tax-exempt, have a weekly interest rate, which is determined by the remarketing agent, and principal due in equal amounts of \$13.3 million beginning in 2012 and due in full in 2026. A five-year noncancelable letter of credit is in place backing the bonds. Interest payments are made monthly on the Series 2006 Revenue Bonds. In addition, Swedish is required to maintain compliance with certain debt covenants. Interest costs with variable interest rates ranging from 3.2% to 4.2% on the Series 2006 Revenue Bonds were \$7.4 million and \$0.3 million in 2007 and 2006, respectively. Deferred financing costs, net on the Series 2006 Revenue Bonds were \$0.1 million and \$0.6 million in 2007 and 2006, respectively.

On December 20, 2006, Swedish paid \$35.4 million which satisfied the amount owed under an agreement with Providence Health Services – Washington (PHS–W).

**SWEDISH HEALTH SERVICES**

Notes to Combined Financial Statements

December 31, 2007 and 2006

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

2008	\$	6,023
2009		6,215
2010		6,525
2011		6,855
2012		20,540
Thereafter		<u>370,100</u>
	\$	<u><u>416,258</u></u>

**(7) Charity Care and Community Benefits**

Swedish provides care without charge, or at reduced charges, to patients who meet certain criteria under its charity care policy. Records are maintained to identify and monitor the level of charity care provided. Swedish does not pursue collection of the amounts determined to qualify as charity care, and such amounts are not reported as revenue. The cost of the services and supplies furnished under Swedish's charity care policy totaled \$15.2 million and \$12.5 million during 2007 and 2006, respectively.

Swedish provides many other health, educational, and research activities for the benefit of the community. These benefits go beyond uncompensated services and are unique to nonprofit organizations, such as Swedish. Examples of significant activities and the related uncompensated costs include: community classes, educational materials, health fairs, and screenings (\$2.9 million in 2007 and 2006); graduate medical education programs (\$3.4 million and \$5.8 million in 2007 and 2006, respectively); and health-related research activities (\$2.7 million and \$3.9 million in 2007 and 2006, respectively).

**(8) Functional Expenses**

The functional classification of expenses by major classes of program services and supporting activities are as follows for the years ended December 31 (in thousands):

		<u>2007</u>	<u>2006</u>
Direct patient care services	\$	616,030	595,074
General and administrative		<u>506,530</u>	<u>468,006</u>
	\$	<u><u>1,122,560</u></u>	<u><u>1,063,080</u></u>

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

#### **(9) Retirement Benefits**

Swedish maintains a qualified noncontributory defined benefit plan (the Defined Benefit Plan), covering a majority of employees, and provides benefits based on the number of years of credited service and compensation earned during participation in the Defined Benefit Plan. Effective January 1, 2007, the Defined Benefit Plan was frozen to new participants. Existing participants had a one-time election to continue to accrue benefits under the Defined Benefit Plan or commence participation in the Swedish Services Retirement Plan (the 401(k) Plan), a defined contribution plan introduced in 2007. Starting in 2007, new employees to Swedish, upon meeting eligibility requirements, participate in the 401(k) Plan.

Swedish adopted SFAS 158 effective December 31, 2007, which required Swedish to recognize the underfunded status of the Defined Benefit Plan in the combined balance sheet and to recognize as a component of unrestricted net assets the actuarial gains or losses and prior service cost credits that have arisen during the period but are not included in the net periodic pension cost.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

Swedish makes annual contributions in amounts sufficient to maintain the Defined Benefit Plan in compliance with the minimum funding standards of Employment Retirement Income Security Act (ERISA). Following is information regarding the Defined Benefit Plan's funded status and assumptions used in arriving at this information (in thousands):

	December 31	
	2007	2006
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 451,658	388,568
Service cost	34,472	31,186
Interest cost	27,217	23,134
Actuarial loss	7,278	15,487
Curtailments	(4,239)	—
Assumptions	(37,012)	—
Benefits paid	(8,709)	(6,717)
Projected benefit obligation, end of year	470,665	451,658
Change in fair value of plan assets:		
Fair value of plan assets, beginning of year	341,356	282,227
Actual return on plan assets	55,032	25,846
Swedish contributions	37,100	40,000
Benefits paid	(8,709)	(6,717)
Fair value of plan assets, end of year	424,779	341,356
Funded status of the Defined Benefit Plan	\$ (45,886)	(110,302)
Amounts recognized on the combined balance sheet consist of:		
Recognized accrued pension asset	\$ (11,927)	(11,897)
Actuarial loss not yet recognized as a component of net periodic benefit cost	57,813	66,330
Total pension liability	\$ 45,886	54,433
Amounts recognized as changes in net assets consist of:		
Decrease in minimum pension liability	\$ —	1,383
Change in net actuarial loss	59,682	—
Amortization of net actuarial loss	6,635	—
Effect of adoption of recognition provision of SFAS 158	(57,813)	—
Net amount recognized	\$ 8,504	1,383
Weighted average assumption used to determine benefit obligations:		
Discount rate	6.40%	6.00%
Rate of compensation increase	4.00	4.00
Weighted average assumption used to determine net periodic benefit costs:		
Discount rate	6.00	6.00
Expected long-term return on plan assets	8.25	8.25

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

The discount rate is based on a specific bond portfolio, which uses high yield, investment grade corporate bonds, and the projected payouts from the Defined Benefit Plan to develop an equivalent yield rate to use in determining Defined Benefit Plan liabilities.

	<b>Year ended December 31</b>	
	<b>2007</b>	<b>2006</b>
	(In thousands)	
Components of net periodic pension cost:		
Service cost	\$ 34,472	31,186
Interest cost	27,217	23,134
Expected return on plan assets	(31,266)	(25,374)
Amortization of prior service cost	6	8
Recognized net actuarial losses	6,635	8,091
Net periodic pension cost	\$ 37,064	37,045

The Defined Benefit Plan's asset allocation at December 31, 2007 and 2006, and target allocation for 2008, are as follows:

<b>Asset category</b>	<b>Target allocation</b>	<b>Percentage of plan assets at December 31</b>	
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Fixed income	25%	25%	24%
Equity securities	72	71	75
Other	3	4	1
Total	100%	100%	100%

The overall expected long-term rate of return on plan assets was determined by assigning an expected rate of return to each asset class included in the current investment strategy. These specific expected returns were then weighted by the current asset allocation policy. Swedish's investment objective is to maintain adequate liquidity and asset value to ensure the payment of current benefits, while growing plan assets over time to maintain or improve long-term funded status. The strategy is to invest in a diversified portfolio of fixed income and equity instruments that produces returns exceeding the rate of inflation over the short-term and the actuarial rate of return assumption over the long-term.

The accumulated benefit obligation for the Defined Benefit Plan was \$417.7 million and \$396.0 million at December 31, 2007 and 2006, respectively. Swedish plans to contribute \$30.0 million to the Defined Benefit Plan in 2008.

The benefits expected to be paid from the Defined Benefit Plan in each year 2008–2012 are \$13.7 million, \$13.5 million, \$16.1 million, \$18.7 million, and \$21.9 million, respectively. The aggregate benefits expected to be paid in the five years from 2013–2017 are \$168.8 million.

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

Swedish also administers a noncontributory defined benefit postretirement plan (Postretirement Plan) offering medical benefits to employees retired from Providence Health System between May 1979 and June 1985. The benefit obligation and accrued postretirement liability are \$2.5 million and \$2.4 million as of December 31, 2007 and 2006, respectively.

Swedish recorded expense related to the 401(k) Plan of \$6.3 million for the year ended December 31, 2007.

#### **(10) Insurance Programs**

Swedish participates in a program to insure professional and general liability risks under a claims-made insurance policy. Liability insurance premiums are based on loss experience to date for Swedish. There are known claims and incidents that have or may result in the assertion of a claim, as well as claims from unknown incidents that may be asserted, arising from services provided to patients. Under a claims-made policy, only claims reported within the policy period are covered. For claims reported after the policy year, Swedish has recorded an undiscounted reserve for tail coverage. In addition, Swedish has recorded an undiscounted reserve for the deductible portion of possible professional and general liability claims. Management believes that the insurance coverage and accruals are adequate to cover known claims. Swedish has recorded professional and general liabilities of \$35.0 million and \$34.8 million as of December 31, 2007 and 2006, respectively. Professional and general liability expense totaled \$4.9 million and \$6.7 million during 2007 and 2006, respectively, and is recorded in other expenses in the accompanying combined statements of operations and changes in net assets.

Swedish is self-insured for workers' compensation, employee medical and dental, and unemployment insurance benefits. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Management believes amounts provided are sufficient to cover claims and costs incurred through December 31, 2007.

#### **(11) Commitments and Contingencies**

##### **(a) Litigation**

Swedish is involved in legal actions in the normal course of business. Liability insurance is expected to protect Swedish from any potential material loss. Management believes that the ultimate resolution of these legal actions will not have a material effect on the combined balance sheets or combined results of operations of Swedish.

##### **(b) Leases**

Swedish leases certain buildings and equipment under noncancelable operating leases that contain escalation clauses based on market, CPI, or other adjustments, and various renewal options ranging from one to ten years.

During 2002, Swedish entered into a rent guaranty agreement associated with the sale and leaseback of a medical office building (see note 3). Under the agreement, Swedish guarantees the payment of rent in excess of Swedish's base rent up to \$1.6 million per year and additional rent (defined as operating costs and taxes associated with the property) for a period of five years (August 1, 2002 –

## SWEDISH HEALTH SERVICES

### Notes to Combined Financial Statements

December 31, 2007 and 2006

July 31, 2007). The amount of the base rent guaranty will vary based on actual occupancy of the medical office building. During the years 2007 and 2006, there were no payments made under the guaranty.

Future minimum lease payments under all operating leases, and payments to be received under subleases, with initial or remaining terms of one year or more at December 31, 2007, are as follows (in thousands):

	<b>Operating leases</b>	<b>Subleases</b>
Year ending December 31:		
2008	\$ 20,518	510
2009	19,327	151
2010	17,400	130
2011	16,841	33
2012	15,330	—
Thereafter	39,270	—
	\$ 128,686	824

Rental expense for all operating leases totaled \$21.4 million and \$18.6 million during 2007 and 2006, respectively. Sublease income totaled \$0.6 million and \$0.7 million during 2007 and 2006, respectively.

**(c) PHS–W Donation Commitment**

Swedish has committed to make an annual donation to PHS–W for a term of 65 years based on the preceding year’s results. The donation is to be used by PHS–W to support charitable health and social services. The annual donation is based on a percentage of total net operating revenues ranging from 0.1% to 0.6% depending on the net operating income margin as defined in the underlying agreement. Swedish is not required to make a donation during any year when Swedish does not achieve a minimum net operating income margin of 1%. Swedish’s net operating income was positive for 2007 and 2006. The annual donation of \$3.1 million and \$2.4 million in 2007 and 2006, respectively, was recorded in nonoperating income in the accompanying combined statements of operations and changes in net assets.

**(12) Subsequent Events**

Swedish entered into an option purchase agreement for the purchase of land in Issaquah, Washington for the construction of a new full service hospital. The notice to exercise on the first option to purchase outlined in the agreement was \$7.5 million, which was paid in the first quarter of 2008.

**(13) Event Subsequent to the Date of the Independent Auditor's Report (Unaudited)**

As a result of market declines, economic conditions, and pension discount rates net assets have decreased by \$244 million from December 31, 2007 to December 31, 2008. Net Assets at December 31, 2007 were \$646 million.

## **SUPPLEMENTAL INFORMATION**



## SWEDISH HEALTH SERVICES

### Combining Schedule – Balance Sheet Information

December 31, 2007

(In thousands)

Assets	Swedish Health Services	Foundation	Combined total
Current assets:			
Cash and cash equivalents	\$ 38,037	5,589	43,626
Patient accounts receivable, net	184,969	—	184,969
Other receivables	2,728	5,029	7,757
Inventories	9,738	103	9,841
Prepaid expenses	5,079	—	5,079
Total current assets	240,551	10,721	251,272
Investments	315,768	21,188	336,956
Property and equipment, net	666,655	—	666,655
Donor-restricted assets in Foundation	—	25,304	25,304
Trustee held funds	20,761	—	20,761
Other assets	26,343	23	26,366
Total assets	\$ 1,270,078	57,236	1,327,314
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Current portion of long-term debt	\$ 5,890	133	6,023
Accounts payable	68,193	2,131	70,324
Accrued payroll, taxes, and employee benefits	74,151	8	74,159
Accrued interest	1,921	—	1,921
Third-party payor settlements	9,005	—	9,005
Current portion of professional and general liability	4,790	—	4,790
Total current liabilities	163,950	2,272	166,222
Long-term debt, less current portion	405,389	—	405,389
Accrued pension liability	45,886	—	45,886
Other liabilities	62,753	1,315	64,068
Total liabilities	677,978	3,587	681,565
Net assets:			
Unrestricted	592,100	24,418	616,518
Temporarily restricted	—	23,973	23,973
Permanently restricted	—	5,258	5,258
Total net assets	592,100	53,649	645,749
Total liabilities and net assets	\$ 1,270,078	57,236	1,327,314

See accompanying independent auditors' report.

## SWEDISH HEALTH SERVICES

### Combining Schedule – Operations and Changes in Net Assets Information

Year ended December 31, 2007

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Operating revenues:			
Net patient service revenue	\$ 1,097,147	—	1,097,147
Other operating revenue	49,367	6,816	56,183
Total operating revenues	<u>1,146,514</u>	<u>6,816</u>	<u>1,153,330</u>
Operating expenses:			
Salaries and benefits	611,956	2,444	614,400
Professional fees	44,991	504	45,495
Supplies	179,992	275	180,267
Purchased services	83,815	40	83,855
Depreciation	64,684	—	64,684
Interest and amortization	18,788	27	18,815
Provision for bad debts	42,500	—	42,500
Other	68,422	4,122	72,544
Total operating expenses	<u>1,115,148</u>	<u>7,412</u>	<u>1,122,560</u>
Excess (deficit) of revenues over expenses from operations	<u>31,366</u>	<u>(596)</u>	<u>30,770</u>
Corporate services	<u>552</u>	<u>(552)</u>	<u>—</u>
Nonoperating income (loss):			
Unrestricted Foundation contributions	—	2,325	2,325
Investment gain	29,773	1,802	31,575
Gain on sale of assets	2,725	—	2,725
Distribution to Providence Health System – Washington	<u>(3,127)</u>	<u>—</u>	<u>(3,127)</u>
Total nonoperating income, net	<u>29,371</u>	<u>4,127</u>	<u>33,498</u>
Excess of revenues over expenses	<u>61,289</u>	<u>2,979</u>	<u>64,268</u>

## SWEDISH HEALTH SERVICES

### Combining Schedule – Operations and Changes in Net Assets Information

Year ended December 31, 2007

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Unrestricted net assets:			
Excess of revenues over expenses	\$ 61,289	2,979	64,268
Transfers and amounts released from restriction for property and equipment, net	1,856	(1,695)	161
Net asset transfers	—	169	169
Decrease to minimum pension liability	66,317	—	66,317
Effect of adoption of recognition provision of SFAS 158	(57,813)	—	(57,813)
Increase in unrestricted net assets	71,649	1,453	73,102
Temporarily restricted net assets:			
Contributions	—	7,064	7,064
Net investment activity	—	6	6
Net assets released from restrictions	—	(2,521)	(2,521)
Increase in temporarily restricted net assets	—	4,549	4,549
Permanently restricted net assets:			
Contributions	—	1,345	1,345
Net investment activity	—	5	5
Net asset transfers	—	(169)	(169)
Increase in permanently restricted net assets	—	1,181	1,181
Increase in net assets	71,649	7,183	78,832
Net assets, beginning of year	520,451	46,466	566,917
Net assets, end of year	\$ 592,100	53,649	645,749

See accompanying independent auditors' report.

## SWEDISH HEALTH SERVICES

### Combining Schedule – Cash Flows Information

Year ended December 31, 2007

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Cash flow from operating activities:			
Increase in net assets	\$ 71,649	7,183	78,832
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Decrease to minimum pension liability	(66,317)	—	(66,317)
Effect of adoption of recognition provision of SFAS 158	57,813	—	57,813
Depreciation and amortization	66,019	—	66,019
Provision for bad debts	42,500	—	42,500
Amortization of deferred gain	(2,609)	—	(2,609)
Equity income from joint ventures	(2,908)	—	(2,908)
Permanently restricted and capital contributions	—	(1,446)	(1,446)
Changes in certain assets and liabilities:			
Patient accounts receivable	(50,497)	—	(50,497)
Inventories	(4,561)	(22)	(4,583)
Other current assets	1,051	(2,620)	(1,569)
Investments	1,293	14	1,307
Accounts payable	12,546	452	12,998
Accrued liabilities	12,716	(1)	12,715
Third-party payor settlements	5,013	—	5,013
Other liabilities	(1,763)	(1,969)	(3,732)
Net cash provided by operating activities	<u>141,945</u>	<u>1,591</u>	<u>143,536</u>
Cash flow from investing activities:			
Purchases of property and equipment	(173,025)	—	(173,025)
Increase in donor-restricted assets	—	(1,842)	(1,842)
Capital contributions to joint ventures	(6,623)	—	(6,623)
Distributions from joint ventures	3,830	—	3,830
Decrease in other assets	7,597	12	7,609
Decrease in funds held by trustee	61,434	—	61,434
Net cash used in investing activities	<u>(106,787)</u>	<u>(1,830)</u>	<u>(108,617)</u>
Cash flow from financing activities:			
Repayment of long-term debt	(5,621)	—	(5,621)
Change in deferred financing costs	419	—	419
Permanently restricted and capital contributions	—	1,446	1,446
Net cash (used in) provided by financing activities	<u>(5,202)</u>	<u>1,446</u>	<u>(3,756)</u>
Net increase in cash and cash equivalents	29,956	1,207	31,163
Cash and cash equivalents, beginning of year	8,081	4,382	12,463
Cash and cash equivalents, end of year	<u>\$ 38,037</u>	<u>5,589</u>	<u>43,626</u>

See accompanying independent auditors' report.

## SWEDISH HEALTH SERVICES

### Combining Schedule – Balance Sheet Information

December 31, 2006

(In thousands)

Assets	Swedish Health Services	Foundation	Combined total
Current assets:			
Cash and cash equivalents	\$ 8,081	4,382	12,463
Patient accounts receivable, net	176,972	—	176,972
Other receivables	3,148	2,409	5,557
Inventories	5,177	81	5,258
Prepaid expenses	5,710	—	5,710
Total current assets	199,088	6,872	205,960
Investments	317,061	21,202	338,263
Property and equipment, net	557,264	—	557,264
Donor-restricted assets in Foundation	—	23,462	23,462
Trustee held funds	82,195	—	82,195
Other assets	28,658	35	28,693
Total assets	\$ 1,184,266	51,571	1,235,837
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Current portion of long-term debt	\$ 5,628	126	5,754
Accounts payable	54,597	1,679	56,276
Accrued payroll, taxes, and employee benefits	61,896	9	61,905
Accrued interest	1,460	—	1,460
Third-party payor settlements	3,992	—	3,992
Current portion of professional and general liability	5,690	—	5,690
Total current liabilities	133,263	1,814	135,077
Long-term debt, less current portion	409,944	—	409,944
Accrued pension liability	54,433	—	54,433
Other liabilities	66,175	3,291	69,466
Total liabilities	663,815	5,105	668,920
Net assets:			
Unrestricted	520,462	22,954	543,416
Temporarily restricted	(11)	19,435	19,424
Permanently restricted	—	4,077	4,077
Total net assets	520,451	46,466	566,917
Total liabilities and net assets	\$ 1,184,266	51,571	1,235,837

See accompanying independent auditors' report.

## SWEDISH HEALTH SERVICES

### Combining Schedule – Operations and Changes in Net Assets Information

Year ended December 31, 2006

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Operating revenues:			
Net patient service revenue	\$ 1,039,785	—	1,039,785
Other operating revenue	41,291	6,180	47,471
Total operating revenues	1,081,076	6,180	1,087,256
Operating expenses:			
Salaries and benefits	573,503	2,478	575,981
Professional fees	45,539	187	45,726
Supplies	183,236	137	183,373
Purchased services	77,351	69	77,420
Depreciation	60,759	—	60,759
Interest and amortization	14,466	23	14,489
Provision for bad debts	40,638	—	40,638
Other	61,467	3,227	64,694
Total operating expenses	1,056,959	6,121	1,063,080
Excess of revenues over expenses from operations	24,117	59	24,176
Corporate services	705	(705)	—
Nonoperating income (loss):			
Unrestricted Foundation contributions	—	2,664	2,664
Investment gain	27,062	2,410	29,472
Gain on sale of assets	2,195	—	2,195
Distribution to Providence Health System – Washington	(2,386)	—	(2,386)
Total nonoperating income, net	26,871	5,074	31,945
Excess of revenues over expenses	51,693	4,428	56,121

## SWEDISH HEALTH SERVICES

### Combining Schedule – Operations and Changes in Net Assets Information

Year ended December 31, 2006

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Unrestricted net assets:			
Excess of revenues over expenses	\$ 51,693	4,428	56,121
Transfers and amounts released from restriction for property and equipment, net	4,252	(3,201)	1,051
Net asset transfers	—	859	859
Decrease to minimum pension liability	1,383	—	1,383
Increase in unrestricted net assets	57,328	2,086	59,414
Temporarily restricted net assets:			
Contributions	—	5,150	5,150
Net investment activity	—	1,242	1,242
Net assets released from restrictions	(11)	(3,339)	(3,350)
(Decrease) increase in temporarily restricted net assets	(11)	3,053	3,042
Permanently restricted net assets:			
Contributions	—	202	202
Net asset transfers	—	(859)	(859)
Decrease in permanently restricted net assets	—	(657)	(657)
Increase in net assets	57,317	4,482	61,799
Net assets, beginning of year	463,134	41,984	505,118
Net assets, end of year	\$ 520,451	46,466	566,917

See accompanying independent auditors' report.

## SWEDISH HEALTH SERVICES

### Combining Schedule – Cash Flows Information

Year ended December 31, 2006

(In thousands)

	<b>Swedish Health Services</b>	<b>Foundation</b>	<b>Combined total</b>
Cash flow from operating activities:			
Increase in net assets	\$ 57,317	4,482	61,799
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Decrease to minimum pension liability	(1,383)	—	(1,383)
Depreciation and amortization	60,759	—	60,759
Provision for bad debts	40,638	—	40,638
Amortization of deferred gain	(2,195)	—	(2,195)
Equity income from joint ventures	(755)	—	(755)
Permanently restricted and capital contributions	—	(744)	(744)
Changes in certain assets and liabilities:			
Patient accounts receivable	(55,015)	—	(55,015)
Inventories	(264)	(7)	(271)
Other current assets	694	526	1,220
Investments	(55,831)	(914)	(56,745)
Accounts payable	1,809	18	1,827
Accrued liabilities	3,409	—	3,409
Third-party payor settlements	(1,353)	—	(1,353)
Other liabilities	(3,571)	1,278	(2,293)
Net cash provided by operating activities	<u>44,259</u>	<u>4,639</u>	<u>48,898</u>
Cash flow from investing activities:			
Purchases of property and equipment	(129,360)	—	(129,360)
Increase in donor-restricted assets	—	(2,982)	(2,982)
Capital contributions to joint ventures	(858)	—	(858)
Distributions from joint ventures	1,793	—	1,793
Increase in other assets	(692)	—	(692)
(Increase) decrease in funds held by trustee	(82,193)	35	(82,158)
Net cash used in investing activities	<u>(211,310)</u>	<u>(2,947)</u>	<u>(214,257)</u>
Cash flow from financing activities:			
Repayment of long-term debt	(42,854)	—	(42,854)
Net proceeds from long-term debt	199,436	—	199,436
Payment of deferred financing costs	(600)	—	(600)
Permanently restricted and capital contributions	—	744	744
Net cash provided by financing activities	<u>155,982</u>	<u>744</u>	<u>156,726</u>
Net (decrease) increase in cash and cash equivalents	(11,069)	2,436	(8,633)
Cash and cash equivalents, beginning of year	<u>19,150</u>	<u>1,946</u>	<u>21,096</u>
Cash and cash equivalents, end of year	<u>\$ 8,081</u>	<u>4,382</u>	<u>12,463</u>

See accompanying independent auditors' report.



## APPENDIX C

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE AND THE LOAN AGREEMENT

The following summary of certain provisions of the Bond Indenture and the Loan Agreement does not purport to be comprehensive. Reference should be made to the Bond Indenture and the Loan Agreement for a full and complete statement of the provisions of said documents.

#### DEFINITIONS OF CERTAIN TERMS

“Act” means Chapter 70.37 RCW, as now in effect and as it may from time to time be amended or supplemented.

“Additional Payments” means the payments required to be made by the Corporation pursuant to the Section of the Loan Agreement titled “Proprietary Charges, Fees and Costs.”

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

“Authority” means the Washington Health Care Facilities Authority, a public body corporate and politic and an agency of the State, created pursuant to, and as defined in, the Act, and its successors.

“Authorized Representative” means with respect to (i) the Corporation, the Chairman, the Vice-Chairman, the President, any Vice-President, or any other person designated as an Authorized Representative of the Corporation by a duly authorized motion or resolution of the Corporation, filed with the Bond Trustee, and (ii) the Authority, the Chairman, the Secretary, the Executive Director or any Deputy Executive Director of the Authority, or any other person designated an Authorized Representative of the Authority by a duly authorized motion or resolution of the Authority filed with the Bond Trustee.

“Bond Counsel” means independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes approved by, selected by or retained by the Authority from time to time.

“Bond Fund” means the fund by that name established pursuant to the Bond Indenture, including the Principal Account, the Interest Account, the Reserve Account and the Redemption Account.

“Bond Indenture” means the Bond Indenture, between the Authority and the Bond Trustee, executed and delivered in connection with the Bonds, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

“Bonds” means Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services), authorized by, and at any time Outstanding pursuant to, the Bond Indenture.

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

“Bond Year” means the period of twelve consecutive months (except for the initial Bond Year which commences on the Date of Issue) ending on November 15 in any year in which Bonds are Outstanding.

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

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

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

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

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

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Authority or the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, initial fees of the Authority, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Authority and Bond Trustee (including legal fees and charges of its counsel), legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

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

“Date of Issue” means the date the Bonds are issued by the Authority.

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

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

“Event of Default” means any of the events of default described under the heading “THE BONDS - Events of Default and Remedies” in the forepart of this Official Statement.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, or if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated in writing by the Corporation with the approval of the Authority.

“Health Care Facility” means any “health care facility,” as defined in the Act.

“Holder,” or “Bondholder,” when used in the Bond Indenture with respect to a Bond, means the Person in whose name the Bond is registered.

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

“Interest Payment Date” means November 15 and May 15 of each year, commencing November 15, 2009.

“Investment Securities” means any of the following that at the time are legal investments under the laws of the State for moneys held under the Bond Indenture 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:
  - (1) Export-Import Bank;
  - (2) Rural Economic Community Development Administration;
  - (3) U.S. Maritime Administration;
  - (4) Small Business Administration;
  - (5) U.S. Department of Housing & Urban Development (PHAs);
  - (6) Federal Housing Administration; and
  - (7) 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:
  - (1) Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);
  - (2) Obligations of the Resolution Funding Corporation (REFCORP); and
  - (3) Senior debt obligations of the Federal Home Loan Bank System;
- (d) Demand deposits, including U.S. dollar denominated deposit accounts, federal fund trust funds, trust accounts, interest bearing money market accounts, time deposits, overnight bank deposits, interest bearing deposits 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+” by S&P and which matures not more than 270 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 Rating 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

(1) 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

(2) (i) which are fully secured as to principal and interest redemption premium, if any, by an escrow consisting only of cash or United States Government Obligation, 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 (ii) 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;

(j) Investment agreements collateralized by any of the securities listed above (supported by an Opinion of Counsel to the investment agreement provider); and

(k) Other forms of investments approved in writing by Holders of a majority in principal amount of the Bonds then Outstanding.

“Loan Agreement” means that certain Loan and Security Agreement by and between the Authority and the Corporation, executed and delivered in connection with the Bonds, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

“Loan Default Event” means any of the default events specified in the Loan Agreement as described in this Appendix C – “THE LOAN AGREEMENT – Loan Default Events.”

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

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

“Master Indenture” means that certain master trust indenture, dated as of April 15, 1998, as supplemented to the date of the Bond Indenture, between the Corporation 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 Trustee” means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States of America, or its successor, as successor master trustee under the Master Indenture.

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

“Members” mean the Corporation and each other Person that is then obligated under the Master Indenture.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated in writing by the Corporation with the approval of the Authority.

“Obligated Group” means the Corporation and each other Person which becomes and is a Member of the Obligated Group pursuant to the terms of the Master Indenture.

“Obligation No. 3” means the Obligation issued under the Master Indenture and Supplement No. 4.

“Opinion of Counsel” means a written opinion of counsel (who may be counsel for the Authority) selected by the Authority. If and to the extent required by the provisions of the Bond Indenture, each Opinion of Counsel shall include the statements provided for in the Section of the Bond Indenture titled “Content of Certificates and Opinions.”

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

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Bond Indenture relating to disqualified Bonds) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Bonds theretofore 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 provisions of the Bond Indenture relating to disqualified Bonds; 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.

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

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

“Principal Corporate Trust Office” means the designated (but not principal) office of the Bond Trustee or, for purposes of the presentation of Bonds for surrender, transfer or exchange, such other office designated by the Bond Trustee in writing.

“Principal Payment Date” means any date on which principal on the Bonds is due and payable, whether by reason of maturity, declaration of acceleration or redemption from Mandatory Sinking Account Payments, or otherwise.

“Project” means (1) the reimbursement of certain capital expenditures incurred for the remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities including the expansion of its orthopedic services generally located at 601 Broadway, Seattle, Washington and (2) financing costs of certain capital expenditures to be incurred by the Corporation for remodeling, constructing, acquiring and equipping of its inpatient, outpatient and administrative facilities.

“Project Costs” means without intending thereby to limit or restrict any proper definition of such costs under any applicable laws and Generally Accepted Accounting Principles, the following:

(A) Obligations incurred for labor (including payroll costs of employees of the Members of the Obligated Group according to time spent by such employees on the Project) and to contractors, builders and materialmen in connection with the acquisition, construction and installation of the Project Facilities and demolition of any existing building included in the Project Facilities or removal of any equipment (net of any salvage), including obligations for machinery, materials and equipment therefor; and

(B) Land and interests in land acquired specifically for the Project; and

(C) The cost of any indemnity and surety bonds deemed necessary by the Corporation with respect to the Project, taxes and other municipal or governmental charges levied or assessed with respect to the Project or any property acquired therefor, and the premiums for insurance, if any, in connection with the Project; and

(D) Costs of acquisition, moving and installation of equipment incident to accomplishment of the Project; and

(E) Fees and expenses of engineers and architects for surveys and estimates and other preliminary investigations, preparation of plans, drawings and specifications, and supervising construction, as well as for the performance of all other duties of engineers and architects in relation to the acquisition and betterment of the Project or the issuance of the Bonds therefor; and

(F) Interest on the Bonds during construction of the Project; and

(G) Any other obligation or expense (other than Costs of Issuance) heretofore or hereafter incurred by the Corporation in direct connection with the accomplishment of the Project, if approved in writing by the Authorized Representative of the Corporation.

“Project Facilities” means the Health Care Facilities financed, in whole or in part, with the proceeds of the Bonds.

“Project Fund” means the fund so designated which is established pursuant to the Bond Indenture.

“Rating Agency” means as of any date, each nationally recognized securities rating agency that is maintaining a current rating on the Bonds at the request of the Authority or the Corporation.

“Rating Category” means a generic securities rating category, without regard to any refinement or gradation of such rating category by a numerical modifier or otherwise.

“RCW” means the Revised Code of Washington, as now in existence or as amended.

“Record Date” means, as the case may be, the applicable Regular or Special Record Date.

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

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

“Regular Record Date” means, with respect to each Interest Payment Date, the first (1st) day (whether or not a Business Day) of the same month as such Interest Payment Date.

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

“Reserve Account Requirement” means \$9,790,382.91.

“Responsible Officer” means the president, any vice president, any assistant vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer or any other officer of the Bond Trustee within the Principal Corporate Trust Office (or any successor corporate trust office) customarily performing functions similar to those performed by the persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred at the Principal Corporate Trust Office because of such person’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of the Bond Indenture.

“Revenues” means all amounts received by the Authority or the Bond Trustee for the account of the Authority pursuant or with respect to the Loan Agreement or Obligation No. 3, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, 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 Administrative Fees and Expenses.

“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, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities

rating agency, any other nationally recognized securities rating agency designated in writing by the Corporation with the approval of the Authority.

“Serial Bonds” means the Bonds payable with respect to principal at their specified maturity date, for which no Mandatory Sinking Account Payments are provided, if any.

“Special Record Date” means the date established by the Bond Trustee pursuant to the Bond Indenture as the record date for the payment of defaulted interest on the Bonds.

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

“State” means the State of Washington.

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

“Supplement No. 4” means that certain Supplemental Master Indenture No. 4, between the Corporation and the Master Trustee, pursuant to which Obligation No. 3 is issued.

“Term Bonds” mean the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for the purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

“Trust Estate” means the interest of the Bond Trustee, created by the Bond Indenture, in and to the property described in the Granting Clauses of the Bond Indenture, and all revenues, money, investments, general intangibles and instruments and the income, interest and proceeds thereof and thereon as described in this Appendix C – “THE BOND INDENTURE – Trust Estate; Establishment and Application of Bond Fund.”

“United States Government Obligations” means (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and obligations the timely payment of which are fully and unconditionally guaranteed by the United States of America; and (2) senior debt obligations of other agencies of the United States of America.



## THE BOND INDENTURE

### 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. Certain provisions of the Bond Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions “THE BONDS” and “SOURCE OF PAYMENT AND SECURITY FOR THE BONDS.”

*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.*

### Trust Estate; Establishment and Application of Bond Fund

The Authority, in consideration of the premises, of the acceptance by the Bond Trustee of the trusts created by the Bond Indenture, of the purchase and acceptance of the Bonds by the Holders thereof, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, executed, authenticated, delivered, secured and accepted by all Persons who shall from time to time be or become Holders thereof, and in order to secure the payment of the principal of the Bonds, and the interest and the premium, if any, thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and contained in the Bond Indenture grants pursuant to the Bond Indenture a lien against and a security interest in, and releases, assigns, pledges, transfers, grants and conveys unto the Bond Trustee and its successors and assigns forever, without recourse, the property described below:

(a) All rights, title and interests of the Authority in and under the Loan Agreement and Obligation No. 3 (with certain reservations and exceptions noted in the Loan Agreement), including, but not limited to, the lien against and security interests in the Corporation’s interests, if any, in the money and investments in the Bond Fund and the Costs of Issuance Fund and the Project Fund, and the present and continuing right thereunder to (i) make claim for, collect or cause to be collected, receive or cause to be received all sums payable or receivable thereunder, (ii) to bring actions and proceedings thereunder or for the enforcement thereof, and (iii) to do the things which the Authority is or may become entitled to do under the Loan Agreement and Obligation No. 3; and

(b) All rights, title and interests of the Authority in and to the rents, issues, profits, income, revenues and receipts derived by the Authority from the Trust Estate or any part thereof, it being the intent and purpose of the Bond Indenture that the assignment and transfer to the Bond Trustee of the rents, issues, profits, income, revenues and receipts derived from the Trust Estate shall be effective and operative immediately and shall continue in full force and effect, and the Bond Trustee shall have the right to collect and receive said rents, issues, profits, income, revenues and receipts derived from the Trust Estate for application in accordance with the provisions of the Bond Indenture, at all times during the period from and after the date of the Bond Indenture until the Bonds shall have been fully paid and discharged or the lien of the Bond Indenture shall have been defeased in accordance with the Bond Indenture; and

(c) The Revenues, the Bond Fund, the Costs of Issuance Fund and the Project Fund, and the amounts on deposit therein, subject to the provisions of the Bond Indenture permitting the application thereof for the purposes and on the terms and conditions as set forth in the Bond Indenture; and

(d) Any and all other Property, or interest therein, of every name and nature by delivery or by writing of any kind specifically conveyed, pledged, assigned or transferred, or security interests with respect thereto granted, as and for additional security for the Bonds by the Authority or the Corporation or by anyone on its behalf or with their written consent in favor of the Bond Trustee, which is authorized to receive any and all such property at any and all times and to hold and apply the same subject to the terms of the Bond Indenture; and

(e) All revenues, money, investments, general intangibles and instruments and the income, interest and proceeds of any of the foregoing and on any of the foregoing;

In the Bond Indenture the Authority authorizes and directs the Bond Trustee to establish a special fund designated as the “Bond Fund,” which shall consist of the Principal Account, the Interest Account, the Redemption Account and the Reserve Account. The Bond Fund shall be held by the Bond Trustee separate and apart from all other funds and accounts of the Authority, the Corporation and the Bond Trustee, and shall be maintained as long as any Bonds remain Outstanding. The money and investments held in the accounts in the Bond Fund shall be held in trust by the Bond Trustee for the benefit of the Holders of the Bonds as described in paragraphs (a) – (e) above, and shall be applied solely in accordance with the provisions of the Bond Indenture.

The Bond Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Bond Trustee and shall forthwith be paid by the Authority to the Bond Trustee. The Bond Trustee also shall be entitled to and shall take all steps, actions and proceedings reasonably necessary to enforce all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement and of the Corporation and the other Members under Obligation No. 3.

#### **Establishment of Funds and Accounts**

***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 receipt by the Bond Trustee of a Requisition of the Corporation, on which the Bond Trustee may conclusively rely, 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 said fund. On the one hundred eightieth (180th) day following the initial issuance of the Bonds, or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Project Fund. The Authority has no obligation under the Bond Indenture or under the Act to deposit any funds (other than the proceeds of the Bonds as provided in the Bond Indenture) into the Costs of Issuance Fund, or to apply any funds to the payment of the Costs of Issuance except the funds in the Costs of Issuance Fund or other funds specifically made available therefor by or on behalf of the Corporation.

***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, withdrawn and disbursed by the Bond Trustee pursuant to the Bond Indenture to pay Project Costs. No moneys in the Project Fund shall be used to pay Costs of Issuance. The Authority has no obligation under the Indenture or under the Act to deposit any funds (other than the proceeds of the Bonds as provided in the Bond Indenture) into the Project Fund, or to apply any funds to the payment of the Project Costs except the funds in the Project Fund or other funds specifically made available therefor by or on behalf of the Corporation. Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a Project Fund Requisition in substantially the form attached to the Bond Indenture.

Upon receipt of a Project Fund Requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Bond Trustee shall not make any such payment if it has received any written notice of claim of lien, attachment upon, or claim affecting the right to receive payment of, any of the monies to be so paid, that has not been released or will not be released simultaneously with such payment.

When the Project shall have been completed, there shall be delivered to the Bond Trustee a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such Certificate, the Bond Trustee shall, as directed by said Certificate, transfer any remaining balance in the Project Fund, less the amount of any such retention, to the Interest Account of the Bond Fund.

***Interest Account.*** All amounts in the Interest Account shall be held, disbursed, allocated and applied by the Bond Trustee, as provided in the Bond Indenture solely to pay interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

***Principal Account.*** All amounts in the Principal Account shall be held, disbursed, allocated and applied by the Bond Trustee, as provided in the Bond Indenture solely for the purpose of purchasing the Bonds as provided in the Bond Indenture and for paying the principal of the Bonds when due and payable, including the payment of any Mandatory Sinking Account Payment.

On each Mandatory Sinking Account Payment date, the Bond Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of the Term Bonds to which such Mandatory Sinking Account Payment applies, upon the notice and in the manner provided in the Bond Indenture; provided that, at any time prior to giving such notice of such redemption, the Bond Trustee may apply moneys in the Principal Account to the purchase of such Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Corporation, except that the purchase price (excluding accrued interest) shall not exceed the par amount of such Term Bonds. If, during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Bond Trustee has purchased Term Bonds to which such Mandatory Sinking Account Payment would otherwise have applied with moneys in the Principal Account, or, during said period and prior to giving said notice of redemption, the Corporation has deposited such Term Bonds with the Bond Trustee (together with a Request of the Corporation to apply such Term Bonds so deposited to the Mandatory Sinking Account Payment due on said date with respect to such Term Bonds), or Term Bonds to which such Mandatory Sinking Account Payment would otherwise have applied were at any time purchased or redeemed by the Bond Trustee from the Redemption Account and allocable to said Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. Term Bonds purchased from the Principal Account, purchased or redeemed from the Redemption Account, or deposited by the Corporation with the Bond Trustee shall be allocated first to the next succeeding Mandatory Sinking Account Payment applicable thereto, then as a credit against such future Mandatory Sinking Account Payments applicable thereto as the Corporation may specify.

***Redemption Account.*** All amounts deposited in the Optional Redemption Account and in the Special Redemption Account shall be used and withdrawn by the Bond Trustee solely for the purpose of redeeming Bonds, in the manner and upon the terms and conditions specified in the Bond Indenture, at the next succeeding date of redemption for which notice has been given and at the Redemption Prices then applicable to redemptions from the Optional Redemption Account and the Special Redemption Account,

respectively; provided that, at any time prior to giving such notice of redemption, the Bond Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase price (exclusive of accrued interest) may not exceed the Redemption Price then applicable to the Bonds (or, if the Bonds are not then subject to redemption, the par value of such Bonds); and provided further that in the case of the Optional Redemption Account in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Bond Fund and credited against Loan Repayments in order of their due date as set forth in a Request of the Corporation. All Bonds purchased or redeemed from the Redemption Account shall be allocated first to the next succeeding Mandatory Sinking Account Payment, then as a credit against such future Mandatory Sinking Account Payments as the Corporation may specify.

***Reserve Account.*** All amounts in the Reserve Account shall be used and withdrawn by the Bond Trustee solely for the purpose of making up any deficiency in the Interest Account or the Principal Account or (together with any other money available therefor) for the redemption of all Bonds then Outstanding. Amounts on deposit in the Reserve Account shall be valued by the Bond Trustee at their market value on (i) each date that the Bond Trustee withdraws on any amounts therein for the purposes of making up any deficiency in the Interest Account or the Principal Account and (ii) each November 15, if no valuation of the Reserve Account is required on such date pursuant to the immediately preceding clause (i). The Bond Trustee shall promptly notify the Corporation of the results of each such valuation and if such valuation was conducted pursuant to the immediately preceding clause (i) or clause (ii). In making such valuations, the Bond Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system and rely thereon. If the amount on deposit in the Reserve Account on any day following such valuation is less than the Reserve Account Requirement the Bond Trustee shall promptly notify the Corporation and the Corporation shall, pursuant to the Loan Agreement and as provided therein, deposit the amount necessary to increase the balance in said account to the Reserve Account Requirement. If the amount on deposit in the Reserve Account on any day following such valuation is more than the Reserve Account Requirement, the amount in excess of the Reserve Account Requirement shall be withdrawn by the Bond Trustee from the Reserve Account and transferred to the Interest Account.

### **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 written direction of the Corporation, solely in Investment Securities. Investment Securities shall be purchased at such prices as the Corporation may direct. All Investment Securities shall be acquired subject to the limitations set forth in the Bond Indenture, the limitations as to maturities described below under this heading and such additional limitations or requirements consistent with the foregoing as may be established by Request of the Corporation. No Request of the Corporation shall impose any duty on the Bond Trustee inconsistent with its fiduciary responsibilities.

Moneys in the Reserve Account shall be invested in Investment Securities with a maturity of not to exceed five years. Moneys in all funds and accounts shall be invested in Investment Securities maturing or able to be called for payment by the Corporation not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Bond Indenture. Investment Securities acquired as an investment of moneys in any fund or account established under the Bond Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account shall be valued by the Bond Trustee at their market value and marked to market at least once each year on or before November 15. Unless otherwise specifically provided in the Bond Indenture, all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Bond Indenture shall be deposited when received in such fund or account.

## **Amendment of Loan Agreement**

Except as described in the following paragraph, 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 unless the prior written consent of the Holders of a majority in principal amount of Bonds then Outstanding to such amendment, modification or termination is filed with the Bond Trustee; provided that no 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, without the written consent of all of the Holders of the Bonds then Outstanding.

Notwithstanding the provisions of the Bond Indenture described in the preceding paragraph, the terms of the Loan Agreement may also be modified or amended from time to time and at any time by the Authority, but without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Loan Agreement, or in regard to matters or questions arising under the Loan Agreement, as the Authority may deem necessary or desirable and not inconsistent with the Loan Agreement or the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(2) to add to the covenants and agreements of the Authority or the Corporation contained in the Loan Agreement other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof) or to surrender any right or power of the Authority or the Corporation, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(3) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds; or

(4) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds.

## **Application of Revenues and Other Funds After Default.**

If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to the provisions of the Bond Indenture with respect to money held by the Bond Trustee for payment due on particular Bonds) shall be applied by the Bond Trustee as follows and in the following order:

(a) To the payment of any fees and expenses owed to the Bond Trustee under the Bond Indenture or under the Loan Agreement (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture; provided, however, that moneys on deposit in the Bond Fund shall not be applied for such purposes; and

(b) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Bond Indenture, as follows:

(1) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal (including Mandatory Sinking Account Payments) or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(2) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

#### **Bond Trustee to Represent Bondholders.**

Pursuant to the Bond Indenture, the Bond Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Bond Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Bond Indenture, the Loan Agreement, Obligation No. 3, the Act and applicable provisions of any other law. 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 shall provide written notice thereof to all Bondholders with such response deadline as the Bond Trustee shall deem appropriate. After the expiration of such deadline, the Bond Trustee in its discretion may, and upon the written direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding and upon being indemnified to its reasonable satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it 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 or exercise 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. 3 (including, without limitation, the right to grant or withhold consents, waivers and directions thereunder), 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, pending such proceedings. If more than one such direction is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written direction executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%) 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 Holders 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. 3, the Act or any other applicable law with respect to such Bond, unless (1) such Holder shall have given to the Bond Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Bond Trustee to exercise the powers granted in the Bond Indenture or to institute such suit, action or proceeding in its own name; provided, however, that if more than one such request is received by the Bond Trustee from the Holders, the Bond Trustee shall follow the written request executed by the Holders of the greater percentage of Bonds then Outstanding in excess of twenty-five percent (25%); (3) such Holder or said Holders shall have tendered to the Bond Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Bond Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Bond Trustee.

### **Removal or Resignation of Bond Trustee**

(1) The Authority may, and upon written request of the Corporation (unless an Event of Default shall have occurred and then be continuing) with the written consent of the Authority shall, remove the Bond Trustee. Additionally, the Authority shall remove the Bond Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of the Bond Indenture described in paragraph (4) under this heading, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Bond Trustee or its property shall be appointed, or any public officer shall take control or charge of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Trustee, and shall appoint, with the written consent of the Corporation, a successor Bond Trustee by an instrument in writing.

(2) The Bond Trustee may at any time resign by giving written notice of such resignation to the Authority and the Corporation and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Bond Trustee. Upon receiving such notice of resignation, the Authority shall promptly appoint, at the written request of the Corporation, a successor Bond Trustee by an instrument in writing. The Bond Trustee shall not be relieved of its duties until such successor Bond Trustee has accepted appointment.

(3) Any removal or resignation of the Bond Trustee and appointment of a successor Bond Trustee shall become effective upon acceptance of appointment by the successor Bond Trustee. If no successor Bond Trustee shall have been appointed and have accepted appointment within thirty days of giving notice of removal or notice of resignation as aforesaid, the resigning Bond Trustee or any Bondholder (on behalf of himself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Bond Trustee. Any successor Bond Trustee appointed under the Bond Indenture shall signify its acceptance of such appointment by executing and delivering to the Authority and to its predecessor Bond Trustee a written acceptance thereof, and thereupon such successor Bond Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Bond Trustee, with like effect as if originally named Bond Trustee in the Bond Indenture; but, nevertheless at the request of the successor Bond Trustee, such predecessor Bond Trustee shall execute and deliver any and all instruments of conveyance or further

assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Bond Trustee all the right, title and interest of such predecessor Bond Trustee in and to any property held by it under the Bond Indenture and shall pay over, transfer, assign and deliver to the successor Bond Trustee any money or other property subject to the trusts and conditions set forth in the Bond Indenture. Upon request of the successor Bond Trustee, the Authority shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Bond Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Bond Trustee as described under this heading, the Authority shall mail a notice of the succession of such Bond Trustee to the trusts thereunder to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. If the Authority fails to mail such notice within fifteen days after acceptance of appointment by the successor Bond Trustee, the successor Bond Trustee shall cause such notice to be mailed at the expense of the Authority.

(4) The Bond Trustee and any successor Bond Trustee shall be a trust company or bank having trust powers in the State and a combined capital and surplus of at least seventy-five million dollars (\$75,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of the provisions of the Bond Indenture described in this paragraph the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of the Bond Indenture described in this paragraph, the Bond Trustee shall resign immediately in the manner and with the effect specified in the Bond Indenture as described under this heading.

#### **Amendment of Bond Indenture**

The Bond Indenture and the rights and obligations of the Authority and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Bond Trustee may enter into when the written consent of the Holders of a majority in principal amount of the Bonds then Outstanding shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the fixed maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Bond Trustee of any Supplemental Bond Indenture pursuant to the provisions of the Bond Indenture described in this paragraph, the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

The Bond Indenture and the rights and obligations of the Authority, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Bond Trustee may enter into without the



necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Authority or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(2) to facilitate (i) the transfer of Bonds from one Depository to another in the succession of Depositories, or (ii) the withdrawal from a Depository of Bonds held in a Book-Entry System and the issuance of replacement Bonds in fully registered form to Persons other than a Depository;

(3) to add to the covenants and agreements of the Authority contained in the Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof) or to surrender any right or power therein reserved to or conferred upon the Authority, provided, that no such covenant, agreement, pledge or assignment shall materially adversely affect the interests of the Holders of the Bonds;

(4) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect after the date of issuance of the Bonds, if required by such act or statute;

(5) to maintain the exclusion from gross income for federal income tax purposes of interest payable with respect to the Bonds;

(6) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Bond Indenture regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature; or

(7) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds.

## **Defeasance**

The Bonds may be paid by the Authority or the Bond Trustee on behalf of the Authority in any of the following ways:

(a) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in the Bond Indenture) to pay when due or redeem all Bonds then Outstanding; or

(c) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority and the Corporation shall have paid all Administrative Fees and Expenses payable to the Authority pursuant to the Loan Agreement, then and in that case at the election of the Authority (evidenced by a Certificate of the Authority filed with the Bond Trustee signifying the intention of the Authority to

discharge all such indebtedness and the Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of Revenues and other assets made under the Bond Indenture and all covenants, agreements and other obligations of the Authority under the Bond Indenture (except as otherwise provided in the Bond Indenture) shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of the Authority, the Bond Trustee shall cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and shall execute and deliver to the Authority all such instruments prepared by or on behalf of the Authority as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to the Corporation all moneys or securities or other property held by it pursuant to the Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

## **LOAN AGREEMENT**

The Loan Agreement provides the terms of a loan of all or a portion of the proceeds of the Bonds by the Authority to the Corporation and the repayment of such loan by the Corporation.

*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.*

### **Payments of Principal, Premium and Interest**

The Corporation agrees to pay, or cause to be paid, "Loan Repayments" as follows: (i) on or before the second Business Day next preceding the fifteenth day of each month, commencing with April 15, 2009, one-sixth of the full amount of the interest becoming due and payable on the next succeeding Interest Payment Date on all Bonds then Outstanding (less any amounts on deposit in the Interest Account available for the payment of such interest not deposited in accordance with the Loan Agreement with respect to a particular Interest Payment Date) and (ii) on or before the second Business Day next preceding the fifteenth day of each Month, commencing with April 15, 2009, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Bonds, plus the aggregate amount of Mandatory Sinking Account Payments required to be paid for Outstanding Bonds, in each case on the next succeeding Principal Payment Date (less any amounts on deposit in the Principal Account available for the payment of such principal or Mandatory Sinking Account Payments not deposited in accordance with the Loan Agreement with respect to a particular Principal Payment Date); provided that from the date of delivery of the Bonds until the first Principal Payment Date and Interest Payment Date with respect to the Bonds such payments shall be sufficient on a monthly pro rata basis to pay the principal or interest becoming due and payable on said Principal Payment Date or Interest Payment Date, as applicable.

If the Corporation has received notice from the Bond Trustee pursuant to the Bond Indenture that the amount on deposit in the Reserve Account is less than the Reserve Account Requirement due to a valuation of any Investment Securities deposited therein at the times set forth in the Bond Indenture, the Corporation shall transfer to the Bond Trustee within three (3) Business Days of receipt of such notice, for deposit in the Reserve Account the amount of moneys necessary to increase the balance in the Reserve Account to the Reserve Account Requirement.

If the Corporation has received notice from the Bond Trustee pursuant to the Bond Indenture that the amount on deposit in the Reserve Account is less than the Reserve Account Requirement due to a valuation of such amount at the times set forth in the Bond Indenture due to a draw on the Reserve Account to pay debt service on the Bonds, the Corporation shall transfer to the Bond Trustee on or before the tenth Business Day of each calendar month, commencing with the calendar month immediately succeeding receipt of such notice, one-twelfth of the aggregate amount of each prior withdrawal from the Reserve Account for the purpose of making up a deficiency in the Interest Account or the Principal Account; provided that no

such payment need be made to the extent the balance in such account shall be at least equal to the Reserve Account Requirement or if the Reserve Account is not required to be funded as provided in the Bond Indenture.

### **Credits for Payments**

The Corporation shall receive credit against its payments required to be made under the Loan Agreement, in addition to any credits resulting from payment or repayment from other sources, as follows:

(a) installments of interest in an amount equal to moneys deposited in the Interest Account, which amounts are available to pay interest on the Bonds, to the extent such amounts have not previously been credited against such payments;

(b) on installments of principal or Mandatory Sinking Account Payments in an amount equal to moneys deposited in the Principal Account, which amounts are available to pay principal of the Bonds, to the extent such amounts have not previously been credited against such payments;

(c) on installments of principal and interest in an amount equal to the principal amount of Bonds for the payment at maturity or redemption of which sufficient amounts (as determined by the Bond Indenture) in cash or Investment Securities are on deposit as provided in the Bond Indenture to the extent such amounts have not previously been credited against such payments, and the interest on such Bonds from and after the date fixed for payment at maturity or redemption thereof. Such credits shall be made against the installments of principal and interest which would have been used, but for such call for redemption, to pay principal of and interest on such Bonds when due at maturity; and

(d) on installments of principal and interest in an amount equal to the principal amount of Bonds acquired by the Corporation and surrendered to the Bond Trustee for cancellation or purchased by the Bond Trustee and cancelled, and the interest on such Bonds from and after the date interest thereon has been paid prior to cancellation. Such credits shall be made against the installments of principal and interest which would have been used, but for such cancellation, to pay principal of and interest on such Bonds when due.

### **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 to prepay all or any part of the Loan Repayments and the Authority agrees that the Bond Trustee shall accept such prepayments when the same are tendered. Prepayments may be made by payments of cash, deposit of Investment Securities or surrender of Bonds, as contemplated by the Loan Agreement. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments required to be made under the Loan Agreement remain unpaid, the Corporation shall not be relieved of its obligations the Loan Agreement.

The obligations of the Corporation under the Loan Agreement and pursuant to Obligation No. 3, including the obligation of the Corporation to pay the principal of and interest on Obligation No. 3, are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, Supplement No. 4, the Master Indenture or the Bond Indenture.

### **Proprietary Charges, Fees and Costs**

(a) The Corporation covenants and agrees to pay promptly to the Authority, for purposes of defraying the operating costs of the Authority, the annual proprietary charges invoiced by the Authority not exceeding one tenth of one percent (0.1%) (or such lesser percentage as the parties may agree) of the principal amount of the Outstanding Bonds. The first proprietary charge shall be payable for the ensuing

year on the Date of Issue and shall be due upon receipt of the Authority's invoice therefor; subsequent annual proprietary charges shall be payable in advance on each anniversary of the Date of Issue and shall be due upon receipt of the Authority's invoice therefor.

(b) In further consideration of the execution of the Loan Agreement, the Corporation covenants and agrees to pay or cause to be paid promptly to the Persons to whom payment is due, all of the fees and expenses incurred by the Authority incident to preparing, offering, selling and issuing the Bonds, including, but not limited to, the fees and expenses of Bond Counsel, the Authority's special counsel, and the Authority's financial advisor.

(c) The Corporation further covenants and agrees to pay or cause to be paid to the Bond Trustee, as and when due, during the period commencing with the Bond Trustee's agreement to accept the Trust Estate and continuing until the Bond Indenture shall have been fully discharged, the reasonable and necessary fees and expenses of the Bond Trustee (including, without limitation, reasonable and necessary legal fees and expenses) upon the submission by the Bond Trustee of a statement therefor to the Corporation, and to reimburse or indemnify the Bond Trustee in the circumstances described in the Bond Indenture; provided, that the Corporation's obligation as described under the Loan Agreement shall survive termination of the Loan Agreement and the defeasance of the Bonds pursuant to the Bond Indenture and the earlier removal or resignation of the Bond Trustee.

(d) The Corporation further covenants and agrees to pay or cause to be paid, when due and payable, the following additional amounts and costs and expenses, which shall be paid directly to the Persons entitled to such payments:

(i) All costs incurred in connection with the transfer, exchange or redemption of the Bonds, including all charges of the Authority and the Bond Trustee with respect thereto, to the extent money is not otherwise available therefor; and

(ii) The fees and other costs incurred for services of such engineers, architects, attorneys, consultants and accountants as are employed to make examinations, provide service, render opinions and prepare reports required or authorized under the Loan Agreement and the Bond Indenture; and

(iii) The fees and expenses of Bond Counsel incurred in delivering Opinions of Counsel, as permitted or required pursuant to the Loan Agreement or the Bond Indenture;

### **Loan Default Events**

The following events shall constitute and are referred to in the Loan Agreement as a "Loan Default Event":

(a) Failure by the Corporation to pay in full any payment required by the Loan Agreement or under Obligation No. 3 when due, whether at maturity, upon a payment date specified in the Loan Agreement, upon a date fixed for prepayment, by declaration or otherwise pursuant to the terms of the Loan Agreement;

(b) If any representation or warranty made by the Corporation in the Loan Agreement or made by the Corporation or any Member in any document, instrument or certificate furnished to the Bond Trustee or the Authority in connection with the issuance of Obligation No. 3 or the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; provided, however, that if (1) such inaccuracy is of a type that is capable of being cured within a sixty (60)-day period in a manner that, in the Opinion of Counsel addressed to the Bond Trustee, would restore to the Bond Trustee and the Authority substantially the same rights and the same practical ability to recover amounts owing under the Loan Agreement that they

would have had if such inaccuracy had not occurred, and (2) the Corporation has demonstrated to the Bond Trustee to its reasonable satisfaction that it is taking reasonable steps calculated to cure such inaccuracy in such a manner, then such inaccuracy shall not constitute a Loan Default Event unless the Corporation fails to so cure such inaccuracy within sixty (60) days after the Bond Trustee gives it written notice of the occurrence thereof;

(c) If the Corporation shall fail to observe or perform any covenant, condition, agreement or provision in the Loan Agreement on its part to be observed or performed, other than as referred to in subparagraph (a) or (b) under this heading, or shall breach any warranty by the Corporation in the Loan Agreement contained, 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; 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 such failure or breach in accordance with and subject to any directions or limitations of time established by the Bond Trustee;

(d) If the Corporation files a petition in voluntary bankruptcy, for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself or for the whole or any substantial part of the Corporation's facilities;

(e) If a court of competent jurisdiction shall enter an order, judgment or decree declaring the Corporation an insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of the Corporation or of the whole or any substantial part of the Corporation's facilities, or approving a petition filed against the Corporation seeking reorganization of the Corporation under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(f) If, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Corporation's facilities, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control;

(g) Any Event of Default as defined in and under the Bond Indenture; or

(h) Any Event of Default as defined in and under the Master Indenture.

### **Remedies on Default**

If a Loan Default Event shall occur, then, and in each and every such case during the continuance of such Loan Default Event, the Bond Trustee on behalf of the Authority, subject to the limitations in the Bond Indenture as to the enforcement of remedies and subject to the Bond Trustee's rights and protections under the Bond Indenture, may take such action as it deems necessary or appropriate to collect amounts due under the Loan Agreement, to enforce performance and observance of any obligation or agreement of the Corporation under the Loan Agreement or to protect the interests securing the same.

### **Amendments and Supplements**

The Loan Agreement may be amended, changed or modified in writing by the parties thereto only as provided in the Bond Indenture. See "THE BOND INDENTURE – Amendment of Loan Agreement" in this Appendix C.

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## **APPENDIX D**

### **SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE DOCUMENTS**

#### **INTRODUCTION**

The following summary of certain provisions of the Master Indenture, the Amending Supplement, Supplemental Indenture No. 4 and Obligation No. 3 describes provisions of those documents not described elsewhere in this Official Statement. This summary does not purport to be comprehensive. Reference should be made to the Master Indenture, the Amending Supplement, Supplemental Indenture No. 4 and Obligation No. 3 for a full and complete statement of the provisions of said documents.

#### **MASTER INDENTURE DEFINITIONS**

“Accelerable Instrument” means any Obligation or any mortgage, indenture, loan agreement or other instrument under which there has been issued or incurred, or by which there is secured, any Indebtedness evidenced by an Obligation, which Obligation or instrument provides that, upon the occurrence of a Master Indenture Default under such Obligation or instrument, the holder thereof may request that the Master Trustee declare such Obligation or Indebtedness due and payable prior to the date on which it would otherwise become due and payable.

“Additional Indebtedness” means Indebtedness incurred by any Member subsequent to the issuance of Obligation No. 1.

“Additional Obligations” means any Obligation issued after the issuance of Obligation No. 1 authorized to be issued by a Member pursuant to this Master Indenture which has been authenticated by the Master Trustee pursuant to the Master Indenture.

“Amending Supplement” means Supplemental Master Indenture No. 3 Implementing Amendments dated March 19, 2009, between Swedish and the Master Trustee.

“Balloon Indebtedness” means Long-Term Indebtedness 25% or more of the principal of which (calculated as of the date of issuance) becomes due during any period of 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.

“Board Resolution” means a copy of a resolution certified by the Secretary or an Assistant Secretary of a Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification, and delivered to the Master Trustee.

“Bondholder,” “holder” or “owner of the Bonds” means the registered owner of any Related Bond.

“Business Day” means a day which is not (a) a Saturday, Sunday or legal holiday on which banking institutions in the State or the State of New York or the state in which the principal corporate trust operations office of the Master Trustee are authorized by law to close or (b) a day on which the New York Stock Exchange is closed.

“Capital Lease” means any lease of real or personal property which, in accordance with generally accepted accounting principles, is required to be capitalized on the balance sheet of the lessee. The Debt Service Requirement for any Indebtedness in the form of a Capital Lease shall be deemed to be the amount, as of the date of determination, at which the aggregate net rentals due and to become due under such Capital Lease would be reflected as a liability on the balance sheet of the lessee determined in accordance with generally accepted accounting principles. For this purpose, net

rentals means all fixed rents (including as such all payments which the lessee is obligated to make to the lessor on termination of the lease or surrender of the Property other than upon termination of the lease for a default thereunder) payable under a lease or sublease of real or personal Property excluding any amounts required to be paid by the lessees (whether or not designated as rents or additional rents) on account of maintenance, repairs, insurance, taxes and similar charges. Net rentals for any future period under any so-called “percentage lease” shall be computed on the basis of the amount reasonably estimated by the Obligated Group Agent to be payable thereunder for such period, but in any event not less than the amount paid or payable thereunder during the immediately preceding period of the same duration as such future period; provided that the amount estimated to be payable under any such percentage lease shall in all cases recognize any change in the applicable percentage called for by the terms of such lease.

“Code” means the Internal Revenue Code of 1986, as now in existence or hereafter amended, together with all applicable regulations promulgated heretofore or hereafter thereunder.

“Completion Indebtedness” means any Long-Term Indebtedness incurred for the purpose of financing the completion of construction or equipping of any project for which Long-Term Indebtedness has theretofore been incurred in accordance with the provisions of the Master Indenture, to the extent necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time said Long-Term Indebtedness was incurred, and in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the related financing, modified or amended only in conformance with the provisions of the documents pursuant to which the related financing was undertaken.

“Consultant” means a professional consulting firm acceptable to the Master Trustee, recognized as having the skill and experience necessary to render the particular report required, which firm shall have no interest, direct or indirect, in any Member or Obligated Group Affiliate and shall not have any partner, member, director, officer or employee who is a partner, member, director, officer or employee of any Member or Obligated Group Affiliate.

“Controlling Member” means the Member designated by the Obligated Group Agent to establish and maintain control over an Obligated Group Affiliate as provided by the Master Indenture.

“Coverage Test” shall mean the Historical Debt Service Coverage Ratio for the Obligated Group and the Obligated Group Affiliates for the period in question is greater than or equal to 1.1:1.

“Debt Service Requirements” means, with respect to the period of time for which calculated, the aggregate of (a) the payments required to be made in respect of principal (whether at maturity, or as a result of mandatory prepayment or otherwise) and interest on all outstanding Indebtedness of the Person or group of Persons involved, (b) mandatory deposits to an irrevocable escrow or sinking fund, and (c) the amount of the Obligation Payments.

“Escrow Obligations” means (a) with respect to any Obligation which secures a series of Related Bonds, the obligations permitted to be used to defease such series of Related Bonds under the Related Bond Indenture, (b) with respect to any Obligations for which there are no Related Bonds, the obligations, if any, permitted to be used to defease such Obligations by the Supplemental Master Indenture under which such Obligations were issued, and (c) with respect to any other Obligations;

(i) United States Government Obligations;

(ii) Evidences of direct ownership of a proportionate or individual interest in future principal or interest payments on specified direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, which obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian pursuant to the



terms of a custody agreement, in form and substance satisfactory to the Master Trustee, which obligations are not available to satisfy creditors of the custodian or any Member or Obligated Group Affiliate; and

(iii) 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 such irrevocable instructions; and (A) which are rated, based on the escrow, in the highest rating category of Standard & Poor's and Moody's; or (B)(1) which are fully secured as to principal, interest and redemption premium, if any, by an escrowed fund consisting only of cash or Government Obligations, which fund may be applied only to the payment of such principal, 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 (2) which fund is sufficient, as verified by a nationally recognized firm of independent public accountants, to pay principal, interest and redemption premium, if any, on the bonds or other obligations described in this definition on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to above, as appropriate.

“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, identified to the Master Trustee in a Certificate of the Obligated Group Agent as having been entered into by a Member of the Obligated Group with respect to Indebtedness (which is either then-Outstanding or to be issued after the date of such Certificate) identified in such Certificate. Financial Products Agreements shall not constitute Indebtedness.

“Financial Products Extraordinary Payments” means any payments required to be paid to a counterparty by a Member of the Obligated Group 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 Products Payments.

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

“Fiscal Year” means any 12-month period beginning on January 1 of any calendar year and ending on December 31 of such calendar year or such other consecutive 12-month periods selected by the Obligated Group Agent as the fiscal year for the Members and the Obligated Group Affiliates.

“Fitch” means Fitch IBCA, Inc., its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized statistical rating organization designated to the Master Trustee in writing by the Corporation.

“Governing Body” means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

“Gross Receivables” means all of the accounts, chattel paper, instruments and general intangibles (all as defined in Chapter 62A.9 of the Revised Code of Washington) of each Obligated Group member, as are now in existence or as may be hereafter acquired and the proceeds thereof;

excluding, however, all receivables representing donor restricted gifts, grants, bequests, donations, legacies, pledges and contributions heretofore or hereafter acquired by any Obligated Group Member.

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

“Historical Debt Service Coverage Ratio” means, with respect to the period of time for which calculated, the ratio consisting of a numerator equal to the amount determined by dividing Income Available for Debt Service for that period by the Debt Service Requirements for such period and a denominator of one; provided, however, that in calculating the Debt Service Requirements for such period, the following shall be excluded: (a) principal or interest on Indebtedness paid from amounts on deposit in an irrevocable escrow or Board designated reserves established to pay such principal or interest, (b) principal or interest on Short Term Indebtedness, (c) principal or interest on Indebtedness of a Member or Obligated Group Affiliate to any other Member or Obligated Group Affiliate, any guarantee by any Member or Obligated Group Affiliate of Indebtedness of any other Member or Obligated Group Affiliate, or the joint or several liability of any Member or Obligated Group Affiliate on Indebtedness issued by any other Member or Obligated Group Affiliate, and (d) the principal amount of any Interim Indebtedness paid during such period to the extent such principal amount is paid from a source other than revenues.

“Immaterial Affiliate” means a Person (whether or not an Obligated Group Affiliate) whose total net assets, as shown on its financial statements for its most recently completed fiscal year, were less than 5% of the combined or consolidated net assets of the Members and the Obligated Group Affiliates; provided, however, that the total net assets of all such Immaterial Affiliates shall not, at any one time, exceed 10% of the combined or consolidated net assets of the Members and the Obligated Group Affiliates.

“Income Available for Debt Service” means, with respect to the period of time for which calculated, the amount, if any, by which total revenue exceeds total expenses (or, in the case of for-profit Members or Obligated Group Affiliates, net income after taxes), to which shall be added depreciation, amortization and interest together with Obligation Payments to the extent that such Obligation Payments are treated as an expense during such period of time), of the Person or group of Persons involved determined in accordance with generally accepted accounting principles; provided, however, that no determination thereof shall take into account: (a) any gain or loss resulting from the extinguishment of Indebtedness, (b) any gain or loss resulting from the sale, exchange or other disposition of assets not in the ordinary course of business, (c) any gain or loss resulting from any discontinued operations, (d) any gain or loss resulting from pension terminations, settlements or curtailments, (e) any unusual charges for employee severance, (f) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, (g) gifts, grants, bequests, donations and contributions which have been specifically restricted by the donor to a particular purpose inconsistent with the payment of operating or nonoperating expenses or debt service on any Indebtedness or which have not been recognized as revenues of the Person, regardless of whether such gifts, grants, bequests, donations, or contributions are made to, on behalf of, or in the name of the Person; (h) unrealized gains or losses on investments, or (i) other nonrecurring items of any extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

“Indebtedness” means any indebtedness of a Person for the repayment of borrowed money (including Capital Leases, installment purchase contracts and Guarantees) which is shown as a liability on the balance sheet of such a Person or which is properly capitalized on the balance sheet of such Person in accordance with generally accepted accounting principles (including indebtedness

evidence by Obligations issued under the Master Indenture and indebtedness not evidenced by Obligations issued under the Master Indenture).

“Independent Counsel” means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include legal counsel for Swedish, any other Member or the Master Trustee.

“Insolvent” means “insolvent,” as defined in Title 11 of the United States Code, as now in existence or hereafter amended.

“Interim Indebtedness” means Indebtedness with respect to which the Obligated Group Agent certifies, at the time of the incurrence thereof, that the Obligated Group Agent expects to pay the principal amount of such Indebtedness from a source other than the revenues of the Obligated Group and the Obligated Group Affiliates, including, but not limited to, the proceeds of other Indebtedness.

“Lien” means any mortgage, pledge or lease of, security interest in or lien, charge, restriction or encumbrance on any Property of the Person involved in favor of, or which secures any obligation to, any Person other than any Member or any Obligated Group Affiliate and any Capital Lease under which any Member or Obligated Group Affiliate is lessee and the lessor is not a Member or an Obligated Group Affiliate.

“Long-Term Debt Service Coverage Ratio” means, for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service for that Fiscal Year by Maximum Annual Debt Service.

“Master Indenture” means the Master Trust Indenture dated as of April 15, 1998, between the Corporation and the Master Trustee, as it may from time to time be amended or supplemented in accordance with the terms thereof.

“Master Indenture Default” means any one or more of the following events:

(a) Failure of the Obligated Group to pay any installment of interest or principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for repayment or by acceleration or otherwise.

(b) Failure of any Member to comply with, observe or perform any of the other covenants, conditions, agreements or provisions of the Master Indenture and to remedy such default within 60 days after written notice thereof to such Member and the Obligated Group Agent from the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence and dispatch be wholly cured within 60 days but can be wholly cured, the failure of the Member to remedy such default within such 60-day period shall not constitute a default under the Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch.

(c) Any representation or warranty made by any Member in the Master Indenture or in any statement or certificate furnished to the Master Trustee or the purchaser of any Obligation in connection with the sale of any Obligation or furnished by any Member pursuant to the Master Indenture proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Obligated Group Agent by the Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations.

(d) Default in the payment of the principal of, premium, if any, or interest on any Indebtedness (other than nonrecourse indebtedness) of any Member as and when the same shall become due, or a default as defined in any mortgage, indenture, loan agreement or other instrument

under or pursuant to which there was issued or incurred, or by which there is secured, any such Indebtedness (including any Obligation) of any Member, and which default in payment or Master Indenture Default entitles the holder thereof to declare or, in the case of any Obligation, to request that the Master Trustee declare, such Indebtedness due and payable prior to the date on which it would otherwise become due and payable; provided, however, that if such Indebtedness is not evidenced by an Obligation, or is issued, incurred or secured by or under a Related Loan Document, a default in payment thereunder shall not constitute an “Master Indenture Default” unless the unpaid principal amount of such Indebtedness, together with the unpaid principal amount of all other Indebtedness so in default, exceeds 5% of the Unrestricted Fund Balance of the Obligated Group and Obligated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture.

(e) Any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member or Obligated Group Affiliate and remains unvacated, unpaid, unbonded, uninsured, unstayed or uncontested in good faith for a period of 60 days; provided, however, that none of the foregoing shall constitute a Master Indenture Default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, uninsured, unstayed or uncontested, exceeds 5% of the Unrestricted Fund Balance of the Obligated Group and Obligated Group Affiliates as shown on or derived from the most recent financial reports required to be delivered pursuant to the Master Indenture.

(f) Any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property.

(g) A trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 30 days after such appointment.

(h) Bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member (other than bankruptcy proceedings instituted by any Member against third parties), and if instituted against any Member are allowed against such Member or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution.

(i) Payment of any installment of interest or principal, or any premium, on any Related Bond shall not be made when the same shall become due and payable under the provisions of any Related Bond Indenture

“Master Trustee” means The Bank of New York Mellon Trust Company, N.A., as successor trustee under the Master Indenture, or any successor trustee under the Master Indenture.

“Maximum Annual Debt Service” means the greatest amount of Debt Service Requirements becoming due and payable in any Fiscal Year (including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year) with respect to Long-Term Indebtedness; provided, however that for the purposes of computing Maximum Annual Debt Service:

(a) with respect to a Guaranty, there shall be included in Maximum Annual Debt Service (i) 20% of the maximum possible monetary liability under the Guaranty in any Fiscal Year unless the Guaranty is drawn upon, and (ii) 100% of the monetary liability under the Guaranty which has been drawn upon in the last three years;

(b) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average interest rate per

annum which was in effect (or which would have been in effect) for any 12 consecutive calendar months during the 18 calendar months immediately preceding the date of calculation, all as specified in an Officer's Certificate of the Obligated Group Representative;

(c) if money 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 the 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 funds held by a trustee or escrow agent for such purpose; and

(e) with respect to Balloon Indebtedness, the interest rate on such Balloon Indebtedness shall be assumed to be at such rate which the Obligated Group Representative at the date of computation of Maximum Annual Debt Service for the Balloon Indebtedness could reasonably expect to borrow by issuing Long-Term Indebtedness with a term of 30 years and the unamortized portion of such Balloon Indebtedness shall be treated as Balloon Indebtedness with substantially level debt service over a period of 30 years from the date of incurrence of such Balloon Indebtedness.

"Member" or "Member of the Obligated Group" means Swedish and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Master Indenture and which has not ceased such status pursuant to the Master Indenture.

"Moody's" means Moody's Investors Service, its successors and assigns or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized statistical rating organization designated to the Master Trustee in writing by the Corporation.

"New Group" shall have the meaning set forth below under the heading "Substitution of Obligations."

"New Trustee" shall have the meaning set forth below under the heading "Substitution of Obligations."

"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 or any Member or Obligated Group Affiliate.

"Obligated Group" means, collectively, Swedish and any other Person which has fulfilled the requirements for entry into the Obligated Group set forth in the Master Indenture and which has not ceased such status pursuant to the Master Indenture.

"Obligated Group Affiliate" means any Person which has been designated as such in accordance with the Master Indenture, so long as such Person has not been further designated as no longer being an Obligated Group Affiliate as provided in the Master Indenture. As of the date of this Official Statement the Swedish Medical Center Foundation is the sole Obligated Group Affiliate under the Master Indenture.

"Obligated Group Agent" means the Corporation or such other Member as may be designated from time to time pursuant to written notice to the Master Trustee, each Related Bond Trustee and each Related Issuer executed by the Chairman or the Vice-Chairman of the Governing

Body of Swedish, the President or the Chief Financial Officer of Swedish, or, if Swedish is no longer a Member of the Obligated Group, of each Member of the Obligated Group.

“Obligated Group Financial Statements” means a balance sheet, statement of operations and changes in net assets including all the Members and Obligated Group Affiliates prepared based on the accompanying unaudited combined schedules delivered with the audited financial statements described.

“Obligation” shall mean any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Supplemental Master Indenture, including, but not limited to bonds, notes, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a series of Obligations or to Obligations of a series shall mean Obligations or series of Obligations issued pursuant to a single Supplemental Master Indenture.

“Obligation No. 3” means \$100,000,000 Master Note Obligation No. 3 issued under the Master Indenture and Supplemental Master Indenture No. 4 dated March 19, 2009, between Swedish and the Master Trustee.

“Obligation Payments” shall mean payments (however designated) required under any Obligation then Outstanding which does not constitute Indebtedness.

“Obligation holder,” “holder” or “owner of the Obligation” means the registered owner of any fully registered or book entry Obligation unless alternative provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued for establishing ownership of such Obligation, in which case such alternative provision shall control.

“Officer’s Certificate” means a certificate signed, in the case of a certificate delivered by a corporation, by the Chairman, the Vice-Chairman, the President, any Vice President or any other officer authorized to sign by resolution of the Governing Body of such corporation, or in the case of a certificate delivered by any other Person, the chief executive or financial officer of such other Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Master Trustee.

“Outstanding” means, in the case of Indebtedness of a Person other than Related Bonds or Obligations, all such Indebtedness of such Person which has been issued except any such portion thereof cancelled after purchase on the open market or surrendered for cancellation or because of payment at or redemption prior to maturity, and such Indebtedness in lieu of which other Indebtedness has been duly issued and any such Indebtedness which is no longer deemed outstanding under its terms and with respect to which such Person is no longer liable under the terms of such Indebtedness.

“Outstanding Obligations” or “Obligations outstanding” means all Obligations which have been duly authenticated and delivered by the Master Trustee under the Master Indenture, except:

(a) Obligations cancelled after purchase in the open market or because of payment at or prepayment or redemption prior to maturity;

(b) Obligations for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with or for the benefit of the Master Trustee (or another corporate trustee qualified to serve as Master Trustee under the Master Indenture), whether upon or prior to the maturity or redemption date of any such Obligations; provided, that if such Obligations are to be prepaid or redeemed prior to the maturity thereof, notice of such prepayment or redemption shall have been given or irrevocable arrangements satisfactory to the Master Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Master Trustee shall have been filed with the Master Trustee;

(c) Obligations securing Related Bonds for the payment or redemption of which cash or Escrow Obligations shall have been theretofore deposited with the Related Bond Trustee (or another corporate trustee qualified to hold such Escrow Obligations for the defeasance of such Related Bonds, as described in such Related Bond Indenture), whether upon or prior to the maturity or redemption date of any such Obligations; provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee; and

(d) Obligations in lieu of which others have been authenticated under the Master Indenture.

For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the Master Indenture, Obligations held or owned by a Member of the Obligated Group or Obligated Group Affiliate shall be considered not Outstanding.

Notwithstanding the foregoing, any Obligation securing Related Bonds will be deemed outstanding if such Related Bonds are Outstanding.

“Outstanding Related Bonds” or “Related Bonds outstanding” means all Related Bonds which have been duly authenticated and delivered by the Related Bond Trustee under the Related Bond Indenture and are deemed outstanding under the terms of such Related Bond Indenture or, if such Related Bond Indenture does not specify when Related Bonds are deemed outstanding thereunder, all such Related Bonds which have been so authenticated and delivered, except:

(a) Related Bonds cancelled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Related Bonds for the payment or redemption of which cash or Escrow Obligations of the type described in the definition thereof shall have been theretofore deposited with the Related Bond Trustee (or another corporate trustee qualified to hold such Escrow Obligations for the defeasance of such Related Bonds, as described in such Related Bond Indenture), whether upon or prior to the maturity or redemption date of any such Bonds, in accordance with the Related Bond Indenture; provided, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Related Bonds in lieu of which others have been authenticated under the Related Bond Indenture; and

(d) For the purposes of all covenants, approvals, waivers and notices required to be obtained or given under the Related Bond Indenture, Related Bonds held or owned by a Member or Obligated Group Affiliate.

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

“Paying Agent” means the bank or banks, if any, designated pursuant to a Related Bond Indenture to receive and disburse the principal of and interest on any Related Bonds or designated pursuant to the Master Indenture to receive and disburse the principal of and interest on any Obligations.

“Permitted Encumbrances” means the Master Indenture, any Related Loan Document, any Related Bond Indenture and, as of any particular time:

(a) Liens arising by reason of good faith deposits with a Member or Obligated Group Affiliate in connection with tenders, leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member or Obligated Group Affiliate 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; any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member or Obligated Group Affiliate to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pensions or profit sharing plans or other social security plans or programs, or to share in the privileges or benefits required for corporations participating in such arrangements;

(b) Any Lien on any Property acquired by a Member or Obligated Group Affiliate, which Lien secures (i) Indebtedness issued, incurred or assumed by any Member or Obligated Group Affiliate in connection with and to effect such acquisition or (ii) existing Indebtedness which will remain outstanding after such acquisition but will not be assumed by a Member or Obligated Group Affiliate, if in each such case the aggregate principal amount of such Indebtedness does not exceed the fair market value of the Property subject to such Lien as determined in good faith by the Governing Body of the Member or Obligated Group Affiliate;

(c) Any Lien on any Property of any Member or Obligated Group Affiliate granted in favor of or securing Indebtedness to any other Member or Obligated Group Affiliate;

(d) Any Lien on Property if such Lien equally or ratably secures all of the Obligations and, if the Obligated Group Agent shall so determine, any other Indebtedness of a Member or any Obligated Group Affiliate;

(e) Leases, licenses or similar rights to use Property whereunder a Member or an Obligated Group Affiliate is lessor, lessee, licensor, licensee or the equivalent thereof upon fair and reasonable terms no less favorable to the Member or Obligated Group Affiliate than it would obtain in a comparable arm's-length transaction;

(f) Liens for taxes and special assessments which are not then delinquent, or if then delinquent are being contested in accordance with the Master Indenture;

(g) Utility, access and other easements and rights-of-way, restrictions, encumbrances and exceptions which do not materially interfere with or materially impair the operation of the Property affected thereby (or, if such Property is not being then operated, the operation for which it was designed or last modified);

(h) Any mechanic's, laborer's, materialman's, supplier's or vendor's Lien or right in respect thereof if payment is not yet due under the contract in question or if such Lien is being contested in accordance with the Master Indenture;

(i) Such Liens, defects, irregularities of title and encroachments on adjoining property as normally exist with respect to property similar in character to the Property involved and which do not materially adversely affect the value of, or materially impair, the Property affected thereby for the purpose for which it was acquired or is held by the owner thereof, including, without limitation, statutory liens granted to banks or other financial institutions, which liens have not been specifically granted to secure Indebtedness and which do not apply to Property which has been deposited as part of a plan to secure Indebtedness;

(j) Zoning laws and similar restrictions that are not violated by the Property affected thereby;



(k) Statutory rights under Section 291, Title 42 of the United States Code, as a result of what are commonly known as Hill-Burton grants, and similar rights under other federal statutes or statutes of the state in which the Property is involved is located;

(l) All right, title and interest of the state where the Property involved is located, municipalities and the public in and to tunnels, bridges and passageways over, under or upon a public way;

(m) Liens on or in Property given, granted, bequeathed or devised by the owner thereof existing at the time of such gift, grant, bequest or devise, but only if (i) such Liens consist solely of restrictions on the use thereof or the income therefrom, or (ii) such Liens secure Indebtedness which is not assumed by any Member or Obligated Group Affiliate and such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant, bequest or devise;

(n) Liens of or resulting from any judgment or award, the time for the appeal or petition for rehearing of which shall not have expired, or in respect of which any Member or Obligated Group Affiliate shall at any time in good faith be prosecuting an appeal or proceeding for a review and in respect of which a stay of execution pending such appeal or proceeding for review shall be in existence;

(o) Liens on moneys deposited by patients or others with a Member or Obligated Group Affiliate as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to endowment or similar funds deposited by or on behalf of such residents;

(p) Liens on Property due to rights of third-party payors for recoupment of excess reimbursement paid;

(q) Any Lien in the rebate fund, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Loan Document in favor of the Master Trustee, a Related Bond Trustee, a Related Issuer or the creditor or credit enhancer of the Indebtedness issued or secured pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Loan Document;

(r) Any Lien on any Related Bond or any evidence of Indebtedness of any Member or Obligated Group Affiliate, which Related Bond or evidence of Indebtedness is acquired by or on behalf of any Member or Obligated Group Affiliate, and which lien arises in favor of the provider of liquidity or credit support for such Related Bond or Indebtedness;

(s) Such Liens, covenants, conditions and restrictions, if any, which do not secure Indebtedness and which are other than those of the type referred to above, and which (i) in the case of Property of Swedish or any Obligated Group Affiliate on April 15, 1998, do not and will not, so far as can reasonably be foreseen, materially adversely affect the value of the Property currently affected thereby or materially impair the same, and (ii) in the case of any other Property, do not materially impair or materially interfere with the operation or usefulness thereof for the purpose for which such Property was acquired or is held by a Member;

(t) Liens on accounts receivable; provided, that the principal amount of Indebtedness secured by any such Lien does not exceed the amount received with respect to such accounts receivable by the Member or Obligated Group Affiliate in connection with the creation of such Lien;

(u) Liens on any Property of a Member or of an Obligated Group Affiliate at April 15, 1998, or existing at the time any Person becomes a Member or an Obligated Group Affiliate; provided that no such Lien (or the amount of Indebtedness secured thereby) may be

increased, extended, renewed or modified to apply to any Property of the Member or any Obligated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(v) Liens on Property of a Person existing at the time such Person is merged into or consolidated with a Member or an Obligated Group Affiliate, or at the time of a sale, lease or other disposition of the Properties of a Person as an entirety or substantially as an entirety to a Member or an Obligated Group Affiliate which becomes part of a Property that secured Indebtedness that is assumed by a Member or an Obligated Group Affiliate as a result of any such merger, consolidation or acquisition; provided, that no such Lien may be increased, extended, renewed, or modified after such date to apply to any Property of a Member or an Obligated Group Affiliate not subject to such Lien on such date unless such Lien as so increased, extended, renewed or modified is otherwise permitted under the Master Indenture;

(w) Notwithstanding any other subsection of this definition of “Permitted Encumbrances,” Liens on any Property of a Member or an Obligated Group Affiliate securing any Indebtedness if at the time of incurrence of such Indebtedness and after giving effect to all Liens permitted under this subsection, the aggregate value of Property subject to such Liens pursuant to this subsection does not exceed 25% of the value of the total assets of the Obligated Group and Obligated Group Affiliates, as such value is shown on the most recent financial reports required to be delivered pursuant to the Master Indenture; and

(x) Liens on any Property of a Member or an Obligated Group Affiliate to secure any Indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the Property subject to such Lien; provided, that such Lien shall not apply to any Property theretofore owned by a Member or an Obligated Group Affiliate, other than any theretofore unimproved real property on which the Property so constructed or improved is located.

“Person” means any natural person, firm, joint venture, limited liability company, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

“Primary Obligor” means the Person who is primarily obligated on an obligation which is guaranteed by another Person.

“Property” means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible (including cash) or intangible, wherever situated and whether now owned or hereafter acquired.

“Property, Plant and Equipment” means all Property of each Member that is classified as property, plant and equipment under generally accepted accounting principles.

“Rating Agency” means Moody’s or Fitch.

“Related Bonds” means any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to any Member or Obligated Group Affiliate in consideration, whether in whole or in part, of the execution, authentication and delivery of an Obligation or Obligations to such governmental issuer.

“Related Bond Indenture” means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

“Related Bond Insurer” means the issuer of an insurance policy insuring any series of Related Bonds.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

“Related Issuer” means the Corporation or any other issuer of a series of Related Bonds.

“Related Loan Document” means any document or documents (including, without limitation, any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member or Obligated Group Affiliate (or any Property financed or refinanced with such proceeds is leased, sublet or sold to a Member or Obligated Group Affiliate).

“Replacement Master Indenture” shall have the meaning set forth below under the heading “Substitution of Obligations.”

“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 purpose pursuant to the terms of a Related Bond Indenture, required to by any Member of the Obligated Group pursuant to any Supplemental Master Indenture or any obligation.

“Short-Term Indebtedness” means all Indebtedness having an original maturity of less than or equal to one year and not renewable at the option of a Member or an Obligated Group Affiliate for a term greater than one year from the date of original incurrence or issuance unless, in the case of Indebtedness with a maturity or renewable at the option of a Member or an Obligated Group Affiliate with a term greater than one year, by the terms of such Indebtedness, no Indebtedness is permitted to be Outstanding thereunder for a period of at least 30 consecutive days during such calendar year.

“Standard & Poor’s” means Standard & Poor’s Ratings Group, a division of the McGraw-Hill Companies, its successors and assigns or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a statistical rating organization, any other nationally recognized statistical rating organization designated to the Master Trustee in writing by the Corporation.

“State” means the State of Washington.

“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 Obligated Group Members under the Master Indenture.

“Substitute Obligations” shall have the meaning set forth below under the heading “Substitution of Obligations.”

“Successor Entity” shall have the meaning set forth below under the heading “Merger, Consolidation, Sale or Conveyance.”

“Supplemental Indenture No. 4” means Supplemental Master Indenture No. 4 dated March 19, 2009, between Swedish and the Master Trustee.

“Supplemental Master Indenture” means an indenture amending or supplementing the Master Indenture, entered into in accordance with and on or after the date of the Master Indenture.

“Swedish” or the “Corporation” means Swedish Health Services, a Washington nonprofit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“Tax-Exempt Organization” means a Person organized under the laws of the United States of America or any state thereof which is (a) a governmental entity or political subdivision of a state or (b) an organization described in Section 501(c)(3) of the Code, which is exempt from federal

income taxation under Section 501(a) of the Code, and which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“Total Revenues” means the combined operating and nonoperating revenues of the Members of the Obligated Group Affiliates for any Fiscal year, all as determined in accordance with accounting principles generally accepted in the United States of America.

“Transaction Test” means, with respect to any specified transaction, that either (1) no Event of Default or Default then exists and the Long-Term Debt Service Coverage Ratio for the most recent Fiscal year for which audited financial statements are available, calculated as if such transaction test had occurred on the first day of such Fiscal Year, would be (A) greater than the actual Long-Term Debt Service Coverage Ratio for such Fiscal year or (B) at least 2.0:1.0 or (2) no Event of Default or Default then exists, the Long-Term Debt Service Coverage Ratio for the most recent Fiscal Year for which audited financial statements are available, calculated as if such transaction had occurred on the first day of such Fiscal Year, would be at least equal to 75% of the actual Long-Term Debt Service Coverage Ratio for such Fiscal Year, and, following such transaction, the Credit Group could satisfy the conditions for the issuance of \$1.00 of additional Long-Term Indebtedness.

“Trust Estate” means all the security granted under the Master Indenture.

“UCC” means the Uniform Commercial Code of the State of Washington, as in effect from time to time.

“United States Government Obligations” means noncallable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, 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.

“Unrestricted Fund Balance” means the unrestricted fund balance, capital and surplus, or other equivalent accounting classification representing the net worth of a Person.

“Written Request” means a request in writing signed by the officers authorized or designated by the Member or Obligated Group Affiliate, as the case may be.

## **THE MASTER INDENTURE**

### **Series, Designation and Amount of Obligations**

Each Obligation under the Master Indenture must be authorized by the Obligated Group Agent and the Member issuing such Obligation by adoption by the respective Governing Bodies of a Board Resolution; no further authorization or approval by any other Member or any Obligated Group Affiliate is required for the issuance of such Obligation. The total principal amount of Obligations, the number of Obligations and the series of Obligations that may be created under the Master Indenture is not limited except as shall be set forth with respect to any other series of Obligations in the Supplemental Master Indenture providing for the issuance thereof. Each series of Obligations is to be issued pursuant to a Supplemental Master Indenture, and designated so as to differentiate the Obligations of such series from the Obligations of any other series.

### **Payment of Obligations**

Principal of, premium, if any, and interest on the Obligations is payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts. Such principal, premium, if any, and interest is to be payable at the principal operations office of the Master Trustee or at the office of any alternate Paying Agent or agents named in any such Obligations or in a Related Bond Indenture. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Obligation is issued or the election referred to in the next sentence is made, payment of interest on the Obligations is to be made to the person appearing on the registration books of the Obligated Group (kept in the principal operations office of the Master Trustee as Obligation registrar) as the registered owner thereof, by check mailed to such owner's registered address or at such other address as is furnished to the Master Trustee in writing by such holder. However, any Supplemental Master Indenture creating any Additional Obligation may provide that interest on such Additional Obligation may be paid, upon the request of the holder of such Additional Obligation, by wire transfer, or at a Member's election, such payment may be made directly by such Member, by check hand-delivered to the holder thereof or its designee or shall be made by such Member by wire transfer to such holder, in either case delivered on or prior to the date on which such payment is due.

### **Mutilated, Lost, Stolen or Destroyed Obligations**

In the event any temporary or definitive Obligation is mutilated, lost, stolen or destroyed, the Master Indenture provides that the Member issuing such Obligation may execute and the Master Trustee may authenticate a new Obligation of like form, date, maturity and denomination as that mutilated, lost, stolen or destroyed; if such mutilated Obligation shall first be surrendered to the Master Trustee, or there shall be first furnished to such Member and the Master Trustee evidence of such loss, theft or destruction satisfactory to such Member and the Master Trustee, together with indemnity satisfactory to them, as applicable.

### **Registration; Negotiability; Cancellation Upon Surrender; Exchange of Obligations**

Upon surrender for transfer of any Obligation at the principal operations office of the Master Trustee, the Master Indenture requires the Member issuing such Obligation to execute and the Master Trustee to authenticate and deliver in the name of the transferee or transferees a new fully registered Obligation or Obligations of the same series, designation and maturity without coupons for a like aggregate principal amount. However, the Master Trustee is not required to transfer or exchange any Obligation during the period of 15 days next preceding any interest payment date of such Obligation or to transfer or exchange any Obligation after the notice calling such Obligation or portion thereof for redemption has been given, or during the period of 15 days next preceding the mailing of such notice of redemption with respect to any Obligation of the same series and maturity.

The Master Indenture provides that as to any Obligation, the Person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Obligation shall be made only to or upon the order of the registered owner thereof or his legal representative, subject to change as provided in the Master Indenture. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Obligation to the extent of the sum or sums so paid.

### **Security for Obligations**

All Obligations issued and Outstanding under the Master Indenture are equally and ratably secured thereunder, except to the extent specifically provided otherwise as permitted thereby. Any one or more series of Obligations issued under the Master Indenture may, so long as any Liens created in connection therewith constitute Permitted Encumbrances, be secured by security (including, without limitation, letters or lines of credit, insurance, Liens on Property of the Obligated Group or Obligated Group 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 Obligations or series of Obligations). Consequently, the Supplemental Master Indenture pursuant to which any one or more series of 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 owners of Obligations.

### **Substitution of Obligations**

The Master Indenture provides that all Obligations issued pursuant to the Master Indenture shall, upon the request of the Obligated Group Agent, be substituted with an original replacement obligation issued by or on behalf of any Member (the "Substitute Obligations") under and pursuant to and secured by a master trust indenture (the "Replacement Master Indenture") executed by all current Members of the Obligated Group and any other entities which are parties to and obligated with respect to indebtedness issued under such Replacement Master Indenture (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") meeting the eligibility requirements of the Master Trustee under the Master Indenture, upon receipt by the Master Trustee of the following: (a) an opinion of nationally recognized municipal bond counsel that the surrender of the Obligations and the acceptance by the Master Trustee of the Substitute Obligations will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal income taxation to which interest on any Obligations or any Related Bonds would otherwise be entitled; (b) an executed counterpart of the Replacement Master Indenture; (c) an opinion of Independent Counsel to the Obligated Group addressed to the Master Trustee to the effect that: (i) the Replacement Master Indenture has been duly authorized, executed and delivered by each member of the New Group, each Substitute Obligation has been duly authorized, executed and delivered by or on behalf of a Member and each of the Replacement Master Indenture and each Substitute Obligation is a legal, valid and binding obligation of each member of the New Group, subject in each case to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and application of general principles of equity; (ii) all requirements and conditions to the issuance of the Substitute Obligations set forth in the Replacement Master Indenture have been complied with and satisfied; and (iii) registration of the Substitute Obligations under the Securities Act of 1933, as amended, is not required or, if such registration is required, the New Group has complied with all applicable provisions of said Act; (d) a certificate of the Obligated Group Agent stating that the New Group, considered as a pro forma consolidated or combined group for purposes of the Master Indenture, with the elimination of material intercompany balances and transactions, would, after giving effect to such Substitute Obligations and assuming that the New Group constituted the Obligated Group under the Master Indenture and that the Substitute Obligations were issued under the Master Indenture, would meet the Coverage Test; (e) the Replacement Master Indenture containing (i) the agreement of each

member of the New Group (A) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a member of the New Group pursuant to the terms and conditions of the Replacement Master Indenture), jointly and severally to make payments upon each obligation (including the Substitute Obligations) issued under the Replacement Master Indenture at the times and in the amounts provided in each such obligation, and (ii) representations and warranties of the members of the New Group no less restrictive than those set forth in the Master Indenture (but with such deviations as are acceptable to the Master Trustee); and (f) either: (i) the Replacement Master Indenture containing terms, covenants and provisions no less restrictive than those contained in the Master Indenture with respect to entrance into and withdrawal from the Obligated Group, general covenants, debt service coverage, merger consolidation, sale or conveyance, financial reporting, and liens on property, events of default and remedies therefor, and amendments, except for such differences as the Master Trustee shall determine, grant to or confer upon the New Trustee, for the benefit of the holders of the notes and obligations, including the Substitute Obligations, issued under the Replacement Master Indenture, any additional rights, remedies, powers or authority or add to the covenants of the New Group or assign and pledge additional revenues, properties and collateral under the Replacement Master Indenture for the benefit of such holders; or (ii)(A) the written consent of each credit enhancer then providing credit enhancement for any Outstanding Related Bonds, and (B) written confirmation from each Rating Agency then rating any Outstanding Related Bonds that, upon consummation of the proposed transactions, the ratings on such Related Bonds (without regard to any credit enhancement of the Related Bonds) will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Obligations; provided, however, that if, prior to the consummation of the proposed transactions, any such Outstanding Related Bonds are not then rated by any Rating Agency, such a rating shall be obtained, which rating, as evidenced by the written confirmation of such Rating Agency, will not be lower as a result of the entry into the Replacement Master Indenture and the issuance of the Substitute Obligations; and (g) such other opinions and certificates as the Master Trustee may reasonably require, together with payment of all outstanding fees and expenses of the Master Trustee and with such indemnities as are satisfactory to it.

The Master Trustee, within five days after receipt of the items set forth in the foregoing paragraph, is required to mail to all holders of Obligations, as the names and addresses of such holders appear upon the register or registers maintained by the Master Trustee, notice that such requirements have been satisfied and that all Obligations issued under the Master Indenture have been replaced with the Substitute Obligations, and directing such holders to surrender all Obligations to the Master Trustee for cancellation. The Master Indenture requires each holder of Obligations shall surrender its Obligations to the Master Trustee, at the principal operations office of the Master Trustee, within ten days of receipt from the Master Trustee of such notice, and requires the Master Trustee, within five days of receipt of such Obligations, to deliver the Substitute Obligations to such holders and thereupon the Master Trustee shall be discharged under the Master Indenture.

### **Redemption of Obligations**

The Master Indenture provides that Obligations of each series shall be subject to optional and mandatory prepayment or redemption in whole or in part and may be prepaid or redeemed prior to maturity on such dates and at such prices as provided in the Master Indenture and the Supplemental Master Indenture pertaining to such series of Obligations. Unless waived by the holder of an Obligation, the Master Trustee shall call Obligations for redemption or prepayments as provided in the Master Indenture and in the Supplemental Master Indenture pursuant to which such Obligations are issued, and shall give notice of redemption or prepayment as provided in the Master Indenture and in such Supplemental Master Indenture. To the extent not otherwise provided in the Master Indenture or in a Supplemental Master Indenture pursuant to which any series of Obligations

is issued, a Related Bond Indenture or a Related Loan Document, the Member shall have the right to prepay or redeem all or such portion of the Obligations of any particular series as necessary to effect the payment, prepayment, redemption, refunding or advance refunding of the Obligations or series of Related Bonds or any portion thereof in the manner provided in the Supplemental Master Indenture, Related Bond Indenture or other document evidencing such Obligations. If called for prepayment or redemption in such events, the Obligations of such series may be redeemed in such amount, and at such times, in the manner and with the premium necessary to effect the refunding, advance refunding or redemption of all or the portion of the Obligations or series of Related Bonds to be refunded, advance refunded or redeemed. In such case, the Supplemental Master Indenture or other document evidencing such Obligations may provide that the giving of notice of redemption of such Obligations or Related Bonds in accordance with the terms of the Related Bond Indenture or other document evidencing such Obligations shall, without further notice or action by any Person, constitute notice of redemption of the corresponding amounts of principal on the corresponding Obligations and the same shall, thereby, become due and payable on the date of redemption of such Related Bonds or Obligations at a redemption price equal to the redemption price payable with respect to such Related Bonds or Obligations.

### **Notice of Redemption**

Unless contrary provision is made with respect to a particular series of Obligations in the Supplemental Master Indenture pursuant to which such Obligations are issued, the Master Indenture generally requires notice of the call for any such prepayment or redemption identifying the Obligations to be prepaid or redeemed to be given by mailing a copy of such notice by registered, certified or first-class mail to each Related Bond Issuer whose Related Bonds are to be prepaid or redeemed and to the registered holders of Obligations to be prepaid or redeemed to the addresses shown on the note register maintained by the Master Trustee not less than 30 days prior to the prepayment or redemption date. However, failure to give such notice by mailing or a defect in the notice or the mailing to any particular holder will not affect the validity of the prepayment or redemption of any other Obligation. Upon such notice, if sufficient moneys are deposited with the Master Trustee and are available to pay the principal of, premium, if any, and interest on the Obligations to be prepaid or redeemed to the prepayment or redemption date, the Obligations, or portions thereof, shall cease to bear interest after the applicable prepayment or redemption date, shall no longer be protected by the Master Indenture and shall not be deemed to be Outstanding under the provisions of the Master Indenture.

### **Partial Redemption of Obligations**

Upon surrender of any Obligation for prepayment or redemption in part only, the Member issuing such Obligation is required to execute and the Master Trustee shall authenticate and deliver to the holder thereof, at the expense of the Obligated Group, a new registered Obligation or Obligations of the same series and maturity of authorized denominations in an aggregate principal amount equal to the unpaid portion of the Obligation surrendered. Such Member and the Master Trustee may agree with the holder of any Obligation that such holder may, in lieu of surrendering the same for a new registered Obligation, endorse on such Obligation a notice of such partial prepayment or redemption to be made on a schedule which shall be typed or printed on such Obligation. Such partial prepayment or redemption shall be valid upon payment of the amount thereof to the registered holder of any such registered Obligation and Obligated Group and the Master Trustee shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon the reverse of such Obligation by the holder thereof and irrespective of any error or omission in such endorsement.

### **Payment of Amounts Due Under any Obligation; Obligated Group Affiliates**

Each Member unconditionally and irrevocably covenants under the Master Indenture, (subject to the right of such Member to cease its status as a Member of the Obligated Group), jointly



and severally, to pay promptly the principal of and premium, if any, interest and any other amount payable on every Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture and in said Obligations according to the true intent and meaning thereof, whether or not such Member has itself executed and delivered any such Obligation. Notwithstanding any schedule of payments upon the Obligations set forth in the Master Indenture or in the Obligations, each Member further unconditionally and irrevocably covenants and agrees (subject to the right of such Member to cease its status as a Member of the Obligated Group), jointly and severally, to make payments upon each Obligation and be liable therefor at the times and in the amounts (including principal, interest and premiums, if any) equal to the amounts to be paid as interest, principal, or premium, if any, upon any Related Bonds from time to time outstanding. If any Member does not tender payment of any installment of principal, premium, interest or any other amount payable on any Obligation when due and payable, the Master Trustee is required to give prompt written notice of such nonpayment to such Member and the Obligated Group Agent.

Each Controlling Member is required by the Master Indenture, to cause each of its Obligated Group Affiliates to pay or otherwise transfer to the Obligated Group Agent or other Member (i) such amounts as are necessary to duly and punctually pay the principal of and premium, if any, interest and any other amount payable on all Outstanding Obligations or portions thereof the proceeds of which were loaned or otherwise made available to such Obligated Group Affiliate or that were otherwise issued for the benefit of such Obligated Group Affiliate and any other payments, required by the terms of such Obligations, the applicable Supplemental Master Indenture and the Master Indenture, when and as the same become payable, whether at maturity, upon call for redemption, by acceleration of maturity or otherwise, and (ii) such amounts that are otherwise necessary to enable each Member to comply with the provisions described in the paragraph above with respect to the other Obligations issued by a Member of the Obligated Group.

So long as a Person is designated as an Obligated Group Affiliate, the Obligated Group Agent or such Controlling Member must either (i) maintain, directly or indirectly, control of such Obligated Group Affiliate, including the power to direct the management, policies, disposition of assets and actions of such Obligated Group Affiliate to the extent required to cause such Obligated Group Affiliate to comply with the terms and conditions of the Master Indenture, whether through the ownership of voting securities, by contract, partnership interests, membership, reserved powers, or the power to appoint members, trustees or directors or otherwise, or (ii) execute and have in effect such contracts or other agreements that the Obligated Group Agent and the Controlling Member, in the sole judgment of the respective Governing Body, deems sufficient for the Controlling Member to cause such Obligated Group Affiliate to comply with the terms and conditions of the Master Indenture. The Master Indenture provides that any Person will cease to be an Obligated Group Affiliate and will not be subject to any of the provisions of the Master Indenture upon the declaration of the Governing Body of the Obligated Group Agent in a Board Resolution, and upon such declaration, such Person shall no longer be subject to any of the covenants applicable to an Obligated Group Affiliate. The Obligated Group Agent shall deliver to the Master Trustee each Board Resolution designating an Obligated Group Affiliate and the Controlling Member of such Obligated Group Affiliate or declaring that a Person is no longer an Obligated Group Affiliate.

Each Controlling Member covenants in the Master Indenture that it will cause each of its Obligated Group Affiliates to comply with the terms and conditions of the Master Indenture which are applicable to such Obligated Group Affiliate, and of the Related Loan Documents, if any, to which such Obligated Group Affiliate is a party. Further, by becoming a Member, each Member acknowledges that the Obligated Group Agent has certain powers and duties under the Master Indenture and authorizes the Obligated Group Agent to exercise such powers and carry out such duties, and covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Master Indenture and in each and every Obligation executed, authenticated and delivered thereunder.

## **Entrance Into the Obligated Group**

The Master Indenture provides that any Person may become a Member of the Obligated Group if: (a) such Person executes and delivers to the Master Trustee a Supplemental Master Indenture acceptable to the Master Trustee which also shall be executed by the Master Trustee and the Obligated Group Agent, containing (i) the agreement of such Person (A) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the Master Indenture and (B) unconditionally and irrevocably (subject to the right of such Person to cease its status as a Member of the Obligated Group pursuant to the terms described under “Cessation of Status as Member of the Obligated Group” below) to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation and (ii) representations and warranties by such Person substantially similar to those set forth in the Master Indenture; (b) the Obligated Group Agent shall, by Board Resolution, have approved the admission of such Person to the Obligated Group; (c) the Master Trustee shall have received (i) a certificate of the Obligated Group Agent which demonstrates that (A) immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default of the performance or observance of any covenant or condition to be performed under the Master Indenture, and (B) the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Person had become a Member on the first day of such Fiscal Year, (ii) an opinion of Independent Counsel to the effect that the Supplemental Master Indenture has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors’ rights and application of general principles of equity, and (iii) if all amounts due or to become due on all Related Bonds have not been paid to the holders thereof and provision for such payment has not been made in such manner as to have resulted in the defeasance of all Related Bond Indentures, an opinion of nationally recognized municipal bond counsel delivered to the Master Trustee to the effect that under then existing law the consummation of such transaction, whether or not contemplated on the date of delivery of any such Related Bond, would not adversely affect the validity of any Related Bond or any exemption from federal income taxation of interest payable on such Related Bond otherwise entitled to such exemption; and (d) the Master Indenture list of Obligated Group Members is amended to add such Person as a Member.

In addition to the provisions described above, pursuant to the Amending Supplement, each Member of the Obligated Group agrees that, so long as any obligation is Outstanding, additional Members may be added to the Obligated Group from time to time only if, prior to such addition, the Master Trustee receives an Officer’s Certificate to the effect that the Transaction Test is satisfied.

Each successor, assignee, resulting or transferee entity of a Member must agree to become, and satisfy the above-described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member’s entity status.

## **Cessation of Status as a Member of the Obligated Group**

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto into which it is merged or consolidated under the terms of the Master Indenture to cease to be a Member of the Obligated Group unless: (a) prior to cessation of such status, there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that, under then existing law, the cessation by the Member of its status as a Member will not adversely affect the validity of any Related Bond or any exemption from federal income taxation of interest payable thereon to which such Related Bond would otherwise be entitled; (b) prior to and immediately after such cessation, no Master Indenture Default exists and no event shall have occurred which with the passage of time or the giving of notice or both, would become a Master Indenture Default; (c) prior to cessation of such status, the Obligated Group Agent delivers

to the Master Trustee a written consent to the withdrawal by such Member; and (d) prior to cessation of such status, there is delivered to the Master Trustee a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be met for the most recent Fiscal Year, calculating such Coverage Test as if such Member had withdrawn from the Obligated Group on the first day of such Fiscal Year.

In addition to the provisions described above, pursuant to the Amending Supplement, each Member of the Obligated Group agrees that, so long as any Obligation is Outstanding, any Member may withdraw from the Obligated Group and be released from further liability under the provisions of the Master Indenture only if, prior to such withdrawal, the Master Trustee receives an Officer's Certificate to the effect that immediately following the withdrawal of such Member, the Transaction Test will be satisfied.

### **General Covenants; Right of Contest**

Under the Master Indenture, each Member covenants, and each Controlling Member covenants to cause each of its Obligated Group Affiliates: (a) except as otherwise expressly permitted by the Master Indenture (i) to preserve its corporate or other separate legal existence, (ii) to preserve all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs as then conducted, and (iii) to be qualified to do business and conduct its affairs in each jurisdiction where its ownership of Property or the conduct of its business or affairs requires such qualification; provided, however, that nothing contained in the Master Indenture shall be construed to obligate such Member or Obligated Group Affiliate to retain, preserve or keep in effect the rights, licenses or qualifications no longer used or, in the judgment of its Governing Body, useful in the conduct of its business; (b) promptly to pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable which if not so paid, satisfied or discharged would constitute a default or a Master Indenture Default described in paragraph (d) of the definition thereof; (c) at all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness; and (d) in the case of the Corporation and any Person which is a Tax-Exempt Organization at the time it becomes a Member or Obligated Group Affiliate, so long as the Master Indenture shall remain in force and effect and so long as all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or provision for such payment has not been made, to take no 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 could result in any such Related Bond being declared invalid or result in the interest on any Related Bond, which is otherwise exempt from federal income taxation, becoming subject to such taxation.

The foregoing notwithstanding, the Master Indenture provides that any Member or Obligated Group Affiliate may, with the prior written approval of the Obligated Group Agent, cease to be a nonprofit corporation or take actions which could result in the alteration or loss of its status as a Tax-Exempt Organization if prior thereto there is delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that such actions would not adversely affect the validity of any Related Bond, the exemption from federal income taxation of interest payable on any Related Bond otherwise entitled to such exemption or adversely affect the enforceability in accordance with its terms of the Master Indenture against any Member.

The Master Indenture provides that no Member or Obligated Group Affiliate shall be required to remove any Lien required to be removed (as described below under "Liens on Property"), pay or otherwise satisfy and discharge its obligations, Indebtedness (other than any Obligations), demands and claims against it or to comply with any Lien, law, ordinance, rule, order, decree, decision, regulation or requirement referred to in the provisions summarized under "Liens on Property" below, so long as such Member or Obligated Group Affiliate shall contest, in good faith

and at its cost and expense, in its own name and behalf, the amount or validity thereof, in an appropriate manner or by appropriate proceedings which shall operate during the pendency thereof to prevent the collection of or other realization upon the obligation, Indebtedness, demand, claim or Lien so contested, and the sale, forfeiture or loss of its Property or any part thereof, provided, that no such contest shall subject any Related Issuer, any Related Bond Trustee, any Obligation holder or the Master Trustee to the risk of any liability. While any such matters are pending, such Member or Obligated Group Affiliate shall not be required to pay, remove or cause to be discharged the obligation, Indebtedness, demand, claim or Lien being contested unless such Member or Obligated Group Affiliate agrees to settle such contest. Each such contest is required to be promptly prosecuted to final conclusion (subject to the right of such Member or Obligated Group Affiliate engaging in such a contest to settle such contest), and in any event the Member or Obligated Group Affiliate will save all Related Issuers, all Related Bond Trustees, all Obligation holders and the Master Trustee harmless from and against all losses, judgments, decrees and costs (including attorneys' fees and expenses in connection therewith) as a result of such contest and will, promptly after the final determination of such contest or settlement thereof, pay and discharge the amounts which shall be determined to be payable therein, together with all penalties, fines, interests, costs and expenses thereon or incurred in connection therewith. The Member or Obligated Group Affiliate engaging in such a contest are required to give the Master Trustee prompt written notice of any such contest involving a Lien securing amounts in excess of \$50,000. In the Master Indenture, each Member or Obligated Group Affiliate waives and each Controlling Member agrees to cause its Obligated Group Affiliate to waive, to the extent permitted by law, any right that it may have to contest any Obligation.

#### **Coverage Test**

Under the Master Indenture, each Member covenants and agrees to provide, and each Controlling Member covenants and agrees to cause each of its Obligated Group Affiliates to provide, funds sufficient to pay promptly all payments due on its Indebtedness and other liabilities, all expenses of operation, maintenance and repair of its Property and all other payments required to be made by it under the Master Indenture, to the extent permitted by law. Each Member further covenants and agrees that it will, and each Controlling Member covenants that it will cause each of its Obligated Group Affiliates to, from time to time as often as necessary and to the extent permitted by law, revise its methods of operation and its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this section.

No later than six months following the end of each Fiscal Year, commencing with the Fiscal Year ending December 31, 1998, the Obligated Group Agent is required to deliver an Officer's Certificate to the Master Trustee and each Related Issuer, Related Bond Trustee and Related Bond Insurer showing a calculation of the Historical Debt Service Coverage Ratio for the Obligated Group and the Obligated Group Affiliates for the prior Fiscal Year. If, for any Fiscal Year, the Coverage Test was not met, the Obligated Group Agent shall retain a Consultant to make written recommendations to increase the Historical Debt Service Coverage Ratio for subsequent Fiscal Years to at least meet the Coverage Test or, if in the written opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Member covenants and agrees in the Master Indenture, and each Controlling Member covenants to cause each of its Obligated Group Affiliates to follow the recommendations of the Consultant, to the extent feasible. So long as the Obligated Group Agent shall retain a Consultant and the Member shall follow, and each Controlling Member shall cause each of its Obligated Group Affiliates to follow, such Consultant's recommendations to the extent feasible, the failure to meet the Coverage Test will not constitute a Master Indenture Default unless and until such Historical Debt Service Coverage Ratio falls below 1.0:1. Notwithstanding the foregoing, the Obligated Group Agent shall not be required to retain a Consultant more frequently than every two years.

The obligations described in this section are not be construed to prohibit any Member or Obligated Group Affiliate which is a Tax-Exempt Organization from serving indigent patients or from serving any other class or classes of patients without charge or at reduced rates to the extent necessary to preserve such status as a Tax-Exempt Organization.

### **Merger, Consolidation, Sale or Conveyance**

Under the Master Indenture, any Member may merge into or consolidate with any one or more corporations which are Members, and may allow any one or more of such Member corporations to merge into it, and may sell or convey all or substantially all of its Property to any Member at any time and without restriction. In addition, any Member may allow any one or more corporations which are Obligated Group Affiliates to merge into it at any time and without restriction. However, in the Master Indenture, each Member agrees that it will not merge into or consolidate with one or more corporations which are Obligated Group Affiliates, or sell or convey all or substantially all of its Property to any Obligated Group Affiliate unless the conditions of subsections (a), (b) and (d) in the paragraph below will be met as if they otherwise applied to such transaction. In addition, in the Amending Supplement, each Obligated Group member agrees that, so long as any Obligation is Outstanding, it will not, and each Member agrees that it will not permit its Obligated Group Affiliates to, merge or consolidate with any other Person that is not a Member or an Obligated Group Affiliate or sell or convey all or substantially all of its assets to any Person that is not a Member or an Obligated Group Affiliate unless the Master Trustee receives an Officer's Certificate to the effect that the Transaction Test is satisfied.

Each Member agrees in the Master Indenture, that it will not merge into, or consolidate with, one or more corporations which are not Members or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless: (a) any successor entity to such Member (including, without limitation, any purchaser of all or substantially all the Property of such Member) ("Successor Entity") is a corporation organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such Successor Entity to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member; provided, a Member may sell or convey all or substantially all of its Property to a Person which is not a corporation; (b) immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture; (c) the Master Trustee shall have received a certificate of the Obligated Group Agent which demonstrates that the Coverage Test would be satisfied for the most recent Fiscal Year, calculating such Coverage Test as if such merger, consolidation, sale or conveyance had occurred on the first day of such Fiscal Year and the written approval of the Obligated Group Agent of such merger, consolidation, sale or conveyance; (d) the Master Trustee shall have received an opinion of Independent Counsel to the effect that the instrument described in this section has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors' rights and applications of general principles of equity; and (e) if all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an opinion of nationally recognized municipal bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on the original date of delivery of such Related Bonds, would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal income taxation of interest payable on such Related Bonds.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the Successor Entity, the Master Indenture provides that such Successor Entity shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member. The Member party to such transaction, if it is not the survivor, shall thereupon be relieved of any further obligation or liabilities under the Master Indenture or upon the Obligations and such Member as the predecessor or nonsurviving corporation may thereupon or at any time thereafter be dissolved, wound up or liquidated. Any Successor Entity to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations thereunder. All Obligations so issued by such Successor Entity shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

In addition to the changes described in the foregoing paragraphs, the Master Indenture provides that a Member that is not a corporation may agree to make changes to its legal structure and create successor, assignee, resulting or transferee entities of such Member. Each Member agrees that prior to the occurrence of such change, the Member will show compliance with provisions of the foregoing paragraph (except as that may relate to maintenance of status as a corporation) in a manner consistent with the type of legal existence which the Member and the Successor Entity will enjoy.

#### **Financial Statements, Etc**

The Members covenant and agree under the Master Indenture to keep or cause to be kept proper books of record and account in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Obligated Group in accordance with generally accepted accounting principles. Each Controlling Member is required to cause its Obligated Group Affiliates to keep or cause to be kept proper books of records and account in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of such Obligated Group Affiliate in accordance with generally accepted accounting principles.

The Obligated Group Agent further covenants and agrees, and each Controlling Member covenants to cause its Obligated Group Affiliates, to furnish to the Master Trustee and each Related Issuer, Related Bond Trustee and Related Bond Insurer: (a) as soon as practicable, but in no event more than five months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1998, a financial report for each Member for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Agent 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 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 operations and changes in net assets for such Fiscal Year and an audited combined statement of cash flows for such Fiscal Year, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Members and Obligated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the date such thereof (but such accountant shall not be liable directly or indirectly to any one for failure to obtain knowledge of any default); (b) if the reports referred to in (a) above do not include the results of operations of any Obligated Group Affiliate, as soon as practicable, but in

no event more than five months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1998, a financial report for such Obligated Group Affiliate for such Fiscal Year certified by a firm of nationally recognized independent certified public accountants approved by the Obligated Group Agent, prepared on a combined or consolidated basis to include the results of operations of all Persons required to be consolidated or combined with such Obligated Group 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, together with an accompanying unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Obligated Group Affiliates which have been required to be included in such report, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and the statement that such accountants have obtained no knowledge of any default by such Obligated Group Affiliate in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the dates such thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default); (c) as soon as practicable, but in no event more than six months after the last day of each Fiscal Year beginning with the Fiscal Year ending December 31, 1998, a balance sheet, statement of operations and changes in net assets including all the Members and Obligated Group Affiliates prepared based on the accompanying unaudited combined schedules delivered with the audited financial statements described in (a) and (b) above, together with a certificate of the chief financial officer of the Obligated Group Agent stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations in accordance with clauses (i) and (ii) in the next paragraph) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members and the Obligated Group Affiliates and all Members and Obligated Group Affiliates are included; (d) at the time of the delivery of the Obligated Group Financial Statements, an Officer's Certificate of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of each Member and Obligated Group Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members and Obligated Group Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member and Obligated Group Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms or conditions of the Master Indenture, or if any Member or Obligated Group Affiliate shall be in default such certificate shall specify all such defaults and the nature thereof. Notwithstanding the foregoing, the audited and unaudited financial statements referred to in this section may include the results of operation and financial position of Immaterial 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 and the Obligated Group Affiliates for all purposes of the Master Indenture.

Compliance with the covenants contained in the Master Indenture shall be demonstrated by reference to the Obligated Group Financial Statements. In preparing the Obligated Group Financial Statements, the Obligated Group Agent shall apply the following principles: (i) revenues and expenses shown on the audited financial statements of the Members as a result of the consolidation or combination of results of the Members with any Person which is not a Member or an Obligated Group 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 principle described in clause (ii) below, shall instead be recharacterized as a separate single line item of income or revenue in accordance with the "equity method"; and (ii) after the application of the principle described in clause (i) above, income or revenue shown on such financial statements which reflect

the income or revenue of any Person which is not a Member of the Obligated Group or an Obligated Group Affiliate (whether as a result of the application of the “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 an Obligated Group Affiliate during the Fiscal Year for which such financial statements were prepared.

If all financial statements required by the Master Indenture are filed with a Nationally Recognized Municipal Securities Information Repository (in accordance with Securities and Exchange Commission Rule 15c2-12), the Obligated Group shall not be required to also provide such statements to the Master Trustee, the Related Issuers and the Related Bond Trustees unless such parties request in writing copies of such statements from the Obligated Group Agent.

### **Liens on Property**

The Master Indenture provides that the Members shall not, and a Controlling Member shall not permit any of its Obligated Group Affiliates to, create or incur or permit to be created or incurred or to exist any Lien on any Property of any Member or any Obligated Group Affiliate, except Permitted Encumbrances. Each Member shall, and each Controlling Member is required to cause its Obligated Group Affiliates to, report to the Obligated Group Agent, the creation of a Lien on its Property prior to the creation of the Lien to the extent within its power and control, and the Obligated Group Agent is required to monitor the compliance of the Members and Obligated Group Affiliates with this section, and the Master Trustee shall have no duty to monitor compliance of the Members and Obligated Group Affiliates with this section.

### **Further Assurances; Additional Property**

Under the Master Indenture, the Members agree that they will, and each Controlling Member will cause each of its Obligated Group Affiliates to, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, all such further acts, deeds, conveyances, mortgages, assignments, transfers and assurances as the Master Trustee reasonably may require for the better assuring, assigning and confirming unto the Master Trustee, its successors and assigns, all and singular the security granted under the Master Indenture, if any (the “Trust Estate”). All right, title and interest of the Members or any Obligated Group Affiliate in and to all improvements, betterments, renewals, substitutions and replacements of the Property constituting the Trust Estate or any part thereof, hereafter acquired by a Member or any Obligated Group Affiliate, immediately upon such acquisition, and without any further mortgaging, conveyance or assignment, shall become and be part of the Trust Estate and shall be subject, if applicable to Property of such type, to the security interest of the Master Indenture and/or any subsequently created liens and security interest securing the Obligations as fully and completely and with the same effect as though owned by the Members or such Obligated Group Affiliate at the time the Master Indenture was executed or any and all such other liens and security interests were created, but at any and all times the Members or such Obligated Group Affiliate will execute and deliver to the Master Trustee any and all such further assurances, mortgages, conveyances or assignments thereof and other instruments with respect thereto as the Master Trustee may reasonably require for the purpose of expressly and specifically subjecting the same to the security interest of the Master Indenture or such other subsequently created liens and security interests. The Obligated Group Agent is required to notify the Master Trustee contemporaneously in writing of any such acquisition.

### **Indemnity**

Each Member agrees in the Master Indenture, to pay, and to protect, indemnify and save the Master Trustee, its directors, officers, employees and agents harmless from and against, any and all claims, liabilities, and expenses (including reasonable attorneys’ fees and expenses) from a broad range of activities.



### **Right to Perform Covenants; Advances**

In the event any Member or Obligated Group Affiliate shall fail to make any payment or perform any other act required to be performed under the Master Indenture, and is not contesting the same in accordance with the Master Indenture, the Master Indenture permits the Master Trustee, in its sole discretion, may (but, under no circumstances, shall it be obligated to) remedy such failure for the account of such Person and make advances for that purpose. No such performance or advance shall operate to release such Member or Obligated Group Affiliate from any such failure and any sums so advanced by the Master Trustee shall be repayable by such Member or Obligated Group Affiliate on demand and shall bear interest at the announced prime rate per annum of the Master Trustee (or its affiliated commercial bank, if the Master Trustee is not a commercial bank) from time to time in effect, from the date of the advance until repaid. Subject to the permission of a court of competent jurisdiction, if required by law, the Master Trustee shall have the right of entry on the Property of the Member or Obligated Group Affiliate or any portion thereof in order to effectuate the purposes of this section.

### **Extension of Payment; Penalty**

In case the time for the payment of principal of or the interest on any Obligation shall be extended, whether or not such extension be by or with the consent of the Master Trustee, the Master Indenture provides that such principal or such interest so extended shall not be entitled in case of default to the benefit or security of the Master Indenture except subject to the prior payment in full of the principal of all Obligations then Outstanding and of all interest thereon, the time for the payment of which shall not have been extended.

### **Acceleration**

If a Master Indenture Default has occurred and is continuing, the Master Indenture provides that the Master Trustee may, and if requested by either the holders of not less than 25% in aggregate principal amount of Outstanding Obligations or the holder of any Accelerable Instrument under which Accelerable Instrument a Master Indenture Default exists (which Master Indenture Default permits the holder thereof to request that the Master Trustee declare such Indebtedness evidenced by an Obligation due and payable prior to the date on which it would otherwise become due and payable), shall, by notice in writing delivered to the Obligated Group Agent, declare the entire principal amount of all Obligations then outstanding and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable, subject to the provisions summarized under “Waiver of Master Indenture Defaults” below.

### **Remedies; Rights of Obligation Holders**

Upon the occurrence of any Master Indenture Default, the Master Indenture provides that the Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations Outstanding and any other sums due under the Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated. If a Master Indenture Default shall have occurred, and if it shall have been requested so to do by the holders of 25% or more in aggregate principal amount of Obligations Outstanding and if it shall have been indemnified as provided in the Master Indenture, the Master Trustee is obligated to exercise such one or more of the rights and powers conferred by the Master Indenture as the Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the Master Trustee shall have the right to decline to comply with any such request if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so requested may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request. No remedy by the

terms of the Master Indenture conferred upon or reserved to the Master Trustee (or to the holders of Obligations) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Master Trustee or to the holders of Obligations now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default or Master Indenture Default shall impair any such right or power or shall be construed to be a waiver of any such default or Master Indenture Default, or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any default or Master Indenture Default, whether by the Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or Master Indenture Default or shall impair any rights or remedies consequent thereon.

### **Direction of Proceedings by Holders**

The holders of a majority in aggregate principal amount of the Obligations then Outstanding which have become due and payable in accordance with their terms or have been declared due and payable in accordance with their terms or have been declared due and payable pursuant to the provisions of the Master Indenture summarized under “Acceleration” above and have not been paid in full in the case of remedies exercised to enforce such payment, or the holders of a majority in aggregate principal amount of the Obligations then Outstanding in the case of any other remedy, have the right under the Master Indenture, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture. Pending such direction from the holders of a majority in aggregate principal amount of the Obligations Outstanding, such direction may be given in the same manner and with the same effect by the holder of an Accelerable Instrument upon whose request pursuant the Master Trustee has accelerated the Obligations.

The foregoing notwithstanding, the holders of a majority in aggregate principal amount of the Obligations then Outstanding which are entitled to the exclusive benefit of certain security in addition to that intended to secure all or other Obligations shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Master Indenture, the Supplemental Master Indenture or Indentures pursuant to which such Obligations were issued or so secured or any separate security document in order to realize on such security; provided, however, that such direction shall not be otherwise than in accordance with the provisions of law and of the Master Indenture.

### **Appointment of Receivers**

Upon the occurrence of a Master Indenture Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Master Trustee and the holders of Obligations under the Master Indenture, the Master Trustee is entitled under the Master Indenture, as a matter of right, to seek the appointment of a receiver or receivers of the rights and properties pledged under the Master Indenture, if any, and of the revenues, issues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

### **Application of Moneys**

All moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture for default (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and

of the fees of, expenses, liabilities and advances incurred or made by the Master Trustee, any Related Issuers and any Related Bond Trustees, be applied as follows: (a) unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied: *first*, to the payment to the Persons entitled thereto of all installments of interest then due on the Obligations (including Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and Parity Financial Product Extraordinary Payments), in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto, without any discrimination or privilege; and *second*, to the payment to the Persons entitled thereto of the unpaid principal and premium, if any, on the Obligations (including Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and Parity Financial Product Extraordinary Payments) (other than Obligations called for redemption or payment for payment of which moneys are held pursuant to the provisions of the Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the Persons entitled thereto without any discrimination or privilege; and *third*, to the payment to the Persons entitled thereto of all unpaid principal and interest on Obligations, payment of which was extended; and *fourth*, to the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Products Agreement secured or evidenced by an 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 Products Extraordinary Payments due on such date, without any discrimination or privilege; (b) if the principal of all the Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied: *first*, to the payment of the principal, premium, if any, and interest then due and unpaid upon the Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation, and (ii) Parity Financial Product Extraordinary Payments without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation (except as otherwise provided in the paragraph below), ratably, according to the amounts due respectively for principal, premium, if any, and interest to the Persons entitled thereto without any discrimination or privilege; provided that no amount shall be paid to any Obligation holder who has extended the time for payment of either principal or interest until all other principal, premium, if any, and interest owing on Obligations (including (i) Financial Product Payments to the extent made pursuant to a Financial Products Agreement secured or evidenced by an Obligation and (ii) Parity Financial Product Extraordinary Payments) has been paid; and *second*, to the payment of all Financial Product Extraordinary Payments made pursuant to a Financial Products Agreement secured or evidenced by an Obligation (other than Parity Financial Product Extraordinary Payment), without discrimination or privilege; and (c) if the principal of all the Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled, then, in the event that the principal of all the Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of clause (a) of the paragraph.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions described under this heading, such moneys shall be applied by it at such times, and from time to time, as the Master Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee shall apply such moneys, it shall fix the date (which shall be an interest payment date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on

such date shall cease to accrue. The Master Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the holder of any unpaid Obligation until such Obligation shall be presented to the Master Trustee.

### **Remedies Vested in Master Trustee**

The Master Indenture provides that all rights of action including the right to file proof of claims under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto and any such suit or proceeding instituted by the Master Trustee shall be brought in its name as Master Trustee without the necessity of joining as plaintiffs or defendants any holders of the Obligations, and any recovery of judgment shall be for the equal benefit of the holders of the Outstanding Obligations. Upon the occurrence of a Master Indenture Default, the Master Trustee shall, in addition to any other available remedies, have the right to enforce the covenants of each Controlling Member to cause its Obligated Group Affiliates to comply with the covenants applicable thereto.

### **Rights and Remedies of Obligation Holders**

The Master Indenture further provides that no holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Master Indenture or for the execution of any trust or the appointment of a receiver or any other remedy thereunder, unless a default shall have become a Master Indenture Default and the holders of 25% or more in aggregate principal amount of (a) the Obligations which have become due and payable in accordance with their terms or have been declared due and payable pursuant to an acceleration in accordance with the Master Indenture and have not been paid in full in the case of powers exercised to enforce such payment or (b) the Obligations then Outstanding, in the case of any other exercise of power shall have made written request to the Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, and unless such holders offered to the Master Trustee indemnify as provided in the Master Indenture, and unless the Master Trustee shall thereafter fail or refuse to exercise the powers granted, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are declared in every case at the option of the Master Trustee to be conditions precedent to the execution of the powers and trusts of this Master Indenture and to any action or cause of action for the enforcement of the Master Indenture, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Master Indenture by its, his or their action or to enforce any right under the Master Indenture except in the manner therein provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner therein provided and for the equal benefit of the holders of all Obligations Outstanding. Nothing in the Master Indenture is intended to affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations to the respective holders thereof at the time and place, from the source and in the manner in said Obligations expressed.

### **Termination of Proceedings**

In case the Master Trustee shall have proceeded to enforce any right under the Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Master Trustee, then and in every case the Members and the Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights with respect to the

Property pledged and assigned under the Master Indenture, and all rights, remedies and powers of the Master Trustee shall continue as if no such proceedings had been taken.

### **Waiver of Master Indenture Defaults**

If, at any time after the principal of all Obligations shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided and before the acceleration of any Related Bond, which has not been waived as permitted pursuant to its Related Bond Indenture, any Member shall pay or shall deposit with the Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the Master Trustee, and any and all Master Indenture Defaults under the Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all Obligations then Outstanding, by written notice to the Obligated Group Agent and to the Master Trustee, may waive all Master Indenture Defaults and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Master Indenture Default, or shall impair any right consequent thereon.

### **Members' Rights of Possession and Use of Property**

So long as each Member is in full compliance with the terms and provisions of the Master Indenture, each Member shall be suffered and permitted to possess, use and enjoy its Property and appurtenances thereto free of claims of the Master Trustee.

### **Related Bond Trustee Deemed To Be Obligation Holders**

For the purposes of the Master Indenture, unless contrary provision is made in a Related Bond Indenture or Supplemental Master Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. The Related Bond Indenture or Supplemental Master Indenture may provide that other Persons may be deemed to be the holder or holders of all or a portion of such Obligation or Obligations, including but not limited to providers of credit support for the Related Bonds or the holders of each series of Related Bonds.

### **The Master Trustee**

The Master Trustee accepts and agrees to execute the trusts imposed upon it by the Master Indenture, but only upon the specific terms and conditions set forth therein. Prior to the occurrence of a Master Indenture Default and after the curing of all Master Indenture Defaults which may have occurred, the Master Trustee agrees to undertake to perform such duties and only such duties are specifically set forth in the Master Indenture. If a Master Indenture Default under the Master Indenture shall have occurred and be continuing, the Master Trustee is required to exercise such of the rights and powers vested in it by the Master Indenture and to use the same degree of care as a prudent person would exercise or use in the circumstances in the conduct of his own affairs. The Master Trustee has agreed to perform such trusts only upon and subject to the following express terms and conditions: (a) the Master Trustee may execute any of the trusts or powers and perform any of its duties by or through attorneys, agents, receivers or employees but shall be answerable for the conduct of the same in accordance with the standard specified above, and shall be entitled to advice of counsel concerning all matters of trusts and duties under the Master Indenture, and may in all cases pay such reasonable compensation to any attorney, agent, receiver or employee retained or employed by it in connection therewith. The Master Trustee may act upon the opinion or advice of an attorney, surveyor, engineer or accountant selected by it in the exercise of reasonable care or, if

selected or retained by any Member, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice; (b) the Master Trustee shall not be responsible for any recital in the Master Indenture, or in the Obligations (except with respect to the certificate of the Master Trustee endorsed on the Obligations), or for the investment of moneys as provided in the Master Indenture (provided that no investment shall be made by the Master Trustee except in compliance with the provisions of the Master Trustee applicable to such investment), or for the recording or re-recording, filing or re-filing of the Master Indenture, or any supplement or amendment thereto, or the filing or continuation of financing statements, or for the validity of the execution by the Corporation or any Member of the Master Indenture or any Obligation, or by any Member of any supplemental indentures or instruments of further assurance, or for the sufficiency of the security for the Obligations issued or intended to be secured thereby, or for the value or title of the Property conveyed by the Master Indenture or otherwise as to the maintenance of the security therefor. The Master Trustee may (but shall be under no duty to) require of any Member full information and advice as to the performance of the covenants, conditions and agreements in the Master Indenture and shall use its best efforts, but without any obligation, to advise the Members of any impending default known to the Master Trustee. The Master Trustee shall have no obligation to perform any of the duties of the Obligated Group; (c) the Master Trustee shall not be accountable for the use or application by the Obligated Group of any of the Obligations or the proceeds thereof or for the use or application of any money paid over by the Master Trustee in accordance with the provisions of the Master Indenture or for the use and application of money received by any Paying Agent. The Master Trustee may become the owner of Obligations, with the same rights it would have if it were not Master Trustee; (d) the Master Trustee shall be protected in acting upon any notice, order, requisition, request, consent, certificate, opinion (including an opinion of its counsel, Independent Counsel or nationally recognized bond counsel), affidavit, letter, telegram or other paper or document in good faith reasonably deemed by it to be genuine and correct and to have been signed or sent by the proper person or persons. Any action taken by the Master Trustee pursuant to the Master Indenture upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the owner of any Obligation shall be conclusive and binding upon all future owners of the same Obligation and upon Obligations issued in exchange therefor or in place thereof; (e) as to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper or proceeding, the Master Trustee shall be entitled to rely upon a certificate signed on behalf of any Member by its President, any Vice President or its Secretary as sufficient evidence of the facts therein contained and, prior to the occurrence of a default of which the Master Trustee has been notified, or of which by said subsection it is deemed to have notice, shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction or action is necessary or expedient, but may at its discretion secure such further evidence deemed necessary or advisable, but shall in no case be bound to secure the same. The Master Trustee may accept a certificate of the President, any Vice President or Secretary of any Member under its seal to the effect that a resolution in the form therein set forth has been adopted by such Member as conclusive evidence that such resolution has been duly adopted, and is in full force and effect; (f) the permissive right of the Master Trustee to do things enumerated in the Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful default; (g) the Master Trustee shall not be required to take notice or be deemed to have notice of any default except failure by the Obligated Group to cause to be made any of the payments to the Master Trustee required to be made, unless the Master Trustee shall be specifically notified in writing of such default by a Member, by the written report of nationally recognized independent certified public accountants required by the financial reporting covenants of the Master Indenture, by any Related Issuer, by any Related Bond Trustee, by the owner of an Accelerable Instrument or by the holders of at least 25% in aggregate principal amount of all Obligations then Outstanding and all notices or other instruments required by the Master Indenture to be delivered to the Master Trustee must, in order to be effective, be delivered at the principal

corporate trust office of the Master Trustee or at such other address as designated in by the Master Trustee, and in the absence of such notice so delivered, the Master Trustee may conclusively assume there is no default except as aforesaid; (h) at any and all reasonable times, the Master Trustee and its duly authorized agents, attorneys, experts, engineers, accountants and representatives, shall have the right fully to inspect any and all books, papers and records of any Member or Obligated Group Affiliate pertaining to the Obligations, and to take such memoranda from and in regard thereto as may be reasonably desired; (i) the Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises; (j) notwithstanding anything contained elsewhere in the Master Indenture, the Master Trustee shall have the right, but shall not be required, to demand, in respect of the authentication of any Obligation, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of the Master Indenture, any showings, certificates, opinions, appraisals or other information, or corporate action or evidence thereof, in addition to that required by the terms of the Master Indenture as a condition of such action by the Master Trustee deemed desirable for the purpose of establishing the right of any Member to the authentication of any Obligations, the withdrawal of any cash, the release of any property or the taking of any other action by the Master Trustee; (k) before taking any action under the Master Indenture and as a specific condition precedent to any duty by the Master Trustee to follow the directions of any holder of Obligations or any other Person, other than providing for the payments of principal and interest on the Obligations to the holders thereof as they become due or causing an acceleration of the Obligations when required by the Master Indenture, the Master Trustee may require that a satisfactory indemnity bond or other satisfactory indemnity be furnished for the reimbursement of all liability, costs and expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful default in connection with any action so taken; (l) all moneys received by the Master Trustee or any Paying Agent shall, until used or applied or invested in accordance with the Master Indenture, shall be held in trust for the purposes for which they were received but need not be segregated from other funds except to the extent required by law or by the Master Indenture. Neither the Master Trustee nor any Paying Agent shall be under any liability for interest on any moneys received under the Master Indenture, except such as may be agreed upon in writing; (m) no provision of the Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Master Indenture or in the exercise of any of its rights or powers or in following any directions or instructions, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it; provided, however, that the Master Trustee may begin suit, or appear in and defend suit, execute any of the trusts created by the Master Indenture, enforce any of its rights or powers thereunder, or do anything else in its judgment proper to be done by it as such Master Trustee, without assurance of reimbursement or indemnity, and in such case the Master Trustee shall be reimbursed or indemnified by the Person requesting such action, if any, or each Member in all other cases, for all fees, costs and expenses, liabilities, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith, unless such costs and expenses, liabilities, outlays and attorneys' fees and other reasonable disbursements properly incurred in connection therewith are adjudicated to have resulted from the negligence or willful misconduct of the Master Trustee; (n) whether or not therein expressly so provided, every provision of the Master Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions described in the section; and (o) the Master Trustee shall not be responsible for any recital or statement in the Master Indenture or in any Related Bonds or for the validity or effectiveness of the Master Indenture, the Obligations or any offering materials or any other instrument involved in this transaction, or for the validity of the execution by the Corporation of the Master Indenture, or for the validity of the execution of any supplemental instrument or agreement by any Member, or for the sufficiency of the security for the Obligations issued under the Master Indenture or intended to be secured thereby or otherwise as to the maintenance of the security thereof; and the Master Trustee shall not be bound to

ascertain or inquire as to the performance or observance of any covenant, condition or agreement on the part of the Members except as set forth therein, but the Master Trustee may require of the Members full information and advice as to the performance of the covenants, conditions and agreements aforesaid and of the condition of any physical property included in the Trust Estate. The Master Trustee shall not be accountable for the use of any Obligations authenticated or delivered under the Master Indenture.

The respective obligations of the Members of the Obligated Group under this section to indemnify and hold harmless the Master Trustee and to pay or reimburse the Master Trustee for expenses, disbursements or advances, shall survive satisfaction and discharge of the Master Indenture.

#### **Fees, Charges and Expenses of Master Trustee and any Additional Paying Agent**

The Master Trustee is entitled to payment and/or reimbursement by the Obligated Group for reasonable fees and for its services rendered under the Master Indenture and all advances, counsel fees and other expenses reasonably and necessarily made or incurred by the Master Trustee in connection with such services under the Master Indenture, and for payment and reimbursement for the reasonable fees and charges of the Master Trustee as Paying Agent and Obligation Registrar for the Obligations. If not paid by the Obligated Group, the Master Trustee shall have a lien against all money held pursuant to the Master Indenture, subject only to the prior lien of the Obligations for the payment of the principal thereof, premium, if any, and interest thereon then due and payable.

#### **Notice to Obligation Holders if Default Occurs**

If a default occurs of which the Master Trustee is required to take notice pursuant to the Master Indenture, or if notice of default is given as provided in the Master Indenture, then the Master Trustee is required to give written notice thereof by mail to the last known owners of all Obligations then outstanding shown by the list of Obligation holders required by the terms of the Master Indenture to be kept at the office of the Master Trustee.

#### **Intervention by Master Trustee**

The Master Indenture provides that in any judicial proceeding to which any Member is a party and which in the opinion of the Master Trustee and its counsel has a substantial bearing on the interests of owners of the Obligations, the Master Trustee may intervene on behalf of Obligation holders and shall do so if requested in writing by the owner of an Accelerable Instrument or the owners of at least 25% in aggregate principal amount of all Obligations then Outstanding, subject to the approval of a court of competent jurisdiction.

#### **Successor Master Trustee**

Any corporation or association into which the Master Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, *ipso facto*, shall be and become successor Master Trustee.

#### **Corporate Master Trustee Required; Eligibility**

The Master Indenture requires that there shall at all times be a Master Trustee, which shall be a bank or trust company organized under the laws of the United States of America or any state thereof, authorized to exercise corporate trust powers, subject to supervision or examination by federal or state authorities, and having a reported combined capital and surplus of at least \$50,000,000. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of the Master Indenture, it shall be required to resign immediately; however, no resignation or removal of the Master Trustee and no appointment of a successor Master Trustee shall become effective until the successor Master Trustee has accepted its appointment.



### **Resignation by and Removal of the Master Trustee**

The Master Trustee and any successor Master Trustee may at any time resign from the trusts created under the Master Indenture, by giving 30 days' written notice to the Obligated Group Agent and by registered or certified mail to each registered owner of Obligations then outstanding. Such resignation shall take effect at the end of such 30 days or when a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture, whichever is later, or upon the earlier appointment of a successor Master Trustee by the Obligation holders or by the Obligated Group. Such notice to the Obligated Group Agent may be served personally or sent by registered or certified mail.

The Master Trustee may be removed at any time, with or without cause, by an instrument in writing, executed by either the Obligated Group Agent (but only if no Master Indenture Default shall have occurred and be continuing) or the owners of a majority in aggregate principal amount of Obligations then outstanding, and delivered to the Master Trustee; provided, that if any Related Issuer so elects, it may sign such an instrument as the owner of the Obligation or Obligations pledged to secure the Related Bonds issued by such Related Issuer.

### **Appointment of Successor Master Trustee by the Obligation Holders; Temporary Master Trustee**

In case the Master Trustee shall resign or be removed, or be dissolved, or shall be in the process of dissolution or liquidation, or otherwise becomes incapable of acting under the Master Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by either the Obligated Group Agent (but only if no Master Indenture Default shall have occurred and be continuing) or the owners of a majority in aggregate principal amount of Obligations then Outstanding, by an instrument or concurrent instruments in writing signed by such owners, or by their attorneys in fact, duly authorized. The foregoing notwithstanding, so long as the Obligated Group is not in default under the Master Indenture, the Obligated Group Agent shall have the right to approve any such successor trustee. If a successor trustee shall not have been appointed within 30 days after notice of resignation by or removal of the Master Trustee, the resigning or removed Master Trustee, the Obligated Group Agent or any holder of an Obligation may apply to any court of competent jurisdiction to appoint a successor to act until such time, if any, as a successor shall have been appointed as above provided. The successor so appointed by such court shall immediately and without further act be superseded by any successor appointed as above provided. Every such successor Master Trustee appointed pursuant to the provisions of the section shall be a trust company or bank in good standing under the law of the jurisdiction in which it was created and by which it exists, having corporate trust powers and subject to examination by federal or state authorities, and having a reported combined capital and surplus of not less than \$50,000,000.

### **Supplemental Master Indentures Not Requiring Consent of Obligation Holders**

Subject to the limitations described under "Supplemental Master Indentures Requiring Consent of Obligation Holders" below, the Members and the Master Trustee may, without the consent of, or notice to, any of the Obligation holders, amend or supplement the Master Indenture, for any one or more of the following purposes: (a) to cure any ambiguity or defective provision in or omission from the Master Indenture in such manner as is not inconsistent with and does not impair the security of the Master Indenture or adversely affect the holder of any Obligation; (b) to grant to or confer upon the Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the Master Indenture upon any Member; (c) to assign and pledge under the Master Indenture any additional revenues, properties or collateral; (d) to evidence the succession of another corporation to the

agreements of a Member or the Master Trustee, or the successor of any thereof; (e) to permit the qualification of the Master Indenture under the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or to permit the qualification of any Obligations for sale under the securities laws of any state of the United States; (f) to provide for the refunding or advance refunding of all or any part of any Obligation; (g) to provide for the issuance of Obligations; (h) to reflect the addition to or withdrawal of a Member from the Obligated Group; (i) to provide for the issuance of Obligations with original issue discount, provided such issuance would not materially adversely affect the holders of Outstanding Obligations; (j) to permit an Obligation to be secured by security which is not extended to all Obligation holders; (k) to permit the issuance of Obligations which are not in the form of a promissory note; (l) to modify or eliminate any of the terms of the Master Indenture; provided, however, that such Supplemental Master Indenture shall expressly provide that any such modifications or eliminations shall become effective only when there is no Obligation outstanding of any series created prior to the execution of such Supplemental Master Indenture; and (m) to make any other change which, in the opinion of the Master Trustee, does not materially adversely affect the holders of any of the Obligations and, in the opinion of each Related Bond Trustee, does not materially adversely affect the holders of the Related Bonds with respect to which it acts as trustee, including, without limitation, any modification, amendment or supplement to the Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code.

Any Supplemental Master Indenture providing for the issuance of Obligations is required to set forth the date thereof, the date or dates upon which principal of, premium, if any, and interest on such Obligations shall be payable, the other terms and conditions of such Obligations, the form of such Obligations and the conditions precedent to the delivery of such Obligations which shall include, among other things: (i) delivery to the Master Trustee of an opinion of Independent Counsel acceptable to the Master Trustee to the effect that all requirements and conditions to the issuance of such Obligations, if any, set forth in the Master Indenture and in the Supplemental Master Indenture have been complied with and satisfied; and (ii) delivery to the Master Trustee of an opinion of Independent Counsel acceptable to the Master Trustee to the effect that registration of such Obligations under the Securities Act of 1933, as amended, and qualification of the Master Indenture, as supplemented, under the Trust Indenture Act of 1940, as amended, are not required; or, if such registration and/or qualification are required, that the Obligated Group has complied with all applicable provisions of said Acts.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any Supplemental Master Indenture under the circumstances described in clause (m) of the first paragraph under this heading, the Master Trustee is required to cause notice of the proposed execution of such Supplemental Master Indenture to be given to each Rating Agency then maintaining a rating on any Obligations or Related Bonds, at least 15 days prior to the execution of such Supplemental Master Indenture, which notice is to include a copy of the proposed Supplemental Master Indenture.

### **Supplemental Master Indentures Requiring Consent of Obligation Holders**

In addition to Supplemental Master Indentures described in the foregoing section, the holders of not less than a majority in aggregate principal amount of the Obligations which are Outstanding at the time of the execution of such Supplemental Master Indenture or, in case less than all of the several series of Obligations are affected thereby, the holders of not less than a majority in aggregate principal amount of the Obligations of each series affected thereby which are Outstanding at the time of the execution of such Supplemental Master Indenture, shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by the Members and the Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Members for the purpose of modifying,

altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing shall permit, or be construed as permitting: (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aforesaid aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Obligations at the time outstanding which would be affected by the action to be taken, or (c) modification of the rights, duties or immunities of the Master Trustee, without the written consent of the Master Trustee.

If at any time the Obligated Group Agent shall request the Master Trustee to enter into any such Supplemental Master Indenture for any of the purposes described in this section, the Master Trustee, upon being satisfactorily indemnified with respect to expenses, is required to cause notice of the proposed execution of such Supplemental Master Indenture, which notice shall be prepared by or on behalf of the Obligated Group Agent, to be mailed by first class mail postage prepaid to each holder of an Obligation or, in case less than all of the series of Obligations are affected thereby, of an Obligation of the series affected thereby. Such notice must briefly set forth the nature of the proposed Supplemental Master Indenture and shall state that copies thereof are on file at the principal corporate trust office of the Master Trustee for inspection by all Obligation holders. The Master Trustee shall not, however, be subject to any liability to any Obligation holder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such Supplemental Master Indenture when consented to and approved as described in this section. If the holders of not less than a majority in aggregate principal amount of the Obligations or the Obligations of each series affected thereby, as the case may be, which are Outstanding at the time of the execution of any such Supplemental Master Indenture shall have consented to and approved the execution thereof, no holder of any Obligation shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Members from executing the same or from taking any action pursuant to the provisions thereof.

For the purpose of obtaining the foregoing consents, the determination of who is deemed the holder of an Obligation held by a Related Bond Trustee shall be made in the manner described under the heading "Related Bond Trustee deemed to be Obligation Holder" above. In addition, the Related Bond Indenture or Supplemental Master Indenture may provide that the holders of the series of Related Bonds being issued in connection therewith shall be deemed to have consented to certain modifications or amendments to the Master Indenture described in an amendatory Supplemental Master Indenture (the "Proposed Amendments") by the purchase of such series of Related Bonds by the holders thereof. Such deemed consent shall constitute the written consent of such holders to the Proposed Amendments for such purposes. Such deemed consent shall be effective on the date of initial delivery of such series of Related Bonds and such consent will be binding on all subsequent holders of such series of Related Bonds.

### **Defeasance**

If the Members shall pay or provide for the payment of the entire indebtedness on all Obligations Outstanding in any one or more of the following ways: (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations Outstanding, as and when the same become due and payable; (b) by depositing with the Master Trustee (or another corporate trustee qualified to serve as Master Trustee), in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations Outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations, in an amount, without

consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law; (c) by delivering to the Master Trustee, for cancellation by it, all Obligations Outstanding; or (d) by depositing with the Master Trustee (or another corporate trustee qualified to serve as Master Trustee), in trust, before maturity, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates; and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice (subject to the provisions described in "Satisfaction of Related Bonds" below), then the Master Indenture and the estate and rights granted thereunder shall cease, determine, and become null and void, and thereupon the Master Trustee shall, upon Written Request of the Obligated Group Agent, and upon receipt by the Master Trustee of an Officer's Certificate from the Obligated Group Agent and an opinion of Independent Counsel acceptable to the Master Trustee, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Master Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Master Indenture and the lien of the Master Indenture. The satisfaction and discharge of the Master Indenture shall be without prejudice to the rights of the Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection with the Master Indenture. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

Any moneys, funds, securities, or other property remaining on deposit under the Master Indenture (other than said Escrow Obligations or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Master Indenture, forthwith be transferred, paid over and distributed to the Obligated Group Agent.

The Obligated Group may at any time surrender to the Master Trustee for cancellation by it any Obligations previously authenticated and delivered which the Obligated Group may have acquired in any manner whatsoever, and such Obligations, upon such surrender and cancellation, shall be deemed to be paid and retired.

#### **Provision for Payment of a Particular Series of Obligations or Portion Thereof**

If the Obligated Group shall pay or provide for the payment of the entire indebtedness on all Obligations of a particular series or a portion of such a series in one of the following ways: (a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Obligations of such series or portion thereof outstanding, as and when the same shall become due and payable; (b) by depositing with the Master Trustee (or another corporate trustee qualified to serve as Master Trustee), in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Obligations of such series or portion thereof outstanding (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date), provided that such moneys, if invested, shall be invested at the direction of the Obligated Group Agent in Escrow Obligations in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof outstanding at or before their respective maturity dates; it being understood that the investment income on such Escrow

Obligations may be used at the direction of the Obligated Group Agent for any other purpose permitted by law; (c) by delivering to the Master Trustee, for cancellation by it, all Obligations of such series or portion thereof outstanding; or (d) by depositing with the Master Trustee (or another corporate trustee qualified to serve as Master Trustee), in trust, Escrow Obligations in such amount as the Master Trustee shall determine will, together with the income or increment to accrue thereon without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations of such series or portion thereof at or before their respective maturity dates; and if the Obligated Group shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group with respect to such series of Obligations or portion thereof, and, if any such Obligations of such series or portion thereof are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the Master Indenture or provisions satisfactory to the Master Trustee shall have been made for the giving of such notice, then such Obligations shall cease to be entitled to any lien, benefit or security under the Master Indenture. The liability of the Obligated Group in respect of such Obligations shall continue but the holders thereof shall thereafter be entitled to payment (to the exclusion of all other Obligation holders) only out of the moneys or Escrow Obligations deposited with the Master Trustee as aforesaid.

### **Satisfaction of Related Bonds**

The provisions described under the foregoing two headings notwithstanding, the Master Indenture provides that any Obligation which secures a Related Bond (a) shall be deemed paid and shall cease to be entitled to the lien, benefit and security under the Master Indenture in the circumstances described in subsection (c) of the definition of “Outstanding Obligations” under the Master Indenture; and (b) shall not be deemed paid and shall continue to be entitled to the lien, benefit and security under the Master Indenture unless and until such Related Bond shall cease to be entitled to any lien, benefit or security under the Related Bond Indenture pursuant to the provisions thereof.

### **Manner Of Evidencing Ownership Of Obligations**

The Master Indenture provides that any request, direction, consent or other instrument provided by the Master Indenture to be signed and executed by the Obligation holders may be in any number of concurrent writings of similar tenor and may be signed or executed by such Obligation holders in person or by an agent appointed in writing. Proof of the execution of any such request, direction or other instrument or of the writing appointing any such agent and of the ownership of Obligations, if made in the following manner, shall be sufficient for any of the purposes of the Master Indenture and shall be conclusive in favor of the Master Trustee and the Obligated Group, with regard to any action taken by them, or either of them, under such request or other instrument, namely: (a) the fact and date of the execution by any Person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgements in such jurisdiction, that the Person signing such writing acknowledged before him the execution thereof, or by the affidavit of a witness of such execution; and (b) the ownership of Obligations shall be proved by the registration of such Obligations.

Any action taken or suffered by the Master Trustee pursuant to any provision of the Master Indenture, upon the request or with the assent of any Person who at the time is the holder of any Obligation or Obligations, shall be conclusive and binding upon all future holders of the same Obligation or Obligations or any Obligation or Obligations issued in exchange therefor.

### **Unclaimed Moneys**

The Master Indenture provides that any moneys deposited with the Master Trustee by the Obligated Group in accordance with the terms and covenants of the Master Indenture, in order to redeem or pay any Obligation in accordance with the provisions of the Master Indenture, and

remaining unclaimed by the owners of the Obligation for three years after the date fixed for redemption or of maturity, as the case may be, will, if the Obligated Group is not at the time to the knowledge of the Master Trustee in default with respect to any of the terms and conditions of the Master Indenture, or in the Obligations, be repaid by the Master Trustee to the Obligated Group Agent upon its written request therefor on behalf of the Members; and thereafter the registered owners of the Obligation shall be entitled to look only to the Obligated Group for payment thereof. The Obligated Group covenants in the Master Indenture, to indemnify and save the Master Trustee harmless from any and all losses, costs, liability and expense suffered or incurred by the Master Trustee by reason of having returned any such moneys to the Members.

## **AMENDING SUPPLEMENT**

The Amending Supplement contains certain supplements to the Master Indenture, including those summarized below. Certain other changes are summarized in the applicable sections above.

### **Gross Receivables Pledge**

To secure the payment of Required Payments and the performance by the Obligated Group Members of their other obligations under this Master Indenture, pursuant to the Amending Supplement each Obligated Group member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all of its right, title and interest, whether now owned or hereafter acquired, in and to (i) the Gross Receivables of that Obligated Group Member, and (ii) the proceeds thereof (collectively, the “Collateral”), subject to Permitted Encumbrances.

Pursuant to the Amending Supplement, each Obligated Group Member shall execute and deliver a security agreement or other instrument as may be necessary in order to give effect to the aforesaid pledge, grant and assignment of the Collateral or any portion thereof; shall cause to be filed UCC financing statements; and shall execute, deliver and cause to be filed, as appropriate, such other documents (including, but not limited to, continuation statements and amendments to such UCC financing statements) as may be necessary in order to perfect or maintain the perfection of such security interest to the extent, and only to the extent, that such security interest may be perfected by filing under the UCC. Pursuant to the Amending Supplement, each Obligated Group Member irrevocably authorizes the Master Trustee to execute and file any continuation statements and amendments thereto as may be required to continue the security interest in the Collateral. The Master Trustee is to cause to be filed a continuation statement with respect to each Uniform Commercial Code financing statement relating to the Collateral which was filed at the time of the issuance of the first Obligation on or after the date of the Amending Supplement or upon the addition of an Obligated Group Member to the Obligated Group, in such manner and in such places as the initial filings (copies of which shall be provided to the Master Trustee by the Obligated Group Agent) were made. Upon written request of the Obligated Group Agent, the Master Trustee is to execute and deliver such releases, subordinations or other instruments as may be reasonably requested by the obligated Group Agent in connection with (1) the disposition of Property in accordance with the Master Indenture, (2) withdrawal of a Member pursuant to the Master Indenture and (3) the granting by a Credit Group member of any Lien which constitutes a Permitted Lien under the Master Indenture, as certified to the Master Trustee in writing by the Obligated Group Agent.

### **Limitation on Additional Indebtedness**

Each Member of the Obligated Group covenants in the Amending Supplement that it will not incur, and that it will not permit its Obligated Group Affiliates to incur, any Indebtedness so long as any Obligation is Outstanding, except that the Members and Obligated Group 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 Long-Term 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 Long-Term Debt Service Coverage Ratio for each of the two most recent Fiscal years was not less than 1.25:1.0 and (B) the Long-Term 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 refunded with the proceeds of said additional Long-Term Indebtedness to be incurred), is projected to be 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 the Maximum Annual Debt Service by more than 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 clause (a) above are satisfied calculation as if such Short-Term Indebtedness was Long-Term Indebtedness or, as certified in an Officer's Certificate delivered to the Master Trustee: (i) the total amount of such Short-Term Indebtedness shall not exceed 15% of Total Revenues; and (ii) the total amount of such Short-Term Indebtedness and Indebtedness incurred pursuant to the provision described in paragraph (h) below then Outstanding shall not exceed 25% of Total Revenues; and (iii) in every Fiscal Year, there shall be at least a consecutive 20-day period when the balance of such Short-Term Indebtedness is reduced to an amount which shall not exceed three percent of Total Revenues; (d) Nonrecourse Indebtedness, provided that, as certified in an Officer's Certificate delivered to the Master Trustee, the proceeds of Nonrecourse Indebtedness shall not be used to acquire or construct facilities which replace existing facilities of the Members or the Obligated Group Affiliates which generated more than 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 10%; (f) Subordinated Indebtedness, without limitation; (g) the Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services) and the Series 2009 Variable Rate Bonds and liquidity support reimbursement obligations in connection therewith; (h) any other Indebtedness, provided that, as certified in an Officer's Certificate delivered to the Master Trustee, the aggregate principal amount of Indebtedness incurred pursuant to the provisions of paragraph (c) above does not, as of the date of incurrence, exceed 25% of Total Revenues.

For purposes of the provisions described above, a Guarantee by any Member or Obligated Group Affiliate of Indebtedness of any other Member or Obligated Group Affiliate, or principal or interest on Indebtedness of a Member or Obligated Group Affiliate to any other Member or Obligated Group Affiliate, shall not constitute Indebtedness. If more than one Member or Obligated Group Affiliate shall have incurred or assumed a Guaranty of a Person other than a Member or an Obligated Group Affiliate, or if more than one Member or Obligated Group Affiliate shall be obligated to pay any obligation, such Guaranty or obligation shall be included as "Indebtedness" only one time.

#### **Sale, Lease or Other Disposition of Property**

Each Member agrees in the Amending Supplement that it shall not, and that it will not permit its Obligated Group Affiliate to, in any Fiscal Year so long as any Obligations are Outstanding, sell, lease or otherwise dispose of any Property, the Value of which would cause the aggregate Value of the Property so transferred in such Fiscal Year to exceed 10% of the Value of the Property of the Members and Obligated Group Affiliates (excluding any asset restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, prepayment premium and interest on Indebtedness or the payment of operating expenses), except for dispositions of assets, as certified in an Officer's Certificate delivered to the Master Trustee: (a) in the ordinary

course of business; (b) in connection with a true sale and leaseback under the Code; (c) if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate stating that such Property has, or within the next succeeding 24 calendar months is reasonably expected to become, inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease, removal or other disposition thereof will not impair the operations of the Members and Obligated Group Affiliates; (d) to any Person, provided such Property is received by a Member or Obligated Group Affiliate as a gift, grant, bequest or donation and is restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, prepayment premium and interest on Indebtedness and such Person has as one of its corporate purposes the receive gifts, grants, bequests and donations and the application of such Property in accordance with such restriction; (e) to any Person provided that such Property is transferred for fair market value and the net proceeds of such sale or other disposition is transferred for fair market value and the net proceeds of such sale or other disposition are applied either (1) to the payment of debt service on Indebtedness, (2) to the purchase of replacement assets, or (3) to the future purchase of tangible or intangible assets, provided that such net proceeds are restricted to the future purchase of assets; (f) in connection with the lease or license of a part of the Property, Plant and Equipment in connection with the proper and economical use of such Property, Plant and Equipment in accordance with customary and prudent business practice; (g) to another member of the Obligated Group; (h) that constitute the transfer of accounts receivable, provided that the aggregate amount of accounts receivable so sold (or encumbered by a Permitted Lien described in clause (t) of the definition of that term) in any Fiscal Year does not exceed 20% of the Members' and Obligated Group Affiliates' net accounts receivable for such Fiscal Year; or (i) there shall have been delivered to the Master Trustee an Officer's Certificate to the effect that the Transaction Test is satisfied.

## **SUPPLEMENTAL INDENTURE NO. 4 AND OBLIGATION NO. 3**

### **Creation of Obligation No. 3**

Supplemental Indenture No. 4 creates Obligation No. 3 as the joint and several Obligation of the Obligated Group, as a single registered Note without coupons in the principal amount of \$100,000,000 to the Authority, or its registered assigns. Obligation No. 3 also secures Swedish's obligations pursuant to the Loan Agreement to pay or cause to be paid any other payments which Swedish is required to make pursuant to such Loan Agreement with respect to Rebate Payments (defined in the Bond Indenture), the fees and expenses of the Authority and the Bond Trustee, and various indemnities for sums certain. Obligation No. 3 does not evidence any obligations on the part of Swedish to make payments to the Bond Trustee, the Master Trustee or the Authority under the Loan Agreement with respect to contingent liabilities or of amounts as yet undetermined as of any such date, and the payment or satisfaction of any such amounts, the determination of any such liabilities or the liquidation of any undetermined amounts shall not be a condition precedent to the discharge and satisfaction of Obligation No. 3.

### **Interest Rate**

Obligation No. 3 bears interest from time to time in an amount equal to the interest accruing on and payable with respect to the Bonds. Supplemental Indenture No. 4 provides that Obligation No. 3 shall bear interest on overdue installments of principal, premium, if any, or interest, to the extent permitted by law, at the same rate as that payable under Obligation No. 3 on the installment of principal for which such payment is overdue.

### **Defeasance**

Upon payment by the Obligated Group of a sum, in cash or obligations, or both, sufficient, together with any other cash and obligations held by the Bond Trustee and available for such purpose to cause all outstanding Bonds to be deemed to have been paid within the meaning of the Bond Indenture and to pay all fee payments referred to in the Bond Indenture, accrued or to be



accrued to the date of discharge of the Bond Indenture as it relates to the Bonds through the provision for the payment of such Bonds, Supplemental Indenture No. 4 provides that Obligation No. 3 shall be deemed to have been paid and to be no longer outstanding under the Master Indenture.

### **Redemption – in General**

Supplemental Indenture No. 4 provides that Obligation No. 3 shall be subject to redemption prior to maturity, to the extent and with respect to the corresponding payments of principal and at the applicable redemption premium, if any, that the Bonds are subject to redemption (other than by mandatory sinking fund redemption) in accordance with the terms of the Bond Indenture. Supplemental Indenture No. 4 provides that giving of notice of redemption of the Bonds (other than by mandatory sinking fund redemption) shall, without further notice or action by the Master Trustee or the Corporation, constitute notice of redemption of the corresponding amounts of principal due on Obligation No. 3 and the same shall, thereby, become due and payable on the date of redemption of such Bonds and at a redemption price equal to the redemption price payable with respect to the Bonds so redeemed.

### **Extraordinary Optional Redemption**

Supplemental Indenture No. 4 provides that Obligation No. 3 is subject to extraordinary optional redemption prior to maturity by the Master Trustee, upon written request from the Obligated Group, in whole or in part on any date, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date, from and to the extent of any available net proceeds of insurance or condemnation awards, upon the occurrence of any of the following events: (1) any portion of the Property, Plant and Equipment of the Obligated Group shall have sustained loss or damage resulting in receipt of net proceeds of insurance in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group; (2) condemnation of all or any of the Property, Plant and Equipment of the Obligated Group resulting in receipt of net proceeds of an award therefor in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group; or (3) insured loss of title to any of the Property, Plant and Equipment of the Obligated Group resulting in receipt of net proceeds of insurance in an amount greater than or equal to 5% of the aggregate book value of Property, Plant and Equipment of the Obligated Group. The Master Trustee is required to redeem all or such portion of Obligation No. 3, together with all other Obligations (or portions thereof) which provide for such extraordinary optional redemption, on a pro rata basis to the extent that they can be extraordinarily redeemed from and to the extent of net proceeds available therefor, without priority or preference of any such Obligation over any other such Obligation.

### **Partial Redemption**

In the event of a partial redemption of Obligation No. 3 pursuant to Supplemental Indenture No. 4, Supplemental Indenture No. 4 provides that the amount of each installment of such Obligation No. 3 becoming due after such redemption shall, to the extent appropriate and with the approval of the Obligated Group Agent, be adjusted and set forth in a new schedule of payments so that, upon the due payment of all installments thereafter, the entire unpaid principal amount of and interest on such Obligation No. 3 and on the Bonds shall have been timely paid in full.

### **Payments Under Obligation No. 3**

Swedish covenants and agrees under Supplemental Indenture No. 4 to make, and cause the Obligated Group Affiliates of which it is the Controlling Member to make, payments of the principal of, premium, if any, and interest on Obligation No. 3. Obligation No. 3 provides that such payments of principal will be due and payable in monthly installments equal to one-twelfth of the principal coming due on the Bonds, plus the aggregate amount of Mandatory Sinking Account Payments (as defined in the Bond Indenture) required to be paid for the Bonds, which monthly installments shall

be due and payable on or before the second Business Day (as defined in the Bond Indenture) next preceding the fifteenth day of each month, by reason of maturity or mandatory sinking fund redemption until such time as the principal of such Bonds is paid in full. Payments of interest are due and payable in monthly installments equal to one-sixth of the interest becoming due and payable on the Bonds on the next succeeding Interest Payment Date (as defined in the Bond Indenture) with respect to the Bonds, which quarterly installments are due and payable on or before the second Business Day (as defined in the Bond Indenture) next preceding the fifteenth day of each month. Payments of principal and interest are to be made by the Corporation depositing the immediately available funds with or to the account of the Bond Trustee at or prior to the opening of business on the date the same shall become due and payable (provided, that if such date is not a Business Day, such payment shall be made on the next succeeding Business Day) and giving notice of payment to the Master Trustee as provided in the Master Indenture.

### **Credit Against Amounts Due**

Supplemental Indenture No. 4 provides that the Obligated Group shall receive a credit against amounts due on Obligation No. 3 on any payment date as to principal, premium, if any, or interest, respectively, equal to the amounts paid or credited against payments of the principal of, premium, if any, or interest on the Bonds, respectively, on such payment date.

### **Limitation on Liability**

Obligation No. 3 provides that no recourse shall be had for the payment of the principal of, premium, if any, or the interest thereon, or for any claim based thereon or on the Master Indenture or any supplement thereto, against any member, director, trustee, officer, agent or employee, past, present or future, of the Corporation or any predecessor or successor corporation, or of the Master Trustee, either directly or through the Corporation or the Master Trustee or any such predecessor or successor corporation, whether by virtue of any constitution, statute, rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability, whether at common law, in equity, by any constitution, statute or otherwise, of members, directors, trustees, officers, agents or employees as such, being released as a condition of and in consideration for the execution of the Master Indenture and of the issuance of Obligation No. 3.

### **Excess of Revenues over Expenses Covenant**

Within 15 days following receipt of the Obligated Group Financial Statements for any Fiscal Year, the Corporation is required to provide to the Authority and the Master Trustee an Officer's Certificate of the Obligated Group Agent showing (1) the Excess of Revenues over Expenses for each of the four full Fiscal Years ending with the Fiscal Year which is the subject of such Obligated Group Financial Statements, and (2) the Cushion Ratio for the then-current Fiscal Year. If the Officer's Certificate discloses that (1) the Excess of Revenues over Expenses was negative for the previous two full Fiscal Years, with the Excess of Revenues over Expenses for the most recent Fiscal Year being less than the Excess of Revenues over Expenses for the penultimate Fiscal Year, or (2) the Excess of Revenues over Expenses was negative for three of the past four full Fiscal Years, then, unless the Cushion Ratio for the current Fiscal Year is greater than 2.50:1, not later than the 15<sup>th</sup> day following delivery of such Officer's Certificate, the Obligated Group is obligated to retain, at its expense, a Consultant to make recommendations as to the methods of operation of the Obligated Group which are intended to result in a positive Excess of Revenues over Expenses in the next following Fiscal Year or sooner; and to require such Consultant to submit its recommendations in writing within 90 days after being retained. Copies of the Consultant's recommendations are required to be filed with the Authority and the Master Trustee; provided, however, that if either (A) the Cushion Ratio for the current Fiscal Year is greater than the 2.50:1, or (B) the Authority waives the enforcement of this covenant by a written instrument delivered to the Master Trustee, then the Obligated Group will be excused from retaining the Consultant otherwise required as described in this paragraph.

If the Obligated Group is required to retain a Consultant as described in the foregoing paragraph, then, promptly upon receipt of such Consultant's recommendations, under Supplemental Indenture No. 4, each Member shall, and each Controlling Member is required to cause each of its Obligated Group Affiliates to, revise its methods of operations and take such other actions as shall be in conformity with such recommendations to the extent feasible; provided, however, that if any Member or Obligated Group Affiliate determines in good faith, by Board Resolution passed by least two-thirds of its full Governing Body, that any such recommendation is impossible or wholly detrimental to its operations or purposes, states the reasons for such determination, and delivers to the Authority and the Master Trustee and true and correct copies of such Board Resolution, then such Member or Obligated Group Affiliate will be excused from compliance with the applicable recommendation of the Consultant. If and so long as each Member and each Obligated Group Affiliate complies in all material respects with the recommendations of the Consultant, or has been excused from compliance, the failure of the Obligated Group to meet the requirements described in this section in the full Fiscal Year following the Fiscal Year during which such recommendations are submitted shall not constitute a default under the Master Indenture; provided, however, that the provisions summarized in this section shall not be construed as in any way excusing such Member or Obligated Group Affiliate from taking any action or performing any other duty required under Supplemental Indenture No. 4, or be construed as constituting a waiver of any other defaults thereunder; and provided further, that the Obligated Group shall not be required to retain a Consultant to make recommendations more frequently than biennially.

#### **Substitution of Obligations**

The Corporation covenants and agrees in Supplemental Indenture No. 4 that so long as Obligation No. 3 remains Outstanding under the Master Indenture, it will not exercise the option to substitute all Obligations issued under the Master Indenture as summarized in "Substitution of Obligations" without the prior written consent of the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding.

#### **Status as Member**

Swedish covenants and agrees in Supplemental Indenture No. 4 to continue to be a Member of the Obligated Group for so long as Obligation No.3 remains Outstanding under the Master Indenture.

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## APPENDIX E

### PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the “Disclosure Agreement”) is executed and delivered by Swedish Health Services, a nonprofit corporation duly organized and existing under the laws of the State of Washington (the “Corporation”), on its own behalf and on behalf of the Obligated Group, and The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under the laws of the United States, in its capacity as dissemination agent hereunder (the “Dissemination Agent”), in connection with the issuance of the Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services) in the original aggregate principal amount of \$100,000,000 (the “Bonds”). The Bonds are being issued by the Washington Health Care Facilities Authority (the “Authority”) pursuant to a Bond Indenture (the “Bond Indenture”), dated as of March 1, 2009, by and between the Authority and The Bank of New York Mellon Trust Company, N.A. (the “Bond Trustee”). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan and Security Agreement (the “Loan Agreement”), dated as of March 1, 2009, between the Authority and the Corporation. The payments due from the Corporation under the Loan Agreement are secured by Obligation No. 3 issued under and in accordance with the Master Trust Indenture, dated as of April 15, 1998, as previously supplemented and amended by Supplemental Master Trust Indenture No. 1, dated as of April 15, 1998 and Supplemental Master Trust Indenture No. 2, dated as of December 1, 2006, and as to be further supplemented on the Date of Issue by Supplemental Master Indenture No. 3 Implementing Amendments and by Supplemental Master Indenture No. 4, each by and among the Corporation, other Members of the Obligated Group who may be added from time to time, and The Bank of New York Mellon Trust Company, N.A., as successor master trustee. Pursuant to the terms of the Bond Indenture and the Loan Agreement, the Dissemination Agent and the Corporation covenant and agree as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Bond Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Corporation pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

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

“Central Post Office” shall mean the DisclosureUSA website 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 or shall make filings in compliance with the Securities Exchange Commission Rule 15c2-12 (the “Rule”), including, without limitation, the Municipal Securities Rulemaking Board Electronic Municipal Market Access system.

“Disclosure Representative” shall mean the Chief Financial Officer of the Corporation or his or her designee, or such other person as the Corporation shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean the Bond Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Bond Trustee a written acceptance of such designation in the form attached as Exhibit B to this Disclosure Agreement.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository recognized as such by the SEC. The National Repositories currently approved by the SEC are listed at <http://www.sec.gov/info/municipal/nrmsir.htm>.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“SEC” means the federal Securities and Exchange Commission.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository and recognized as such by the SEC. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Corporation and the Dissemination Agent for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the requirements of the Rule. The Corporation and the Dissemination Agent acknowledge that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement, and has no liability to any Person, including any Holder or Beneficial Owner of the Bonds with respect to Rule 15c2-12(b)(5).

SECTION 3. Provision of Annual and Quarterly Reports.

(a) The Corporation shall or, upon delivery to the Dissemination Agent pursuant to Section 3(b) of this Disclosure Agreement, the Dissemination Agent shall, not later than one hundred fifty (150) days following the end of the Corporation’s fiscal year (which fiscal year currently ends on each December 31), commencing with the report for the fiscal year ending December 31, 2008, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided, that the audited financial statements of the Obligated Group (which may be presented in consolidated financial statements of a larger group of affiliated corporations) may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if they are not available by that date. If any Member of the Obligated Group’s fiscal year changes, the Corporation shall give notice of such change in the same manner as for a Listed Event under Section 5(d) of this Disclosure Agreement, but no change in fiscal year or change in accounting principles shall require any approval pursuant to Section 8 of this Disclosure Agreement.

(b) Not later than five (5) Business Days prior to the date specified in Section 3(a) of this Disclosure Agreement for providing the Annual Report to the Repositories, the Corporation shall provide the Annual Report to the Dissemination Agent. The Corporation shall provide a written certification with the Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Corporation hereunder. The Dissemination Agent and the Bond Trustee (if the Bond Trustee is not the Dissemination Agent) may conclusively rely upon such certification of the Corporation. If by five (5) Business Days prior to such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Corporation to notify the Corporation of the requirements of Section 3(a) of this Disclosure Agreement and this Section 3(b).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in Section 3(a) of this Disclosure Agreement, the Dissemination Agent shall send a notice to each Repository in substantially the form attached as Exhibit A to this Disclosure Agreement.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) to the extent the Corporation has provided the Annual Report to the Dissemination Agent, file a report with the Authority and the Bond Trustee (if the Dissemination Agent is not the Bond Trustee), certify that the Annual Report has been provided pursuant to this Disclosure Agreement, set forth the date it was provided, and list all the Repositories to which it was provided. The Dissemination Agent shall also make each Annual Report available to any Beneficial Owner that requests such Reports in writing at least two Business Days prior to the end of the applicable fiscal year.

(e) The Corporation shall also provide to the Dissemination Agent and the Bond Trustee (if the Bond Trustee is not the Dissemination Agent) quarterly unaudited financial statements with respect to the first three quarters of each fiscal year (in accordance with the Corporation's accounting periods) not later than sixty (60) days following the end of the applicable quarterly fiscal period. The Dissemination Agent shall make such quarterly unaudited financial statements available to any Beneficial Owner that requests such information in writing at least two Business Days prior to the end of the fiscal quarter to which such report relates. The Dissemination Agent shall continue to make succeeding Annual Reports and quarterly reports available to Beneficial Owners having submitted such a request until receipt by the Dissemination Agent of a subsequent request to no longer receive such information.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Obligated Group (which may be part of an audit for a larger group of affiliated organizations) for the previous fiscal year, prepared in accordance with generally accepted accounting principles applicable from time to time. If the Obligated Groups' audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) of this Disclosure Agreement, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement relating to the Bonds, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) A table showing the sources of patient service revenues of the Corporation as shown in the table entitled "Sources of Revenue" in Appendix A to the Official Statement under the caption "SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Sources of Patient Services Revenue" for the most recently completed fiscal year;

(c) A table showing utilization statistics of the Corporation as shown in the table entitled "Historical Utilization" in Appendix A to the Official Statement under the caption "SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Sources of Patient Services Revenue" for the most recently completed fiscal year;

(d) A narrative discussion and analysis of the financial and operating data in form and scope similar to the information contained in Appendix A to the Official Statement under the caption "SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Management's Discussion and Analysis of Financial Information" for the most recently completed fiscal year.

(e) A table showing liquidity of the Corporation as shown in Appendix A to the Official Statement under the caption “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Liquidity and Investment Policy” for the most recently completed fiscal year;

(f) A table showing capitalization of the Corporation as shown in Appendix A to the Official Statement under the caption “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Capitalization” for the most recent fiscal year;

(g) A table showing debt service coverage of the Corporation as shown in Appendix A to the Official Statement under the caption “SELECTED UTILIZATION AND HISTORICAL FINANCIAL INFORMATION—Estimated Debt Service Coverage” for the most recent fiscal year;

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to any Obligated Group Member, which have been submitted to each of the Repositories or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Corporation shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events; Other Notices.

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or upon delivery of the information to the Dissemination Agent, the Dissemination Agent shall give, notice of the occurrence of any of the following events with respect to the Bonds, if material under applicable federal securities laws:

1. Principal and interest payment delinquencies;
2. Nonpayment related defaults;
3. Modifications to rights of Bondholders;
4. Optional, contingent or unscheduled prepayment of Bonds;
5. Defeasances;
6. Rating changes;
7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. Unscheduled draws on the debt service reserves reflecting financial difficulties;
9. Unscheduled draws on credit enhancements reflecting financial difficulties;
10. Substitution of credit provider, or its failure to perform; and
11. Release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, the Corporation shall, as soon as possible, determine if such event would be material under applicable federal securities laws.

(c) If the Corporation has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Corporation shall promptly notify the Dissemination



Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(d) of this Disclosure Agreement.

(d) If the Dissemination Agent has been instructed by the Corporation to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the Corporation. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(a)(4) and 5(a)(5) of this Disclosure Agreement need not be given under this Section 5(d) any earlier than the notice (if any) of the underlying event is given to the Holders of affected Bonds pursuant to the Bond Indenture.

(e) The Corporation shall promptly notify the Dissemination Agent in writing of any change in the Members of the Obligated Group. The Dissemination Agent shall file such written notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the Corporation.

(f) In addition, if the accounting principles to be followed in preparing financial statements are changed, then (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d) of this Disclosure Agreement, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 6. Termination of Reporting Obligation. The Corporation's and the Dissemination Agent's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(d) of this Disclosure Agreement. If the Corporation's obligations under the Loan Agreement are assumed in full by some other entity, such Person shall be responsible for compliance with this Disclosure Agreement relating thereto in the same manner as if it were the Corporation, and the Corporation shall have no further responsibility hereunder with respect thereto.

SECTION 7. Dissemination Agent. The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without cause. Any successor Dissemination Agent shall execute and deliver a written acceptance of such designation in the form attached as Exhibit B to this Disclosure Agreement. The initial Dissemination Agent shall be The Bank of New York Mellon Trust Company, N.A., the Bond Trustee. The Dissemination Agent may resign at any time by providing at least thirty (30) days written notice to the Corporation and the Bond Trustee. If a successor Dissemination Agent is appointed to assist the Corporation in carrying out its obligations under this Disclosure Agreement, such successor Dissemination Agent shall execute an acceptance of duties as Dissemination Agent in substantially the form attached as Exhibit B to this Disclosure Agreement. If at any time there is no Dissemination Agent, all references to filings or other acts to be performed by the Dissemination Agent shall be performed by the Corporation.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Corporation and the Dissemination Agent may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Corporation, provided that the Dissemination Agent shall be not be obligated to enter into any amendment increasing or affecting its duties or obligations), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), Section 4, or Section 5 of this Disclosure Agreement, it may only be made in connection with a change in circumstances that arises

from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted, as evidenced by an opinion of nationally recognized bond counsel or an officer's certificate of the Corporation;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Bond Indenture for amendments to the Bond Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Corporation shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Corporation on behalf of the Obligated Group.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Corporation or any Member of the Obligated Group from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report, quarterly report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Corporation chooses to include any information in any Annual Report or quarterly report or notice of occurrence of a Listed Event, in addition to that which is specifically required by this Disclosure Agreement, the Corporation shall have no obligation under this Agreement to update such information or include it in any future Annual Report or quarterly report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Corporation or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Bond Trustee, upon the written direction of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, but only to the extent indemnified by the Corporation to its satisfaction for any liability or expense, including without limitation reasonable attorney's fees and expenses and any additional fees and charges of the Bond Trustee shall, or any Holder or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation or the Dissemination Agent, as the case may be, to comply with their respective obligations under this Disclosure Agreement. Upon any such default, the Bond Trustee is required to promptly notify (and confirm in writing) the Authority of such event but the Authority has no duties pursuant to this Disclosure Agreement as a result of being so notified. A default under this Disclosure Agreement shall not be deemed an event of default under either the Bond Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Corporation or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance. In no event shall any violation of this Disclosure Agreement, by itself, constitute a violation of any other laws, including other applicable securities laws.

SECTION 11. Duties, Immunities and Liabilities of the Dissemination Agent. The duties, immunities and liabilities of the Bond Trustee as set forth in Article VIII of the Bond Indenture are hereby made applicable to this Dissemination Agent as if this Disclosure Agreement were (solely for this purpose) contained in the Bond Indenture. The Dissemination Agent shall have only such duties hereunder as are specifically set forth in this Disclosure Agreement, and the Corporation agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur

arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including reasonable attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Corporation for its services provided hereunder and reimbursed for expenses incurred by the Dissemination Agent hereunder, in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Corporation from time to time. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Corporation or any Member of the Obligated Group hereunder and shall not be deemed to be acting in any fiduciary capacity for the Corporation, any Member of the Obligated Group, the Holders, Beneficial Owners or any other party. The obligations of the Corporation under this Section 11 shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices.

(a) Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Corporation or the Obligated Group:

Swedish Health Services  
747 Broadway  
Seattle, Washington 98122-4307  
Attention: Chief Financial Officer  
Telephone: (206) 386-6321  
Fax: (206) 386-2277

To the Bond Trustee:

The Bank of New York Mellon Trust Company, N.A.  
601 Union Street, Suite 520  
Seattle, Washington 98101  
Attention: Corporate Trust Department  
Telephone: (206) 667-8904  
Fax: (206) 667-8906

To the Dissemination Agent:

The Bank of New York Mellon Trust Company, N.A.  
601 Union Street, Suite 520  
Seattle, Washington 98101  
Attention: Corporate Trust Department  
Telephone: (206) 667-8904  
Fax: (206) 667-8906

To the Authority:

Washington Health Care Facilities Authority  
410 11th Avenue S.E., Suite 201  
Olympia, Washington 98504-0935  
Attention: Executive Director  
Telephone: (360) 753-6185  
Fax: (360) 586-9168

(b) If at any time during the term hereof the Dissemination Agent is a different entity than the Bond Trustee, all notices, other written instruments and certifications delivered to and given from the Dissemination Agent also shall be given to the Bond Trustee.

SECTION 13. Beneficiaries; Enforcement Rights of the Authority. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Members of the Obligated Group, the Bond Trustee, the Dissemination Agent, the Participating Underwriters, Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other Person or entity.

The Authority is hereby granted the right to enforce all remedies granted or conferred upon the Dissemination Agent, the Bond Trustee, the Holders or the Beneficial Owners hereunder.

SECTION 14. Delivery to the Central Post Office. Notwithstanding the foregoing, any provision herein requiring delivery of a notice or other information to the Repositories shall be satisfied through delivery of such notice or other information to the Central Post Office. The Corporation shall submit all information and reports hereunder to the Dissemination Agent in electronic format suitable for the Dissemination Agent to submit such information and reports to the Central Post Office.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Date: March 19, 2009

SWEDISH HEALTH SERVICES

By: \_\_\_\_\_  
Authorized Representative

THE BANK OF NEW YORK MELLON TRUST  
COMPANY, N.A.  
as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

Acknowledged:

WASHINGTON HEALTH CARE  
FACILITIES AUTHORITY

By: \_\_\_\_\_  
Executive Director

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Washington Health Care Facilities Authority  
Name of Issue: Washington Health Care Facilities Authority Revenue Bonds, Series 2009A  
(Swedish Health Services)  
Name of Corporation: Swedish Health Services (the "Corporation")  
Date of Issuance: March 19, 2009

NOTICE IS HEREBY GIVEN that Swedish Health Services has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement, dated March 19, 2009, with respect to the Bonds. The Corporation anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_,  
as Dissemination Agent, on behalf of the Corporation

By: \_\_\_\_\_  
Authorized Signatory

cc: Swedish Health Services

EXHIBIT B

ACCEPTANCE OF DUTIES AS DISSEMINATION AGENT

The undersigned, duly authorized officer of [Name of Successor Dissemination Agent] (the “Dissemination Agent”) hereby accepts the duties and obligations imposed upon the undersigned as Dissemination Agent under the Continuing Disclosure Agreement, dated March 19, 2009, between Swedish Health Services and The Bank of New York Mellon Trust Company, N.A., as initial Dissemination Agent.

The principal corporate trust office of the Dissemination Agent is \_\_\_\_\_  
\_\_\_\_\_.

Dated: \_\_\_\_\_

[NAME OF SUCCESSOR DISSEMINATION  
AGENT], as successor Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

cc: Swedish Health Services  
The Bank of New York Mellon Trust Company, N.A., as Bond Trustee

**APPENDIX F**

**FORM OF BOND COUNSEL OPINION**

[Closing Date]

Washington Health Care Facilities Authority  
Olympia, Washington

Washington Health Care Facilities Authority  
Revenue Bonds, Series 2009A  
(Swedish Health Services)  
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Washington Health Care Facilities Authority (the “Authority”) in connection with the issuance of \$100,000,000 aggregate principal amount of Washington Health Care Facilities Authority Revenue Bonds, Series 2009A (Swedish Health Services) (the “Bonds”), issued pursuant to the provisions of Chapter 70.37 RCW, as amended (the “Act”), and a bond indenture, dated as of March 1, 2009 (the “Bond Indenture”), between the Authority and The Bank of New York Mellon Trust Company, N.A., 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 Swedish Health Services (the “Corporation”) pursuant to a loan and security agreement, dated as of March 1, 2009 (the “Loan Agreement”), between the Authority and the Corporation. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Indenture.

In such connection, we have reviewed the Bond Indenture; the Loan Agreement; the Tax Agreement; an opinion of counsel to the Corporation; certificates of the Authority, the Bond Trustee, the Corporation and others; and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have relied on the opinion of Foster Pepper PLLC, counsel to the Corporation, regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the “Code”). We note that such opinion is subject to a number of qualifications and limitations. We have also relied upon representations of the Corporation regarding the use of the facilities financed with the proceeds of the Bonds in activities that are not considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code. We note that the opinion of counsel to the Corporation does not address Section 513 of the Code. Failure of the Corporation to be organized and operated in accordance with the Internal Revenue Service’s requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or use of the bond financed facilities in activities that are considered unrelated trade or business activities of the Corporation within the meaning of Section 513 of the Code, may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

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 Agreement, 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 Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the 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 relating to the Bonds 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 special fund revenue obligations of the Authority, payable solely from the Bond Fund.

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 Trust Estate, 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 do not constitute an obligation, either general, special or moral, of the State of Washington (the "State"), or a pledge of the faith and credit of the State, or a general obligation of the Authority. The holders of the Bonds have no right to require the State or the Authority, nor has the State or the Authority any obligation or legal authorization, to levy any taxes or appropriate or expend any of their respective funds for the payment of the principal thereof or the interest or any premium on the Bonds.



5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes and is not included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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## APPENDIX G

### BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-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 will be issued for each maturity of the Bonds in the aggregate principal amount of such maturity, 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](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). **Neither the information on those websites, nor any links from those website, is 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.**

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC 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 dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information under this heading 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.