NEW ISSUE - BOOK-ENTRY ONLY

Ratings: Moody's: Baa1
Standard & Poor's: BBB
Fitch: BBB+
(See **"RATINGS"** herein)

In the opinion of Bond Counsel, under existing law and assuming compliance by the Agency and the Corporation with the tax covenants described herein, interest on the Series 2007A Bonds is not includable in the gross income of the owners of the Series 2007A Bonds for purposes of federal income taxation. Interest on the Series 2007A Bonds may be included in the calculation of certain taxes, including the alternative minimum tax imposed on corporations, as described under "TAX EXEMPTION" herein. The Act provides that the Series 2007A Bonds and the income therefrom shall at all times be exempt from taxation in the State of Vermont, except for transfer and estate taxes. See the caption "TAX EXEMPTION" herein.

Fletcher Allen HEALTH CARE
In alliance with The University of Vermont

$56,260,000
Vermont Educational and Health Buildings Financing Agency
Hospital Revenue Bonds
(Fletcher Allen Health Care Project)
Series 2007A

Dated: Date of Delivery **Due: December 1, as shown on the inside cover page**

The Series 2007A Bonds are being issued pursuant to the Trust Agreement, dated as of January 1, 2007 (the "Trust Agreement"), between the Vermont Educational and Health Buildings Financing Agency (the "Agency") and Chittenden Trust Company, as bond trustee (the "Bond Trustee"). The Series 2007A Bonds are issuable only as fully registered bonds without coupons, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Series 2007A Bonds. Purchases of the Series 2007A Bonds will be made in book-entry form, in denominations of $5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their respective interests in Series 2007A Bonds purchased. So long as Cede & Co. is the registered owner, as nominee for DTC, references herein to the registered owners of Series 2007A Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (defined herein) of the Series 2007A Bonds. See "THE SERIES 2007A BONDS - Book-Entry Only System" herein.

So long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2007A Bonds, payments of principal or redemption price of and interest on the Series 2007A Bonds will be made directly to DTC. Disbursement of such payments to the Direct Participants (defined herein) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the Direct Participants and the Indirect Participants (defined herein), as more fully described herein. Interest will be payable on June 1, 2007 and semiannually thereafter on December 1 and June 1 of each year (each an "Interest Payment Date") to the registered owner of record as of the close of business on the fifteenth day of the month next preceding each such Interest Payment Date.

The Series 2007A Bonds are subject to redemption prior to maturity, including optional redemption, mandatory sinking fund redemption and extraordinary redemption, as described herein. See "THE SERIES 2007A BONDS — Redemption" herein.

The principal of or redemption price of and interest on the Series 2007A Bonds are payable solely from payments to be made by Fletcher Allen Health Care, Inc., a Vermont non-profit corporation located in Burlington, Vermont (the "Corporation"), under a Loan Agreement, dated as of January 1, 2007 (the "Loan Agreement"), between the Agency and the Corporation. The payments to be made pursuant to the Loan Agreement are general obligations of the Corporation. In addition, the obligations of the Corporation under the Loan Agreement are evidenced by an obligation ("Obligation No. 11") issued pursuant to the Amended and Restated Master Trust Indenture, dated as of March 1, 2004, as supplemented (the "Master Indenture"), by and between the Corporation (formerly known as Medical Center Hospital of Vermont, Inc.) and Chittenden Trust Company, as Master Trustee. Upon issuance of the Series 2007A Bonds, the Corporation will be the only Member of the Obligated Group established pursuant to the Master Indenture, and Obligation No. 11 securing the Series 2007A Bonds will constitute a joint and several obligation of the Corporation and any future Member of the Obligated Group. Reference is made to this Official Statement for relevant security provisions of the Series 2007A Bonds.

There are certain risks associated with the purchase of the Series 2007A Bonds. See "BONDHOLDERS' RISKS" herein.

THE SERIES 2007A BONDS SHALL BE LIMITED OBLIGATIONS OF THE AGENCY PAYABLE SOLELY FROM THE REVENUES OF THE AGENCY, INCLUDING PAYMENTS TO THE BOND TRUSTEE FOR THE ACCOUNT OF THE AGENCY DERIVED FROM AND TO BE MADE BY THE CORPORATION, IN ACCORDANCE WITH THE PROVISIONS OF THE LOAN AGREEMENT AND THE TRUST AGREEMENT AND FROM CERTAIN OTHER FUNDS, ALL AS MORE FULLY DESCRIBED HEREIN. THE AGENCY HAS NO TAXING POWER. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF VERMONT OR OF ANY MUNICIPALITY OR POLITICAL SUBDIVISION OF THE STATE OF VERMONT IS PLEDGED TO THE PAYMENT OF THE SERIES 2007A BONDS.

This cover page and the inside cover page contain information for quick reference only. Investors must read the entire Official Statement, including all Appendices, to obtain information essential to making an informed investment decision.

The Series 2007A Bonds are offered when, as and if issued by the Agency, and delivered and received by the Underwriter, subject to prior sale, or withdrawal or modification of the offer without notice, and to the approval of their legality and certain other matters by Sidley Austin LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York; for the Corporation by its counsel, Dinse, Knapp & McAndrew, P.C.; and for the Agency by its counsel, Deppman & Foley, P.C. The Series 2007A Bonds are expected to be available for delivery through the facilities of DTC in New York, New York on or about January 25, 2007.

Citigroup

January 10, 2007

$56,260,000
Vermont Educational and Health Buildings Financing Agency
Hospital Revenue Bonds
(Fletcher Allen Health Care Project)
Series 2007A

Maturities, Principal Amounts, Interest Rates and Yields

Year	Amount	Interest Rate	Yield	Year	Amount	Interest Rate	Yield
2009	$ 40,000	4.000%	4.170%	2014	$440,000	4.000%	4.260%
2010	100,000	4.000	4.190	2016	475,000	4.125	4.340
2011	115,000	4.000	4.200	2018	240,000	4.250	4.420
2012	150,000	4.000	4.220	2019	235,000	4.250	4.460
2013	150,000	4.000	4.240	2020	245,000	4.250	4.490
				2021	455,000	4.250	4.510

$53,615,000 4.750% Term Bonds due December 1, 2036, Yield 4.710%[(1)]

[(1)] Priced to the December 1, 2016 par call.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007A BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME WITHOUT PRIOR NOTICE.

No dealer, broker, salesman or other person has been authorized by the Agency or the Corporation to give any information or to make representations with respect to the Series 2007A Bonds, other than those contained in the Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2007A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

Certain information as contained herein has been obtained from the Corporation and other sources, including DTC, which are believed to be reliable, but information obtained from sources other than the Agency is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Agency. The information herein under the heading "THE AGENCY" has been supplied by the Agency. The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

THE SERIES 2007A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE TRUST AGREEMENT OR MASTER INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2007A BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2007A BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2007A BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement contains a general description of the Series 2007A Bonds, the Agency, the Corporation and the plan of finance and sets forth summaries of certain provisions of the Act (as defined herein), the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 11. The descriptions and summaries herein do not purport to be complete and are not to be construed to be a representation of the Agency or the Underwriter. Persons interested in purchasing the Series 2007A Bonds should carefully review this Official Statement (including the Appendices attached hereto) as well as copies of the documents referred to herein in their entirety, which documents are held by the Bond Trustee at its principal corporate trust office in Burlington, Vermont.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and this Official Statement, including the Appendices, must be considered in its entirety.

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TABLE OF CONTENTS

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OFFICIAL STATEMENT
Relating to

$56,260,000
Vermont Educational and Health Buildings Financing Agency
Hospital Revenue Bonds
(Fletcher Allen Health Care Project)
Series 2007A

INTRODUCTION

This Official Statement, including the cover page, the inside cover page and Appendices, sets forth certain information concerning the offering by the Vermont Educational and Health Buildings Financing Agency (the "Agency") of its Hospital Revenue Bonds (Fletcher Allen Health Care Project), Series 2007A, in the aggregate principal amount of $56,260,000 (the "Series 2007A Bonds"). Certain capitalized terms used in this Official Statement and not otherwise defined herein shall have the meanings given to such terms under the heading "DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF PRINCIPAL LEGAL DOCUMENTS" in Appendix C hereto. This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to the entire Official Statement of which a full review should be made by potential investors.

The Agency

The Agency is a body corporate and politic constituting a public instrumentality of the State of Vermont (the "State") organized and existing under and by virtue of the Vermont Educational and Health Buildings Financing Agency Act, being Chapter 131, Sections 3851 to 3862, inclusive, of Title 16, Vermont Statutes Annotated, as amended (the "Act"). For a further discussion of the Agency, see "THE AGENCY" herein.

The Series 2007A Bonds

The Series 2007A Bonds are being issued under the Trust Agreement, dated as of January 1, 2007 (the "Trust Agreement"), between the Agency and Chittenden Trust Company, as bond trustee (the "Bond Trustee"). The Series 2007A Bonds are also being issued in accordance with the provisions of the Act.

The Series 2007A Bonds will be dated their date of delivery, and will bear interest from such date, payable on June 1, 2007 and semiannually on each December 1 and June 1 thereafter. The Series 2007A Bonds will bear interest and mature on the dates and in the amounts set forth on the inside cover page hereof. The Series 2007A Bonds are subject to redemption prior to maturity. For a further description of the Series 2007A Bonds, see "THE SERIES 2007A BONDS" herein.

The Series 2007A Bonds are issuable as fully registered bonds in denominations of $5,000 or any integral multiple thereof, and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2007A Bonds. See "THE SERIES 2007A BONDS - Book-Entry Only System" herein.

Use of Proceeds

The proceeds of the Series 2007A Bonds will be applied by the Agency to make a loan (the "Loan") to Fletcher Allen Health Care, Inc. (the "Corporation") pursuant to a Loan Agreement, dated as of January 1, 2007 (the "Loan Agreement"), by and between the Agency and the Corporation. In

accordance with the Loan Agreement, the Loan is to be used for the purposes of (i) paying, or reimbursing the Corporation for paying, the cost of the Project (as hereinafter described), (ii) funding a reserve fund for the Series 2007A Bonds, and (iii) paying certain costs incidental to the issuance and sale of the Series 2007A Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security for the Series 2007A Bonds

Master Indenture and Security Therefor

The Series 2007A Bonds are limited obligations of the Agency, payable solely from money to be paid by the Corporation pursuant to the terms of the Loan Agreement and money to be paid by the Obligated Group pursuant to Obligation No. 11 ("Obligation No. 11") issued to the Agency under an Amended and Restated Master Trust Indenture, dated as of March 1, 2004 (the "Master Trust Indenture"), amending and restating the Master Trust Indenture, dated as of January 1, 1993 (the "Prior Master Trust Indenture"), between the Corporation (formerly known as Medical Center Hospital of Vermont, Inc.) and Chittenden Trust Company, as Master Trustee (the "Master Trustee") and Supplemental Indenture for Obligation No. 11, dated as of January 1, 2007 ("Supplement No. 11"). See "SUMMARY OF THE MASTER INDENTURE" in Appendix C attached hereto. The Master Trust Indenture, as supplemented in accordance with the provisions thereof, is referred to in this Official Statement as the "Master Indenture".

Payments on Obligation No. 11 will be required to be sufficient to pay the principal of and interest and any premium on the Series 2007A Bonds, as due and payable. To secure the payment of the Series 2007A Bonds, the Agency will assign to the Bond Trustee all of its interest in Obligation No. 11 and, with certain exceptions, the Loan Agreement. Obligation No. 11 will be a joint and several obligation of the Corporation, as currently the sole Member of the Obligated Group, and any future Members of the Obligated Group under the Master Indenture, and will be secured by a security interest in the Pledged Assets (as defined herein) of each Member of the Obligated Group and the Mortgage (as defined herein). Currently, the Corporation is the only Member of the Obligated Group. The Master Indenture permits any Person to become a Member of the Obligated Group upon compliance with certain financial tests. The Master Indenture also permits, upon compliance with the terms thereof, any Member to withdraw from the Obligated Group. The Corporation has covenanted in Supplement No. 11 not to withdraw from the Obligated Group so long as any Series 2007A Bonds are Outstanding unless it has the prior written consent of the Agency to do so. Appendix A contains a description of the Corporation.

Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 1, dated as of January 1, 1993 ("Obligation No. 1"), in the original aggregate principal amount of $48,350,00. Obligation No. 1 was issued in connection with the issuance by the Agency of its $48,350,000 Hospital Revenue Bonds (Medical Center Hospital of Vermont Project), Series 1993 (the "Series 1993 Bonds"), the proceeds of which were used to pay the costs of various capital improvements to the Corporation. Obligation No. 1 was cancelled upon the issuance of the Series 2004A Bonds, the proceeds of which were used to refund the Series 1993 Bonds. Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 2, dated as of August 1, 1994 ("Obligation No. 2"), in the aggregate principal amount of $37,600,000, of which $17,900,000 is currently outstanding. Obligation No. 2 was issued in connection with the issuance by the Agency of its $37,600,000 Hospital Revenue Refunding Bonds (Medical Center Hospital of Vermont Project), Series 1994, Select Auction Variable Rate Securities℠ (SAVRS®) (the "Series 1994 Bonds"), the proceeds of which were used to refund certain bonds of the Agency issued on behalf of the Corporation in 1986. Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 3, dated as of February 1, 2000 ("Obligation No. 3"), in the aggregate principal amount of $100,000,000,

of which $97,575,000 is currently outstanding. Obligation No. 3 was issued in connection with the issuance by the Agency of its $100,000,000 Hospital Revenue Bonds (Fletcher Allen Health Care Project), Series 2000A (the "Series 2000A Bonds"), the proceeds of which were used to pay the costs of various capital improvements to the Corporation, including the Renaissance Project (as defined herein). Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 4, dated as of March 1, 2000 ("Obligation No. 4"), in the aggregate principal amount of $50,000,000, of which $50,000,000 is currently outstanding. Obligation No. 4 was issued in connection with the issuance by the Agency of its $50,000,000 Variable Rate Hospital Revenue Bonds (Fletcher Allen Health Care Project), Series 2000B (the "Series 2000B Bonds"), the proceeds of which were used to pay the costs of various capital improvements to the Corporation, including the Renaissance Project. The Series 2000B Bonds were converted to an auction rate mode and remarketed simultaneously with the issuance of the Series 2004A Bonds. In addition, the Corporation's payment obligations under the Standby Bond Purchase Agreement, dated as of March 1, 2000, among the Corporation, the Bond Trustee and JPMorgan Chase Bank, formerly The Chase Manhattan Bank, were secured by Obligation No. 5, dated March 29, 2000 ("Obligation No. 5"). Obligation No. 5 was cancelled upon the conversion of the Series 2000B Bonds to an auction rate mode. The Corporation's payment obligations under the Loan Agreement, dated September 30, 2003 from Banknorth, N.A. (the "Banknorth Loan Agreement"), were secured by Obligation No. 6, dated September 30, 2003 ("Obligation No. 6") and such obligations were paid off in their entirety by the Series 2004B Bonds (as hereinafter defined). The Corporation's payment obligations under the Building Loan Agreement, dated December 19, 2003 from J.P. Morgan Leasing Inc. (the "Building Loan Agreement"), were secured by Obligation No. 7, dated December 19, 2003 ("Obligation No. 7") and such obligations were paid off in their entirety by the Series 2004B Bonds. Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 8, dated as of March 1, 2004 ("Obligation No. 8"), in the aggregate principal amount of $47,620,000, of which $45,030,000 is currently outstanding. Obligation No. 8 was issued in connection with the issuance by the Agency of its $47,620,000 Hospital Revenue Refunding Bonds (Fletcher Allen Health Care Project), Series 2004A (the "Series 2004A Bonds"), the proceeds of which were used to currently refund the Series 1993 Bonds. Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 9, dated as of March 1, 2004 ("Obligation No. 9"), in the aggregate principal amount of $170,000,000, of which $168,025,000 is currently outstanding. Obligation No. 9 was issued in connection with the issuance by the Agency of its $170,000,000 Variable Rate Hospital Revenue Bonds (Fletcher Allen Health Care Project), Series 2004B (the "Series 2004B Bonds"), the proceeds of which were used to pay costs of various capital improvements to the Corporation, including the Renaissance Project. Pursuant to the Master Indenture, the Corporation has heretofore executed and delivered Obligation No. 10, dated as of April 15, 2004 ("Obligation No. 10"), in the aggregate principal amount of $135,000,000, of which $135,000,000 is currently outstanding. Obligation No. 10 was issued in connection with an interest rate swap transaction pursuant to an ISDA Master Agreement, together with certain schedules and a written Confirmation with Citibank, N.A., New York. Obligation No. 11 will be secured pari passu with Obligation Nos. 1 through 10, as applicable (the "Prior Obligations"), under the Master Indenture and any other Obligations (as defined herein) issued under the Master Indenture from time to time.

Pursuant to the Master Indenture, as security for the payment of the principal of, and the redemption premium, if any, and interest on, the Prior Obligations, Obligation No. 11 and any other Obligation issued and outstanding under the Master Indenture, the Corporation has granted a security interest in its Pledged Assets (as hereinafter defined) and has granted the Mortgage (as defined herein) to the Master Trustee. The Corporation (and all future Members of the Obligated Group) has agreed in the Master Indenture that it will not create or suffer to be created or exist any Lien other than Permitted Liens upon its Pledged Assets or on other Property now owned or hereafter acquired. The Lien created by the Mortgage is a Permitted Lien. In addition, the Corporation (and all future Members of the Obligated

Group) is subject to covenants under the Master Indenture containing restrictions or limitations with respect to indebtedness, consolidation or merger, and transfer of assets, among others.

The Pledged Assets that are pledged under the Master Indenture to secure the Prior Obligations and Obligation No. 11 and any additional Obligations that may be issued on a parity with such Obligations (collectively, the "Obligations") consist of all Gross Receipts (as defined herein) of the Members of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof (the "Pledged Assets"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007A BONDS" herein.

The Corporation has also granted to the Master Trustee, as security for all Obligations issued under the Master Indenture, a mortgage on certain property located on the Medical Center Campus at 111 Colchester Avenue, Burlington, Vermont (the "Mortgaged Property"). The Corporation and the Master Trustee entered into the Mortgage Deed on December 17, 2003 (the "Mortgage"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007A BONDS -- The Mortgage" herein.

For more detailed descriptions of the Corporation's obligations under the Master Indenture and Obligation No. 11, including a description of the rate covenant, conditions under which additional Obligations may be issued and other Indebtedness may be incurred, conditions under which other organizations may join or withdraw from the Obligated Group and conditions under which Members of the Obligated Group may acquire or dispose of property and merge with or acquire other organizations, see Appendix C hereto.

The Master Indenture contains provisions pursuant to which, under certain conditions, Holders of Obligations would be required to surrender such Obligations in exchange for a new note or obligation from a new obligated group issued under a different master indenture. See "SUBSTITUTION OF MASTER INDENTURE" herein and "SUMMARY OF THE MASTER INDENTURE – Replacement Master Indenture" in Appendix C hereto.

Brief descriptions and summaries of the Series 2007A Bonds, the Master Indenture, the Loan Agreement and the Trust Agreement are included in Appendix C to this Official Statement. Those descriptions and summaries do not purport to be comprehensive or definitive, and all references in this Official Statement to the Master Indenture, the Loan Agreement and the Trust Agreement are qualified by reference to those documents in their entirety, and all references to the Series 2007A Bonds are qualified by reference to the definitive form of the Series 2007A Bonds contained in the Trust Agreement.

Reserve Fund

The Trust Agreement creates a Reserve Fund for the payment of the principal of and interest on the Series 2007A Bonds in the event that other funds available under the Trust Agreement for payment thereof are insufficient. The Reserve Fund will be funded upon the issuance of the Series 2007A Bonds from bond proceeds in an amount equal to the least of (i) the Maximum Annual Debt Service on the Series 2007A Bonds, (ii) 125% of Average Annual Debt Service on the Series 2007A Bonds and (iii) 10% of the original aggregate principal amount of the Series 2007A Bonds; provided, however, that if the Series 2007A Bonds have original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to reasonable underwriter's compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of calculating the 10% limitation. For a further discussion of the Reserve Fund, see the caption, "SUMMARY OF THE TRUST AGREEMENT – Reserve Fund" in Appendix C hereto.

The Obligated Group

Currently, the Corporation is the only Member of the Obligated Group.

Organized on December 30, 1994, the Corporation was created by the consolidation of the former Medical Center Hospital of Vermont, Inc., Fanny Allen Hospital, Hotel Dieu and the University Health Center, Inc. The Corporation is a Vermont, non-profit corporation. The Corporation, with 562 licensed beds and 58 licensed bassinets system-wide, has historically served patients residing in the State of Vermont and northeastern New York State. The Corporation is the teaching affiliate of the University of Vermont College of Medicine.

For a further description of the Corporation, see "FLETCHER ALLEN HEALTH CARE, INC." in Appendix A to this Official Statement.

Bondholders' Risks

Certain risks associated with the purchase of the Series 2007A Bonds are set forth in the section entitled "BONDHOLDERS' RISKS" herein. Careful evaluation should be made of the risks set forth in such section and elsewhere in this Official Statement concerning the factors which may affect the payment of the principal or redemption price of and interest on the Series 2007A Bonds when due.

Limited Obligations of the Agency

The Series 2007A Bonds are limited obligations of the Agency. The Agency is not obligated to pay the principal of, or the premium, if any, or the interest on, the Series 2007A Bonds except from revenues and receipts derived in respect of Obligation No. 11 as described above, the Loan Agreement and the money attributable to proceeds of the Series 2007A Bonds and the income from the investment thereof and, under certain circumstances, proceeds of insurance, sale and condemnation awards and proceeds derived from the exercise of remedies. The Agency has no taxing power. The Series 2007A Bonds do not constitute or create any debt, liability or obligation of the State or any political subdivision or instrumentality thereof (other than the Agency) or a pledge of the faith and credit of the State or any political subdivision or agency of the State, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged as security for the payment of the principal of, or premium, if any, or the interest on the Series 2007A Bonds.

Miscellaneous

Copies of the Trust Agreement, the Loan Agreement, the Master Indenture and Obligation No. 11 are available for inspection at the principal corporate trust office of the Bond Trustee. All inquiries should be directed in writing to the Bond Trustee at Chittenden Trust Company, Corporate Trust, Two Burlington Square, Burlington, Vermont 05401 Attention: Corporate Trust Department.

THE AGENCY

The Agency was created as a body corporate and politic constituting a public instrumentality of the State of Vermont for the purpose of exercising the powers conferred on it by virtue of the Act. The purpose of the Agency is essentially to assist certain health care and educational institutions in the acquisition, construction, financing and refinancing of their related projects.

Agency Membership and Organization

Under the Act, the Board of the Agency consists of the Commissioner of Education of the State, the State Treasurer, the Secretary of Administration of the State and the Secretary of Human Services Agency of the State, all *ex officio*, seven members appointed by the Governor of the State, with the advice and consent of the Senate, for terms of six years, and two members appointed by the members appointed by the Governor for terms of two years. The members of the Board annually elect a Chair, a Vice Chair, a Treasurer and a Secretary. The day-to-day administration of the Agency is handled by the Executive Director of the Agency. The present officers and members of the Agency and their places of business or residences are set forth below.

Officers

James B. Potvin, Chairman
Stevens, Wilcox, Baker, Potvin,
Cassidy & Jakubowski
Rutland, Vermont

Dawn D. Bugbee, Vice Chair
Vice President and Chief Financial Officer
Green Mountain Power Corporation
Colchester, Vermont

Jeb Spaulding, Treasurer
State Treasurer
Montpelier, Vermont

Peter A. Sherlock, Secretary
Sherlock Investment Management
Brattleboro, Vermont

Ex-Officio Members

Jeb Spaulding
State Treasurer
Montpelier, Vermont

Michael K. Smith
Secretary of the Agency of Administration
Montpelier, Vermont

Richard Cate
Commissioner of Education
Montpelier, Vermont

Cynthia D. LaWare
Secretary of the Agency of Human Services
Waterbury, Vermont

Appointed and Elected Members

Dawn D. Bugbee, Vice Chair
Vice President and Chief Financial Officer
Green Mountain Power Corporation
Colchester, Vermont

Kenneth Gibbons
President
Union Bank
Morrisville, Vermont

Edward Ogorzalek
Chief Financial Officer
Rutland Regional Medical Center
Rutland, Vermont

James B. Potvin
Certified Public Accountant
Stevens, Wilcox, Baker, Potvin,
Cassidy & Jakubowski
Rutland, Vermont

Neil G. Robinson
Vice President for Finance
St. Michael's College
Colchester, Vermont

Mary Pat Scarpa
Vice President, Private Banking
KeyBank
Burlington, Vermont

Peter A. Sherlock
President
Sherlock Investment Management
Brattleboro, Vermont

Stuart W. Weppler
Financial Consultant
Morrisville, Vermont

Executive Director

Robert Giroux
Executive Director
Vermont Educational and Health
Buildings Financing Agency
58 East State Street
Montpelier, Vermont

Deppman & Foley, P.C., Middlebury, Vermont, is general counsel to the Agency.

Sidley Austin LLP, New York, New York, is Bond Counsel to the Agency and will submit its approving opinion with regard to the legality of the Series 2007A Bonds in substantially the form attached hereto as Appendix D.

Public Financial Management, Boston, Massachusetts, is the financial advisor to the Agency.

Financing Programs of the Agency

The Agency was duly created under the Act as a body corporate and politic constituting a public instrumentality of the State of Vermont. The Act empowers the Agency, among other things, to finance or assist in the financing of eligible institutions, through financing agreements, which may include loan agreements, lease agreements, conditional sales agreements, purchase money mortgages, installment sale contracts, and other types of contracts to acquire property, both real and personal, including leasehold and other interests in land, necessary or convenient for its corporate purposes; to acquire or make loans with respect to facilities, including buildings, improvements to real property, equipment, furnishings appurtenances, utilities and other property, determined by the Agency to be necessary or convenient in the operation of any eligible institution; to lease or to make loans with respect to such facilities to any such eligible institution; and to issue refunding bonds of the Agency whether the bonds to be refunded have or have not matured.

The Agency has heretofore authorized and issued numerous series of its bonds and notes. All outstanding Agency bond and note issues, except the Series 1994 Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2004A Bonds and the Series 2004B Bonds, have been authorized and issued pursuant to financing documents separate from and unrelated to the Loan Agreement and the Trust Agreement for the Series 2007A Bonds and are payable from certain revenues other than those pledged for payment of the Series 2007A Bonds. Inasmuch as each such series of bonds and notes of the Agency is secured separately from all other bonds and notes issued thereby, the moneys on deposit in the respective funds (including cash and securities in the respective reserve accounts) established to provide for the timely payment of the debt service requirements on the various issues of outstanding bonds and notes of the Agency cannot be commingled or be used for any purpose other than servicing the requirements of the specific series of bonds or notes in connection with which such funds were created.

The Agency under the Act may issue from time to time other bonds and notes under separate resolutions to assist certain health care and educational institutions in the acquisition, construction, financing and refinancing of their related projects payable from revenues derived by the Agency from such institutions.

Other than with respect to the description of the Agency provided herein, and the information with respect to the Agency under "LITIGATION" herein, the Agency has not prepared or reviewed, and expresses no opinion with respect to the accuracy or completeness of, any of the information set forth in this Official Statement.

No recourse shall be had for any claim based on the Series 2007A Bonds, the Loan Agreement or the Trust Agreement against any past, present or future member, officer, employee or agent, as such, of the Agency or of any predecessor or successor corporation, either directly or through the Agency or otherwise, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise.

THE MEMBERS OF THE OBLIGATED GROUP

Currently, the Corporation is the only Member of the Obligated Group. For a discussion of the Corporation, see the information concerning the Corporation included in Appendix A to this Official Statement.

PLAN OF FINANCE

The proceeds of the sale of Series 2007A Bonds will be used to (i) pay, or reimburse the Corporation for paying, the cost of the Project (hereinafter described), (ii) fund a reserve fund for the Series 2007A Bonds, and (iii) pay certain costs incidental to the issuance and sale of the Series 2007A Bonds.

In accordance with the Trust Agreement, a portion of the proceeds of the Series 2007A Bonds will be applied to pay, or reimburse the Corporation for paying, a portion of the costs of the acquisition, construction, refurbishing and equipping of (a) a five-story approximately 511,403 square-foot complex consisting of an ambulatory care facility, inpatient and outpatient operating rooms, laboratory, emergency department, birthing center, patient access center and a variety of outpatient clinical centers, (b) an approximately 64,500 square-foot central plant facility containing emergency generators, air conditioning chillers and a steam plant, (c) the Corporation's portion, consisting of approximately 33,460 square feet, under a joint development plan with the University of Vermont, of an approximately 89,977 square-foot educational center complex consisting of teaching laboratories, simulation rooms, offices, a conference center and an auditorium, (d) a 28-bed inpatient mental health unit consisting of a four-story addition to the Shepardson Building and (e) a four-level approximately 477,162 square-foot underground parking facility consisting of 1,284 parking spaces, all on the Corporation's MCHV Campus (collectively, the "Project"). See "RENAISSANCE PROJECT" in Appendix A hereto.

The Corporation has received certificate of need ("CON") approvals for the Project from the Vermont Department of Banking, Insurance, Securities and Health Care Administration and has received all state and local land use permits and approvals necessary for the commencement of construction of the Project. Construction of the Project was completed in November 2005.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2007A Bonds are expected to be used as follows:

Estimated Sources of Funds	
Par Amount of Series 2007A Bonds	$56,260,000
Plus Net Original Issue Premium	115,337
Total Sources of Funds	$56,375,337
Estimated Uses of Funds	
Deposit to Construction Fund	$50,003,049
Deposit to Debt Service Reserve Fund	5,479,354
Costs of Issuance[(1)]	892,934
Total Uses of Funds	$56,375,337

(1) Includes Underwriter's discount, legal and consulting fees, and other bond issuance costs allocable to the Series 2007A Bonds.

ANNUAL DEBT SERVICE REQUIREMENTS[1]

The following table sets forth, for each calendar year ending December 31, the amounts required each year to be made available for the payment of debt service by the Corporation on the Series 1994 Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2004A Bonds, the Series 2004B Bonds and the Series 2007A Bonds. The principal amounts with respect to the Series 2007A Bonds will be payable on December 1, and interest on the Series 2007A Bonds will be payable on June 1 and December 1.

Year Ending December 31,	Series 1994 Bonds[4]	Series 2000A Bonds	Series 2000B Bonds[5]	Series 2004A Bonds	Series 2004B Bonds[6]	Series 2007A Bonds		Grand Total[2]
						Principal[3]	Interest	
2007	$ 3,160,746	$ 6,419,244	$ 1,613,889	$ 3,600,191	$ 8,302,751		$ 2,257,637	$ 25,354,458
2008	2,972,008	6,432,481	1,775,278	3,626,091	8,772,451		2,656,044	26,234,354
2009	3,119,488	6,398,031	1,613,889	3,638,585	8,608,452	$ 40,000	2,656,044	26,074,489
2010	2,991,797	6,408,581	1,775,278	3,648,210	8,497,200	100,000	2,654,444	26,075,509
2011	3,102,769	6,476,225	1,613,889	3,546,785	8,573,209	115,000	2,650,444	26,078,320
2012	3,036,966	6,482,225	1,775,278	3,552,185	8,431,632	150,000	2,645,844	26,074,129
2013	3,057,118	6,390,475	1,613,889	3,648,585	8,578,318	150,000	2,639,844	26,078,229
2014		9,510,194	1,613,889	3,626,660	8,253,675	440,000	2,633,844	26,078,262
2015		9,531,919	1,775,278	3,606,410	8,656,935		2,616,244	26,186,785
2016		9,563,444	1,613,889	3,576,910	8,229,183	475,000	2,616,244	26,074,669
2017		9,501,569	1,775,278	3,638,410	8,644,076		2,596,650	26,155,983
2018		9,549,594	1,613,889	3,586,160	8,490,057	240,000	2,596,650	26,076,350
2019		9,504,219	1,775,278	3,630,410	8,347,372	235,000	2,586,450	26,078,728
2020		9,561,519	1,613,889	3,576,160	8,505,652	245,000	2,576,463	26,078,682
2021		9,556,319	1,775,278	3,577,910	8,146,137	455,000	2,566,050	26,076,693
2022		9,556,019	1,613,889	3,582,660	8,764,360	15,000	2,546,713	26,078,640
2023		9,514,119	1,613,889	7,919,910	4,366,244	115,000	2,546,000	26,075,161
2024		13,126,819	1,775,278		8,554,108	80,000	2,540,538	26,076,742
2025		13,125,219	1,613,889		8,485,082	315,000	2,536,738	26,075,927
2026		13,123,500	1,775,278		8,358,137	300,000	2,521,775	26,078,689
2027		5,444,213	9,319,570		8,494,803	310,000	2,507,525	26,076,110
2028			14,968,270		8,249,281	365,000	2,492,800	26,075,351
2029			15,041,303		8,109,760	450,000	2,475,463	26,076,526
2030			15,185,329		7,714,962	720,000	2,454,088	26,074,379
2031					23,166,228	490,000	2,419,888	26,076,116
2032					23,065,002	615,000	2,396,613	26,076,614
2033					23,106,105	605,000	2,367,400	26,078,505
2034					23,161,788	575,000	2,338,663	26,075,451
2035						23,765,000	2,311,350	26,076,350
2036						24,895,000	1,182,513	26,077,513
Totals	$21,440,892	$185,175,925	$88,244,749	$65,582,233	$290,632,959	$56,260,000	$74,586,956	$781,923,714

(1) Amounts listed in the chart may vary slightly from actual amounts payable due to rounding variances.
(2) Private loans and capital leases are excluded from the existing debt calculation.
(3) Principal due at either maturity or pursuant to the sinking fund requirements.
(4) Variable rate bonds; interest calculated at the assumed rate of 4.930% (which is the fixed rate paid by the Corporation under a related swap agreement).
(5) Variable rate bonds; interest calculated at the assumed rate of 3.320%.
(6) Variable rate bonds; interest on $135,000,000 principal amount calculated at the assumed rate of 3.755% (which is the fixed rate paid by the Corporation under a related swap agreement) and interest on $33,025,000 principal amount calculated at the assumed rate of 3.320%.

THE SERIES 2007A BONDS

Description of the Series 2007A Bonds

The Series 2007A Bonds are being issued by the Agency under the Act and pursuant to the Trust Agreement, will be dated their date of delivery and will bear interest from such date of delivery, payable on June 1, 2007 and semiannually thereafter on December 1 and June 1 in each year (each an "Interest Payment Date"). The Series 2007A Bonds will bear interest at the rates per annum and mature on the dates and in the amounts set forth on the inside cover page hereof. The Series 2007A Bonds will be subject to the redemption provisions set forth below.

The Series 2007A Bonds are issuable as fully registered bonds in the denomination of $5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as nominee for DTC. DTC will act as a securities depository for the Series 2007A Bonds. Purchases of the Series 2007A Bonds will be made in book-entry form. See "THE SERIES 2007A BONDS - Book-Entry Only System" herein.

As long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2007A Bonds, payments of principal of, redemption premium, if any, and interest on the Series 2007A Bonds will be made directly to Cede & Co. Interest on the Series 2007A Bonds which is payable and is punctually paid or provided for on any Interest Payment Date will be paid to each person who is a registered owner as of the 15th day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date (a "Regular Record Date").

Redemption

The Series 2007A Bonds are subject to optional and extraordinary redemption, as described below.

Optional Redemption: The Series 2007A Bonds are subject to redemption by the Agency prior to maturity, at the direction of the Hospital Representative (as defined in the Loan Agreement), on or after December 1, 2016, in whole or in part (by lot within a maturity) on any date at par plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption: The Series 2007A Bonds maturing on December 1, 2036 are subject to mandatory redemption in part by lot on December 1 in the years and amounts set forth below at a redemption price equal to 100% of the principal amount of the Series 2007A Bonds to be redeemed plus accrued interest to the date of redemption, all in the manner provided in the Trust Agreement.

Year	Amount	Year	Amount
2022	$ 15,000	2030	$ 720,000
2023	115,000	2031	490,000
2024	80,000	2032	615,000
2025	315,000	2033	605,000
2026	300,000	2034	575,000
2027	310,000	2035	23,765,000
2028	365,000	2036*	24,895,000
2029	450,000		

*Maturity.

The amounts accumulated for each sinking fund installment may be applied by the Bond Trustee prior to the 45th day preceding the due date of such sinking fund installment to the purchase of such Series 2007A Bonds at a price not exceeding the principal amount thereof, plus accrued interest to the date of purchase. To the extent that the principal amount of the Series 2007A Bonds so purchased exceeds the sinking fund installment due on the next succeeding December 1, future sinking fund installments set forth above may be reduced by the amount of such excess in the years and amounts designated by the Corporation.

Extraordinary Redemption: The Series 2007A Bonds are also subject to redemption prior to maturity in whole or in part on any date by the Agency, at the direction of the Hospital Representative, upon the occurrence of certain events set forth below. Any such redemption shall be made at a redemption price equal to 100% of the principal amount of the Series 2007A Bonds to be redeemed, plus accrued interest to the redemption date.

The Corporation shall have the option to prepay the unpaid aggregate amount of the Loan in whole at such price or in part at such price on any date upon the occurrence of any damage to or destruction of all or any part of the Property and Equipment by fire or casualty, or loss of title to or use of all or any part of the Property and Equipment as a result of the failure of title or as a result of Eminent Domain proceedings or proceedings in lieu thereof if such damage, destruction, loss of title or loss of use cause such Property and Equipment to be impracticable to operate; provided, however, that any redemption in part shall be in the aggregate principal amount of not less than $100,000. The Corporation shall have the option to prepay the unpaid aggregate amount of the Loan in whole at such price on any date if there are changes to the Constitution of the United States of America or of the State or of legislation or administrative action, or failure of administrative action by the United States of America or the State or any agency or political subdivision of either thereof, or by reason of any judicial decision, to the extent that (i) the Loan Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed on the date of the Loan Agreement are imposed on the Corporation.

General Redemption Provisions

The Series 2007A Bonds may be redeemed only in whole multiples of $5,000. The Bond Trustee will select the Series 2007A Bonds to be redeemed in accordance with the terms and provisions of the Trust Agreement.

If less than all of the Series 2007A Bonds of any maturity are to be called for redemption, the Bond Trustee is to select by lot, in such manner as the Bond Trustee in its discretion may determine, the Series 2007A Bonds to be redeemed within each maturity, each $5,000 portion of principal being counted as one Series 2007A Bond for this purpose; provided that for so long as the only Holder is a Securities Depository Nominee, such selection will be made by the Securities Depository. If less than the principal amount of a Series 2007A Bond is called for redemption, the Agency is to execute and the Bond Trustee is to authenticate and deliver, upon surrender of such Series 2007A Bond, without charge to the Holder thereof in exchange for the unredeemed principal amount of such Series 2007A Bond at the option of such Holder, Series 2007A Bonds in any of the Authorized Denominations or, if the Series 2007A Bonds are held in the Book-Entry System, the Securities Depository shall, acting pursuant to its rules and procedures, reflect in the Book-Entry System the partial redemption and the Bond Trustee shall either (i) exchange the Series 2007A Bond or Series 2007A Bonds held by the Securities Depository for a new Series 2007A Bond or Series 2007A Bonds in the appropriate principal amount, if such Bond is presented to the Bond Trustee by the Securities Depository, or (ii) obtain from the Securities Depository a written confirmation of the reduction in the principal amount of the Series 2007A Bonds held by such Securities Depository.

Notice of Redemption

So long as DTC or its nominee is the registered owner of the Series 2007A Bonds, the Bond Trustee, the Agency and Chittenden Trust Company, as the Bond Registrar (the "Bond Registrar") will recognize DTC or its nominee as the registered owner of the Series 2007A Bonds for all purposes, including notices and voting. 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 and regulatory requirements as may be in effect from time to time.

The Bond Trustee shall give notice of redemption to the Holders of Series 2007A Bonds to be redeemed by mail, first-class postage prepaid, not less than 30 days nor more than 60 days prior to the date fixed for redemption.

In the case of an optional or extraordinary redemption of Series 2007A Bonds, the redemption notice may state that (a) it is conditioned upon the deposit of moneys, or Defeasance Obligations, or a combination of both, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the scheduled redemption date or (b) the Corporation retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is rescinded. In the case of a Conditional Redemption subject to the deposit of moneys or Defeasance Obligations, the failure of the Corporation or any other Person to make such moneys or Defeasance Obligations available in part or in whole on or before the scheduled redemption date will not constitute an Event of Default under the Trust Agreement and any Series 2007A Bonds subject to such Conditional Redemption will remain Outstanding. Any Conditional Redemption subject to rescission may be rescinded in whole or in part at any time on or prior to the scheduled redemption date if a Hospital Representative instructs the Bond Trustee in writing to rescind the redemption notice. Any Series 2007A Bonds subject to Conditional Redemption where redemption has been rescinded will remain Outstanding, and the rescission will not constitute an Event of Default under the Trust Agreement.

So long as DTC or its nominee is the registered owner of the Series 2007A Bonds, any failure on the part of DTC or failure on the part of a nominee of a Beneficial Owner (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected, will not affect the validity of the redemption of such Series 2007A Bonds.

Payment of Redeemed Bonds

Notice having been given in the manner provided above, Series 2007A Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the redemption price, plus interest accrued and unpaid to the redemption date. If moneys or Defeasance Obligations, or a combination of both, sufficient to pay the redemption price of the Series 2007A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, are held by the Bond Trustee in trust for the Holders of Series 2007A Bonds to be redeemed, interest on the Series 2007A Bonds called for redemption will cease to accrue, such Series 2007A Bonds will cease to be entitled to any benefit or security under the Trust Agreement or to be deemed Outstanding and the Holders of such Series 2007A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof, plus accrued interest to the date fixed for redemption.

Book-Entry Only System

The information in this section has been provided by DTC and is not deemed to be a representation of the Agency, the Underwriter, the Bond Trustee or any Member of the Obligated Group.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2007A Bonds. The Series 2007A Bonds will be issued as fully-registered securities 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 Series 2007A Bond certificate will be issued for each maturity of the Series 2007A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 Exchange Act (hereinafter defined). DTC holds and provides asset servicing for over 2.2 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 (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are collectively referred to as "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.

Purchases of Series 2007A Bonds under the Book-Entry-Only System must be made by or through Direct Participants, which will receive a credit for the Series 2007A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007A Bond (the "Beneficial Owner") is in turn to be recorded in 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 Series 2007A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007A Bonds, except in the event that use of the Book-Entry-Only System for the Series 2007A Bonds is discontinued. See "—Discontinuance of Book-Entry-Only System."

To facilitate subsequent transfers, all Series 2007A 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 Series 2007A 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 Series 2007A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of Series 2007A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2007A Bonds, such as redemptions, tenders, defaults and proposed amendments to the Series 2007A Bond documents. For example, Beneficial Owners of Series 2007A Bonds may wish to ascertain that the nominee holding the Series 2007A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2007A Bonds of the same maturity are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in the Series 2007A Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2007A Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and premium, if any, and interest on the Series 2007A 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 detailed information from the Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, the Company or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

The Agency and the Bond Trustee may treat DTC (or its nominee) as the sole and exclusive registered owner of the Series 2007A Bonds registered in its name for the purposes of payment of the principal or redemption premium, if any, of, or interest on, the Series 2007A Bonds, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Series 2007A Bonds, or other action to be taken by registered owners and for all other purposes whatsoever. Neither the Agency, the Corporation nor the Bond Trustee shall have any responsibility or obligation to any Participant, any person claiming a beneficial ownership interest in the Series 2007A Bonds under or through DTC or any Participant, or any other person which is not shown on the registration books of the Agency (kept by the Bond Registrar) as being a registered owner, with respect to the accuracy of any records maintained by DTC or any Participant; the payment by DTC or any Participant of any amount in respect of the principal, redemption premium, if any, or interest on the Series 2007A Bonds; any notice which is permitted or required to be given to registered owners thereunder or under the conditions to transfers or exchanges adopted by the Agency; or other action taken by DTC as a registered owner.

Discontinuance of DTC Services

DTC may discontinue providing its service as securities depository with respect to the Series 2007A Bonds at any time by giving reasonable notice to the Agency and the Bond Trustee and discharging its responsibilities with respect thereto under applicable law, or the Agency or the Bond Trustee may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Agency may retain another securities depository for the Series 2007A Bonds or may direct the Bond Trustee to deliver bond certificates in accordance with instructions from DTC or its successor. If the Agency directs the Bond Trustee to deliver such bond certificates, such Series 2007A Bonds may thereafter be exchanged for an equal aggregate principal amount of Series 2007A Bonds in other authorized denominations and of the same series and maturity as set forth in the Trust Agreement, upon surrender thereof at the principal corporate trust office of the Bond Trustee, who will then be responsible for maintaining the registration books of the Agency.

Certain of the information contained in the preceding paragraphs of this subsection "Book-Entry Only System" has been extracted from information given by DTC. Neither the Agency, the Corporation, the Bond Trustee nor the Underwriter makes any representation as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AGENCY BELIEVES TO BE RELIABLE, BUT THE AGENCY, THE CORPORATION, THE BOND TRUSTEE AND THE UNDERWRITER TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY THE AGENCY, THE CORPORATION, THE BOND TRUSTEE OR THE UNDERWRITER AS TO THE COMPLETENESS OR ACCURACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF. NO ATTEMPT HAS BEEN MADE BY THE AGENCY, THE CORPORATION, THE BOND TRUSTEE OR THE UNDERWRITER TO DETERMINE WHETHER DTC IS OR WILL BE FINANCIALLY OR OTHERWISE CAPABLE OF FULFILLING ITS OBLIGATIONS. NEITHER THE AGENCY NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO SUCH DTC PARTICIPANTS, INDIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS. PAYMENTS MADE TO DTC OR ITS NOMINEE SHALL SATISFY THE AGENCY'S OBLIGATION UNDER THE ACT AND THE TRUST AGREEMENT TO THE EXTENT OF SUCH PAYMENTS.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007A BONDS

Master Trust Indenture and Security Therefor

Principal of and interest and any premium on the Series 2007A Bonds will be payable from moneys paid by the Corporation pursuant to the Loan Agreement and by the Obligated Group pursuant to Obligation No. 11. Payment of Obligation No. 11 will be the joint and several obligation of the Members of the Obligated Group under the Master Indenture. Pursuant to the Trust Agreement, the Agency has, for the benefit of the owners of the Series 2007A Bonds, assigned all of the Agency's right, title and interest in and to the Loan Agreement (subject to the reservation of certain rights of the Agency, including its rights to notices, payment of certain expenses and indemnity), all of the Agency's right, title and interest in and to Obligation No. 11, all of the Agency's rights under the Master Indenture as the owner of Obligation No. 11 and all moneys and securities in the Bond Fund, the Redemption Fund and the Reserve Fund established under the Trust Agreement, to the Bond Trustee in trust.

Pursuant to the Master Indenture, as security for the payment of the amounts due on the Obligations issued under the Master Indenture, the Corporation has (i) granted the Mortgage to the Master Trustee and (ii) pledged and granted, and any other future Members of the Obligated Group will pledge and grant, a security interest in Pledged Assets to the Master Trustee. The Pledged Assets consist of the Gross Receipts of the Members of the Obligated Group and all proceeds thereof. "Gross Receipts" means for any period all Accounts and all revenues, income, receipts and other money (other than proceeds of borrowing) received in such period by or on behalf of any Member of the Obligated Group, including, but without limiting the generality thereof, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Indenture (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets, whether now or hereafter owned, held or possessed by each Member of the Obligated Group, and (d) rentals received from the leasing of real or tangible personal property. The security interest in Pledged Assets has been perfected to the extent, and only to the extent, that such security interest may be perfected by filing financing statements under the Uniform Commercial Code of the State of Vermont (the "UCC"). Continuation statements with respect to such filings must be filed every five years to continue the perfection of such security interest. The security interest in Pledged Assets is subject to Permitted Liens that existed prior to or that may be created subsequent to the time the security interest in Pledged Assets attached and subject to the right of each Member of the Obligated Group to sell Accounts or incur Indebtedness secured by Accounts under certain circumstances, as described more fully in Appendix C. The security interest in Pledged Assets may not be enforceable against third parties unless Pledged Assets are transferred to the Master Trustee (which transfer Members of the Obligated Group are required to make only if requested by the Master Trustee after a default under the Master Indenture) and is subject to certain exceptions under the UCC. The enforcement of the security interest in Pledged Assets may be further limited by the following: (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal or State statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction, (v) federal bankruptcy laws, State of Vermont receivership or fraudulent conveyance laws or similar laws affecting creditors' rights that may affect the enforceability of the Master Indenture or the security interest in Pledged Assets and (vi) rights of third parties in Pledged Assets not in the possession of the Master Trustee. See "BONDHOLDERS' RISKS – Enforceability of Remedies" herein.

The actual realization of amounts to be derived upon the enforcement of any security interest securing the Series 2007A Bonds will depend upon the exercise of various remedies specified by the Loan Agreement, the Trust Agreement and the Master Indenture. These and other remedies may, in many respects, require judicial action of a nature that is often subject to discretion and delay. Under existing law, the remedies specified by the Loan Agreement, the Trust Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in those documents. The various legal opinions to be delivered concurrently with the delivery of the Series 2007A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, fraudulent conveyance, reorganization and other laws affecting the enforcement of creditors' rights generally. See "BONDHOLDERS' RISKS – Enforceability of Remedies" herein.

Pursuant to the Master Indenture, the Members of the Obligated Group are subject to covenants under the Master Indenture relating to maintenance of a Long-Term Debt Service Coverage Ratio and concerning, among other things, incurrence of Indebtedness, existence of liens on Property, consolidation

and merger, disposition of assets, addition of Members to the Obligated Group and withdrawal of Members from the Obligated Group. See "SUMMARY OF THE MASTER INDENTURE – Particular Covenants" in Appendix C hereto.

THE MASTER INDENTURE PERMITS MEMBERS OF THE OBLIGATED GROUP TO ISSUE OR INCUR ADDITIONAL INDEBTEDNESS EVIDENCED BY OBLIGATIONS THAT WILL SHARE THE SECURITY FOR THE PRIOR OBLIGATIONS AND OBLIGATION NO. 11 ON A PARITY WITH THE PRIOR OBLIGATIONS AND OBLIGATION NO. 11. SUCH ADDITIONAL OBLIGATIONS WILL NOT BE SECURED BY THE MONEY OR INVESTMENTS IN ANY FUND OR ACCOUNT HELD BY THE BOND TRUSTEE FOR THE SECURITY OF THE SERIES 2007A BONDS.

The Mortgage

The Corporation has executed and delivered the Mortgage to the Master Trustee. The Mortgage secures the payments required to be made by the Corporation pursuant to the Obligations issued under the Master Indenture. The distribution of proceeds from the enforcement or foreclosure of the Mortgage will be pro rata based on the outstanding principal amount of the Indebtedness secured by the Mortgage, thereby placing such Indebtedness on a parity with respect to foreclosure proceeds regardless of the order of priority of the liens granted under the Mortgage. The Members of the Obligated Group may issue additional Obligations which will be secured on a parity by the Mortgage.

Debt Service Reserve Fund

There is created under the Trust Agreement a Reserve Fund for the payment of the principal of and interest on the Series 2007A Bonds in the event that the other funds available under the Trust Agreement for payment thereof are insufficient. The Reserve Fund will be funded upon the issuance of the Series 2007A Bonds from bond proceeds in an amount equal to the least of (i) the Maximum Annual Debt Service on the Series 2007A Bonds, (ii) 125% of Average Annual Debt Service on the Series 2007A Bonds or (iii) 10% of the original aggregate principal amount of the Series 2007A Bonds; provided, however, that if the Series 2007A Bonds have original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to reasonable underwriter's compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of calculating the 10% limitation. For a further discussion of the Reserve Fund see the caption "SUMMARY OF THE TRUST AGREEMENT – Reserve Fund" in Appendix C hereto.

Limited Obligations

The Series 2007A Bonds are limited obligations of the Agency. The Agency is not obligated to pay the principal of, or the premium, if any, or the interest on, the Series 2007A Bonds except from revenues and receipts derived in respect of Obligation No. 11 as described above, the Loan Agreement and the money attributable to proceeds of the Series 2007A Bonds and the income from the investment thereof and, under certain circumstances, proceeds of insurance, sale and condemnation awards and proceeds derived from the exercise of remedies. The Agency has no taxing power. **THE SERIES 2007A BONDS DO NOT CONSTITUTE OR CREATE ANY DEBT, LIABILITY OR OBLIGATION OF THE STATE OF VERMONT OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF (OTHER THAN THE AGENCY) OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION OR AGENCY OF THE STATE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION OR ANY AGENCY THEREOF IS**

PLEDGED AS SECURITY FOR THE PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, OR THE INTEREST ON THE SERIES 2007A BONDS.

SUBSTITUTION OF MASTER INDENTURE

The Master Indenture provides that each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds shall surrender such Obligation to the Master Trustee and each Related Bond Trustee for Related Bonds shall, with the prior written consent of the bond insurer or credit facility provider, if any, for such Related Bonds, and with the consent of a majority of the Series 2007A Holders (so long as the Series 2007A Bonds are Outstanding) surrender any Obligation issued to secure such Related Bonds to the Master Trustee upon presentation to the Holder or the Related Bond Trustee, as the case may be, of the following:

(a) an original replacement note or similar obligation (the "Substitute Obligation") duly executed, authenticated and issued under and pursuant to an existing or new master trust indenture, trust agreement, bond order, bond resolution or similar instrument (the "Replacement Master Indenture") by which the party or parties purported to be obligated thereby (the "New Group") have agreed to be bound; provided, however, that:

(i) the trustee serving as master trustee under such Replacement Master Indenture (the "New Trustee") will be an independent corporate trustee (which may be the Master Trustee or the Related Bond Trustee) meeting the eligibility requirements of the Master Trustee set forth in the Master Indenture; and

(ii) so long as any Related Bonds issued by the Agency are outstanding, the Replacement Master Indenture shall have been approved by the Agency, unless the Replacement Master Indenture is an existing master trust indenture, trust agreement, bond order, bond resolution or similar instrument to which any member of the New Group is already bound and such Replacement Master Indenture already secures bonds the issuance of which has been authorized or approved, as the case may be, by the Agency, in which case the consent of the Agency will not be required;

(b) an executed counterpart or certified copy of the Replacement Master Indenture pursuant to which each member of the New Group has agreed (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (ii) 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) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation;

(c) an Opinion of Counsel addressed to the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, and the Obligated Group to the effect that: (i) the Replacement Master Indenture has been duly authorized, executed and delivered or has been duly adopted, as the case may be, by each member of the New Group; (ii) the Substitute Obligation has been duly authorized, executed and delivered by each member of the New Group; (iii) the Replacement Master Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, enforceable in accordance with their terms, subject in each case to the customary exceptions for bankruptcy, insolvency, fraudulent conveyance and other laws generally affecting enforcement of creditors' rights and application of general principles of equity; (iv) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Indenture have been complied with and satisfied; and (v) the registration of the

Substitute Obligation under the Securities Act of 1933, as amended, and qualification of the Replacement Master Indenture under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said Acts have been complied with;

(d) an Officer's Certificate certifying to the effect that (i) the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Indenture for the incurrence of one dollar ($1.00) of additional Long-Term Indebtedness described in the Master Indenture, as demonstrated in such certificate, and (ii) the New Group would not be in default under the provisions of the Master Indenture relating to the limitation on the creation of Liens;

(e) an Opinion of Bond Counsel to the effect that the surrender of the Obligation and the acceptance by the Related Bond Trustee of the Substitute Obligation will not adversely affect the validity of the Related Bonds or any exemption for the purposes of federal or state income taxation to which interest on the Related Bonds would otherwise by entitled;

(f) evidence that (i) written notice of such substitution, together with a copy of such Replacement Master Indenture, has been given by the New Group to each rating agency then maintaining a rating on any Obligation or Related Bonds and (ii) the then current ratings category on each such Obligation or Related Bonds will not be withdrawn or reduced (without regard to any refinement or gradation, numerical modifier or otherwise) by any such rating agency as a result of such substitution; and

(g) such forecasts and other opinions and certificates as the Agency may require and such other opinions and certificates as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, or the bond insurer or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee, the Agency or the bond insurer or credit facility provider, if any, may request.

Notwithstanding such provisions, no Substitute Obligation may extend the stated maturity of, or time for paying interest on, any Obligations surrendered to the Master Trustee or reduce the principal amount of, or the redemption premium or rate of interest payable on, such Obligation or alter any redemption provisions concerning such Obligation without the consent of each Holder of such Obligation evidencing and securing Indebtedness other than Related Bonds affected thereby or the registered owners of all Related Bonds then outstanding affected thereby, as the case may be.

See "BONDHOLDERS RISKS" – Substitution of Security" herein and "SUMMARY OF THE MASTER INDENTURE – Replacement Master Indenture" in Appendix C hereto.

BONDHOLDERS' RISKS

The discussion herein of risks to the registered owners of the Series 2007A Bonds is not intended as dispositive, comprehensive or definitive, but rather is to summarize certain matters which could affect payment on the Series 2007A Bonds. Other sections of this Official Statement, as cited herein, should be referred to for a more detailed description of risks described in this section, which descriptions are qualified by reference to any documents discussed therein. Copies of all such documents are available for inspection at the principal corporate trust office of the Bond Trustee.

As set forth under "SECURITY OF PAYMENT FOR THE SERIES 2007A BONDS" herein, the Series 2007A Bonds are payable solely from payments made to the Bond Trustee by the Corporation under the Loan Agreement and by the Obligated Group from Obligation No. 11.

There is no representation or assurance that the Corporation will generate sufficient revenues to meet its obligations under the Loan Agreement. The realization of future revenues and control of expenses is dependent upon, among other things, the capabilities of the management of the Corporation and the ability of its medical staffs to maximize financial incentives and minimize disincentives under applicable reimbursement systems.

IT SHOULD NOT BE ASSUMED THAT PATIENT UTILIZATION OR REVENUES WILL REMAIN STABLE OR INCREASE. The Corporation expects that it will experience increases in operating costs due to inflation and other factors. There is no assurance that cost increases will be matched by increased patient and other charges in amounts sufficient to generate an excess of revenues over expenses at the levels experienced by the Corporation.

Future amendments to or changes in regulations pertaining to the respective reimbursement systems, future state and Federal funding of health care reimbursement programs, regulation of health care and future economic and other conditions are also unpredictable.

Limited Obligation of the Agency

The Series 2007A Bonds are not a debt or liability of the State or any political subdivision thereof (other than the Agency to the limited extent set forth herein), or a pledge of the faith and credit of the State or any such political subdivision (other than the Agency to the limited extent set forth herein), but are limited obligations of the Agency, payable solely from the revenues received by the Agency from the Corporation in accordance with the Loan Agreement and from the Obligated Group with Obligation No. 11 and the money attributable to proceeds of the Series 2007A Bonds and the income from investment thereof, and under certain circumstances, proceeds of insurance, sale and condemnation awards and proceeds derived from the exercise of remedies. The Agency has no taxing power.

Additional Debt

The Master Indenture permits the issuance of additional Obligations on a parity with Obligation No. 11 and the other outstanding Obligations and also permits incurrence of Additional Indebtedness directly by the Corporation, and other Members of the Obligated Group. The Master Indenture contains certain restrictions on the ability of the Corporation and the other Members of the Obligated Group to encumber property. See the information in APPENDIX C under the captions "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE — Limitation on Creation of Liens" and "— Limitations on Indebtedness."

Federal Government Reimbursement

Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program administered by the Centers for Medicare & Medicaid Services ("CMS" (formerly, the Health Care Financing Administration)), an agency of the United States Department of Health and Human Services ("DHHS"), through contracts with fiscal intermediaries and carriers. Medicaid is a combined federal and state program. Medicare 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. Medicaid is designed to pay providers for care given to the medically indigent, funded by federal and state appropriations, and administered by the various states.

Health care providers have been and will be affected significantly by changes in federal health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The purpose of much of the recent statutory and regulatory activity has been to reduce the rate of increase in health care costs,

particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, some of which have been implemented and some of which will be implemented in the future. The changes to federal government reimbursement programs, taken as a whole, may significantly reduce the amount of payment received by the Members of the Obligated Group.

Medicare Reimbursement of Hospitals. Under the prospective payment system ("PPS"), Medicare pays most hospitals a predetermined rate for each covered inpatient hospitalization. Each such hospitalization is classified into one of several hundred categories of possible treatments or conditions, known as "diagnosis related groups" ("DRGs"). Hospitals are paid a predetermined amount based on the DRG to which each patient is assigned. The DRG rate is not related to the actual cost to a specific hospital of treating a specific patient. It is a fixed sum, generally based on national cost data. DRG rates may be adjusted on an annual basis as part of the federal budget reconciliation process and are thus subject to deficit reduction activities aimed at the federal budget generally and/or the Medicare program specifically. In August 2006, CMS announced a new final rule for reforming hospital inpatient PPS. This rule affects discharges on or after October 1, 2006, although the changes will be phased in over a three-year period. The rule not only contains the most sweeping changes to the DRG system since its implementation in 1983 but could significantly affect the distribution of payments among hospital providers. It is expected that this new DRG method will lead to higher payments to hospitals that can demonstrate they serve more complex, sicker patients, but there is no guarantee that such Medicare reimbursement rates, as they change from time to time, will cover the Corporation's actual costs of providing services to Medicare patients.

Included as part of the hospital inpatient PPS is a transfer payment policy pursuant to which a hospital that transfers a Medicare beneficiary with a specifically designated DRG to a post-acute setting or home health agency would be paid a graduated per diem rate rather than the applicable DRG amount. However, such per diem amount would not exceed the full applicable DRG amount. The receiving facility would be reimbursed on the basis of its applicable PPS amount. Effective for cost reporting periods beginning on or after October 1, 2005, the list of designated DRGs expanded from 30 to 182. It is unclear whether this policy change will adversely impact Medicare reimbursement received by the Corporation for inpatient services provided to Medicare beneficiaries. For a further discussion of risks relating to Medicare and Medicaid reimbursement, see "HISTORICAL FINANCIAL PERFORMANCE–Sources of Patient Revenue" in Appendix A hereto.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Capital costs are reimbursed exclusively on the basis of a standard federal rate (based upon average national costs of capital), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital.

There can be no assurance that future capital-related PPS payments will be sufficient to cover the actual capital-related costs of the Corporation's facilities applicable to Medicare patient stays or to provide flexibility in meeting changing capital needs.

Outlier Payments. In September 2002, CMS began closely scrutinizing hospital billing practices, focusing in particular on excessive outlier payments, which are made to reimburse hospitals in complex cases where the cost of providing care greatly exceeds the payment rate under the PPS. Hospitals receiving a large proportion of their Medicare revenues as outlier payments will have an increased chance of triggering a review by CMS, not only of their outlier payments, but also of all their billing practices. To the extent that the Corporation receives a substantial proportion of its Medicare revenues as outlier payments, it may be subject to fiscal intermediary review, including a comprehensive field audit, a uniform charge review, a medical review and a review of inpatient claims by the appropriate

quality improvement organization. It is difficult to predict the outcome of any investigation, but a negative outcome could be material. Effective August 8, 2003, CMS changed the methodology for determining outlier payments under the hospital inpatient PPS to ensure that hospitals cannot inappropriately manipulate outlier payments. There can be no guarantee that declines in reimbursement as a result of such changes will not be material.

Hospital Outpatient Services. Outpatient services are paid under the Outpatient Prospective Payment System ("OPPS") on the basis of predetermined rates based on the ambulatory payment classification ("APC") of such service. Services provided at the Corporation that fall outside OPPS are physical, occupational and speed therapies, laboratory, screening mammograms and ambulance. There is no guarantee that the APC outpatient service rates, as they may change from time to time, will be adequate to cover each Member of the Obligated Group's actual cost of providing services to Medicare patients.

Reimbursement to the Corporation has declined since the implementation of APC payment rates. There can be no guarantee that APC payment rates will not continue to decline in the future or that such declines in reimbursement will not be material.

Reimbursement for Rehabilitation and Psychiatric Services. PPS payments for inpatient services provided by rehabilitation hospitals or units transitioned to an adjusted federal PPS rate for the cost reporting period beginning on or after October 1, 2002. One requirement for classification as an Inpatient Rehabilitation Facility (IRF) is meeting the compliance percentage threshold, which CMS started reinforcing in 2004 after repealing a moratorium. The compliance percentage threshold requires that a specific percentage threshold of an IRF's total patient population must require intensive rehabilitation services for the treatment of one or more of 13 specified conditions. The compliance percentage threshold is currently set at 65%, and will increase to 75% beginning with the Corporation's fiscal year beginning October 1, 2007. There is no guarantee that revenue received by the Members of the Obligated Group for providing inpatient rehabilitation services to Medicare beneficiaries will be sufficient to cover the costs of providing that care.

Until 2005, psychiatry services were reimbursed on the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) cost-based method that uses a target amount per discharge and settles based on actual cost per discharge vs. target amount per discharge. The Corporation made a decision in 2005 to convert to the DRG reimbursement methodology for these services.

Medicare Graduate Medical Education. Medicare pays for direct graduate medical education ("GME") costs for teaching hospitals with an approved medical residency-training program. GME reimbursement amount is determined by using the weighted average number of full-time equivalent ("FTE") residents in the program multiplied by a hospital-specific base year adjusted per resident amount and the number of Medicare inpatient bed days associated with each cost reporting period.

Medicare also reimburses prospective payment hospitals for indirect costs of providing medical education ("IME"). Medical education reimbursement is intended to offset the costs incurred by hospitals in delivering patient care that are attributable to their teaching missions. These costs include the overall complexity of cases treated at teaching hospitals and the associated costs attributable to the training and teaching of medical residents in teaching programs. There can be no assurance that payments to the Corporation for providing medical education will be adequate to cover the cost attributable to graduate medical education programs. See "HISTORICAL FINANCIAL PERFORMANCE– Sources of Patient Revenue" in Appendix A hereto.

Medicare Area Wage Index. Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("DIMA"), the Corporation was reclassified for purposes of the Medicare

Area Wage Index to the Boston Metropolitan Statistical Area (since reconfigured into Core-Based Statistical Area (CBSA) Boston-Quincy). The reclassification, which has had a favorable reimbursement impact, will expire on September 30, 2007, unless extended. Although the Corporation will seek federal legislative relief to extend or make permanent its area wage index reclassification before the current reclassification expires, there can be no assurance that any timely legislative relief will be available. On an annual basis, loss of the reclassification could significantly reduce reimbursement to the Corporation.

Medicaid Program. The State Medicaid program reimburses the Corporation for inpatient services based on per diem rates, which are updated annually. Outpatient services are reimbursed based on a prospectively determined rate and are settled based on the Medicare Cost Report.

On October 13, 2006, the State Medicaid office (the Office of Vermont Health Access) contracted with Burns & Associates, Inc., of Phoenix, Arizona, for consultative assistance and advice in updating Medicaid's inpatient and outpatient payment methodology. It is impossible to predict the impact any such payment changes to the Medicaid reimbursement structure will have on the Corporation's revenues.

Limitations on Contractual and Other Arrangements Imposed by Fraud and Abuse Statutes

There is an expanding and complex body of laws, regulations and policies relating to federal and state health programs that is not directly related to payment. These include reporting and other technical rules, as well as broadly stated prohibitions regarding inducements for referrals, all of which carry potentially significant penalties for noncompliance. The prohibitions on inducements for referrals are broadly drafted (and broadly interpreted by several applicable federal cases and in statements by officials of the Office of the Inspector General (the "OIG") of the U.S Department of Health and Human Services, which is charged with enforcement) and may create liability in connection with a wide variety of business transactions.

Limited "safe harbor" regulations provide defenses for a narrow scope of arrangements in case of prosecution or administrative enforcement action, although failure to satisfy the conditions of a safe harbor does not necessarily indicate a violation of the statute. Activities that fall outside of the safe harbor rules include a wide range of activities frequently engaged in between hospitals and physicians and other third parties. Violations may result in civil and criminal penalties. In certain instances, private individuals may also bring suit under the qui tam provisions of the False Claims Act and may be eligible for incentive payments for providing information that leads to recoveries or sanctions. Civil penalties range from monetary fines that may be levied on a per-violation basis to temporary or permanent exclusion from the federal health programs (which account for a significant portion of revenue and cash flow of most hospitals, including the Corporation). Criminal penalties may also be imposed. If determined adversely to a hospital, an enforcement or qui tam action could have a materially adverse effect on such hospital. These penalties may be applied to many cases in which hospitals and physicians conduct joint business activities; practice purchases; physician recruiting and retention programs; various forms of hospital assistance to individual physicians and medical practices or the physician contracting entities; physician referral services; hospital-physician service or management contracts; and space or equipment rentals between hospitals and physicians.

The Corporation conducts activities of these general types or similar activities, which pose varying degrees of risk under the restrictions discussed above. Much of the risk cannot be assessed accurately due to the lack of case law or material guidance by the OIG, although the OIG has issued advisory opinions on the applicability of certain aspects of the anti-kickback laws to specific proposed transactions.

Billing Audits

The OIG and the United States Department of Justice are conducting a nationwide review of Medicare Part B billings by physician group practices and employed physicians at teaching hospitals. The review has focused on whether documentation in patient medical records shows that teaching physicians for whose services claims were submitted were sufficiently involved in the services rendered by or with the resident so as to be eligible for Medicare reimbursement under Medicare regulations as interpreted by Intermediary Letter – 372, an instruction from HCFA to local fiscal intermediaries issued in 1969. The review has also focused on whether documentation in patient medical records supports the level of care that was billed (so-called "up-coding").

Limitations on Certain Patient Referrals

The federal Ethics in Patient Referrals Act (the "Stark Law") generally prohibits a physician who has a financial relationship with an entity such as a hospital from making referrals to that entity for "designated health services" if payment may be made under the Medicare or Medicaid program. If such financial relationship exists, referrals are prohibited unless a statutory exception is met. Violations of the Stark Law can result in denial of payment, substantial civil money penalties and exclusion from the Medicare and Medicaid programs. "Designated health services" include inpatient and outpatient hospital services, physical and occupational therapy services, radiology or other diagnostic services, clinical laboratory services, radiation therapy services, durable medical equipment, parenteral and enteral nutrients, prosthetics, home health services and outpatient prescription drugs.

Exceptions exist for certain arrangements, including arrangements with hospitals in which the remuneration paid is unrelated to the provision of any of the listed services. However, the failure of arrangements between a hospital and a physician to fall within one or more of these exceptions could have a materially adverse effect on the Corporation.

Medicare and Medicaid fraud and abuse safe harbors for managed care activities, previously issued as an interim final rule, recently have been revised and reissued in a final rule. The managed care safe harbors, while affording protection to some managed care arrangements, draw attention to the fact that a variety of standard managed care practices which had not previously been considered unlawful may be at risk under the Medicare Anti-Fraud and Abuse provisions. That is because these provisions prohibit remuneration to influence referrals, whereas the essence of managed care arrangements is to provide participating providers access to patients while requiring or encouraging such providers to make referrals only to other participating providers. Therefore, no assurances can be given as to the effect these provisions or any future proposed restrictions, if enacted, would have on the financial condition of the Corporation.

Federal law also prohibits referrals by physicians of Medicare and Medicaid beneficiaries to facilities (including hospitals) in which the referring physician or an immediate family member has an ownership or financial interest.

Tax Audits

Taxing authorities have recently been conducting general tax audits of non-profit organizations to confirm that such organizations are in compliance with applicable tax rules and in some instances have collected significant payments as part of the settlement process. Although the Corporation is not the subject of any such audit at this time, other medical institutions throughout the country have been the subject of such audits and no assurance can be given that the Corporation will not, in the future, be subject to such an audit.

Provider-Specific Taxes

The Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 established standards which govern how states can impose and use provider-specific taxes. In general, states are allowed to impose broad-based, provider-specific taxes that are redistributive and do not contain "hold harmless" provisions. The Balanced Budget Act of 1997 also imposed new requirements including setting a state-specific, upper limit to federal financial participation in any state disproportionate share program. Vermont has imposed a provider-specific tax since 1992 and also adopted a state-specific disproportionate share program. Vermont's disproportionate share program distributes more funds to hospitals than is generated from the tax.

Affiliation, Merger, Acquisition and Divestiture

The Corporation evaluates and pursues potential merger and affiliation candidates and joint venture arrangements on a periodic basis as part of its overall strategic planning and development process. As part of its ongoing planning and property management functions, the Corporation reviews the use, compatibility and financial viability of many of its operations, and from time to time, may pursue changes in the use of, or disposition of, its facilities. Likewise, the Corporation may receive offers from, or conduct discussions with, third parties about the potential acquisition of operations or properties that may become part of the Corporation in the future, or about the potential sale of some of the operations and properties of the Corporation. Discussions with respect to affiliation, merger, acquisition, disposition, or change of use, including those that may affect the Corporation, are held on an intermittent, and usually confidential, basis with other parties and may include the execution of non-binding letters of intent. As a result, it is possible that the assets currently owned by the Corporation may change from time to time, subject to the provisions of the financing documents that apply to merger, sale, or disposition or purchase of assets.

Legislative Activities Relating to Nonprofit Corporations

If enacted, certain legislative actions could have an adverse effect on the Corporation, including: (a) any change in the taxation of nonprofit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax-exempt financing for organizations described in Section 501(c)(3) of the Code; (c) regulatory limitations affecting the ability of the Corporation to undertake capital projects or develop new services; and (d) a requirement that nonprofit health care institutions pay real estate property tax and sales and use tax on the same basis as for profit entities.

Managed Care/Commercial Insurers

The Corporation contracts with preferred provider and health maintenance organizations, commercial insurers, and other third-party payors. Generally, a preferred provider organization ("PPO") is a group of health care providers who have contractual arrangements with third party payors, including insurers, to provide specific or full-scope services at a negotiated price to a defined group of patients. A health maintenance organization ("HMO"), on the other hand, is responsible for and directly assumes the financial risk of providing health care services to its members in return for a set prepaid monthly premium. The Corporation contracts with commercial insurers to provide patient services to insureds. Contracts with these payors are becoming increasingly similar to contracts with managed care plans, and frequently reflect negotiated discounted rates and impose utilization and quality controls.

Most PPOs, HMOs and insurers currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care, or at a fixed rate based upon the number of members of the HMO (regardless of the number and types of admissions and care provided). The discounts offered to

HMOs, PPOs and insurers may result in payment at less than actual cost, and the volume of patients and the types of required medical services directed to a hospital under an HMO, PPO and/or insurer contract may vary significantly from the expectations of the Corporation. Therefore, the future financial consequences of such contracts cannot be predicted with certainty and may be different from the current period or past periods.

Some managed care organizations are offering or mandating a "capitation" payment method under which the hospital is paid a predetermined periodic rate for each enrollee in the managed care program who is "assigned" to or otherwise directed to be cared for by the hospital. In a capitated payment system, the hospital assumes an insurance risk for the cost and scope of care given to such enrollees. If the capitation payment is insufficient to meet the hospital's costs of care, the financial condition of the hospital may erode. Further, some managed care contracts may require that the hospital care for enrollees for a certain period of time regardless of whether the HMO or PPO has funds to pay to the hospital. In cases where a managed care organization is a major purchaser of services from a particular hospital, a contract rate reduction, contract cancellation, inability to pay, business failure or bankruptcy of the managed care program may have a substantial negative effect on the Corporation's financial condition. See "HISTORICAL FINANCIAL PERFORMANCE–Sources of Patient Revenue – Capitated Contracts" in Appendix A hereto.

Failure to enter into and maintain PPO, HMO and/or insurer contracts could have the effect of reducing the patient base and/or revenue of the Corporation. On the other hand, participation may maintain or increase the patient base, but may result in reduced payments and lower net income. The Corporation may contract with a variety of these programs, but there is no assurance that the Corporation will maintain such contracts at rates providing a favorable return or obtain other similar contracts in the future.

Private Third-Party Payors

It is expected that Blue Cross and Blue Shield and other private third-party payors will continue their efforts to control their costs. Private third-party payors may also encourage the development and use of health maintenance organizations, which are designed to reduce the demand for acute-care hospital services by use of preventive medicine and outpatient treatment.

Competition in Service Area

The Corporation could face increased competition in the future from other hospitals and health care providers, as well as from HMOs, which may be better capitalized and could offer comparable health care services to the population now served by the Corporation. Such increased competition could include the institution of new health care services and the construction, renovation or merger of hospitals, HMOs, outpatient clinics and surgical centers, private laboratories and radiological services, and others which may offer comparable services at lower prices.

Alternative delivery systems are expected to continue to account for an increasing percentage of the admissions of the Corporation under contracts requiring discounts from charges or payment at negotiated rates. Moreover, other forms of competition may affect the ability of the Corporation to maintain or to improve its market share, including increasing competition: (i) between physicians, who generally use hospitals, and non-physician practitioners such as nurse-midwives, nurse practitioners, chiropractors, and physical and occupational therapists, who may not generally use hospitals; and (ii) from nursing homes, home health agencies, ambulatory care facilities, surgical centers, rehabilitation and therapy centers, physician group practices, and other non-hospital providers of many services for which patients currently rely on hospitals.

Increased Enforcement Affecting Academic Research

In addition to regulations governing protection of human research subjects, CMS issued a National Coverage Decision permitting Medicare coverage for routine health costs of Medicare Beneficiaries in clinical research trials. This coverage decision not only covers the routine costs of clinical trials but also expanded the definition of such cost to include payment for services that were previously not covered under the Medicare program. Any health care system participating in clinical trials must possess a strong understanding of how clinical trials are conducted, which regulations control the clinical trial and what coding and billing rules apply to the applicable clinical trials and services.

HIPAA Administrative Simplification Regulations

HIPAA Administrative Simplification Regulations consist of three distinct components: Privacy Standards, which were effective April 14, 2003; Transaction and Code Set Standards, which were effective October 16, 2003; and, Security Standards, which were effective April 21, 2005. The Corporation has incurred significant expenses in connection with complying with such regulations and could incur significant additional expenses if the regulations were to be revised in the future.

Emergency Medical Treatment and Active Labor Act

The Emergency Medical Treatment and Active Labor Act (EMTALA) was enacted to prohibit the turning away of indigent patients or their transfer to other hospitals for financial reasons. EMTALA requires that all patients presenting to a hospital must receive appropriate screening for emergency medical conditions and if an emergency medical condition exists, stabilize the condition or provide for the patient's "appropriate" transfer. Failure to comply with this law can result in exclusion from participation in federal health care programs, as well as civil monetary penalties, either of which could adversely affect a hospital's financial condition. EMTALA and its implementing regulations are complex, and a hospital's compliance is dependent, in part, upon the volition of independent medical staff members. On September 5, 2003, CMS issued rules clarifying hospital obligations under EMTALA. The rule expands the definition of hospital emergency department to include "any department or facility of the hospital, regardless of whether it is located on or off the main hospital campus, that (i) is licensed by the State in which it is located under applicable State law as an emergency room or emergency department; (ii) is held out to the public as a place that provides care on an emergency medical or urgent care basis or (iii) provides at least one third of all of its outpatient visits for the examination and treatment of emergency medical conditions.

The rule also clarifies the physician "on-call" requirements, now allowing hospitals the discretion to develop their on-call lists in a way that best meets the needs of their communities. Given the complexity of these rules, there is no assurance that no violation of EMTALA will be found or, if found, that any sanction imposed would not have a material adverse effect on the Corporation's operations or financial condition.

Physician Recruitment

The Internal Revenue Service ("IRS") and DHHS have issued various pronouncements that could limit physician recruiting and retention arrangements. In a General Counsel Memorandum, the IRS suggested that tax-exempt hospitals that provide recruiting and retention incentives to physicians risk loss of tax-exempt status unless the incentives are necessary to obtain an overriding public benefit; improvement of a charitable hospital's financial condition does not necessarily constitute such a purpose. The IRS also has issued guidelines for its agents to follow in conducting audits that emphasize these restrictions, and has established special audit teams and procedures to ensure compliance. The OIG has taken the position that any arrangement between a health care program-certified facility and a physician

that is intended to encourage the physician to refer patients may violate the Anti-Kickback Law unless a regulatory exception applies. While the OIG has finalized a practitioner recruitment safe harbor, the safe harbor is limited to practice recruitment in areas that are health professional shortage areas and to the recruitment of new physicians who are relocating their practices. Therefore, the safe harbor does not allow physician retention arrangements. The OIG also has issued an advisory opinion (Opinion No. 01-4) analyzing physician recruiting arrangements and providing further insight into the manner in which it would evaluate and apply the physician recruitment safe harbor.

The Stark Law also is implicated by physician recruiting and retention arrangements. An exception applies to payments from a hospital to a physician to induce the physician to relocate to the hospital's service area and join the hospital's medical staff. The preamble to the Stark II Regulations indicated that the recruited physician must relocate his or her residence in order to qualify. This exception will be subject to Phase II of the Stark II Regulations when issued.

Management of the Obligated Group believes that its physician recruitment program is in material compliance with these policies and does not anticipate any adverse impact on the Obligated Group's future ability to recruit and retain physicians, but no assurance can be given that future regulations such as the expected Phase II of the Stark II Regulations, will not adversely affect these practices.

Technological Changes

Technological and scientific developments, including new or enhanced medical technologies and devices, advanced clinical information systems, and medical research and resulting discoveries, have grown exponentially in the last few decades. These new developments and discoveries add greatly to the Obligated Group's cost of providing services with little or no offsetting increase in federal reimbursement. For example, the Corporation anticipates that it will need to make substantial investments in new technology and clinical information systems over the next several years. In addition, once new drugs secure market approval, they are often included on the list of drugs maintained by hospitals for patient care. These developments may result in increased operating expenses. For the most part, the costs of new technology, drugs and devices are not typically accounted for in the DRG payment received by hospitals for inpatient care. The new PPS system imposed on outpatient services does permit a direct pass-through of certain new technologies defined by the government.

A second potential effect of new technological developments and medical discoveries is that they could render obsolete the way that services are currently rendered thereby either increasing expense or reducing revenues. However, any such effect cannot be predicted.

Vermont Laws Affecting the Health Care Institutions' Revenues and Expenditures

Vermont has a comprehensive regulatory framework for hospitals, including the Corporation, which requires, among other things, certificate of need approvals for certain capital expenditures and new services and approval of annual hospital operating budgets.

Certificate of Need. Under Vermont's Certificate of Need law, any "new health care project" proposed by the Corporation requires a certificate of need ("CON") issued by the Commissioner of the Vermont Department of Banking, Insurance, Securities and Health Care Administration (the "Commissioner"). The CON law defines the term "new health care project" to include: any capital expenditure by or on behalf of a hospital in excess of $3,000,000 (and, in some cases, in excess of $1,500,000); purchase or lease of any single piece of diagnostic or therapeutic equipment with a value in excess of $1,000,000 (and, in some cases, in excess of $750,000); any change (subject to minor exceptions) in the Corporation's licensed bed capacity; and the offering of any new service with an annual

operating cost in excess of $500,000 in either of its first two fiscal years. Receipt of a certificate of need is subject to public review before the Public Oversight Commission, a publicly appointed body of 13 members that makes an advisory recommendation to the Commissioner. Applicants have the burden of satisfying certain statutory criteria relating to need and cost in order to receive a CON. The Corporation received a CON for the Project in November 2003 that is subject to a number of conditions that require monthly and quarterly reporting to the Commissioner. Most of these conditions are still applicable, even though the Project was completed in November 2005. In addition, any material change to the Project requires an amendment to the CON.

Vermont's CON law is rigorously enforced and requires careful planning by the Corporation to assure compliance. Virtually all major capital projects and equipment purchases by the Corporation require careful analysis of the CON implications, and many require review by the Commissioner. The CON review process can result in significant delays in the introduction of new technology and services, including those that may improve the Corporation's net revenues. There can be no assurance that every CON application presented by the Corporation will receive approval, and the denial of a CON application, or the imposition of restrictive CON conditions, can adversely affect the Corporation's planning, competitive strategies and revenues. Violations of the CON law can result in significant penalties and delays in the completion of major initiatives by the Corporation.

Budget Review. Vermont's Budget Review law requires each hospital in Vermont, including the Corporation, to file a proposed annual budget for the forthcoming fiscal year with the Commissioner. The Commissioner then conducts a review of each hospital's proposed budget, and, after hearing input from the hospital and other interested parties, establishes a budget for the hospital. The hospital is required to operate within the budget established by the Commissioner, provided that the Commissioner may, upon application, adjust a budget upon a showing of need based upon exceptional or unforeseen circumstances. If a hospital is exceeding or will exceed its established budget, the Commissioner may maintain a court proceeding to enjoin, restrain or prevent such violation. The Commissioner approved the Corporation's budget for the current fiscal year with several modifications, and the Corporation is operating within the approved budget, as modified. However, there can be no assurance that future budgets of the Corporation will be approved as presented, or that the approved budgets will not constrain the Corporation from achieving its financial objectives.

Recent Changes to Vermont Law. The State of Vermont adopted a number of healthcare reforms during the 2006 legislative session. See "HISTORICAL OPERATIONAL RESULTS–Source of Patient Reserve–Recent Healthcare Reform in Vermont" Appendix A. The overall financial impact of these reforms on the Corporation is unknown at this time.

Risks Related to the Obligations under the Master Indenture

The ability to enforce guaranties or obligations issued by a corporation in favor of the creditors of another, or the obligation of a Member of the Obligated Group to make debt service payments on behalf of another Member of the Obligated Group, may be affected by federal and state laws regarding insolvency, bankruptcy, and similar debtor-relief laws. Thus, the ability to enforce the Master Indenture or any Obligations, including Obligation No. 11, against any Member of the Obligated Group could be subject to challenge. In particular, the obligations of such Member may be voidable under the United States Bankruptcy Code or applicable state fraudulent conveyance laws if the obligation is incurred without the applicable Member of the Obligated Group receiving "reasonably equivalent value" or "fair" or "fairly equivalent" consideration and if the incurrence of such obligation thereby renders such Member insolvent. The standards for determining reasonably equivalent value or the fairness of consideration and the manner of determining insolvency are not clear and may vary under the United State Bankruptcy Code, state fraudulent conveyance statutes and applicable judicial decisions. There is no clear test to determine whether a Member is "insolvent", received "reasonably equivalent value" or "fair

consideration". Thus, it is possible that a court applying the United States Bankruptcy Code or federal and state fraudulent conveyance laws could determine that the Obligations of the Members of the Obligated Group (or payments thereon from such Member) may be voided as a fraudulent conveyance.

It is possible that the security interest granted by a Member of the Obligated Group and the joint and several obligation of a Member of the Obligated Group to make payments due under an Obligation, including Obligation No. 11, relating to bonds issued for the benefit of another Member of the Obligated Group, may be declared void in an action brought by creditors pursuant to the Vermont fraudulent conveyance statutes or may be avoided by a Member of the Obligated Group, a trustee in bankruptcy or creditors in the event of the bankruptcy of the Member of the Obligated Group from which payment is requested. An obligation or transfer may be voided under the United States Bankruptcy Code or under the applicable state fraudulent conveyance statute. The Vermont fraudulent conveyance statute provides that a creditor may avoid a fraudulent transfer or obligation to the extent necessary to satisfy the creditor's claim. A Member of the Obligated Group's joint and several obligation under the Master Indenture to grant a security interest in and to make all payments thereunder, including payments in respect of funds used for the benefit of the other Members of the Obligated Group, may be held to be a "transfer" or an "obligation" which makes such Member "insolvent" in the sense that the total amount due under the Master Indenture could be considered as causing its liabilities to exceed its assets. In addition, one of the Members of the Obligated Group may be deemed to have received less than "fair consideration" for such obligation because only a portion of the proceeds of the indebtedness are to be used to finance facilities occupied or used by such Member of the Obligated Group. While the Members of the Obligated Group may benefit generally from the facilities financed from the indebtedness incurred for the other Members of the Obligated Group, the actual cash value of this benefit may be less than the joint and several obligation.

Upon issuance of the Series 2007A Bonds, the Corporation will be the only Member of the Obligated Group. Although the Master Indenture permits other entities to become Members of the Obligated Group, the Corporation might remain the only Member of the Obligated Group throughout the term of the Series 2007A Bonds. Since it is not known which entities, if any, may become additional Members of the Obligated Group, it is unknown what risks the addition of such entities to the Obligated Group, in light of their financial condition and the nature of their businesses, may present to the Series 2007A Bondholders. See the caption "SUMMARY OF THE MASTER INDENTURE - Parties Becoming Members of the Obligated Group" in Appendix C to this Official Statement.

In addition, Members may withdraw from the Obligated Group, and be released from all obligations previously incurred by the Obligated Group, if certain conditions summarized under the caption "SUMMARY OF THE MASTER INDENTURE - Withdrawal From the Obligated Group" in Appendix C to this Official Statement are met. However, withdrawal of the Corporation from the Obligated Group requires both Agency and bond insurer consent.

In addition, the assets of any Member of the Obligated Group 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 if a Member of the Obligated Group has insufficient assets remaining to carry out its own charitable functions or, under certain circumstances, if the obligations paid by such Member of the Obligated Group were issued for purposes inconsistent with or beyond the scope of the charitable purposes for which such Member was organized. The enforceability of similar master trust indentures has been challenged in jurisdictions outside of Vermont. In the absence of clear legal precedent in this area, the extent to which the assets of any Member of the Obligated Group can be used to pay Obligations issued by other Members of the Obligated Group cannot be determined at this time.

Similarly, payments made by a bankrupt Member of the Obligated Group may be challenged (and, possibly recovered) as a voidable preference under the United States Bankruptcy Code if such

payments were made during the 90-day period prior to the date of the commencement of such Member's bankruptcy case. In addition, a court could determine, if a Member of the Obligated Group granted a security interest in its property as security for payment of the Obligations and later became bankrupt, that such security interest could constitute a voidable preferential transfer to or for the benefit of an insider on account of antecedent debt, within the meaning of Section 547(b) of the United States Bankruptcy Code, which transfer, if made during the one year period prior to the commencement of such Member's bankruptcy case.

The obligations of the Corporation under the Loan Agreement and the obligations of the Members of the Obligated Group under Obligation No. 11 are subject to bankruptcy, insolvency, fraudulent conveyance and other laws affecting creditors' rights generally and the application of general principles of creditors' rights and other debtor relief laws and as additionally described below.

The accounts of the Members of the Obligated Group will be combined for purposes of determining whether certain covenants and tests contained in the Master Indenture (including tests relating to the incurrence of additional Indebtedness) are met, notwithstanding uncertainties as to the enforceability of certain obligations of the Members of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Members of the Obligated Group for payment of debt service on Obligations, including Obligation No. 11, pledged under the Trust Agreement as security for the Series 2007A Bonds.

Enforceability of Remedies

The realization of any rights upon default by the Corporation will depend upon the exercise of various remedies specified in the Loan Agreement and the Master Indenture. These remedies, in certain respects, may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Loan Agreement and the Master Indenture may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in such documents.

The effectiveness of the Loan Agreement and the Master Indenture may be limited by a number of factors, including: (i) the absence of an express provision permitting assignment of payments due the Corporation under the Medicare and Medicaid programs or under the contracts between the Corporation and Blue Cross and Blue Shield, and present or future prohibitions against assignment contained in any Federal statutes or regulations; (ii) statutory liens; (iii) rights arising in favor of the United States of America or any agency thereof; (iv) constructive trusts, equitable or other rights impressed or conferred by a Federal or state court in the exercise of its equitable jurisdiction; and (v) Federal bankruptcy laws that may affect enforceability of such agreements or certain Federal statutes.

Replacement Master Indenture; Substitution of Security

Under certain circumstances, the Master Indenture provides that the Bond Trustee is required to surrender Obligation No. 11 issued under and secured by the Master Indenture for a substitute note or obligation issued under and secured by a Replacement Master Indenture, subject to certain terms and conditions in the Master Indenture being met. The provisions of the Master Indenture relating to such substitution are set forth under "SUBSTITUTION OF MASTER INDENTURE" herein. The conditions required to be met under the Master Indenture to substitute a new note or obligation issued under a Replacement Master Indenture include, among others, (a) that any bond insurer or credit facility provider for the Series 2007A Bonds and a majority of the Series 2007A Holders (so long as the Series 2007A Bonds are Outstanding) consent in writing to such substitution, (b) that an additional one dollar of Long-Term Indebtedness could be incurred under the conditions for the incurrence of additional Long-Term Indebtedness under the Master Indenture, (c) that the Agency approve the Replacement Master Indenture

(except in certain cases where the Replacement Master Indenture has already been authorized or approved by the Agency), and (d) that the then current rating category on the Series 2007A Bonds will not be withdrawn or reduced (without regard to any rating refinement or gradation by numerical modifier or otherwise) by any rating agency then rating the Series 2007A Bonds as a result of such substitution.

Other than meeting the conditions specified in the Master Indenture, the Master Indenture, the Trust Agreement and the Loan Agreement place no restrictions upon when the substitution of the Master Indenture with a Replacement Master Indenture may occur. In addition, there are no requirements as to what provisions the Replacement Master Indenture must contain. In the event that a Replacement Master Indenture is substituted for the Master Indenture, there can be no assurance that the security provisions and covenants contained in the Master Indenture would be included in the Replacement Master Indenture. The Replacement Master Indenture could, among other things, eliminate or modify the provisions and covenants in the Master Indenture relating to the insurance requirements, the security, the rate covenant, the tests for incurrence of additional Indebtedness, the restrictions on Permitted Liens, sales of Accounts or disposition of cash and Property, the restrictions on joining or withdrawing from the Obligated Group and the rights and remedies of the Bond Trustee, as owner of the substitute note or obligation, upon a default under the Replacement Master Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007A BONDS" herein.

Environmental Laws and Regulations

Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the type of regulatory requirements faced by hospitals are (i) air and water quality control requirements, (ii) waste management requirements, (iii) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (iv) requirements for providing notice to employees and members of the public about hazardous material handled by or located at the hospital, (v) requirements for training employees in the proper handling and management of hazardous materials and wastes, and (vi) other requirements.

The Corporation may be subject to liability for hazardous substances that may have migrated off its properties including remediation thereof. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants and contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may (i) result in damage to individuals, property or the environment, (ii) interrupt operations and increase their cost, (iii) result in legal liability, damages, injunctions or fines and (iv) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

At present, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely, would have a material adverse affect on the operations, financial condition or results of operations of the Corporation.

Limitations Relating to Remedies Under the Mortgage

The Mortgaged Property contains facilities that are comprised of general purpose buildings and would not generally be suitable for industrial or commercial use. Consequently, it might be difficult to find a buyer or lessee for the Mortgaged Property at a foreclosure sale that would be willing to pay a

sufficient purchase price or rent to avoid loss to the Bondholders. Thus, upon any default and foreclosure, it may not be possible to realize the amount of the outstanding Bonds from a sale or lease of the Mortgaged Property. Furthermore in order to operate the facilities as health care facilities, a purchaser of the facilities at a foreclosure sale would under the present law have to obtain, among other things, operating licenses from the applicable state regulatory agency and appropriate provider agreements from third-party payors.

Other Factors Affecting Revenues

The following factors, among others, may unfavorably affect the operations of health care facilities, including those of the Corporation, to an extent and in a manner that cannot be determined at this time. These factors are not intended to be all inclusive and there may be other factors, not listed below, that could impact adversely on the revenues of the Corporation:

(1) Adverse employee actions that could result in (i) a substantial reduction in revenues without corresponding decreases in costs or (ii) substantial increases in costs without increases in revenue.

(2) Reduced need for hospitalization or other services arising from future medical and scientific advances, changes in physician practice patterns and efforts by insurers, managed care organizations and governmental entities to control costs.

(3) Reduced demand for the services of the Corporation that might result from decreases in population of its service areas.

(4) Increased unemployment or other adverse economic conditions in the service areas of the Corporation which could increase the proportion of patients who are unable to pay fully for the cost of their care or which could result in a loss of Blue Cross or other health insurance benefits for a portion of the patients of the Corporation.

(5) Imposition of further wage and price controls for the health care industry.

(6) The Corporation could be required, by a change in the Internal Revenue Code or other Federal, State or local laws, to render substantially greater hospital service without charge or at a reduced charge, including care for indigent persons.

(7) The facilities of the Corporation are specifically constructed for hospital purposes. As a result, in the event of bankruptcy of the Corporation, the number of entities which might purchase or lease its facilities would be limited, and the sale price or rentals generated by these facilities might thus be affected.

(8) An increase in the rate of inflation and difficulties in increasing service charges and other fees, while at the same time maintaining the amount and quality of healthcare services offered by the Corporation.

(9) The effect of any future unionization of the Corporation's employees (or the increased costs arising from future collective bargaining agreements with any employees already unionized or the employees of any future Members of the Obligated Group).

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

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

(12) The ability of the Corporation to attract a sufficient number of qualified physicians, nurses and other health care professionals, particularly as the nation's hospitals are currently facing a shortage of nursing and other professional staff.

(13) Developments affecting the federal, state or local tax exempt status of nonprofit organizations, which could make unavailable tax exempt financing for future projects by the Corporation.

(14) Regulatory actions which might limit the ability of the Corporation to undertake capital improvements to its facilities or to develop new institutional health services.

(15) The Corporation is fully accredited by the Joint Commission on Accreditation of Healthcare Organizations, which accreditation, as is the case for all hospitals, is subject to renewal. While the Corporation presently anticipates no difficulty in renewing its accreditation, loss of accreditation could, in the future, result in the loss of utilization or revenues, the ability of the Corporation to operate all or a portion of its health facilities, and could adversely affect its ability to make payments under the Loan Agreement.

(16) The continued ability of VMC Indemnity Company, Ltd. to provide sufficient amounts of general and professional liability coverage to the Corporation.

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Sidley Austin LLP, New York, New York, Bond Counsel, based on existing law and except as provided in the following sentence, interest on the Series 2007A Bonds is not includable in the gross income of the owners of the Series 2007A Bonds for purposes of federal income taxation. Interest on the Series 2007A Bonds will be includable in the gross income of the owners thereof retroactive to the date of issue of the Series 2007A Bonds in the event of a failure by the Agency or the Corporation to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and covenants set forth in the Trust Agreement and the Loan Agreement regarding the use, expenditure and investment of bond proceeds and the timely payment of certain investment earnings to the U.S. Treasury. The covenant of the Agency described above does not require the Agency to make any financial contribution for which it does not receive funds from the Corporation.

No opinion is rendered by Bond Counsel as to the exclusion from gross income of the interest on the Series 2007A Bonds for federal income tax purposes on or after the date on which any action within the scope of such covenants is taken by the Agency or the Corporation upon the approval of counsel other than Bond Counsel.

In rendering its opinion, Bond Counsel has relied upon, among other things, the representations made by the Corporation with respect to certain material facts within the knowledge of the Corporation, which Bond Counsel has not independently verified, and upon the accompanying opinions of counsel to the Corporation that the Corporation is exempt from federal income taxation under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code.

In the opinion of Bond Counsel, which is based on existing law, interest on the Series 2007A Bonds is exempt from taxation in the State of Vermont, except for transfer and estate taxes.

The form of the opinion to be delivered by Bond Counsel is set forth in Appendix D to this Official Statement.

In the opinion of Bond Counsel, which is based on existing law, interest on the Series 2007A Bonds is not an item of tax preference for purposes of the federal individual or corporate alternative minimum tax. The Code contains other provisions that could result in tax consequences, as to which Bond Counsel renders no opinion, as a result of ownership of such Series 2007A Bonds or the inclusion in certain computations (including without limitation those related to the corporate alternative minimum tax) of interest that is excluded from gross income. Interest on the Series 2007A Bonds owned by a corporation will be included in the calculation of such corporation's federal alternative minimum tax liability.

Premium Series 2007A Bonds

The excess, if any, of the tax basis of any maturity of the Series 2007A Bonds to a purchaser (other than a purchaser who holds such Series 2007A Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "Bond Premium." Bond Premium is amortized over the term of a Series 2007A Bond with Bond Premium (a "Series 2007A Premium Bond") for federal income tax purposes (or, in the case of a Series 2007A Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). No deduction is allowed for such amortization of Bond Premium; however, Bond Premium is treated as an offset to qualified stated interest received on the Series 2007A Premium Bonds. An owner of a Series 2007A Premium Bond is required to decrease his adjusted basis in such Series 2007A Premium Bond by the amount of amortizable bond premium attributable to each taxable year such Series 2007A Premium Bond is held. An owner of a Series 2007A Premium Bond should consult his tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon sale, redemption or other disposition of such Series 2007A Premium Bond and with respect to state and local income tax consequences of owning and disposing of such Series 2007A Premium Bond.

Discount Series 2007A Bonds

The excess, if any, of the amount payable at maturity of any maturity of the Series 2007A Bonds over the issue price thereof constitutes original issue discount. The amount of original issue discount that has accrued and is properly allocable to an owner of any maturity of the Series 2007A Bonds with original issue discount (a "Series 2007A Discount Bond") will be excluded from gross income for federal income tax purposes to the same extent as interest on the Series 2007A Bonds. In general, the issue price of a maturity of the Series 2007A Bonds is the first price at which a substantial amount of Series 2007A Bonds of that maturity was sold (excluding sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and the amount of original issue discount accrues in accordance with a constant yield method based on the compounding of interest. A purchaser's adjusted basis in a Series 2007A Discount Bond is to be increased by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or other disposition of such Series 2007A Discount Bond for federal income tax purposes. A portion of the original issue discount that accrues in each year to an owner of a Series 2007A Discount Bond that is a corporation will be included in the calculation of the corporation's federal alternative minimum tax liability. In addition, original issue discount that accrues in each year to an owner of a Series 2007A Discount Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the collateral federal income tax consequences discussed herein. Consequently, an

owner of a Series 2007A Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner of such Series 2007A Discount Bond has not received cash attributable to such original issue discount in such year.

The accrual of original issue discount and its effect on the redemption, sale or other disposition of a Series 2007A Discount Bond that is not purchased in the initial offering at the first price at which a substantial amount of Series 2007A Bonds is sold to the public may be determined according to rules that differ from those described above. An owner of a Series 2007A Discount Bond should consult his tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount with respect to such Series 2007A Discount Bond and with respect to state and local tax consequences of owning and disposing of such Series 2007A Discount Bond.

Backup Withholding

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series 2007A Bonds made after March 31, 2007 to be subject to backup withholding if such interest is paid to registered owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Other Tax Consequences

Ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S Corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Prospective purchasers of the Series 2007A Bonds should consult their tax advisors as to the applicability of any such collateral consequence and other state and local tax consequences of owning the Series 2007A Bonds.

Future Legislation

Legislation affecting tax-exempt obligations is constantly being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Series 2007A Bonds will not have an adverse effect on the tax-exempt status of the Series 2007A Bonds. Legislative or regulatory actions and proposals may also affect the economic value or market price of the Series 2007A Bonds.

LEGALITY OF SERIES 2007A BONDS FOR INVESTMENT AND DEPOSIT

The Act provides that the bonds of the Agency are securities in which all public officers and bodies of the State and all municipalities and municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, administrators, guardians, executors, trustees, committees and other fiduciaries in the State may properly and legally invest funds in their control.

NEGOTIABLE INSTRUMENTS

Pursuant to the Act, the Series 2007A Bonds are negotiable instruments, subject only to the provisions for registration of the Series 2007A Bonds.

STATE OF VERMONT NOT LIABLE ON SERIES 2007A BONDS

The State is not liable for the payment of the principal of or interest on the Series 2007A Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Agency, and none of the Series 2007A Bonds nor any of the Agency's agreements or obligations shall be construed to constitute an indebtedness of the State within the meaning of any constitutional or statutory provisions whatsoever, nor shall the Series 2007A Bonds directly or indirectly or continently obligate the State or any municipality or political subdivision thereof to levy or to pledge any form of taxation whatsoever therefor or to make any appropriation for their payment.

PLEDGE OF STATE NOT TO AFFECT RIGHTS OF BONDHOLDERS

Under the Act, the State does pledge to and agree with the holders of the Series 2007A Bonds that the State will not limit or alter the rights vested in the Agency until the Series 2007A Bonds, together with interest thereon, with interest on any unpaid installment of interest, and all costs and expenses incurred by the Agency in connection with the facilities or in connection with any action or proceedings by or on behalf of the bondholders, are fully met and discharged.

LEGAL MATTERS

The Series 2007A Bonds and the proceedings pursuant to which they are issued are subject to the approving opinion as to legality, validity and tax status of Sidley Austin LLP, New York, New York, Bond Counsel. The proposed form of the opinion of Bond Counsel is attached hereto as Appendix D. Certain legal matters pertaining to the Corporation will be passed upon by its counsel, Dinse, Knapp & McAndrew, P.C. Certain legal matters pertaining to the Agency will be passed upon by its counsel, Deppman & Foley, P.C. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, New York, New York.

FINANCIAL ADVISORS

The firm of Public Financial Management has been retained by the Agency as its financial advisor in connection with the issuance of the Series 2007A Bonds.

The firm of Kaufman Hall & Associates has been retained by the Corporation as its financial advisor in connection with the issuance of the Series 2007A Bonds.

LITIGATION

The Agency

There is not now pending any litigation against the Agency restraining or enjoining the issuance or delivery of the Series 2007A Bonds or questioning or affecting the validity of the Series 2007A Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence of the Agency, nor the title of the present members or other officers of the Agency to their respective offices is being contested. There is no litigation pending which in any manner questions the right of the Agency to make the loan to the Corporation in accordance with the provisions of the Act, the Trust Agreement and the Loan Agreement.

The Obligated Group

There is not now pending any litigation contesting the plan of financing or the ability of the Corporation to enter into and perform its obligations under the Loan Agreement or the ability of the Corporation to enter into and perform its obligations under the Master Indenture or to issue Obligation No. 11. No litigation or proceedings are pending or, to the knowledge of the Corporation, threatened against the Corporation except (a) litigation and proceedings involving claims for hospital professional liability in which the probable recoveries and estimated costs and expenses of defense will be entirely within the applicable insurance policy limits (subject to applicable deductibles) for the Corporation and (b) litigation and proceedings other than those described in (a) which if adversely determined would not materially adversely affect the financial condition or results of operations of the Corporation.

INDEPENDENT AUDITORS

The consolidated financial statements of Fletcher Allen Health Care, Inc. and Subsidiaries as of and for the years ended September 30, 2006 and 2005, included in Appendix B to this Official Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing in Appendix B hereto.

UNDERWRITING

Under the bond purchase contract entered into between the Agency and Citigroup Global Markets Inc. (the "Underwriter"), and approved by the Corporation, the Series 2007A Bonds are being purchased at an aggregate purchase price equal to $56,043,402.50 (representing the principal amount of the Series 2007A Bonds, plus net original issue premium of $115,336.50 and less an Underwriter's discount of $331,934.00). The bond purchase contract provides that the Underwriter will purchase all of the Series 2007A Bonds, if any are purchased. The obligation of the Underwriter to accept delivery of the Series 2007A Bonds is subject to various conditions contained in the bond purchase contract.

The Underwriter intends to offer the Series 2007A Bonds to the public initially at the offering prices set forth on the inside cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2007A Bonds to the public. The Underwriter may offer and sell Series 2007A Bonds to certain dealers (including dealers depositing Series 2007A Bonds into investment trusts) at prices lower than the public offering price.

The Corporation has agreed to indemnify the Underwriter and the Agency and any person who controls any Underwriter or the Agency and any member, officer, official or employee, agent or attorney (including Bond Counsel) of any Underwriter or the Agency against certain liabilities arising out of certain incorrect information contained in or omitted from this Official Statement.

RATINGS

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") have assigned their municipal bond ratings of "BBB," "Baa1" and "BBB+," respectively, to the Series 2007A Bonds.

Such ratings reflect only the view of such organizations and an explanation of the significance of such ratings may only be obtained from such rating agencies. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency providing the same, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Series 2007A Bonds.

CONTINUING DISCLOSURE

The Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934, as amended and supplemented (the "Securities Exchange Act"), has adopted amendments to its Rule 15c2-12 ("Rule 15c2-12") effective July 3, 1995, which generally prohibit a broker, dealer, or municipal securities dealer ("Participating Underwriter") from purchasing or selling municipal securities, such as the Series 2007A Bonds, unless the Participating Underwriter has reasonably determined that an issuer of municipal securities or an obligated person has undertaken in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information and event notices to various information repositories.

The Loan Agreement contains covenants for the benefit of the holders of the Series 2007A Bonds pursuant to which the Corporation will agree to comply on a continuing basis with the disclosure requirements of Rule 15c2-12. Specifically, the Loan Agreement requires the Corporation to provide to each nationally recognized municipal securities information repository and to any Vermont state information repository, certain financial, operating and statistical data relating to the Obligated Group not later than 150 days after the end of its fiscal year and its unaudited quarterly financial statements not later than 60 days after the end of each of the quarters of each of its fiscal years and to provide to each nationally recognized municipal securities information repository or with the Municipal Securities Rulemaking Board and with any Vermont state information repository, notices of the occurrence of certain enumerated events, if material. Failure to comply with these covenants is not an event of default under the Loan Agreement and will not result in acceleration of the Series 2007A Bonds. See "SUMMARY OF THE LOAN AGREEMENT — Secondary Market Disclosure" in Appendix C to this Official Statement.

In addition, the consolidated audited annual financial statements, the quarterly (unaudited) financial statements and certain other information concerning the Corporation are currently available at www.dacbond.com.

MISCELLANEOUS

Reference is hereby made to Appendix C to this Official Statement for information relating to the Trust Agreement, the Loan Agreement and the Master Indenture, which Appendix should be reviewed by prospective purchasers of the Series 2007A Bonds.

The Corporation has reviewed the information contained herein which describes it, its respective facilities and business, and the plan of finance and has approved all such information for use within this Official Statement. The Agency has reviewed the information contained herein which relates to it and has

approved such information for use in this Official Statement. Information herein regarding DTC has been provided by DTC.

The references herein to the Act, the Trust Agreement, the Loan Agreement, Obligation No. 11 and the Master Indenture are summaries of certain provisions thereof and do not purport to be complete. Reference is made to such Act and documents for full and complete statements of such and all other provisions thereof. Neither any advertisement for the Series 2007A Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Series 2007A Bonds. So far as any statements are made in this Official Statement involving projections, forecasts, estimates and other statements involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The Corporation has agreed to indemnify the Agency and any person who controls the Agency and any member, officer, official or employee of the Agency against certain liabilities.

This Official Statement is not to be construed as a contract or agreement between the Agency or any Member of the Obligated Group and purchasers or owners of, or owners of beneficial interests in, the Series 2007A Bonds.

The execution and delivery of this Official Statement by an Authorized Officer of the Agency has been duly authorized by the Agency, and the approval of this Official Statement by the Corporation has been duly authorized by the Corporation.

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY

By: /s/ Robert Giroux
Executive Director

Approved:

By: **FLETCHER ALLEN HEALTH CARE, INC.**

By: /s/ Richard Magnuson
Chief Financial Officer

APPENDIX A

Information Concerning

Fletcher Allen Health Care, Inc.

ORGANIZATION AND OPERATIONS

The information contained herein as Appendix A to this Official Statement has been obtained from Fletcher Allen Health Care, Inc., and other sources deemed to be reliable.

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INTRODUCTION

Fletcher Allen Health Care, Inc. ("Fletcher Allen"), based in Burlington, Vermont, is a non-profit, tax-exempt, academic health center affiliated with the University of Vermont ("UVM") and its College of Medicine. Fletcher Allen provides integrated health care services as an acute care, teaching hospital with 620 licensed beds (including 58 bassinets) and a multi-specialty physician practice, employing approximately 450 physicians[1] who hold full-time faculty positions at the College of Medicine. In a survey conducted by Verispan and published in *Modern Healthcare* on February 6, 2006, Fletcher Allen was ranked among the top 100 integrated health care networks in the United States, ranking 70th (up from 81st in 2004), and was one of only six hospital systems in the New York-New England region to make the list. Dedicated to health care delivery, education and research, the mission of Fletcher Allen is to improve the health of the communities it serves.

Organizational Structure

Fletcher Allen was created in 1995 by the consolidation of Medical Center Hospital of Vermont, Inc. ("MCHV"), a 515-bed non-profit, teaching, tertiary care hospital in Burlington; Fanny Allen Hospital, Hotel Dieu ("Fanny Allen"), a 100-bed Catholic hospital in Colchester; and University Health Center, Inc. ("UHC"), the clinical practice organization for faculty physicians at the College of Medicine. The member organizations of Fletcher Allen are Vermont Health Foundation (MCHV's parent organization), Fanny Allen, UHC, and UVM, each of which hold certain appointive and reserved powers. *See* "Organizational Structure and Affiliations" herein.

Health Care Services

Fletcher Allen is the sole community hospital serving the greater Burlington area, including Chittenden and southern Grand Isle Counties, with a population of over 150,000. It is also the primary or secondary referral center for a service area in Vermont and northern New York with a population of approximately 1 million. Fletcher Allen is the only academic health center within approximately 100 miles of Burlington and provides a broad range of tertiary and quaternary health care services. *See* "Health Care Services" herein. With more than $686 million in operating revenues in fiscal 2006 and approximately 6,300 employees, Fletcher Allen is by far the largest health care provider in its service area, accounting for more than 50% of hospital expenditures in Vermont. *See* "Market Overview" herein.

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[1] These physicians are actually employed by Fletcher Allen Provider Corporation (*see* "Organizational Structure and Affiliations – Subsidiaries"), a wholly-owned subsidiary of Fletcher Allen. When physicians are referred to as "employed" by Fletcher Allen in this Appendix A, "Fletcher Allen" is intended to refer to Fletcher Allen Provider Corporation.

Facilities

Fletcher Allen has three main campuses in Chittenden County. Its primary Medical Center campus, contiguous to UVM's College of Medicine campus, recently underwent a major $378 million construction and renovation program referred to as the Renaissance Project. *See* "Renaissance Project" herein. The UHC campus, located several blocks away, provides some outpatient services, and the Fanny Allen Campus, located about four miles away in Colchester, provides outpatient surgery, inpatient and outpatient rehabilitation services and walk-in care. In addition to these facilities, Fletcher Allen has primary care clinics in nine different locations in Vermont, and 34 patient care sites and over 100 outreach clinics and programs in Vermont, New York and New Hampshire. *See* "Facilities" herein.

Education and Research

Education is a vital part of Fletcher Allen's mission. Under written affiliation agreements with UVM, Fletcher Allen serves as the primary clinical teaching facility for UVM's medical, nursing and allied health students. Over 400 medical students and over 500 students from the College of Nursing and Health Sciences currently receive training at Fletcher Allen. Fletcher Allen also offers 15 residency programs and 17 fellowship programs accredited by the Accreditation Council for Graduate Medical Education.

Fletcher Allen and UVM's College of Medicine together constitute an important medical research center, housing the General Clinical Research Center (one of only 80 in the nation, and funded by the National Institutes of Health), as well as the Vermont Cancer Center, one of only 39 National Cancer Institute-designated comprehensive cancer centers in the country.

As part of these research activities, Fletcher Allen physicians are active in a substantial number of clinical trials either as clinical employees of Fletcher Allen or as academic employees of UVM, with hundreds of active clinical trials conducted across all subspecialties by over 345 different physicians. In fiscal 2006, a total of approximately $82 million in research funds was paid to the UVM College of Medicine and Fletcher Allen, an increase of over 100% in the last decade. Of this amount, Fletcher Allen received approximately $5 million and the College of Medicine received approximately $77 million. *See* "Organizational Structure and Affiliations; Affiliations with the University of Vermont" herein.

ORGANIZATIONAL STRUCTURE AND AFFILIATIONS

Formation

Fletcher Allen was organized effective January 1, 1995 as a result of the following corporate transactions: (i) the physician faculty-practice corporations comprising UHC merged into MCHV; (ii) MCHV amended its corporate charter to change its name to

"Fletcher Allen Health Care," among other changes; (iii) Fanny Allen and UHC transferred substantially all of their tangible and intangible assets and liabilities to MCHV; and (iv) Fletcher Allen agreed to employ the approximately 210 physicians then employed by the UHC physician practice corporations. At the same time, Fletcher Allen entered into a continuing Affiliation Agreement (the "Affiliation Agreement") with UVM, by which Fletcher Allen is designated as the primary teaching hospital for UVM's medical, nursing and allied health programs.

Upon the organization of Fletcher Allen, Fanny Allen, UVM, UHC and Vermont Health Foundation ("VHF"), the sole corporate member of MCHV, became the corporate members of Fletcher Allen. *See* "Governance and Management" herein for a discussion of the reserved powers of Fletcher Allen's members and Fletcher Allen's Board of Trustees and senior management team.

History

Fletcher Allen and its founding institutions share a rich history dating back to the 1800s.

Medical Center Hospital of Vermont, Inc. The Mary Fletcher Hospital opened in Burlington, Vermont, in 1879 and was the first hospital established in Vermont. Mary Fletcher Hospital was re-named MCHV in 1967 when it merged with the DeGoesbriand Hospital.

Fanny Allen Hospital, Hotel Dieu. The Religious Hospitallers of St. Joseph founded Fanny Allen in 1894. While Fanny Allen transferred substantially all of its tangible and intangible assets and liabilities to Fletcher Allen on December 30, 1994, it retained ownership of its real property, including the Fanny Allen Campus, discussed herein at "Facilities and Services."

University Health Center, Inc. UHC was formed in 1971 when the faculty physicians at UVM's College of Medicine recognized the need for a coordinated program to teach ambulatory care to medical students. This program brought ten physician practice corporations into UHC through exclusive provider agreements. Immediately prior to joining Fletcher Allen on December 30, 1994, the ten physician practice corporations transferred to UHC their fund balances for UHC to hold and invest for the benefit of Fletcher Allen, the College of Medicine and the various clinical departments. In addition to these fund balances, UHC retained its cash reserves for health insurance following the organization of Fletcher Allen.

The University of Vermont College of Medicine. UVM's College of Medicine was established in 1822 as the nation's seventh medical school. More than one-third of practicing Vermont physicians received their medical degrees from the College of Medicine or did their training at Fletcher Allen or its predecessors. In the 2006 – 2007 academic year, the College of Medicine has an enrollment of 418 medical students, 115 graduate students and 84 post-doctoral fellows. The College received 5,440 applications for the 107 places in the first-year class that entered in the fall of 2006.

The Obligated Group

Fletcher Allen presently is the sole Member of the Obligated Group created by the Master Trust Indenture. The corporate members of Fletcher Allen discussed above and the other subsidiaries of Fletcher Allen discussed below are not directly or indirectly obligated with respect to the Series 2007 Bonds.

Subsidiaries

Fletcher Allen maintains several subsidiary organizations in order to achieve certain business objectives and further its charitable mission. Management considers the following subsidiaries to be material to the operations of Fletcher Allen:

Vermont Managed Care, Inc. ("VMC"). VMC, a wholly-owned subsidiary of Fletcher Allen Health Ventures, Inc. ("FAHV") formed in 1991, was established to serve as a contracting network and managed care organization for Fletcher Allen, its medical staff, and other area providers. As such, VMC's charter provides for significant board representation by community physicians, although Fletcher Allen, through its 100% ownership of FAHV, retains ultimate control of the organization. VMC is engaged primarily in partial-risk capitation arrangements, establishment of a provider fee schedule, and in the management of medical services provided.

VMC Indemnity Company, Ltd. ("VMCIC"). VMCIC, a wholly-owned subsidiary of Fletcher Allen formed in 1993, is a captive insurance company domiciled in Bermuda that administers the captive insurance programs for Fletcher Allen. This program provides general and professional liability coverage to Fletcher Allen that is designed to be less expensive than traditional commercial insurance. *See* "Insurance" herein.

Fletcher Allen, directly or indirectly, also holds a complete or partial ownership interest in the currently active subsidiaries listed below, none of which has a material impact on the financial condition or operations of Fletcher Allen:

100% Ownership or Control

Fletcher Allen Health Ventures, Inc.
Taxable for-profit; holding company for VMC.

Fletcher Allen Provider Corporation
Tax-exempt non-profit; employs Fletcher Allen's physicians who also have full- or part-time faculty appointments at UVM.

Fletcher Allen Skilled Nursing, LLC
Limited liability company; owns 50% general partnership interest in Starr Farm Nursing Home; the remaining 50% is owned by Kindred Nursing Centers East, LLC.

Fletcher Allen Coordinated Transport, LLC
Limited liability company; owns and operates critical care transport ambulances.

Partial Ownership

Copley Woodlands, Inc.
Tax-exempt non-profit; owns independent living facility for the elderly in Stowe, Vermont, in collaboration with Copley Health Systems, Inc.

Vermont Clinical Resources, Inc.
Taxable for-profit; owns 1% general partnership interest in two real estate limited partnerships, Hurricane Lane, L.P., and Trillium Realty, L.P., that own office space leased to Fletcher Allen at fair market rents.

The Vermont Health Plan ("TVHP").
A limited liability company formed in 1996, is licensed by the State of Vermont as a health maintenance organization (HMO). Fletcher Allen owns a 28.52% interest in TVHP. Other participants

Fletcher Allen Medical Group, PLLC.

A New York, professional limited liability company, 100% controlled by Fletcher Allen but nominally owned by two New York-licensed, Fletcher Allen-employed physicians; conducts physician services in New York state.

Fletcher Allen Health Care Foundation, Inc.

A tax exempt non-profit organized to carry out development and fund raising activities of Fletcher Allen; has no assets.

include Comprehensive Health Resources, Inc. (operating as Rutland Regional Medical Center), the Hitchcock Partnership (a partnership of the Hitchcock Alliance and the Hitchcock Clinic), and Blue Cross and Blue Shield of Vermont.

OBNET Services, LLC

A limited liability company organized with Dartmouth Hitchcock Clinic to develop and operate a regional web-based obstetric database software system that allows each participating health care entity to enter and track its own obstetrics data. Fletcher Allen holds a 50% interest.

Medical Education Center Condominium Association, Inc.

Non-profit which manages Education Center that is jointly owned with UVM.

Affiliation with the University of Vermont

Fletcher Allen has an Affiliation Agreement with UVM that became effective on the date of Fletcher Allen's formation, January 1, 1995 and was most recently renewed as of August 1, 2005 for a five-year term. Fletcher Allen also has related clinical affiliation agreements with the UVM's College of Medicine and its College of Nursing and Health Sciences. Under these agreements, Fletcher Allen is designated as the primary teaching site for UVM's medical, nursing and allied health students and the exclusive clinical practice organization for faculty of the College of Medicine.

The Affiliation Agreement obligates Fletcher Allen to seek first to meet its needs for physician-employees from physicians holding appointments in the College of Medicine, and provides that the chairs of academic departments in the College of Medicine will be appointed by Fletcher Allen as the clinical leaders of the corresponding clinical services. The Affiliation Agreement expresses the joint commitment of Fletcher Allen and UVM to maintain a high-quality academic health center. Under the Affiliation Agreement, Fletcher Allen agrees to make annual payments to University Medical Education Associates, Inc. ("UMEA") for the benefit of the College of Medicine in three components: (1) a base payment, which was $3.6 million in fiscal 2006 and is increased by 5% each year during the term of the Agreement; (2) a supplemental payment beginning in fiscal 2008 equal to 10% of Net Operating Income, if any, in excess of 3.5% of net revenues provided that the supplemental payment shall not exceed $5 million in any Fletcher Allen fiscal year; and (3) a "Dean's Tax" equal to the following percentages of base physician compensation for the Fletcher Allen fiscal years indicated: fiscal 2006 – 0.50%; fiscal 2007 – 1.50%; fiscal 2008 – 2.50%; fiscal 2009 – 3.50%; fiscal 2010 and subsequent years – 4.30%. UMEA is a not-for-profit corporation established for purposes of administering these payments for the benefit of the College of Medicine, and is considered a "component unit" of UVM for accounting purposes.

The current term of the Affiliation Agreement ends August 1, 2010, and will be automatically renewed for subsequent five-year terms in the absence of written notice of non-renewal at least 12 months prior to the expiration of the term in progress.

In its role as a teaching hospital, Fletcher Allen helps to train over 400 medical students from the UVM College of Medicine each year. In the present fiscal year, Fletcher Allen also offers 15 training residencies and 22 fellowship programs accredited by the Accreditation Council for Graduate Medical Education or similar bodies, with slots for 280 residents and fellows.

UVM is the only comprehensive research university in the state of Vermont. Together, Fletcher Allen and the UVM College of Medicine constitute Vermont's academic health center and serve as an important medical research center. In fiscal 2006, Fletcher Allen and the UVM College of Medicine received approximately $82 million in research-related funds, an increase of over 100% in the last decade. Of this amount, Fletcher Allen received approximately $5 million and the College of Medicine received approximately $77 million. These research funds support substantial involvement by Fletcher Allen physicians in clinical research, with hundreds of active clinical trials conducted across a wide variety of subspecialties by approximately 345 different physicians.

Vermont is one of only 20 states in the country with both a National Cancer Institute-designated comprehensive cancer center and a National Institutes of Health ("NIH") General Clinical Research Center, located at Fletcher Allen and the UVM College of Medicine. The College of Medicine basic science and clinical research faculty have an average ranking in the top third of United States medical school faculties in federal research grants per faculty member, and in its fiscal 2005 (year ending June 30, 2005) received almost $63 million from the NIH.

There is also an affiliation agreement between Fletcher Allen and the UVM College of Nursing and Health Sciences, where over 500 students are enrolled in undergraduate and graduate programs. Fletcher Allen professional staff and physicians provide clinical training for students in programs including Nursing, Physical Therapy, Athletic Training, Exercise and Movement Science, Radiation Therapy, Nuclear Medicine Technology, and Medical Laboratory Science. In addition, Fletcher Allen sponsors several internship programs that prepare registered nurses to work in adult critical care, operating rooms, and pediatric intensive care units.

GOVERNANCE AND MANAGEMENT

Reserved Powers of Members

Each of Fletcher Allen's four members – UHC, VHF, Fanny Allen and UVM – has the power under Fletcher Allen's by-laws to appoint four trustees to Fletcher Allen's 18-member Board of Trustees. VHF, Fanny Allen and UVM have each granted a revocable

proxy to the Fletcher Allen Board of Trustees authorizing the Board to exercise these appointive powers. Each member also holds additional reserved powers, including the power to approve amendments to the by-laws or Articles of Incorporation of Fletcher Allen, changes to its mission statement, and any merger, consolidation or sale of all or substantially all of the assets of Fletcher Allen.

Board of Trustees

Fletcher Allen's 18-member Board of Trustees includes the four trustees appointed by each member (or by the Board, itself, in the case of the three members who have granted proxies to the Board) and, in addition, the President and CEO of Fletcher Allen as well as the Board Chair, who is appointed from among the existing trustees by a majority vote. Once a trustee is elected Chair, the member that appointed that trustee appoints a replacement trustee. Under the Affiliation Agreement with UVM, two of the Board appointees from UVM must be the Dean of the College of Medicine and the Dean of the College of Nursing and Health Sciences. In addition, the President of the Medical Staff is invited to attend all Board meetings and to participate in discussions as a non-voting member of the Board.

Each trustee holds office for a term of four years and may serve any number of additional terms so long as no more than two full terms are served consecutively. The trustees do not receive compensation for their service other than expense reimbursements. The trustees' terms are staggered to allow one-fourth to expire each year, with the exception of the President/CEO and Chair.

The individuals currently serving on the Board are:

Name	Occupation	Term expires
Christopher L. Dutton Chair of the Board	President and CEO, Green Mountain Power Corp.	2010
Jan Carney, M.D., M.P.H. Vice-Chair of the Board	Research Professor of Medicine and Associate Dean for Public Health, UVM College of Medicine	2007
Marc H. Monheimer Secretary of the Board	Adjunct professor, University of Vermont School of Business Administration	2007
Melinda L. Estes, M.D. Voting *ex officio* member of all committees (except Audit Committee)	President and CEO, Fletcher Allen	N/A
Sarah Carpenter	Executive Director, VT Housing Finance Agency	2007
Alan J. Charron	Former epidemiology programs administrator, Vermont Department of Health	2008
Elizabeth Davis, R.N., M.P.H., L.L.D.	Immediate past CEO of the Visiting Nurse Alliance of Vermont and New Hampshire, Inc.	2007
John P. Fogarty, M.D.	Interim Dean, UVM College of Medicine	2009

Name	Occupation	Term expires
A. Donald Gilbert, Jr.	President and CEO, Vermont Gas Systems, Inc.	2009
Joseph Haddock, M.D.	Primary care physician, Thomas Chittenden Health Center	2009
Rita Markley	Executive Director, Committee on Temporary Shelter (Burlington, Vermont)	2010
Stephen P. Marsh	President, Community National Bank, Derby Line, Vermont	2010
Philip Mead, M.D.	Retired; former leader of Fletcher Allen's Women's Health Care Service and chair of OB/GYN at the University of Vermont College of Medicine	2010
Rodney Parsons, Ph.D.	Chair, Department of Anatomy and Neurobiology, UVM College of Medicine	2008
John Powell	Director of Housing Development, Lake Champlain Housing Development Corp.	2008
Betty Rambur, D.N.Sc., R.N.	Dean, UVM College of Nursing and Health Sciences	2010
Roger Stone	President, Stone Investment Advisory, Inc.	2008
Dennis Vane, M.D.	Chief of Pediatric Surgery, Fletcher Allen	2009

All Board members receive orientation and continuing education on their duties and the business, finances and operations of Fletcher Allen. The Board also implemented a number of changes in 2003 to its governance policies to conform to what it believes are the current best practices for the governance of non-profit health care organizations.

Senior Management

The senior management of Fletcher Allen is comprised of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the President of the Faculty Practice, the Chief Nursing Officer, the Chief Quality Officer, the Senior Vice President and Chief Human Resources Officer, the General Counsel, the Senior Vice President for Government and External Relations, and the Executive Director of the Faculty Practice. Summary resumes of Fletcher Allen's executive management are shown below:

- **Melinda L. Estes**, **M.D.,** 52, President and CEO, was appointed to her current position in August 2003 following a national search. Dr. Estes officially assumed her post at Fletcher Allen on October 13, 2003. Prior to joining Fletcher Allen, Dr. Estes served as CEO and Chair of the Board of Governors of Cleveland Clinic Florida from 2001 to 2003, and served as the executive director of business development at The Cleveland Clinic Foundation in Cleveland, Ohio, and Chief Medical Officer at the Cleveland Clinic Florida, from 2000 to 2001. Dr. Estes

served as executive vice president and chief of staff for the MetroHealth System in Cleveland from 1997-2000, and was the associate chief of staff of The Cleveland Clinic Foundation from 1990-1997. Dr. Estes earned a Bachelor of Science degree from Sam Houston State University in Huntsville, Texas. She received her medical degree from the University of Texas Medical Branch, Galveston, Texas, in 1978, and completed a neurology residency there in 1982. She also was a neuropathology fellow at The Cleveland Clinic Foundation from 1982-1984 and completed special training in pediatric neuropathology at the Children's Hospital of Philadelphia in 1984. Dr. Estes earned an M.B.A. from Case Western Reserve University's Weatherhead School of Management in 1995.

- **Theresa Alberghini DiPalma**, 44, became Senior Vice President for Government and External Affairs and Senior Advisor to the CEO of Fletcher Allen Health Care in 2003. She has worked in health care policy at the federal and state levels for over 20 years. She served as Assistant Dean for Government and External Relations at the UVM College of Medicine from 2000 through 2003. In 1994, then-Governor Howard Dean appointed her Chair of the Vermont Health Care Authority, now the Health Care Administration, a division of the Vermont Department of Banking, Insurance, Securities and Health Care Administration, and she served as a member of his Cabinet until 1999. Ms. Alberghini DiPalma worked for U.S. Senator Patrick Leahy in Washington from 1985 to 1994, serving as his Senior Legislative Assistant for Health and then Legislative Director from 1992 to 1994. She is a graduate of Vassar College.

- **John R. Brumsted, M.D.,** 53, Chief Quality Officer, joined Fletcher Allen in 1995 after practicing medicine for UHC beginning in 1985. Dr. Brumsted has held numerous administrative positions during his tenure at Fletcher Allen, including Interim Chief Executive Officer from January through June of 1998 and Chief Medical Officer from September 1997 through October 2005. Dr. Brumsted earned his medical degree at Dartmouth Medical School in 1978, conducted his internship at Hartford Hospital in Connecticut, and his residency and fellowship at the Medical Center Hospital of Vermont. He is a board-certified obstetrician/ gynecologist with a sub-specialty in reproductive endocrinology and infertility.

- **Sandi Dalton, R.N.**, 56, a principal at CSC (Computer Sciences Corporation), is serving as Interim Chief Nursing Officer for Fletcher Allen while the organization engages in a national search for a permanent CNO. Ms. Dalton has over 20 years of management experience at teaching hospitals and health systems, including serving in both the chief nursing and chief operating officer role. She received her undergraduate degree in professional nursing at Ball State University in Muncie, Indiana, and her graduate degree in health care administration from the University of Colorado.

- **Barbara Guerard,** 54, has been the Executive Director of Fletcher Allen's Faculty Group Practice since April 2005. Prior to joining Fletcher Allen, she held the position of Chief Executive Officer for the LSU HealthCare Network. In addition, she served as Chief Operating Officer for the University of Miami Medical Group,

one of the largest academic medical groups in the country. Ms. Guerard also worked for 18 years as an adult nurse practitioner and as a senior administrator in the Harvard Community Health Plan (Harvard Pilgrim Health Care) in Boston. Ms. Guerard earned her Masters in Business Administration from Suffolk University, in Boston, Massachusetts.

- **Spencer Knapp**, 56, initially appointed Interim General Counsel in October 2002, was appointed General Counsel in December 2003. He is engaged on a full-time basis through the Burlington law firm, Dinse, Knapp & McAndrew, P.C., in which he remains a senior partner. Mr. Knapp has almost 30 years' experience in health care law and served as outside General Counsel of Medical Center Hospital of Vermont at the time of its restructuring to create Fletcher Allen Health Care. He is a member of the American Healthcare Lawyers Association. Mr. Knapp is graduate of Cornell Law School and Trinity College.

- **Paul Macuga**, 49, has been Senior Vice President and Chief Human Resources Officer for Fletcher Allen since May 2004. Prior to joining Fletcher Allen, Mr. Macuga worked in health care human resources for twenty years (14 in a senior executive capacity), primarily in the Chicago area. His experience includes working in community hospitals, teaching hospitals and large health care systems. Mr. Macuga holds a Master of Science degree in Industrial Relations and a Bachelor of Science degree in Business Administration from Loyola University of Chicago.

- **Richard E. Magnuson**, 44, is the Senior Vice President and Chief Financial Officer at Fletcher Allen. Prior to joining Fletcher Allen in May 2004, he served for six years as Vice President of Finance and Operations at Abbott Northwestern Hospital, part of the Allina Hospitals & Clinics system, in Minneapolis, Minnesota. Prior to that he was the Vice President of Finance for Mercy and Unity Hospital, also part of the Allina Health System. Mr. Magnuson has over 20 years of healthcare experience. He received his bachelor's degree in Finance and Accounting from Augsburg College in 1985 and his executive master's degree in Business Administration from University of St. Thomas in 2000.

- **Angeline M. Marano**, 49, became Senior Vice President and Chief Operating Officer June 2004. Ms. Marano has over 21 years of experience in health system administration in for-profit, not-for-profit, and academic health center environments. Prior to joining Fletcher Allen, Ms. Marano served as the Senior Vice President and Senior Operating Officer at the University Hospitals of Cleveland. University Hospitals of Cleveland (UHC), part of University Hospitals Health System, is a 947-bed, tertiary-level medical center including Rainbow Babies and Children's Hospital, ranked nationally as one of the best Children's Hospitals in the U.S., as well as the Ireland Cancer Center, an NCI-designated Center. UHC is the primary affiliate hospital of the Case Western Reserve University School of Medicine. Ms. Marano served as the Chief Operating Officer of the Columbia Ohio Division from 1996 – 1997. Ms. Marano served as President and CEO of Methodist Women's and Children's Hospital, part of the Methodist Healthcare System in San Antonio from 1993 – 1996. She began her health care career in Florida, where she held senior

executive positions for Humana Inc. Ms. Marano earned her Masters in Healthcare Administration from the University of South Carolina.

- **Claude Nichols, M.D.**, 52, is the Interim President of the Faculty Practice and the Health Care Service Leader for Orthopaedics and Rehabilitation at Fletcher Allen. His University of Vermont College of Medicine appointment is as Professor and Chair of the Department of Orthopaedics and Rehabilitation. Dr. Nichols has been on the faculty of the College of Medicine since 1985. Dr. Nichols received his undergraduate degree from the University of Pennsylvania, graduated from Temple University Medical School, and completed his orthopaedic surgery residency training and sports medicine fellowship at the University of Pennsylvania.

Following a national search, Fletcher Allen announced on November 20, 2006, the appointment of Paul Taheri, M.D., M.B.A., as President of the Faculty Practice at Fletcher Allen and Senior Associate Dean for Clinical Affairs at the University of Vermont College of Medicine, effective March 1, 2007. Dr. Taheri is currently the Director of Trauma Surgery at the University of Michigan Health System, the Vice Chair of Surgery for Hospital Affairs at the University of Michigan School of Medicine, and the Associate Dean for Academic Business Development at the School of Medicine. A native of Buffalo, New York, Dr. Taheri earned his Bachelor of Science degree from St. Lawrence University in Canton, NY in 1984, and graduated from New York University School of Medicine in 1988. He completed his residency training at Tulane University Medical Center in New Orleans in 1994.

FACILITIES

Fletcher Allen has three major campuses and 34 satellite clinic locations. The major campus sites are the Medical Center Campus, the Fanny Allen Campus, and the UHC Campus.

Medical Center Campus

The Medical Center Campus is located at 111 Colchester Avenue, Burlington, Vermont. The grounds consist of a number of interconnected hospital buildings with an aggregate of approximately 1,483,402 gross square feet. Fletcher Allen owns each of these facilities. The original building, the Mary Fletcher Hospital, was constructed in 1879, and now houses administrative offices. Most of the other buildings were constructed during the 1950s and 1960s. In 1985, a major construction project was completed that added to the campus a new seven-story building (McClure) with 249,000 square feet, renovated another 81,900 square feet and added a 300-space parking garage. The Medical Center Campus also recently underwent a major $378 million construction and renovation program referred to as the Renaissance Project. *See* "Renaissance Project" herein.

The Medical Center Campus includes facilities for acute admissions, ambulatory care services, emergency services, laboratory, pharmacy, and inpatient psychiatric unit, and short-stay/recovery beds. The Emergency Department is the only Level 1 Trauma Care center in the region. Other facilities include a Level III neonatal intensive care unit, a medical intensive care unit, a surgical intensive care unit, a renal dialysis unit, two linear accelerators in a radiation oncology unit, and diagnostic radiology facilities that include two 1.5-Tesla MRI scanners and a 3.0-Tesla MRI scanner.

Fanny Allen Campus

The Fanny Allen Campus is located at 101 College Parkway, Colchester, Vermont, and consists of an 85,000 square foot hospital facility. The current facility, formerly a Catholic hospital, was constructed in 1972. Fanny Allen leases the land and building to Fletcher Allen through a lease that is renewable through 2014. The lease prohibits Fletcher Allen from conducting activities at the campus that conflict with the teachings, traditions and canon or other law of the Roman Catholic Church. The Fanny Allen Campus is currently the site of Fletcher Allen's 35-bed inpatient rehabilitation unit, a walk-in care center, and five outpatient surgical suites predominantly used for orthopedic and ophthalmology services. The Vermont Department of Banking, Insurance, Securities and Health Care Administration ("BISHCA") has ordered that the Fanny Allen surgical suites be closed upon completion of the new operating rooms in the ACC (See "Renaissance Project" herein), but Fletcher Allen has applied for a Certificate of Need to permit the Fanny Allen suites to remain open, and BISHCA has stayed its closure order while the CON proceeding is pending. Management anticipates that the CON application will be decided in the spring of 2007. There is no assurance that the CON will be granted. If the CON is denied, Fletcher Allen would be required to consolidate all of its surgical suites on the Medical Center campus, and this transition could adversely impact surgical volumes in the interim.

The Fanny Allen Campus also includes a three-story, 24,465 square foot medical office building with 25 condominium units. Fletcher Allen owns six of the condominium units and leases five others from Fanny Allen. Community physicians not employed by Fletcher Allen own the remaining 14 units in this building. The condominium units in the medical office building are subject to a ground lease between the unit owners and Fanny Allen. The Visiting Nurses Association is currently using a 5,000 square foot building on the Fanny Allen Campus, the former nursing school building, as an elder adult day care center.

University Health Center Campus

The UHC Campus is located at One South Prospect Street, Burlington, Vermont, where Fletcher Allen currently leases 188,229 square feet in the DeGoesbriand building, which is owned by UVM.

The campus currently houses orthopaedic, children's and adult primary care outpatient physician offices and outpatient psychiatry services that are linked with substance abuse and other psychiatric research programs. The University has a significant presence in the building, which houses several University-affiliated research programs and their Student Health Center. Several Fletcher Allen administrative departments are also located at UHC.

Satellites and Outreach Clinics

Presently, Fletcher Allen operates 34 satellite locations, including six dialysis centers and clinical offices for Fletcher Allen-employed primary and specialty care physicians located in Vermont and northeastern New York.

Fletcher Allen operates dialysis facilities at the Central Vermont Medical Center in Berlin, the Rutland Regional Medical Center in Rutland, the Northwestern Vermont Medical Center in St. Albans, in Bennington, Vermont, under a contractual relationship with the Southwestern Vermont Medical Center, and in Newport, Vermont, under a contractual relationship with North Country Hospital. Fletcher Allen also operates a dialysis unit in South Burlington.

Fletcher Allen operates more than 100 outreach clinics to support the specialty care needs of communities located throughout Vermont and northeastern New York. Fletcher Allen provides the services of specialty care physicians and leases small office practice sites at community hospitals throughout the region. These offices enable Fletcher Allen to provide on-site outreach clinics staffed on a part-time rotational basis by a variety of specialty-care physicians.

In addition, Fletcher Allen has several full-time medical practice sites on hospital campuses, including otolaryngology and family practices at the Central Vermont Medical Center in Berlin, Vermont, a urology practice at the Northwestern Vermont Medical Center in St. Albans, Vermont, and a neurology practice at the Champlain Valley Physicians Hospital in Plattsburgh, New York. Fletcher Allen also operates the cardiac catheterization programs at several area hospitals and provides the physician support for radiation oncology services at the Rutland Regional Medical Center in Rutland, Vermont.

Fletcher Allen leases office space in and around Burlington, Vermont, for some administrative, financial and information services personnel. These leases enable Fletcher Allen to maximize the patient care operations on the primary campuses that were constructed to support medical operations. Fletcher Allen intends to continue consolidating patient care operations on the main campuses and leasing cost-effective space in and around Burlington for certain administrative functions.

RENAISSANCE PROJECT

The Renaissance Project was a multi-year program of new construction, renovations and sitework on Fletcher Allen's Medical Center Campus that began in April 2001 and culminated in October 2005 with the opening of a new Ambulatory Care Center ("ACC"). The Renaissance Project responded to the increase in outpatient utilization at Fletcher Allen during the past decade and has increased capacity for surgical, emergency and diagnostic services, and represents the first major redevelopment of the Medical Center Campus since the early 1980s.

The major elements of the Renaissance Project included:

Ambulatory Care Center and Related Facilities

The ACC, comprised of 511,403 square feet, is a five-story complex connected to the existing hospital facilities on the Medical Center Campus that serves as the new main entrance to that campus. It includes a variety of outpatient clinical centers, including modules for children's services, dermatology, medicine, surgery, ophthalmology, otolaryngology, outpatient radiology and neuroscience services, as well as a cancer center and a women's center. The ACC also includes a new emergency department, new laboratory space, eight new operating rooms, and expanded space for surgical support, central sterile supply and post-anesthesia recovery. The ACC has allowed Fletcher Allen to consolidate and modernize existing outpatient services.

In connection with the ACC, Fletcher Allen also constructed a new central plant with 64,500 square feet, providing new emergency generators, air conditioning chillers, and a steam plant. The new central plant also allows capacity for future expansion.

The ACC also includes the Education Center, which was constructed under a joint development agreement with UVM. The Education Center was developed as a condominium with a total of 89,977 square feet, of which approximately 56,517 square feet is owned by UVM and approximately 33,460 square feet is owned by Fletcher Allen. UVM's space includes a medical library and classroom facilities. Fletcher Allen's space includes an auditorium as well as conference space, although the fit-up of the conference space has been deferred until a future date.

Parking Garage

The Parking Garage is a four-level underground parking facility at the entrance to the ACC, which provides 1,284 parking spaces in approximately 477,162 square feet.

Inpatient Mental Health Unit

A new inpatient mental health unit with 28 beds was constructed as part of a four-story addition to the existing Shepardson building, replacing the existing unit in the aging Smith building.

HEALTH CARE SERVICES

Fletcher Allen provides integrated hospital and physician services as an acute-care teaching hospital with 620 licensed beds (including 58 bassinets) and a multi-specialty physician practice, employing approximately 450 physicians who hold full-time faculty positions at the College of Medicine. In February 2006, Fletcher Allen was named as one of the top 100 integrated health networks in the country in a survey conducted by Verispan and published in *Modern Healthcare*. Fletcher Allen ranked 70th in the survey (up from 81st in the 2004 survey), and was one of only six hospital systems in the New York-New England region to make the list.

Fletcher Allen provides a broad range of specialized tertiary and quaternary care services. It is the only Level I Trauma Center in its region. Its Vermont Cancer Center is one of only 39 National Cancer Institute-designated comprehensive cancer centers in the nation. The Vermont Children's Hospital is a full-service pediatric "hospital within a hospital." Fletcher Allen offers the only open-heart surgery and interventional cardiology services in Vermont (although Champlain Valley Physicians Hospital in Plattsburgh, New York, recently began offering similar services), and is also the exclusive provider in the state of neonatal intensive care services, renal dialysis services, kidney and pancreas transplants, pediatric surgery, and high-risk obstetrics, among other services.

Fletcher Allen's services also include the full range of services offered in community hospitals as well the following services, by way of example: the Breast Care Center, elder care services, echocardiography and electrophysiology, a multiple sclerosis center, a sleep center, hand microsurgery, the Spine Center, sports medicine, a cytogenetics and a molecular diagnostic laboratory, and nuclear medicine.

MARKET OVERVIEW

Market Areas and Market Share

Fletcher Allen is located in Chittenden County, Vermont, and serves patients from all 14 counties of Vermont as well as six counties in upstate New York. Woods & Poole (an independent firm specializing in long-term county economic and demographic projections) estimates that these 20 counties had a combined population of 1,044,110 in 2005.[2] Of the other 13 acute-care hospitals in Vermont, eight of them are designated as Critical Access Hospitals for federal reimbursement purposes, with the remaining five hospitals ranging in size from 61 to 188 licensed beds. By comparison, Fletcher Allen is licensed for 620 beds (including 58 bassinets).

Since 1996, Fletcher Allen has maintained a 19 – 20% market share for the region it serves. As a provider of tertiary care in the region, Fletcher Allen has maintained a 65 –

[2] Although population estimates are for 2005, the most recent comparative discharge data available (which are discussed in this section) are from 2004.

67% market share for all patients within the region who are discharged from tertiary care hospitals.

In order to more closely monitor activity, Fletcher Allen has divided this region into five markets: Local, Close New York Counties, Contiguous Vermont Counties, Close Vermont Counties, and the Southern Tier, which are described in more detail below.

Local. The local market consists of Chittenden county (where Fletcher Allen is located) and Grand Isle county (which has no local hospital). The combined population of these two counties in 2005 was estimated at 161,180. In this area, Fetcher Allen serves as the primary, secondary and tertiary care facility and enjoys a 92 – 95% inpatient market share, including 99% of the tertiary care.

Close New York Counties. This market consists of Clinton, Essex, Franklin and St. Lawrence counties in upstate New York. The combined 2005 population estimate for these counties is 284,430. These counties are served by ten hospitals. Fletcher Allen has a 9% inpatient market share and treats 65% of the patients referred to tertiary hospitals, a drop from 70% in 2000. Management believes that the volume drop is related principally to changes in medical procedures (for example, the introduction of drug-eluting stents) and to the recent introduction by Champlain Valley Physicians Hospital Medical Center in Plattsburgh, New York, of invasive cardiology services.

Contiguous Vermont Counties. Vermont counties contiguous to Chittenden include Franklin, Lamoille, Washington and Addison. The 2005 population estimate for this market is 169,860. Each of these counties has one hospital. In this market area, Fletcher Allen has a 32 – 34% inpatient market share and serves 83-86% of the patients referred to tertiary hospitals. Fletcher Allen also serves more than 90% of the tertiary patients from Franklin, Lamoille and Addison counties, and Fletcher Allen continues to serve 63 – 66% of the tertiary cases from Washington County, where Central Vermont Hospital (a member of the Dartmouth-Hitchcock Alliance) is located.

Close Vermont Counties. This market includes Orleans, Essex, Caledonia, Orange and Rutland counties and has a combined estimated population of 157,850. With the possible exception of Rutland, travel is easier to Hanover, New Hampshire (where Dartmouth-Hitchcock Medical Center is located) than Burlington from these counties. Until recently, three of the four hospitals in this region were members of the Dartmouth-Hitchcock Alliance; two of those hospitals have recently withdrawn. Fletcher Allen's inpatient market share in this area is 6 – 8%, as well as 27 – 30% of the tertiary cases.

Southern Tier. This market includes Bennington, Windham and Windsor counties in Vermont and Washington and Warren counties in New York. The combined 2005 population is estimated at 270,790. Fletcher Allen sees approximately 4 – 5% of tertiary cases from this area, which is generally much closer to academic health centers in Albany, New York or Lebanon, New Hampshire, than to Burlington.

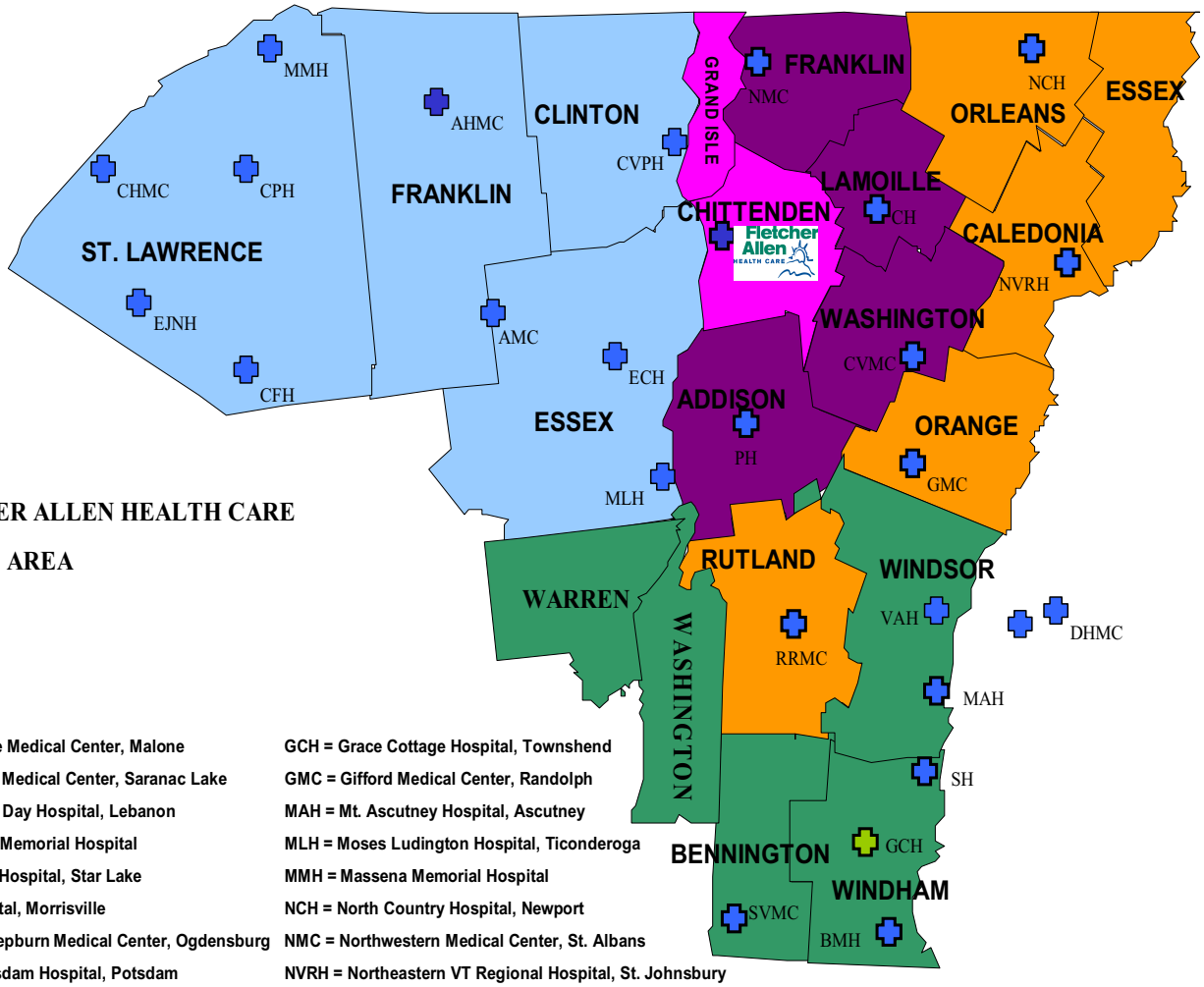
Inpatient Discharges from Fletcher Allen Service Area

MKT	County	Group	1996	1997	1998	1999	2000	2001	2002	2003	2004
Local	Totals	All Hosp	12,835	12,435	12,502	12,999	13,120	13,212	12,897	14,111	13,687
Local	Totals	FAHC	12,246	11,814	11,897	12,344	12,498	12,548	12,149	13,005	12,851
Local	Totals	Other Tertiary	182	184	189	188	202	178	183	230	113
Local	Totals	*% of Total*	*95.4%*	*95.0%*	*95.2%*	*95.0%*	*95.3%*	*95.0%*	*94.2%*	*92.2%*	*93.9%*
Local	Totals	*% of Tertiary*	*98.5%*	*98.5%*	*98.4%*	*98.5%*	*98.4%*	*98.6%*	*98.5%*	*98.3%*	*99.1%*
NY	Totals	All Hosp	38,155	37,710	36,586	34,792	36,025	35,956	35,887	36,876	38,233
NY	Totals	FAHC	3,412	3,402	3,101	3,071	3,306	3,593	3,273	3,491	3,551
NY	Totals	Other Tertiary	1,218	1,264	1,372	1,336	1,401	1,478	1,646	1,903	1,879
NY	Totals	*% of Total*	*8.9%*	*9.0%*	*8.5%*	*8.8%*	*9.2%*	*10.0%*	*9.1%*	*9.5%*	*9.3%*
NY	Totals	*% of Tertiary*	*73.7%*	*72.9%*	*69.3%*	*69.7%*	*70.2%*	*70.9%*	*66.5%*	*64.7%*	*65.4%*
VT-A	Totals	All Hosp	15,934	14,536	13,864	14,401	14,753	15,397	14,825	14,363	14,136
VT-A	Totals	FAHC	5,114	4,577	4,601	4,747	4,865	5,133	4,888	4,666	4,813
VT-A	Totals	Other Tertiary	712	655	667	872	788	838	722	907	783
VT-A	Totals	*% of Total*	*32.1%*	*31.5%*	*33.2%*	*33.0%*	*33.0%*	*33.3%*	*33.0%*	*32.5%*	*34.0%*
VT-A	Totals	*% of Tertiary*	*87.8%*	*87.5%*	*87.3%*	*84.5%*	*86.1%*	*86.0%*	*87.1%*	*83.7%*	*86.0%*
VT-B	Totals	All Hosp	17,423	16,870	16,526	16,065	17,036	17,070	16,216	17,224	15,826
VT-B	Totals	FAHC	1,169	1,108	1,113	1,062	1,164	1,199	1,169	1,266	1,244
VT-B	Totals	Other Tertiary	2,921	3,122	3,106	2,808	3,001	2,780	2,701	3,069	2,946
VT-B	Totals	*% of Total*	*6.7%*	*6.6%*	*6.7%*	*6.6%*	*6.8%*	*7.0%*	*7.2%*	*7.4%*	*7.9%*
VT-B	Totals	*% of Tertiary*	*28.6%*	*26.2%*	*26.4%*	*27.4%*	*27.9%*	*30.1%*	*30.2%*	*29.2%*	*29.7%*
South	Totals	All Hosp	31,005	29,971	29,413	30,083	29,977	30,116	29,892	29,923	28,640
South	Totals	FAHC	266	243	263	245	227	221	264	298	314
South	Totals	Other Tertiary	5,321	5,514	5,552	5,539	5,636	5,466	5,274	5,870	5,539
South	Totals	*% of Total*	*0.9%*	*0.8%*	*0.9%*	*0.8%*	*0.8%*	*0.7%*	*0.9%*	*1.0%*	*1.1%*
South	Totals	*% of Tertiary*	*4.8%*	*4.2%*	*4.5%*	*4.2%*	*3.9%*	*3.9%*	*4.8%*	*4.8%*	*5.4%*
	Totals	All Hosp	115,352	111,522	108,891	108,340	110,911	111,751	109,717	112,497	110,522
	Totals	FAHC	22,207	21,144	20,975	21,469	22,060	22,694	21,743	22,726	22,773
	Totals	Other Tertiary	10,354	10,739	10,886	10,743	11,028	10,740	10,526	11,979	11,260
	Totals	*% of Total*	*19.3%*	*19.0%*	*19.3%*	*19.8%*	*19.9%*	*20.3%*	*19.8%*	*20.2%*	*20.6%*
	Totals	*% of Tertiary*	*68.2%*	*66.3%*	*65.8%*	*66.6%*	*66.7%*	*67.9%*	*67.4%*	*65.5%*	*66.9%*

Source: Vermont Association of Hospitals and Health Systems
Key to abbreviations:

FAHC = Fletcher Allen
NY = Close New York Counties
VT-A = Contiguous Vermont Counties
VT-B = Close Vermont Counties
South = Southern Tier

Comparative data are not available for hospital outpatient services, but using an outpatient estimator developed by The Advisory Board, a Washington, D.C.-based organization that includes approximately 2,500 members (most of them large health systems and medical centers), Fletcher Allen estimates that it has a total of 20.5% of the total hospital outpatient services market (all service lines) in the overall service area. This is virtually the same as the inpatient market share.



FLETCHER ALLEN HEALTH CARE

SERVICE AREA

HOSPITAL KEY

AHMC = Alice Hyde Medical Center, Malone
AMC = Adirondack Medical Center, Saranac Lake
APDH = Alice Peck Day Hospital, Lebanon
BMH = Brattleboro Memorial Hospital
CFH = Clifton Fine Hospital, Star Lake
CH = Copley Hospital, Morrisville
CHMC = Claxton Hepburn Medical Center, Ogdensburg
CPH = Canton-Potsdam Hospital, Potsdam
CVMC = Central Vermont Medical Center, Berlin
CVPH = CVPH Medical Center, Plattsburgh
DHMC = Dartmouth Hitchcock Medical Center, Lebanon
ECH = Elizabethtown Community Hospital
EJNH = EJ Noble Hospital, Gouverneur
GCH = Grace Cottage Hospital, Townshend
GMC = Gifford Medical Center, Randolph
MAH = Mt. Ascutney Hospital, Ascutney
MLH = Moses Ludington Hospital, Ticonderoga
MMH = Massena Memorial Hospital
NCH = North Country Hospital, Newport
NMC = Northwestern Medical Center, St. Albans
NVRH = Northeastern VT Regional Hospital, St. Johnsbury
PH = Porter Hospital, Middlebury
RRMC = Rutland Regional Medical Center
SH = Springfield Hospital
SVMC = Southwestern VT Medical Center, Bennington
VAH = VA Hospital, White River Junction

Local
Chittenden
Grand Isle

Contiguous Vermont
Franklin
Lamoille
Washington
Addison

Southern Tier
Bennington, VT
Windham, VT
Windsor, VT
Washington, NY
Warren, NY

Close New York
Clinton
Essex
Franklin
St. Lawrence

Close Vermont
Rutland
Caledonia
Essex
Orange
Orleans

Other Tertiary Hospitals Serving the Fletcher Allen Service Area

Several other tertiary care hospitals serve portions of the Fletcher Allen service area:

- Dartmouth-Hitchcock Medical Center (Hanover, New Hampshire) (DHMC) – serves portions of Vermont
- Albany Medical Center and St. Peter's Hospital (Albany, New York) – serve the Southern Tier and New York
- Crouse Hospital, University Hospital and St. Joseph's Hospital (Syracuse, New York) – serve St. Lawrence County, New York

Dartmouth-Hitchcock Medical Center has formal affiliation agreements with four Vermont hospitals (Mt. Ascutney Hospital, Northeastern Vermont Regional Hospital, Brattleboro Memorial Hospital and Central Vermont Medical Center). St. Peter's has an affiliation agreement with one hospital in Clinton County, New York. Fletcher Allen has affiliation agreements with two hospitals in upstate New York: Canton Potsdam Hospital (Canton, New York) and Alice Hyde Medical Center (Malone, New York).

Hospital Statistics (fiscal 2005 (VT and NH) and fiscal 2004 (NY))

	VT	NH	Albany		Syracuse		
	Fletcher Allen	DHMC	AMC	St. Peter's	Crouse	Univ	St. Joseph's
FTE Residents/Interns	234	251	292	20	55	238	56
Staffed Beds	368	318	512	394	463	310	431
Inpatient Discharges	20,971	15,960	22,121	21,852	17,343	14,972	22,342
Patient Days	97,477	93,389	149,399	130,138	106,416	91,610	124,314
Avg Daily Census	267	256	409	357	292	251	341

Data source: American Hospital Directory - ahd.com
Average Daily Census calculated by dividing patient days by 365

Physician Market Share

Complete comparative data are not available for professional services to accurately determine professional market share. However, Fletcher Allen's professional visit volumes have grown in each of Fletcher Allen's markets. Physician volume information is found in the "Physician Activities" section, below, while the "Medical Staff" section (also below) provides a picture of the Fletcher Allen and non-Fletcher Allen physicians in the local market.

Based on information from its physician-hospital organization subsidiary, Vermont Managed Care, Fletcher Allen estimates that its employed physicians provide approximately 30% of primary care services and approximately 50% of specialty physician care in the counties of Chittenden, Grand Isle, Addison, and Lamoille. Although there is local competition in areas such as general orthopedics, ophthalmology, general obstetrics and psychiatry, Fletcher Allen physicians typically provide the

dominant share of the complex or tertiary care. For example, although there is competition in general obstetrics, Fletcher Allen physicians are the dominant providers for high-risk pregnancies and are the only providers of in vitro fertilization, maternal-fetal medicine and reproductive endocrinology services in the region.

Demographic and Socioeconomic Information

According to the "Pulse of Vermont Quality of Life Study 2005," a study prepared for the Vermont Business Roundtable, Vermont ranks 46th in the nation in violent crimes, 46th in homicide rates, 4th in unemployment, 5th in "owner occupied" housing, 9th in proportion of residents with bachelor's degrees, 8th in percent with advanced degrees. Vermont has the 7th lowest poverty rate, and among states in which 50% of students took SATs, Vermont students ranked 5th in verbal scores and 6th in math scores.

Chittenden County stands out from other Vermont and upstate New York counties in many respects. The entire area is highly homogeneous (Vermont is nearly 97% white), but Chittenden County is somewhat more racially diverse. Chittenden County has a significantly higher proportion of people with college degrees, higher median household income and a lower unemployment rate. The population in the local market was estimated to grow 4.75% in the 2000 – 2005 timeframe, and is projected to grow by 4.99% between 2005 and 2010, while the overall population in the larger service area was estimated to grow at between 2.7 – 2.8%.

Socioeconomic Indicators

Indicator	Last Year Reported	Vermont	Chittenden County
Population	2005	630,050	149,613
Persons > 65	2004	13.0%	10.0%
White	2004	96.9%	95.1%
Black	2004	0.6%	1.0%
American Indian	2004	0.4%	0.3%
Asian	2004	1.0%	2.3%
College Degree	2000	29.4%	41.2%
Median Household Income	2003	42,649	51,858
Unemployment	2005	3.5%	3.1%

Data source: US Census Bureau (censtats.census.gov)

MEDICAL STAFF

Medical Staff Profile

As of September 30, 2006, the Fletcher Allen medical staff consisted of 747 physicians, dentists and consulting providers. The following table presents the composite medical staff categorized by specialty, employment status, board certification and average age:

Specialty	Total Attending & Consultant Staff	Employed by Fletcher Allen	Board-Certified		Average Age
			Number	Percentage	
Anesthesia	41	41	36	88	47.3
Dental/Oral Surgery	22	1	18	82	50.6
Emergency Medicine	16	16	13	81	43.6
Family Medicine	81	39	80	99	47.2
General Surgery	8	8	8	100	44.8
Medicine	MD 121	92	120	99	49.9
	PhD 1	1	N/A	N/A	58
Neurology	22	18	22	100	50.7
Neurosurgery	5	4	4	80	49.2
Oncology Surgery	7	5	7	100	46.6
Ophthalmology	16	8	14	88	48.6
Orthopedics and Rehabilitation	33	23	33	100	50.6
Otolaryngology	8	7	8	100	51.6
Pathology	34	34	33	97	50.8
Pediatrics	75	39	75	100	50.1
Pediatric Surgery	2	2	2	100	52
Plastic Surgery	4	4	3	75	45.8
Primary Care/Internal Medicine	61	39	61	100	45.7
Psychiatry	MD 47	26	47	100	51.2
	PhD 28	11	N/A	N/A	49.8
Radiology	32	1	31	97	49.8
Radiation Oncology	6	0	6	100	53.2
Thoracic Surgery	4	4	4	100	49.8
Transplant Surgery	3	1	3	100	43.7
Trauma Surgery	3	3	3	100	46
Urology	12	6	12	100	45.2
Vascular Surgery	6	6	6	100	44.8
Women's Health	49	30	42	86	44.9
Total	**MD 718**	**MD 457**	**692**	**96.2**	**48.5**
	PhD 29	**PhD 12**	**N/A**	**N/A**	**50.1**

Statistics

The following table demonstrates net change in the medical staff for the fiscal years ended September 30, 2003, to September 30, 2006.

Net Additions to the Medical Staff

	Fiscal Year Ended September 30			
	2003	**2004**	**2005**	**2006**
New Appointments to Staff	65	56	54	59
Resignations from Staff	36	40	40	49
Net Additions to Staff	29	16	14	10

Medical Staff Age Distribution

Age Group	Number of Physicians	Percentage of Total Physicians
Under 40	147	19.7
40 to 49	257	34.4
50 to 59	248	33.2
60 and Over	95	12.7
Total	**747**	**100.0%**

HISTORICAL OPERATIONAL RESULTS

Hospital Activities

The tables below present a summary of Fletcher Allen's hospital utilization for the year ended September 30, 2002, through the year ended September 30, 2006.

	Years Ended September 30				
Inpatient Activity	**2002**	**2003**	**2004**	**2005**	**2006**
All Patient Types (Adult & Pediatric)					
Beds (staffed excluding nursery)	474	467	424	456	458
Admissions	22,511	22,963	23,288	23,045	22,921
Patient Days	129,825	125,936	120,112	117,136	120,715
ALOS (1) (days)	5.7	5.6	5.2	5.1	5.2
Occupancy %	75%	74%	78%	70%	72%
Outpatient admissions (3)	7,971	8,984	9,822	21,128	22,906
Outpatient days (3)	9,031	10,052	10,907	21,750	23,528
Nursery					
Bassinets	38	38	38	38	38
Admissions	1,910	1,978	1,922	1,981	1,977
Nursery Days	3,964	4,362	4,258	4,251	4,327
ALOS (days)	2.2	2.4	2.3	2.2	2.3
Births	2,111	2,214	2,154	2,196	2,200
Inpatient Operating Room Procedures (2)	7,174	6,727	6,736	7,106	7,117

(1) ALOS = average length of stay.
(2) Includes major/minor surgical procedure rooms beginning in fiscal 2005.
(3) Beginning in fiscal 2005, outpatient admissions were redefined for statistical purposes to include outpatients placed in hospital beds at any time during the care encounter (*e.g.*, a surgical patient moved from a post-surgical recovery setting to a hospital bed, even for a short time).

Ancillary and Specialized Tertiary Services	Years Ended September 30				
	2002	2003	2004	2005	2006
Outpatient/Ambulatory Surgical Procedures	12,704	12,823	13,238	14,467	14,569
Laboratory Tests					
Inpatient	840,155	967,647	1,014,051	1,076,458	1,032,471
Outpatient	1,200,783	1,253,156	1,288,294	1,333,634	1,298,646
Total	2,040,938	2,220,803	2,302,345	2,410,092	2,331,117
Emergency Room & Walk-In Center Visits	70,305	67,583	63,627	64,192	67,352
CT Scan					
Inpatient	10,347	10,848	10,965	11,961	12,681
Outpatient	20,084	23,199	24,766	25,174	27,165
Total	30,431	34,047	35,731	37,135	39,846
MRI					
Inpatient	2,537	2,506	2,537	2,175	2,345
Outpatient	8,805	9,869	10,309	11,806	12,409
Total	11,342	12,375	12,846	13,981	14,754
Nuclear Medicine					
Inpatient	1,765	2,079	1,975	1,640	1,741
Outpatient	6,584	6,496	6,855	6,925	6,818
Total	8,349	8,575	8,830	8,565	8,559
CABG & Heart Valve Procedures – New Inpatient	723	626	573	510	462
Radiation Therapy Visits					
Inpatient	2,001	2,138	1,976	1,812	1,429
Outpatient	31,579	33,066	35,642	31,039	31,051
Total	33,580	35,204	37,618	32,851	32,480
Ultrasound					
Inpatient	2,501	2,924	2,989	3,070	3,338
Outpatient	14,575	14,567	15,415	15,369	15,797
Total	17,076	17,491	18,404	18,439	19,135
Diagnostic Radiology					
Inpatient	41,509	40,457	38,792	37,982	37,802
Outpatient	92,665	94,439	96,193	96,168	99,866
Total	134,174	134,896	134,985	134,150	137,668
Angiography/Special Procedures					
Inpatient	3,708	5,251	5,232	5,319	5,337
Outpatient	2,654	3,742	4,072	4,529	4,433
Total	6,362	8,993	9,304	9,848	9,770
Renal Dialysis					
Inpatient	2,875	2,582	2,427	2,079	2,355
Outpatient	4,107	3,841	3,609	2,178	2,209
Satellite (Outpatient)	37,215	39,767	41,241	43,268	41,616
Total	44,197	46,190	47,276	47,525	46,180

Physician Activities

The table below presents physician volumes for Fletcher Allen employed physicians for the year ended September 30, 2002, through the year ended September 30, 2006. This data is derived from Fletcher Allen's professional services billing system.

Inpatient encounters represent the number of patient care visits and inpatient procedures by Fletcher Allen physicians for patients who have been admitted to the hospital. Clinic visits represent a patient care encounter at the physician's regular clinical office practice site, or doctor's office. Outpatient encounters represent both outpatient hospital procedures at Fletcher Allen and patient visits that occur at Fletcher Allen outreach clinics located in community hospitals throughout the primary referral market. The shift between clinic visits and outpatient encounters in 2006 is due to the implementation of provider-based billing that year.

	Years Ended September 30				
	2002	**2003**	**2004**	**2005**	**2006**
Inpatient Encounters	185,421	180,267	180,460	179,541	187,538
Outpatient Encounters	236,708	256,299	273,413	282,375	331,727
Clinic Visits	502,829	507,091	509,692	506,000	476,700
Total	**924,958**	**943,657**	**963,565**	**967,916**	**995,965**

Data Source: Routine Internal Report from Fletcher Allen Billing System (BVIS Historical File Database)

HISTORICAL FINANCIAL PERFORMANCE

Financial Summary

The following summary consolidated statements of operations for the years ended September 30, 2004, 2005 and 2006 were derived from the consolidated financial statements of Fletcher Allen Health Care, Inc. and subsidiaries, audited by Deloitte & Touche LLP, independent auditors. The summary consolidated statements of operations for the years ended September 30, 2002 and 2003 were derived from the consolidated financial statements of Fletcher Allen Health Care, Inc. and subsidiaries, audited by Ernst & Young LLP, independent auditors. The summary consolidated statements of operations should be read in conjunction with the consolidated financial statements for the years ended September 30, 2005 and 2006, together with the related notes included in Appendix B of the Official Statement.

For the year ended September 30, 2006, total operating revenues and support of the Obligated Group amount to approximately 97% of the consolidated operating revenues and support of Fletcher Allen and subsidiaries. The consolidated financial statements of Fletcher Allen Health Care, Inc. and subsidiaries included in Appendix B contain information for entities that are not part of the Obligated Group.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES SUMMARY CONSOLIDATED STATEMENTS OF OPERATIONS (in thousands)					
	Year ended September 30				
	2002	2003	2004	2005	2006
Unrestricted revenue and other support:					
Net patient service revenue	$ 475,336	$ 490,121	$ 532,489	$ 583,112	$ 634,697
Premium revenue	53,799	53,579	55,977	58,789	56,210
Other revenue	17,800	18,255	17,715	18,289	20,684
Total unrestricted revenue and other support	546,935	561,955	606,181	660,190	711,591
Expenses:					
Salaries, payroll taxes and fringe benefits	307,338	331,910	353,213	374,933	409,660
Supplies and other	127,308	137,872	150,059	157,303	166,713
Purchased services	23,628	24,093	21,063	24,910	26,857
Depreciation and amortization	27,031	27,343	25,488	30,618	35,060
Interest expense	4,358	3,358	3,258	6,623	16,890
Provision for bad debts	14,773	12,775	16,622	12,759	14,872
Underwriting expenses	6,609	7,691	5,295	4,305	3,415
Medical claims	20,630	21,625	24,241	24,473	21,283
Total operating expenses	531,675	566,667	599,239	635,924	694,750
Income (loss) from operations	15,260	(4,712)	6,942	24,266	16,841
Nonoperating revenue (expense):					
Investment income and losses	(1,559)	(729)	4,045	7,745	14,933
Loss on extinguishment of debt	-	-	(2,116)	-	-
Unrealized gain (loss) on interest rate swaps	(647)	405	182	(1,183)	3,963
Contribution - Education Center	(5,779)	(463)	(1,225)	(538)	-
Other	(1,924)	(1,339)	(2,860)	157	(394)
Total nonoperating revenue (expense)	(9,909)	(2,126)	(1,974)	6,181	18,502
Excess (deficiency) of revenue over expenses	5,351	(6,838)	4,968	30,447	35,343
Net unrealized gains (losses) on investments	(2,538)	15,120	6,568	5,667	(2,524)
Assets released from restrictions for capital purchases	1,765	1,860	3,559	2,573	3,106
Additional minimum pension liability adjustment	(5,009)	(19,005)	186	(17,175)	18,240
Transfer of net assets	-	-	4,351	-	4,843
Increase (decrease) in unrestricted net assets before cumulative effect of change in accounting principle	(431)	(8,863)	19,632	21,512	59,008
Cumulative effect of change in accounting principle	-	-	-	-	(861)
Increase (decrease) in unrestricted net assets	$ (431)	$ (8,863)	$ 19,632	$ 21,512	$ 58,147

Sources of Patient Revenue

The principal source of Fletcher Allen's revenue is payments from third-party payers that pay for services provided to patients covered by those third parties. Those payers include the federal Medicare program, Vermont and New York's Medicaid programs, and commercial insurance and managed care plans.

A summary of the reimbursement policies for Fletcher Allen's major payers is outlined below. For additional information concerning third-party payer programs, *see* "Bondholders Risks" of this Official Statement.

Medicare Reimbursement – General

"Medicare" is the commonly-used name for reimbursement or payment programs established under the federal Social Security Act, and provides specified health care benefits to beneficiaries who are 65 years of age or older, blind, disabled, or who qualify for the End Stage Renal Disease Program. The program is administered by the Centers for Medicare and Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services. To participate in the Medicare program, health care providers must meet CMS's "Conditions of Participation" on an ongoing basis, as determined by the state in which the provider is located or by the Joint Commission on the Accreditation of Healthcare Organizations ("JCAHO"), an independent accreditation organization. Requirements for Medicare certification are subject to change, which in turn may require Fletcher Allen to make changes from time to time in its facilities, equipment, personnel, billing, policies or services.

Because Medicare is a major source of revenue for Fletcher Allen, changes in the program may have a material impact on revenue. For example, Medicare program changes resulting from the Balanced Budget Act of 1997 ("BBA") limited increases in Medicare payments that were otherwise provided by law and reduced Medicare payment or reimbursement for certain health care services provided to program beneficiaries. The BBA has had and will continue to have an effect on acute-care hospitals and other Medicare providers. Similarly, the Deficit Reduction Act of 2006 ("DRA") contains legislatively-mandated reductions in Medicare payments for hospitals, physician services, and other health services. Future reductions in Medicare reimbursements or increases in Medicare reimbursement in amounts less than increases in the cost of providing care to the program's beneficiaries may have a material adverse financial impact on Fletcher Allen.

A substantial portion of Fletcher Allen's Medicare revenues comes from payments made for services rendered to Medicare beneficiaries under a payment system known as the Prospective Payment System ("PPS"). Under PPS, the amount paid to a provider for an episode of care is established by federal regulation and is not related to the provider's charges or to the actual costs of providing that care. Presently, both inpatient and outpatient services are paid on the basis of PPS, as follows:

- Inpatient hospital services are reimbursed using a system based upon prospectively-determined rates paid for specific diagnosis related groups ("DRGs"). The DRG relative weights and payment rates are updated annually. The payment rate includes the following components: (1) the standard DRG prospective payment rate; (2) a capital rate; (3) an indirect medical education rate; and (4) a disproportionate share rate. There is no guarantee that DRG rates, as they change from time to time, will cover the actual costs of providing services to Medicare patients.

- Medicare outpatient services are reimbursed under the Outpatient Prospective Payment System ("OPPS"). OPPS is based on groups of services called the Ambulatory Payment Classification System ("APCs"). Each APC has a predetermined payment amount adjusted for case intensity and a hospital-specific wage index. Services provided at Fletcher Allen that fall outside OPPS are physical, occupational and speech therapies, laboratory, screening mammograms, and ambulance. These services are paid under a traditional fee schedule arrangement. CMS conducts an annual review to update APC groups, intensity weights and wage adjustments. There is no guarantee that APC rates, as they change from time to time, will cover the actual costs of providing services to Medicare patients.

In August 2006, CMS announced a new final rule for reforming hospital inpatient PPS. This rule affects discharges on or after October 1, 2006, although the changes will be phased in over a three-year period. This rule not only contains the most sweeping changes to the DRG system since its implementation in 1983, but could significantly affect the distribution of payment among hospital providers. One of the rule's changes, for example, is a shift from a charge-based method of calculating the DRG weighting factor to a cost-based method that will use newly-created hospital-specific relative value cost centers. Another major change is the implementation of a severity-adjusted DRG-based payment system, which is designed to lead to higher payments to hospitals that can demonstrate they serve more complex, sicker patients, and away from hospitals that serve patients with less severe illnesses.

The overall financial impact of these changes on Fletcher Allen's revenue is unknown at this time.

Medicare – Inpatient Rehabilitation

Reimbursement for inpatient rehabilitation services is based on a prospective payment system that replaces the earlier cost-based system. Fletcher Allen fares well under the new payment methodology largely due to the fact that Fletcher Allen's rehabilitation costs per case are below the national cost averages that are the basis for setting the prospective rates.

Medicare – Inpatient Psychiatry

Until 2005, psychiatry services were reimbursed based on the TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) cost-based method that uses a target amount per discharge and settles based on actual cost per discharge vs. target amount per discharge. The organization made a decision in 2005 to convert to the DRG reimbursement methodology for these services.

Medicare – Medical Education Payments.

Medicare currently pays for a portion of the costs of medical education at hospitals like Fletcher Allen that have teaching programs. These payments are vulnerable to reduction or elimination.

Medicare – Area Wage Index

Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("DIMA"), Fletcher Allen was reclassified for purposes of the Medicare Area Wage Index to the Boston Metropolitan Statistical Area (since reconfigured into Core-Based Statistical Area (CBSA) Boston-Quincy). That reclassification, which has had a favorable reimbursement impact, will expire on September 30, 2007, unless extended. Although Fletcher Allen will seek federal legislative relief to extend or make permanent its area wage index reclassification before the current reclassification expires, there can be no assurance that any timely legislative relief will be available. Loss of the reclassification could significantly reduce reimbursement to Fletcher Allen.

Medicaid Program

The state Medicaid program reimburses Fletcher Allen for inpatient services based on per diem rates, which are updated annually. Outpatient services are reimbursed based on a prospectively determined rate and are settled based on the Medicare Cost Report.

On October 13, 2006, the state Medicaid office (the Office of Vermont Health Access) contracted with Burns & Associates, Inc., of Phoenix, Arizona, for consultative assistance and advice in updating Medicaid's inpatient and outpatient payment methodology. It is impossible to predict the impact any such payment changes to the Medicaid reimbursement structure will have on Fletcher Allen's revenues.

Managed Care

Fletcher Allen has negotiated "managed care" contracts with several different private insurers. Managed care contracts cover subscribers enrolled in HMO, PPO, or POS plans. Reimbursement is predominately based on a DRG payment system for inpatient services and a percentage of Fletcher Allen charges for outpatient services. Generally, these plans are subjected to higher utilization review standards than traditional indemnity coverage.

Capitated Contracts

For several contracts, Fletcher Allen or its indirect subsidiary, Vermont Managed Care ("VMC"), receives a fixed amount of reimbursement based on the number of contracted lives, rather than the services provided. Fletcher Allen has accepted primary care provider capitation and outpatient laboratory capitation directly, while VMC holds full risk global capitation agreements (*see* separate discussion of VMC).

Commercial Insurance

Commercial payers, generally offering traditional indemnity coverage, reimburse Fletcher Allen at negotiated discounts from Fletcher Allen's charges. Reimbursement is predominately based on a DRG (diagnosis-related group) payment system for inpatient services and a percent of Fletcher Allen's charges for outpatient services. Professional (physician) charges are generally reimbursed based on the payers' fee schedule, which may be based on the Fletcher Allen standard fee structure.

Self-Pay and Other

Uninsured individuals who are not eligible for Medicaid or other government health care programs, or whose insurance requires Fletcher Allen to bill the patient, are classified by Fletcher Allen as self-pay. Other payers include workers' compensation, CHAMPUS (Civilian Health and Medical Program of the Uniformed Services), various state agencies or state-sponsored special programs, and research**,** as well as outpatient services performed for other health care providers by Fletcher Allen and billed directly to those providers.

Recent Health Care Reform in Vermont

The State of Vermont adopted a number of health care reform initiatives during the 2006 legislative session. These were contained in four major bills: H. 861 (Act 191), which (among other things) calls for the adoption of better chronic care management by state programs (including Medicaid and insurance plans offered to state employees), as well as the development of a new health care insurance product (to be known as "Catamount Health") for uninsured individuals; sections of H. 881 (Act 215), the state's budget bill, addressing quality and administrative improvements to the health care system, such as the adoption of a uniform credentialing application form for use by all hospitals and insurance companies, as well as appropriating several million dollars to support increases to Medicaid providers, both hospitals and physicians; H. 227 (Act 153), relating to daily posting of nurse staffing numbers; and S. 198 (Act 142), a "safe apology" law for health care providers.

The overall financial impact of these health care reforms on Fletcher Allen is unknown at this time.

Percentages of Revenue by Payer

The percentages of net patient revenue, by payer, for fiscal years ended September 30, 2002, through September 30, 2006, are summarized below.

	Year Ended September 30				
	2002	**2003**	**2004**	**2005**	**2006**
Medicare	34%	34%	33%	34%	32%
Managed Care	31%	32%	33%	34%	37%
Commercial Insurance	12%	12%	11%	9%	9%
Capitated Contracts	10%	9%	9%	8%	8%
Medicaid	7%	8%	9%	9%	8%
Self Pay/Other	6%	5%	5%	6%	6%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RECENT FINANCIAL PERFORMANCE

The following Management's Discussion and Analysis of Recent Financial Performance relates to Fletcher Allen Health Care, Inc. and its subsidiaries (referred to as "Fletcher Allen" in this section) presented on a consolidated basis.

Comparison of Results for Fiscal Years Ended September 30, 2005 and 2004

For the fiscal year ended September 30, 2005, total unrestricted revenue and other support increased by 8.9% compared to fiscal year ended September 30, 2004. The increases resulted from the introduction of new programs and technology, increased physician productivity and improvement in contracting strategy. These increases were offset, in part, by a reduction in the number of inpatient cases by 1.0% (243 cases). A growth in overall outpatient areas offset this reduction of inpatient cases. Physician activities, when measured by total encounters and clinic visits, increased by 4.5% between the two years. Key areas of growth in outpatient activity included outpatient surgical cases, which increased 9.2%, CT scans (1.6%), MRI scans (1.6%) and total emergency room and walk-in center visits (0.9%). In addition, changes in prior year estimates of third-party settlements increased net patient service revenue by approximately $3.8 million in fiscal 2005.

For the fiscal year ended September 30, 2005, total operating expense increased by 6.1% compared to fiscal year ended September 30, 2004. The increase in operating expense was mostly related to direct patient care activities, including personnel cost, medical supplies and pharmaceutical cost. Personnel cost increased due to the additional employees (FTEs) needed to support outpatient volume growth in the hospital and physician activities. FTEs also increased in order to provide more direct patient care hours for inpatient services. Medical and pharmaceutical supplies and other expenses increased by 4.8% due to usage and pricing pressures. Operating expenses also increased

due to increased depreciation and interest expense. Depreciation and interest increased by 29.5%. This increase is due to portions of the Renaissance Project being place into service during the fiscal year.

For the fiscal year ended September 30, 2005, Fletcher Allen reported income from operations of $24.3 million, an increase of $17.3 million from the prior year. Excess of revenue over expenses for fiscal 2005 was $30.4 million, an increase of $25.5 million from the prior year. Operating earnings before interest, depreciation and amortization were $61.5 million in 2005, an increase of $25.8 million due to strong improvement in core operations.

An improvement in operating earnings before interest, depreciation and amortization for Fletcher Allen began in 2004 and continued to improve during fiscal 2005. Management implemented many operational redesign projects during this period to improve financial performance. These operational redesign projects were aimed at improving quality and financial performance.

Comparison of Results for Fiscal Years Ended September 30, 2006 and 2005

For the fiscal year ended September 30, 2006, total operating revenues and support increased 7.8% compared to fiscal year September 30, 2005. Improvements in outpatient and physician activities along with increased focus on revenue enhancement for all areas offset the slight decline (0.5%) of inpatient admissions. Physician encounters and clinic visits increased 2.9%. Outpatient increases included surgical procedures (0.7%), outpatient imaging (including MRI) (5.1% increase), outpatient CT scans (7.9% increase), outpatient diagnostic radiology (3.8% increase), and total emergency room and walk-in center visits (4.9% increase). Inpatient surgical volume showed a slight increase (11 cases), even though coronary artery bypass grafts (CABGs) and heart valve procedures decreased by 48 cases. Management believes that the volume drop is related principally to changes in medical procedures (for example, the introduction of drug-eluting stents) and to the recent introduction by Champlain Valley Physicians Hospital Medical Center in Plattsburgh, New York, of invasive cardiology services. Changes in prior year estimates of third-party settlements increased net patient service revenue by approximately $5.8 million in fiscal 2006.

The year-to-year increase in operating expense was 9.3%. While personnel cost increased 9.3%, depreciation and interest expense increased by 39.5%. Wage increases for the year included market adjustments for RNs and selected other key staff. These increases were needed to keep up with market conditions. Depreciation and interest expense increased as most of the Renaissance Project was placed into service in August of 2005. During the construction of the Project, interest expense from previous borrowings had been capitalized. Medical and pharmaceutical supplies and other expenses increased by 5.9% due to increased focus on these areas and better pricing.

For the fiscal year ended September 30, 2006, Fletcher Allen reported income from operations of $16.8 million, a decrease of $7.5 million from the prior year. Excess of revenue over expenses for fiscal 2006 was $35.3 million, an increase of $4.9 million from the prior year. Operating earnings before interest, depreciation and amortization were $68.8 million in 2006, an increase of $7.3 million. The decrease in income from operations in fiscal 2006 was due to the increase in depreciation and interest expenses related to the Renaissance Project.

OUTSTANDING INDEBTEDNESS AND INTEREST RATE SWAP AGREEMENTS

The following table provides a brief description of Fletcher Allen's consolidated indebtedness. *See* Note 7 to the financial statements for September 30, 2006, for a complete discussion of these obligations:

Obligations	**Outstanding as of September 30, 2006**
Series 2004B Bonds, Auction Rate Securities, variable rate (3.6% to 3.755% fixed rate swap), payable through 2035	$ 168,025,000
Series 2000A Bonds, fixed interest rate ranging from 4.3% to 6.25%, net or amortized bond discount, payable through 2028	$ 96,878,000
Series 2000B Bonds, Auction Rate Securities, variable rate (3.55% at September 30, 2006), payable through 2031	$ 50,000,000
Series 2004A Bonds, 2.0% to 5.0%, net or unamortized bond premium, payable through 2025	$ 46,713,000
1994 Bonds, Select Auction Variable Rate Securities (SAVRS) variable rate (3.45% to 4.93%), net of unamortized discount, payable through 2013	$ 17,667,000
Other long-term debt consisting of mortgages, equipment financing and capital leases all due before September 2008	$ 779,000
Standby Letters of Credit of up to $1,260,000 on which no amounts have been drawn	$ -
Total Debt	**$ 380,062,000**

Fletcher Allen entered into interest rate exchange agreements in 1993 and again in 2004. The 1993 and 2004 agreements had aggregate notional amounts of approximately $18 million and $135 million as of September 30, 2006. Pursuant to each agreement, Fletcher Allen is obligated to pay the applicable swap counterparty amounts based on a fixed interest rate and is to receive payment from such swap counterparty based on variable interest rates. Under certain circumstances Fletcher Allen may be required to post collateral to secure its obligations under the 1993 interest rate exchange agreements. In addition, each agreement may be terminated following the occurrence of certain events, at which time Fletcher Allen may be required to make a termination payment to the applicable swap counterparty. The counterparty for the 2004 interest rate exchange agreements is related to Citigroup Global Markets Inc. *See* note 7 of the notes to the

financial statements of Fletcher Allen included as Appendix B hereto for further information.

INSURANCE

VMC Indemnity Company, Ltd. ("VMCIC") is a single-parent captive insurance company licensed and incorporated under the laws of Bermuda that writes coverage only for Fletcher Allen.

VMCIC had statutory capital and surplus of $21,325,736 in excess of the Bermuda requirement as of September 30, 2006.

VMCIC provides professional and general liability coverage to Fletcher Allen, its employed physicians and staff. VMCIC's funding is based on actuarial projections at the 80% confidence level. For the 2006-2007 policy year, the limits of coverage provided for professional and general liability claims are $5 million per occurrence/$20 million in the aggregate. Reinsurance in the amount of $50 million in excess of the $20 million limits provided by VMCIC is provided by reinsurance carriers in the United Kingdom, Switzerland, and the United States.

VMCIC also provides workers compensation coverage to Fletcher Allen. VMCIC is liable for $500,000 per injury. Midwest Insurance provides the excess coverage in the amount of $25 million.

Fletcher Allen also maintains property insurance, directors and officers liability insurance, automobile, fiduciary and other insurance coverage in types and amounts consistent with similarly situated health care systems.

PENSION PLANS

Fletcher Allen has a defined benefit pension plan for eligible employees that were members of the Fletcher Allen Pension Plan prior to January 1, 1995. Benefits were frozen as of July 1, 1996, for the majority of participants. The annual expense recorded for this plan was $2.3 million and $3.2 million in fiscal 2005 and 2006, respectively. Fletcher Allen and its subsidiaries also recorded an additional minimum pension liability of $41 million and $22.8 million representing the excess of accumulated benefits over plan assets and accrued pension costs at September 30, 2005 and 2006, respectively. This represented an increase in the minimum pension liability of $17.2 million in 2005, and a decrease in the minimum pension liability of $18.2 million in 2006. Fletcher Allen made contributions to the plan of $7.8 million in fiscal 2005 and $4.4 million in fiscal 2006, and expects to fund $9.5 million in fiscal 2007.

In addition to its defined benefit pension plan, Fletcher Allen has defined contribution pension plans covering many of its employees. Total pension expense, including the

defined benefit plan and other postretirement benefit plans, amounted to $18.6 million and $20.6 million for the years ended September 30, 2005 and 2006, respectively.

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. This statement will require Fletcher Allen to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its consolidated balance sheet. Fletcher Allen is currently evaluating the impact of this Statement on its consolidated financial statements.

See note 12 of the notes to the financial statements of Fletcher Allen included as Appendix B hereto for further information.

INVESTMENT POLICY

Fletcher Allen's Finance Committee is responsible for establishing the organization's investment policy and providing oversight to the management of these funds in consultation with the Chief Financial Officer and Fletcher Allen's investment advisor, Cambridge & Associates of Boston, Massachusetts.

The investment policy outlines performance objectives, asset allocations, targets by portfolio and asset class, as well as reporting requirements. Fletcher Allen's portfolio includes United States large cap equity funds, United States small cap equity funds, developed market equity funds, emerging market equity funds, hedge funds, real estate investment trusts funds, fixed income funds and cash. As of September 30, 2004, 2005 and 2006, the investment portfolio balances (excluding assets held by trustees under bond indenture agreements) were as follows:

Funds (in 000s)	2004	2005	2006
Board-designated assets	$ 115,572	$ 123,620	$ 122,742
VMCIC restricted assets	$ 26,821	$ 27,880	$ 28,054
Donor-restricted assets:			
Permanent endowment	$ 24,061	$ 24,900	$ 23,593
Specific purposes	$ 8,447	$ 10,067	$ 9,169
Total	**$ 174,901**	**$ 182,467**	**$ 183,558**

LABOR RELATIONS

The staff-level nurses (RNs and LPNs) at Fletcher Allen are represented by the Vermont Federation of Nurses and Health Professionals, UPV/AFT, AFL-CIO Local 5221 ("VFNHP"). The initial nursing contract went into effect in July of 2003. There was an agreed-upon re-opener mid-contract term to look at wages, the terms of which were successfully negotiated in October 2005. A renegotiation of the entire contract was completed in 2006, resulting in a contract through July 2009. Included in the nursing

contract, in addition to a no-strike/no-lockout clause and provisions for wage increases that are consistent with Fletcher Allen's budget, is a provision that replaces the previous language related to nursing ratios. This provision calls for joint staffing discussions with each unit, management, and union leadership, over the next few years. Dubbed "model unit discussions" by the patient care areas that have started the process, the intent is to give the staff doing the work a voice in how the care should be delivered.

The turnover rate for regularly-scheduled employees (excluding physicians) was 14.4% in fiscal 2004, 13.9% in fiscal 2005 and 16.5% in fiscal 2006. RN turnover was 6.8%, 9.1% and 8.9% respectively for those years.

Nurse recruitment has improved over the past two years. Fletcher Allen hired 155.7 FTEs of nurses in 2006. As of the end of September 2006, Fletcher Allen was experiencing a 6.0% RN vacancy rate, compared with 9.1% a year before. Temporary nursing help in the form of contract nurses (travelers) is 7% of the nursing workforce, a slight decrease from 2005.

Retention and recruitment of nurses remain strong. Fletcher Allen has instituted a number of initiatives designed to help attract and retain staff, including a critical care internship program, core education programs in pediatric intensive care, a 34-week OR curriculum, clinical site for nurse refresher programs, and competitive salaries. In addition, continued work on an initiative designed to achieve "Magnet status" designation from the American Nurses Credentialing Center for Fletcher Allen has resulted in increased staff decision-making, unit councils, and significant work on evidence-based practice. Presently 223 hospitals have achieved that designation, which signifies that a facility has met more than 60 standards-based criteria relating to developing a work environment that recognizes and rewards nurses.

LITIGATION

Professional and general liability claims have been asserted against Fletcher Allen by various claimants. The claims are in various stages. Other professional and general liability claims may be asserted against Fletcher Allen. It is the opinion of Fletcher Allen management, based on prior experience, that adequate insurance is maintained (including through VMCIC, *see* "Insurance" herein) to provide for all professional and general liability losses that have arisen or may in the future arise.

Fletcher Allen also is a defendant in various employment termination and discrimination actions and commercial actions arising out of the normal course of its operations. Although the outcome of any such claims or actions cannot be currently determined, Fletcher Allen's management is of the opinion that the eventual liability therefrom, if any, will not have a material effect on the financial position of Fletcher Allen or on its ability to make required debt service payments.

STRATEGIC PLANNING PROCESS – "VISION 2010"

Fletcher Allen's current strategic plan was developed in 2005. However, in light of the many strides the organization has made over the past three years – including completion of the Renaissance Project, successfully opening and operationalizing the new Ambulatory Care Center, and building financial stability through disciplined work and focus on operations – the organization has recently initiated a new strategic planning process, working towards a vision articulated by Melinda L. Estes, M.D, President and Chief Executive Officer: to become a national model for the delivery of academic, high-quality health care in a rural setting.

This process has included input from all levels of Fletcher Allen's leadership, as well as the focused attention of the senior executive team and the organization's Board of Trustees. Key to achieving the vision is a clear strategy, and Dr. Estes has chosen the Balanced Scorecard framework and strategy map to focus the organization's efforts. Fletcher Allen is in the process of developing its first strategy map, to be introduced in the spring of 2007, which will articulate the organization's priorities and will serve as the basis for organizational decision-making, including budget development. It will be reviewed and updated regularly to ensure it reflects the needs and priorities of Fletcher Allen and the communities we serve.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS
OF FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

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Fletcher Allen Health Care, Inc. and Subsidiaries

Consolidated Financial Statements and Additional Information as of and for the Years Ended September 30, 2006 and 2005, and Independent Auditors' Reports

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

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Deloitte & Touche LLP
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Fletcher Allen Health Care, Inc.:

We have audited the accompanying consolidated balance sheets of Fletcher Allen Health Care, Inc. and subsidiaries (the "Company") as of September 30, 2006 and 2005, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at September 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. The supplemental schedules are the responsibility of the management of the Company. Such information has been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

Deloitte + Touche LLP

December 6, 2006

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2006 AND 2005
(In thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,519	$ 32,096
Patient and other trade accounts receivable, net of allowance for doubtful accounts of $14,223 in 2006 and $13,900 in 2005	107,852	92,769
Short-term investments	177	3,515
Inventories	10,338	9,052
Current portion of restricted assets	7,000	4,000
Prepaid and other current assets	16,080	12,418
Total current assets	185,966	153,850
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated assets	122,742	123,620
Assets held by trustee under bond indenture agreements	31,301	30,710
Restricted assets	22,192	24,551
Donor restricted assets for specific purposes	9,169	10,067
Donor restricted assets for permanent endowment	23,593	24,900
Total assets whose use is limited or restricted	208,997	213,848
PROPERTY AND EQUIPMENT—Net	437,313	445,690
OTHER ASSETS:		
Deferred financing costs—net	19,102	19,898
Notes receivable and other assets	1,803	1,651
Investment in affiliated companies	13,131	13,297
Pledges receivable	1,626	2,645
Total other assets	35,662	37,491
TOTAL	$867,938	$850,879

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 7,450	$ 6,616
Accounts payable	31,828	20,312
Accrued expenses and other liabilities	46,699	61,480
Accrued payroll and related benefits	35,566	29,560
Estimated third-party payor settlements	9,069	13,798
Estimated amounts for incurred but unreported claims	19,611	15,345
Total current liabilities	150,223	147,111
LONG-TERM LIABILITIES:		
Long-term debt—excluding current installments	372,612	380,103
Reserve for outstanding losses on malpractice and workers' compensation claims	19,816	25,261
Pension and other postretirement benefit obligations	10,478	36,485
Other long-term liabilities	1,991	3,865
Total long-term liabilities	404,897	445,714
Total liabilities	555,120	592,825
COMMITMENTS AND CONTINGENT LIABILITIES		
NET ASSETS:		
Unrestricted	276,576	218,429
Temporarily restricted	12,649	14,725
Permanently restricted	23,593	24,900
Total net assets	312,818	258,054
TOTAL	$867,938	$850,879

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	2006	2005
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	$ 634,697	$ 583,112
Premium revenue	56,210	58,789
Other revenue	20,684	18,289
Total unrestricted revenue and other support	711,591	660,190
EXPENSES:		
Salaries, payroll taxes, and fringe benefits	409,660	374,933
Supplies and other	166,713	157,303
Purchased services	26,857	24,910
Depreciation and amortization	35,060	30,618
Interest expense	16,890	6,623
Provision for bad debts	14,872	12,759
Underwriting expenses	3,415	4,305
Medical claims	21,283	24,473
Total expenses	694,750	635,924
INCOME FROM OPERATIONS	16,841	24,266
NONOPERATING REVENUE (EXPENSE):		
Investment income and losses	14,933	7,745
Unrealized gain (loss) on interest rate swap contracts	3,963	(1,183)
Other	(394)	(381)
Total nonoperating revenue	18,502	6,181
EXCESS OF REVENUE OVER EXPENSES	35,343	30,447
NET UNREALIZED (LOSSES) GAINS ON INVESTMENTS	(2,524)	5,667
ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL PURCHASES	3,106	2,573
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT	18,240	(17,175)
TRANSFER OF NET ASSETS	4,843	
INCREASE IN UNRESTRICTED NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	59,008	21,512
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(861)	
INCREASE IN UNRESTRICTED NET ASSETS	$ 58,147	$ 21,512

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	2006	2005
UNRESTRICTED NET ASSETS:		
Excess of revenue over expenses	$ 35,343	$ 30,447
Net unrealized (losses) gains on investments	(2,524)	5,667
Assets released from restrictions for capital purchases	3,106	2,573
Additional minimum pension liability adjustment	18,240	(17,175)
Transfer of net assets	4,843	
Cumulative effect of change in accounting principle	(861)	
Increase in unrestricted net assets	58,147	21,512
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts, grants, and bequests	2,581	2,284
Investment income	1,794	531
Net unrealized (losses) gains on investments	(901)	1,050
Net realized gains on investments	1,486	
Net assets released from restrictions used in operations	(759)	(674)
Net assets released from restrictions used for nonoperating purposes	(232)	(153)
Net assets released from restrictions used for capital purchases	(3,106)	(2,573)
Transfer of net assets	(2,939)	
(Decrease) increase in temporarily restricted net assets	(2,076)	465
PERMANENTLY RESTRICTED NET ASSETS:		
Gifts, grants, and bequests	104	198
Change in beneficial interest in perpetual trusts	493	641
Transfer of net assets	(1,904)	
(Decrease) increase in permanently restricted net assets	(1,307)	839
INCREASE IN NET ASSETS	54,764	22,816
NET ASSETS—Beginning of year	258,054	235,238
NET ASSETS—End of year	$ 312,818	$ 258,054

See notes to consolidated financial statements.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES AND GAINS:		
Increase in net assets	$ 54,764	$ 22,816
Adjustments to reconcile increase in net assets to net cash provided by operating activities and gains:		
Depreciation and amortization	35,060	31,037
Provision for bad debts	14,872	12,759
Restricted contributions and investment income received	(4,479)	(3,013)
Additional minimum pension liability adjustment	(18,240)	17,175
Loss on disposal of property and equipment	512	115
Unrealized (gain) loss on interest rate swap contracts	(3,963)	1,183
Realized and unrealized losses (gains) on investments	1,939	(8,851)
Undistributed earnings of affiliated companies	(640)	(1,880)
Cumulative effect of change in accounting principle	861	
Change in beneficial interest in perpetual trusts	(493)	(641)
(Decrease) increase in cash resulting from change in:		
Patient and other accounts receivable	(29,955)	(13,317)
Pledges receivable	1,019	1,465
Other current and noncurrent assets	(4,217)	2,741
Accounts payable and accrued expenses	(3,265)	(3,910)
Accrued payroll and related expenses	6,006	(356)
Current and other liabilities	(5,908)	3,698
Pension and postretirement benefit obligations	(7,767)	(3,603)
Net cash provided by operating activities and gains	36,106	57,418
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of property and equipment, net	(26,304)	(87,584)
Purchase of investments	(65,788)	(61,396)
Proceeds from sale of investments	69,837	103,344
Proceeds from distribution of equity investees	500	800
Net cash used in investing activities	(21,755)	(44,836)
CASH FLOWS OF FINANCING ACTIVITIES:		
Proceeds from restricted contributions and restricted investment income	4,479	2,512
Repayment of long-term debt	(6,657)	(3,998)
Change in long-term liabilities	250	(851)
Proceeds from issuance of long-term debt		150
Net cash used in financing activities	(1,928)	(2,187)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,423	10,395
CASH AND CASH EQUIVALENTS—Beginning of year	32,096	21,701
CASH AND CASH EQUIVALENTS—End of year	$ 44,519	$ 32,096
SUPPLEMENTAL CASH FLOW INFORMATION—Cash paid during the year for interest	$ 17,035	$ 15,200

See notes to consolidated financial statements.

1. ORGANIZATION

Fletcher Allen Health Care, Inc. ("FAHC") is an academic and teaching health care resource and regional referral center providing a full range of primary, secondary and tertiary-level inpatient and outpatient health care services. FAHC is closely integrated with the University of Vermont College of Medicine ("UVM") under an affiliation agreement for teaching and research.

FAHC has the following wholly owned subsidiaries: Fletcher Allen Health Ventures, Inc. ("FAHV"), Fletcher Allen Medical Group, PLLC ("FAMG"), Fletcher Allen Provider Corporation ("FAPC"), Fletcher Allen Coordinated Transport, LLC ("FACT"), Fletcher Allen Skilled Nursing Care, LLC ("FASNF"), Fletcher Allen Health Care Foundation, Inc. ("FAHCF") and VMC Indemnity Company Ltd. ("VMCIC"). Vermont Managed Care, Inc. ("VMC") is a wholly owned subsidiary of FAHV.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principals of Consolidation—The consolidated financial statements include the accounts of FAHC and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The assets of members of the consolidated group may not be available to meet the obligations of another member of the group.

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

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with remaining maturities of three months or less when purchased, excluding amounts classified as assets whose use is limited or restricted.

Contributions—Unconditional promises to give that are expected to be collected within one year are recorded at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Investments and Investment Income—Investments in equity securities with readily determinable fair market values and all investments in debt securities are recorded at fair value. Fair value is based on quoted market prices. Investments in limited partnerships and limited liability corporations for which FAHC's ownership is less than 5% are recorded at cost. The limited partnership investments generally have restrictions on withdrawals. Investment income or loss (including realized gains and losses on investments, interest and dividends), to the extent not capitalized, is included in nonoperating revenue (expense) unless the income or gain (loss) is restricted by donor or law. Realized gains or losses on the

sale of investments are determined by use of average costs. Unrealized gains and losses on investments carried at fair value are excluded from the excess of revenue over expenses and reported as an increase or decrease in net assets, except that declines in fair value that are judged to be other-than-temporary are reported as realized losses.

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets and statements of operations and changes in net assets.

In prior years, purchases and sales of investments were reported net in the statement of cash flows. Commencing in 2006, the FAHC began reporting such purchases and sales gross. The 2005 statement of cash flows has been adjusted for comparability.

Investment in Affiliates—Investments in 20% to 50% owned affiliates are accounted for using the equity method of accounting. These include Vermont Clinical Resources, Inc., Copley Woodlands, Inc., The Vermont Health Plan, Starr Farm Partnership, OB Net Services, LLC and Southwestern Vermont-Fletcher Allen Dialysis Services, LLC.

Assets Whose Use Is Limited or Restricted—Assets whose use is limited or restricted primarily include board designated assets, assets held by trustees under indenture agreements, donor restricted assets, and restricted assets which are held for insurance related liabilities. Board designated assets may be used at the Board's discretion.

Property and Equipment—Property and equipment acquisitions are recorded at cost or, in the case of gifts, at fair market value at the date of the gift. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Approximately $0 and $420,000 of depreciation expense in 2006 and 2005, respectively, is included in nonoperating expense. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expiration of donor restrictions is reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

Costs of Borrowing—Interest cost incurred on borrowed funds during the period of construction of capital assets, net of investment income on borrowed assets held by trustees, is capitalized as a component of the cost of acquiring those assets. Approximately $627,000 and $8,482,000 of interest was capitalized during 2006 and 2005, respectively. Net deferred financing costs totaled $19,102,000 and $19,900,000 as of September 30, 2006 and 2005, respectively. Such amounts are reported with other assets and are being amortized over the period the related obligations are outstanding. Accumulated

amortization of deferred financing costs totaled $3,069,000 and $2,273,000 at September 30, 2006 and 2005, respectively.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by FAHC 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 FAHC in perpetuity.

During 2006, FAHC completed a study of restricted net assets. As a result of that study, FAHC determined that temporarily and permanently restricted net assets of approximately $4,843,000 should be reported as unrestricted net assets. This amount has been recorded as a transfer of net assets in the accompanying consolidated statements of operations and changes in net assets.

Consolidated Statements of Operations—For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expense.

Excess of Revenue Over Expenses—The consolidated statements of operations include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, primarily include unrealized gains and losses on investments (other than those on which other than temporary losses are recognized), permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets (including assets acquired using contributions restricted by donors for acquiring such assets), the adjustment to record the cumulative effect of the change in accounting for asset retirement obligations, and the minimum pension liability adjustment.

Net Patient Service Revenue—Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations and statutes, certain elements of third-party reimbursement are subject to negotiation, audit and/or final determination by the third-party payors. In addition, laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Differences between amounts previously estimated for retroactive adjustments and amounts subsequently determined to be recoverable or payable are included in net patient service revenue in the year that such amounts become known. Changes in prior year estimates increased net patient service revenue by approximately $5,800,000 in 2006 and $3,800,000 in 2005.

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

Medicare—Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services are paid based on a cost reimbursement methodology. Outpatient services are based upon a prospective standard rate for procedures performed or services rendered. FAHC is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by FAHC and audits thereof by the Medicare fiscal intermediary. Medicare reimbursement for professional billings is determined by a standard fee schedule that is determined by the Centers for Medicare and Medicaid Services of the U.S. Department of Health and Human Services. The percentage of net patient service

revenue and premium revenue earned from the Medicare program was approximately 36% in fiscal year 2006 and 31% in 2005, respectively.

Medicaid—Inpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined per diem rates. The prospectively determined per diem rates are not subject to retroactive adjustment. Outpatient services rendered to Medicaid beneficiaries are reimbursed under a prospectively determined rate per charge for laboratory and some radiology services and under a cost reimbursement methodology for all other outpatient services. FAHC is reimbursed for outpatient services at a tentative rate, with final settlement determined after submission of annual cost reports by FAHC and audits thereof by the fiscal intermediary. Medicaid reimbursement for professional billings is determined by a standard fee schedule that is determined by the State of Vermont. 13% of FAHC's net revenue in 2006 and less then 10% in fiscal year 2005 was earned from the Medicaid program.

Commercial Insurers—Services rendered to patients with commercial insurance are generally reimbursed at standard charges less a negotiated discount or according to DRG or negotiated fee schedules.

Vermont Managed Care, Inc. negotiates contracts with insurers and other payors for the provision of health care services through participating providers which are primarily its member organizations. As a result, VMC is currently managing and/or has entered into contracts with managed care plans primarily on behalf of FAHC. Under the terms of these agreements, VMC provides managed care services to subscribers of the managed care plans (the "Plans") who select VMC as their primary health plan provider. Payments to FAHC from VMC for services on behalf of respective Plan subscribers are based on a discounted fee for service or a predetermined fee schedule.

Premium Revenue—FAHC and VMC have agreements with various Health Maintenance Organizations ("HMOs") to provide medical services to subscribing participants. Under these agreements, FAHC or VMC receive monthly capitation payments based on the number of each HMO's participants regardless of services actually performed. In addition, the HMOs make fee-for-service payments to FAHC for certain covered services based upon discounted fee schedules.

Other Revenue—Other revenue consists primarily of research revenue, sales of pharmaceuticals and related products, net assets released from restrictions used for operations, and rental income.

Research Grants and Contracts—Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies. Research grants and contracts are accounted for as exchange transactions. Amounts received in advance of incurring the related expenditures are recorded as unexpended research grants and are included with accrued expenses.

Goodwill—At September 30, 2006 and 2005, the carrying value of goodwill totaled $260,000 and $356,000, respectively. Goodwill is stated at cost and is amortized using the straight-line method over its estimated useful life. Accumulated amortization of goodwill amounted to $524,000 and $428,000 at September 30, 2006 and 2005, respectively.

Reserves for Outstanding Losses and Loss-Related Expenses for Malpractice Claims—The liabilities for outstanding losses and loss-related expenses and the related provision for losses and loss-related expenses include estimates for malpractice losses incurred but not reported as well as losses pending settlement. Such liabilities are necessarily based on estimates and, while management believes the amounts provided are adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a

material amount in the near term. The methods for making such estimates and the resulting liability are actuarially reviewed on an annual basis, and any adjustments required are reflected in operations currently.

Income Taxes—FAHC, FAPC and FAMG (application pending) are incorporated and recognized by the Internal Revenue Service as tax-exempt under section 501(c)(3) of the Internal Revenue Code. Accordingly, the Internal Revenue Service has determined that FAHC and FAPC are exempt from federal income taxes on related income pursuant to section 501(a) of the Code. FACT, and FASNF are single member limited liability corporations. As such, for tax purposes, FACT and FASNF are treated as divisions of FAHC. No provision for federal income taxes has been recorded in the accompanying consolidated financial statements for these organizations.

FAHV is a for-profit subsidiary subject to federal and state taxation. A 50% interest in OB Net Services, LLC is maintained by FAHC. This LLC files federal partnership tax returns and FAHC recognizes its proportionate share of the income/loss as related function income. For this entity, FAHC applies the provisions of SFAS No. 109, *Accounting for Income Taxes*. The tax provisions, and related tax assets and liabilities, for this entity are not material.

VMCIC is currently not a taxable entity under the provisions of the territory of Bermuda and, accordingly, no provision for taxes has been recorded by VMCIC. In the event that such taxes are levied, VMCIC has received an undertaking from the Bermuda Government exempting it from all such taxes until 2016.

Other-Than-Temporarily Impairment of Investments—FAHC reviews its investments to identify those for which market value is below cost. FAHC then makes a determination as to whether the investment should be considered other-than-temporarily impaired based on guidelines established in the FASB Emerging Issues Task Force Issue No. 03-1, *The Meaning of Other-Than-Temporarily Impairment and its Application to Certain Investments*. No losses related to declines in value that were other than temporary in nature were recognized for the years ended September 30, 2006 and 2005.

Adoption of New Accounting Pronouncement—Effective September 30, 2006, FAHC adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 143, *Accounting for Asset Retirement Obligations*, as clarified by Financial Interpretation ("FIN") No. 47, *Accounting for Conditional Asset Retirement Obligations* issued in March 2005. FIN 47 clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. SFAS No. 143 requires the fair value of a liability for the legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

Upon adopting FIN 47, FAHC recorded a liability of approximately $861,000 which was recognized as the cumulative effect of a change in accounting principle. The estimated future undiscounted value of the asset retirement obligation is approximately $1,337,000. Because SFAS 143 requires retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 4.5%. The cumulative effect of the adoption of FIN 47 reflects the accretion of the liability and depreciation of the related asset component from the liability inception date through September 30, 2006.

Substantially all of the impact of adopting FIN 47 relates to estimated costs to remove asbestos that is contained within FAHC's facilities. If FAHC had adopted FIN 47 effective October 1, 2004, the liability would not have been materially different from the liability recorded at September 30, 2006 and the impact on operating results in 2005 and 2006 would have been immaterial.

Recently Issued Accounting Pronouncements—In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R*). This statement will require FAHC to recognize the overfunded or underfunded status of its defined benefit postretirement plans as an asset or liability in its consolidated balance sheet. The Statement will also require FAHC to recognize changes in the funded status of the plans in the year in which the changes occur as a change in unrestricted net assets presented below the excess of revenue over expenses in its consolidated statement of operations and changes in net assets. This statement will also require FAHC to measure the funded status of all its defined benefit postretirement plans as of the balance sheet date. FAHC is required to initially recognize the funded status of its defined benefit postretirement plans and to provide certain related disclosures as of September 30, 2007. FAHC is initially required to measure plan assets and benefit obligations as of its balance sheet date as of September 30, 2009. FAHC is currently evaluating the impact of this Statement on its consolidated financial statements.

3. CHARITY CARE AND COMMUNITY SERVICE

FAHC provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because FAHC does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

The amount of charges foregone for services and supplies furnished under FAHC's charity care policy aggregated approximately $15,300,000 and $17,400,000 in 2006 and 2005, respectively.

4. ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited or restricted are stated at fair value except as indicated, and at September 30, 2006 and 2005, consisted of the following (in thousands):

	2006	2005
Cash and cash equivalents	$ 4,794	$ 4,462
Money market funds	2,833	8,691
Bonds and notes	31,804	37,110
Mutual funds	145,342	142,049
Limited partnerships (at cost)	19,640	17,940
Other	11,584	10,596
	$ 215,997	$ 220,848

Assets held by trustee under bond indenture agreements included approximately $55,000 held in construction funds and $31,170,000 held in debt service reserve funds at September 30, 2006, none of which are reported as short-term investments. At September 30, 2005, $3,000,000 of these investments were reported as short-term investments.

Investment income and gains for the years ended September 30, 2006 and 2005, consisted of the following (in thousands):

	2006	2005
Nonoperating revenue and expenses:		
Investment income	$ 10,300	$ 5,611
Net realized gains on sales of securities	4,633	2,134
	14,933	7,745
Other changes in unrestricted net assets—net unrealized (loss) gains on investments	(2,524)	5,667
Changes in temporarily restricted net assets:		
Investment income	1,794	531
Net unrealized (losses) gains on investments	(901)	1,050
Net realized gains on investments	1,486	
	2,379	1,581
Changes in permanently restricted net assets—change in beneficial interest in perpetual trusts	493	641
Total	$ 15,281	$ 15,634

At September 30, 2006 and 2005, FAHC held investments that had a fair market value of approximately $1,351,000 and $761,000, respectively, less than their cost. Of this amount, approximately $1,300,000 relates to investments where the cost has exceeded the market value for in excess of one year at September 30, 2006.

The amortized cost and estimated fair value of securities classified as available for sale by FAHC's for-profit subsidiaries at September 30, 2006 and 2005, were as follows (in thousands):

2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 501	$ 2	$ -	$ 503
Mutual funds	25,131	2,749	(329)	27,551
	$ 25,632	$ 2,751	$ (329)	$ 28,054

2005	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Treasury securities	$ 752	$ 14	$ -	$ 766
Corporate debt securities	500	1		501
Total debt securities	1,252	15	-	1,267
Corporate index funds	1,492	642		2,134
Mutual funds	21,658	2,959	(139)	24,478
	$ 24,402	$ 3,616	$ (139)	$ 27,879

Proceeds from sales of available-for-sale securities were $7,300,000 and $750,000 for the years ended September 30, 2006 and 2005, respectively.

The amortized cost and estimated fair value of marketable debt securities classified as available for sale at September 30, 2006 and 2005, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 501	$ 503	$ 750	$ 752
Due within 1–5 years			502	515
	$ 501	$ 503	$ 1,252	$ 1,267

5. PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 2006 and 2005, is as follows (in thousands):

	2006	2005
Land	$ 7,796	$ 6,582
Land improvements	13,941	13,920
Leasehold improvements	37,105	35,769
Buildings	465,565	445,130
Equipment, furniture, and fixtures	226,528	210,868
	750,935	712,269
Less accumulated depreciation and amortization	(324,050)	(293,006)
	426,885	419,263
Construction-in-progress	10,428	26,427
	$ 437,313	$ 445,690

Accounts payable and accrued expenses include approximately $3,000,000 and $22,486,000 at September 30, 2006 and 2005, respectively, related to a construction project. In addition, FAHC is committed to contracts approximating $2,100,000 at September 30, 2006, for the completion of the project.

6. INVESTMENT IN AFFILIATED COMPANIES

Investment in affiliated companies at September 30, 2006 and 2005, consisted of the following (in thousands):

	2006	2005
Starr Farm Partnership	$ 3,788	$ 3,760
The Vermont Health Plan	9,139	9,035
Other	204	502
	$ 13,131	$ 13,297

Distributions from these affiliated organizations totaled $500,000 and $800,000 for the years ended September 30, 2006 and 2005, respectively. FAHC's share of the earnings of these affiliates is reported as nonoperating revenue and totaled approximately $640,000 and $1,900,000 for the years ended September 30, 2006 and 2005, respectively. Summarized financial information from the unaudited financial statements of these organizations at September 30, 2006 and 2005, and for the years then ended is as follows (in thousands of dollars):

2006	Ownership Percentage	Total Assets	Net Assets	Change in Net Assets
Starr Farm Partnership	50 %	$ 10,066	$ 7,576	$ 202
The Vermont Health Plan	29	49,794	26,391	(369)
2005				
Starr Farm Partnership	50 %	$ 10,225	$ 7,374	$ (78)
The Vermont Health Plan	29	46,985	26,760	3,673

7. LONG-TERM DEBT

Long-term debt at September 30, 2006 and 2005, consisted of the following (in thousands):

	2006	2005
Vermont Educational & Health Buildings Financing Agency Hospital Revenue Bonds:		
Series 2004B Bonds, variable rate (3.6% to 3.755% at September 30, 2006) payable through 2035	$ 168,025	$ 170,000
Series 2000A Bonds, 4.3% to 6.25%, payable through 2028, net of unamortized bond discount of $730 and $763	96,878	97,260
Series 2004A Bonds, 2.0% to 5.0%, payable through 2025, net of unamortized bond premium of $1,781 and $1,878	46,713	48,486
Series 2000B Bonds, variable rate (3.55% at September 30, 2006), payable through 2031	50,000	50,000
Select Auction Variable Rate Securities (SAVRS) 1994 Bonds, variable rate (3.45% to 4.93% at September 30, 2006), payable through 2013, net of unamortized discount of $262 and $291	17,667	19,688
Capital leases and other notes payable	779	1,285
	380,062	386,719
Less current portion	(7,450)	(6,616)
Long-term debt	$ 372,612	$ 380,103

Revenue Bonds—On April 15, 2004, FAHC, in connection with the Vermont Educational and Health Building Financing Agency (the "Agency"), issued $170,000,000 of tax exempt revenue bonds ("2004B Bonds"), refunded its 1993 bonds with Series 2004A Bonds in the amount of $47,620,000 and converted the 2000B Bonds from weekly variable rate bonds to auction rate securities. The 2004B, 2000B, and 2004A bonds are all insured. The net proceeds from the 2004B Bonds were used to refinance a construction loan and to finance the construction of a new ambulatory care building and the renovation of existing space (collectively, the "Renaissance Project"). FAHC granted the Agency a mortgage on certain property and a security interest in its gross receipts, as defined.

Various trustee held funds are required under terms of the Series 2004A and 2004B Bonds. A project fund in the amount of $143,806,000 was established from which to pay for the cost of the Renaissance Project, and debt service reserve funds were established in the amount of $4,773,000 and $13,658,000 respectively, for the payment of principal and interest if FAHC fails to make required payments.

FAHC and certain of its subsidiaries are obligated under various other revenue bonds, capital leases, and notes payable. Under the terms of the loan agreements, the obligations are collateralized by liens on pledged assets and gross receipts, as defined. Various trustee-held funds are required under the terms of the loan agreements (see Note 4). Under one of the loan agreements, a reserve fund is required only upon the failure to meet certain financial ratios. Such ratios have been met and, as such, no funding has been required under this agreement.

Scheduled Maturities of Long-Term Debt—Scheduled maturities of long-term debt and payments on capital lease obligations for the next five years and thereafter are as follows (in thousands):

2007	$ 7,450
2008	7,070
2009	7,673
2010	7,930
2011	7,650
Thereafter	342,289
	$ 380,062

Loan Covenants—Under the terms of a master indenture, FAHC is required to meet certain covenant requirements. In addition, the indenture provides for restrictions on, among other things, additional indebtedness and dispositions of property. At September 30, 2006 and 2005, FAHC was in compliance with these requirements.

Interest Rate Swap Agreements—In connection with the issuance of the Series 2004B Bonds, FAHC entered into two interest rate swap contracts in the notional principal amount of $67,500,000 each, which effectively convert the variable auction rate of the bonds to a fixed rate of 3.76% over the life of the bonds. The termination date of these swaps contracts is December 1, 2034.

In August 1993, FAHC entered into an interest rate swap agreement in the notional principal amount of $37,600,000, covering three swaps with a combined fixed payment thereunder equal to a 4.93% interest rate on the 1994 SAVRS bond issue. The termination date of this swap agreement is September 1, 2013.

FAHC and the counterparties in the interest rate swap agreements are exposed to credit risk in the event of nonperformance or early termination of the agreements. FAHC and its counterparty under the 1993 swap agreement entered into a bilateral pledge agreement whereby, on a monthly basis, the counterparty calculates the aggregate exposure amount based on current market value of replacing the interest rate swap agreement with a like financial instrument should either party default. Depending upon the market price at the calculation date, FAHC or its counterparty is required to either collateralize or insure any aggregate exposure in excess of $1,000,000. The replacement of fair value of the interest rate swap agreement with a like instrument would cause FAHC to pay approximately $880,000 and $1,323,000 at September 30, 2006 and 2005, respectively, to the counterparty. FAHC has insured this amount in excess of $1,000,000.

FAHC's only derivatives are the interest rate swaps described above. As of September 30, 2006 and 2005, the net fair value of the swap agreements of approximately $100,000 and ($3,865,000), respectively, were included in notes receivable and other assets and in other long-term liabilities, with the change in value recorded as nonoperating revenue (expense).

Letters of Credit—FAHC has letter-of-credit agreements with a bank which may be renewed each year, which provide for maximum borrowings of up to $1,300,000. The letters of credit remain unused at September 30, 2006 and 2005.

8. OPERATING LEASES

FAHC has entered into certain operating lease agreements for the rental of building space and equipment. Rental expense amounted to $9,954,000 and $10,004,000 for 2006 and 2005, respectively.

Minimum future lease payments required under noncancelable operating leases at September 30, 2006, were as follows (in thousands):

Years Ending September 30	
2007	$ 7,546
2008	5,863
2009	4,218
2010	3,147
2011	2,355
Thereafter	8,603
	$ 31,732

The above payments exclude anticipated payments under fair market purchase options. FAHC expects to exercise fair market purchase options totaling approximately $5,326,000 under leases in effect at September 30, 2006.

9. RESTRICTIONS ON NET ASSETS

At September 30, 2006 and 2005, temporarily restricted net assets are available for the following purposes (in thousands):

	2006	2005
Indigent care	$ 432	$ 1,530
Education and research	4,698	4,680
Children's programs	1,799	1,361
Capital projects	2,247	3,487
Other health care services	3,473	3,667
	$ 12,649	$ 14,725

At September 30, 2006, temporarily restricted net assets includes approximately $2,483,000 of accumulated gains on permanently restricted net assets which are subject to board appropriation in accordance with state law. Permanently restricted net assets are restricted to (in thousands):

	2006	2005
Investments to be held in perpetuity, the income from which is expendable to support:		
Indigent care	$ 4,298	$ 4,517
Education and research	4,280	4,153
Other health care services	15,015	16,230
	$ 23,593	$ 24,900

10. MALPRACTICE AND OTHER CONTINGENCIES

Malpractice and Workers' Compensation—FAHC is insured against malpractice losses under a claims-made insurance policy with VMCIC. VMCIC has reinsurance with commercial carriers for coverage above a self-insured retainage amount of $5,000,000 per claim with a $20,000,000 aggregate, with limits on such reinsurance. VMCIC provides claims-made coverage to certain affiliates of FAHC for periods prior to the merger that created FAHC.

FAHC is also self-insured for workers' compensation claims, in part through VMCIC, and maintains an excess insurance policy to limit its exposure on claims to $500,000 per occurrence.

The reserve for outstanding losses has been discounted at a rate of 6% at September 30, 2006 and 5% at September 30, 2005, resulting in a reduction in the reserve of approximately $2,842,000 in 2006 and $1,800,000 in 2005.

Activity in the reserve for outstanding losses and loss-related expenses at VMCIC for malpractice and workers' compensation claims is summarized as follows (in thousands):

	2006	2005
Balance—beginning of year	$ 29,261	$ 27,238
Less reinsurance receivables	1,537	
Net balance at October 1	27,724	27,238
Losses incurred related to:		
Current period	7,355	7,251
Prior acts and tail coverage assumed	(3,940)	(2,946)
Total incurred	3,415	4,305
Paid losses related to:		
Current period	614	122
Prior period	7,052	3,697
Total paid	7,666	3,819
Net balance—end of year	23,473	27,724
Reinsurance recoverables	3,343	1,537
Balance—end of year	$ 26,816	$ 29,261

As a result of changes in estimates of incurred events in prior years, primarily professional liability, the estimate of incurred losses decreased by approximately $3,583,000 and $3,068,000 as of September 30, 2006 and 2005, respectively.

The reserve for losses, which was determined with the assistance of an actuarial consultant, includes estimates of claims incurred but not reported. Approximately $7,000,000 and $4,000,000 of the reserve at September 30, 2006 and 2005, respectively, is included in current liabilities and the balance of the reserve is included in the noncurrent reserve for outstanding losses on malpractice and workers' compensation claims in the accompanying balance sheets at September 30, 2006 and 2005, respectively.

Employee Health and Dental Insurance—FAHC maintains a self-insurance plan for employee health and dental insurance. Under the terms of the plan, employees and their dependents are eligible for participation and, as such, FAHC is responsible for the administration of the plan and any resultant liability incurred. FAHC maintained a stop-loss insurance policy to limit its exposure on claims to $175,000 per member per year, in 2006 and 2005, with a per year benefit maximum of $1,500,000. FAHC has recorded a reserve of approximately $5,324,000 and $4,180,000 at September 30, 2006 and 2005, respectively, to provide for claims made and claims incurred but not reported. The amount of the reserve was determined with the assistance of an actuarial consultant and is included in accrued expenses in the accompanying balance sheets.

Other Contingencies—FAHC and its subsidiaries are parties in various legal proceedings and potential claims arising in the ordinary course of its business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patient services. Management does not believe that these matters will have a material adverse effect on FAHC's consolidated financial position or results of operations.

Collective Bargaining Agreement—The organization is subject to a collective bargaining agreement with respect to its RN and LPN nursing staff. The current agreement runs through July 9, 2009, and covers approximately 1,500 staff.

11. STATUTORY CAPITAL AND SURPLUS

VMCIC is registered under the Bermuda Insurance Act of 1978 and related regulations (the "Act") and is obliged to comply with various provisions of the Act regarding minimum levels of solvency and liquidity. Statutory capital and surplus at September 30, 2006 and 2005 was $21,326,000 and $16,953,000, respectively, and the amount required to be maintained by VMCIC was $2,647,000 and $3,122,000, respectively. In addition, a minimum liquidity ratio must be maintained whereby liquid assets, as defined by the Act, must exceed 75% of defined liabilities. The minimum required level of liquid assets was $20,059,000 and $23,512,000 at September 30, 2006 and 2005, respectively. As of September 30, 2006 and 2005, the liquidity requirements were met. FAHC reports all of VMCIC's investments in marketable securities as restricted assets in the accompanying balance sheets.

The declaration of dividends from retained earnings and additional paid-in capital is limited to the extent that the above requirements are met. At September 30, 2006 and 2005, retained earnings and additional paid-in capital of VMCIC amounting to $2,647,000 and $3,122,000, respectively, was not available for distribution.

12. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Fletcher Allen Health Care Defined Benefit Plan—Employees of the former Medical Center Hospital of Vermont ("MCHV") are covered by a pension plan, formerly the Pension Plan for Employees of Vermont Health Foundation, Inc. The Plan is a defined benefit final average pay plan with benefit accruals based on an average of salary rates on each January 1. It is the policy to fund at least the required minimum contribution under Internal Revenue Code, section 412.

The Plan was amended effective January 1, 1995, to provide for the continued participation in the Plan of any eligible employee who was a member on December 31, 1994, and who was an employee on January 1, 1995. The amendment also provided that no person could become a member on and after January 1, 1995. Effective July 1, 1996, the Plan was further amended to account for a curtailment of benefits for certain other employees.

In addition to providing pension benefits, FAHC sponsors a defined benefit postretirement health care plan for retired employees. Substantially all of FAHC's employees who are at least age 55 with 15 years of pension eligibility service and all employees who are eligible for normal retirement may become eligible for such benefits. The postretirement health care plan is contributory with retiree contributions adjusted annually. The marginal cost method is used to provide for postretirement benefits.

A reconciliation of the changes in the FAHC Defined Benefit Plan and the FAHC Defined Benefit Postretirement Health Care Plan projected benefit obligations and the fair value of assets for the years ended September 30, 2006 and 2005, follows. FAHC uses a June 30 measurement date for measuring plan assets and obligations. The premiums paid by retirees participating in the FAHC Postretirement Health Care Plan exceed the cost covered by FAHC. Therefore the projected benefit obligation has been reduced to zero.

	FAHC Defined Benefit Plan		Postretirement Health Care Plan	
	2006	2005	2006	2005
	(In thousands)			
Changes in benefit obligations:				
Projected benefit obligations—beginning of year	$(122,505)	$(100,444)	$ -	$ -
Service cost	(825)	(783)		
Interest cost	(6,015)	(6,154)		
Benefits paid	4,631	4,181		
Actuarial gain (loss)	14,760	(19,305)		
Projected benefit obligation—end of year	$(109,954)	$(122,505)	$ -	$ -
Changes in plan assets:				
Fair value of plan assets—beginning of year	$ 78,453	$ 68,039	$ -	$ -
Actual return on plan assets	8,058	6,769		
Contributions	4,393	7,826		
Benefits paid	(4,631)	(4,181)		
Fair value of plan assets—end of year	$ 86,273	$ 78,453	$ -	$ -
Funded status:				
Funded status of the plan	$ (23,679)	$ (44,051)	$ -	$ -
Contributions after June 30	2,465	1,193		
Unrecognized net (gain) loss	25,026	44,162	(615)	(691)
Unrecognized prior service costs			403	461
Unrecognized transition asset			(809)	(1,011)
	3,812	1,304	(1,021)	(1,241)
Additional minimum liability	(22,765)	(41,005)		
Total benefit liability	$ (18,953)	$ (39,701)	$(1,021)	$(1,241)
Accumulated benefit obligation	$ 107,692	$ 119,347		

Approximately $9,496,000 and $4,458,000 of the above liability has been reported with accrued expenses at September 30, 2006 and 2005, respectively, in the accompanying balance sheets. Under the requirements of SFAS No. 87, *Employers' Accounting for Pensions*, an additional minimum pension liability of $22,765,000 and $41,005,000 representing the excess of accumulated benefits over plan assets and accrued pension costs, was recognized at September 30, 2006 and 2005, respectively. The minimum pension liability adjustment was recorded as a change in net assets.

The cost components of the net periodic benefit cost for each of the plans for the years ended September 30, 2006 and 2005, are as follows (in thousands):

	FAHC Defined Benefit Plan		FAHC Defined Benefit Postretirement Health Care Plan	
	2006	2005	2006	2005
Service cost	$ 825	$ 783	$	$ -
Interest cost	6,015	6,154		
Expected return on plan assets	(6,619)	(6,181)		
Amortization of unrecognized net (gain) loss	2,937	1,512	(19)	(19)
Amortization of transitional asset			(202)	(202)
Net periodic benefit cost (benefit)	$ 3,158	$ 2,268	$ (221)	$ (221)

The weighted-average assumptions used in accounting for the defined benefit pension plan and the defined benefit postretirement health care plan are as follows:

	FAHC Defined Benefit Plan		FAHC Defined Benefit Postretirement Health Care Plan	
	2006	2005	2006	2005
Weighted-average assumptions used to determine the benefit liability:				
Discount rates	6.25 %	5.00 %	6.25 %	5.00 %
Rates of increase in future compensation levels	3.50	3.00		
Weighted-average assumptions used to determine expense:				
Discount rates	5.00	6.25		
Rates of increase in future compensation levels	3.50	3.00		
Expected long-term rate of return on plan assets	8.50	8.50		

The expected long-term rate of return for the plans' total assets is based on the expected return of each of its asset categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 9% to 11% over the long-term, while cash and fixed income is expected to return between 5% and 6%. Based on historical experience, FAHC expects that the plans' asset managers will provide a modest (0.5% to 1.0% per annum) premium to their respective market benchmark indices.

For measurement purposes, a 5.0% annual rate of increase in the per capita cost of covered health benefits was assumed for fiscal 2004 and remains at that level thereafter. Assumed health care cost trend rates may have a significant effect on the amounts reported for the health care plan. A one-percentage-point change in assumed health care cost trend rates would not have a material effect on total service and interest cost components or the postretirement benefit obligation.

Plan Assets—FAHC's pension plan weighted-average asset allocations at September 30, 2006 and 2005, by asset category are as follows:

Asset Category	2006	2005
Equity securities	58 %	69 %
Debt securities	26	13
Real estate investment trusts	2	2
Other	14	16
	100 %	100 %

The investment strategy as established by FAHC's Finance Committee, for pension plan assets, is to meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

Cash Flows—Contributions—FAHC expects to contribute $9,500,000 to its pension plan in 2007.

Cash Flows—Estimated Future Benefit Payments—The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (in thousands):

Years Ending September 30	
2007	$ 4,864
2008	5,199
2009	5,688
2010	6,158
2011	6,594
2012–2016	39,261

Medical Center of Vermont—Retirement Plan—A tax-sheltered annuity benefit plan is maintained covering substantially all of the employees of the former MCHV who have at least one year of continuous service. Contributions are determined based on a percentage of employees' salaries up to 1.5% of pay.

Fanny Allen Hospital ("FAH")—Pension Plan—Substantially all of the employees of the former FAH were covered by a defined contribution retirement plan. Eligibility begins after one year of service. A contribution of 4% of each eligible employee's compensation is made to the plan. A tax-deferred annuity plan covering substantially all employees is also provided. Matching contribution is discretionary.

The Plan was amended on January 1, 1996, to discontinue all contributions effective July 1, 1996. All participants became 100% vested as of that date. The amendment also provided that no person may become a member on and after January 1, 1996. In all other respects, the Plan remained in full force and effect.

University Health Center ("UHC")—Retirement Plan—A tax-sheltered annuity benefit plan is maintained covering substantially all of the employees of the former UHC who have at least two years of continuous service. Contributions are determined based on a percentage of employees' salaries.

In accordance with ERISA guidelines, FAHC provided a new retirement plan for employees effective July 1, 1996. The new plan is described as follows:

Fletcher Allen Health Care, Inc.—Retirement Plan—FAHC maintains a tax-sheltered annuity benefit plan covering substantially all of its employees who have at least six months of continuous service. Contributions are determined based on a percentage of employees' salaries up to 10% of pay.

Benefit Plan Costs—FAHC generally funds the benefit costs related to the above retirement, including defined contribution plans and postretirement benefit plans as accrued which amounted to $20,592,000 and $18,588,000 for the years ended September 30, 2006 and 2005, respectively.

13. CONCENTRATIONS OF CREDIT RISK

FAHC grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. The mix of receivable from patients and third-party payors follows:

	2006	2005
Medicare	38 %	32 %
Medicaid	13	20
Blue Cross	16	15
Other third-party payors	25	25
Patients	8	8
	100 %	100 %

14. TRANSACTIONS WITH UVM

FAHC has an Affiliation Agreement with UVM that was most recently renewed as of August 1, 2005 for a five-year term. The Affiliation Agreement obligates FAHC to seek first to meet its needs for physician-employees from physicians holding appointments in the College of Medicine, and provides that the chairs of academic departments in the College of Medicine will be appointed by FAHC as the clinical leaders of the corresponding clinical services. Under the Affiliation Agreement, FAHC agrees to make annual payments to a not-for-profit corporation affiliated with UVM for the benefit of the College of Medicine in three components: (1) a base payment, which was $3.6 million in fiscal year 2006 and is increased by 5% each year during the term of the Agreement, (2) a supplemental payment beginning in fiscal year 2008 equal to 10% of net operating income, if any, in excess of 3.5% of net revenues provided that the supplemental payment shall not exceed $5 million in any fiscal year, and (3) a "Dean's Tax" equal to the following percentages of base physician compensation for the fiscal years indicated: 2006–0.50%, 2007–1.50%, 2008– .50%, 2009–3.50%, 2010 and subsequent years–4.30%. The current term of the Affiliation Agreement ends August 1, 2010 and will be automatically renewed for subsequent five-year terms in the absence of written notice of nonrenewal.

Certain goods and services related to the affiliation with UVM were received in the ordinary course of business during the years ended September 30, 2006 and 2005.

As UVM clinical faculty, associated group physicians receive a portion of their university salary for patient care activities. That patient care compensation is an expense of FAHC, but is processed in part through the UVM payroll system. The amounts of salaries and fringe benefits for patient care and related effort processed through the UVM system approximated $11,026,000 and $10,498,000 in 2006 and 2005, respectively. In addition, FAHC reimburses UVM for equipment rental, research and certain other

administrative expenses. Total reimbursements, including salaries and benefits, approximated $18,819,000 and $17,116,000 in 2006 and 2005, respectively. At September 30, 2006 and 2005, amounts due to UVM approximated $6,818,000 and $3,689,000, respectively, and are included in accrued expenses.

As part of the Renaissance Project, FAHC entered into an Education Center Development Agreement ("Development Agreement") with UVM for the construction of an education center that will provide educational facilities to the staff and employees of FAHC, and the faculty, residents, fellows and students of UVM. The Development Agreement provides that UVM will pay approximately $9,900,000 of the costs, as therein defined, associated with the design, construction and equipping of the Education Center and FAHC will be responsible for paying the balance. Based on revised estimates of costs to complete, FAHC recorded contribution expense in the amount of $538,000 for the year ended September 30, 2005. As of September 30, 2006, the remaining amount receivable from UVM totals $767,000 and is included in notes receivable and other assets on the balance sheet.

15. FUNCTIONAL EXPENSES

FAHC provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2006	2005
Education and research	$ 19,853	$ 15,222
Health care services	477,137	445,968
Management and general	197,760	174,734
	$ 694,750	$ 635,924

16. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Accounts Receivable, Accounts Payable, Accrued Expenses, and Accrued Payroll and Related Benefits—The carrying amount approximates fair value because of the short maturity of these instruments.

Investments and Assets Whose Use Is Limited—The fair values of the investments and assets whose use is limited that are carried at fair value are estimated based on quoted market prices for those or similar investments. The estimated fair value of the limited partnership investments carried at cost was approximately $21,879,000 and $19,768,000 at September 30, 2006 and 2005, respectively, as determined by the investment managers.

Debt—The fair value of FAHC's debt, which approximates $388,683,521 and $399,198,930 at September 30, 2006 and 2005, respectively, is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to FAHC for debt with the same remaining maturities.

Interest Rate Swaps—The fair values of interest rate swap agreements are obtained from quotes. These values represent the estimated amounts FAHC would receive or pay to terminate agreements, taking into consideration current interest rates and the current creditworthiness of the counterparty.

17. PLEDGES RECEIVABLE

In connection with the renovation and expansion project on the MCHV campus, FAHC has undertaken a capital fund raising campaign. As of September 30, 2006 and 2005, the following pledges were receivable (in thousands):

	2006	2005
Due in less than one year	$ 1,433	$ 1,602
Due in one to five years	1,514	1,987
Due in over five years	194	814
	3,141	4,403
Less allowances for uncollectible amounts	(160)	(245)
	$ 2,981	$ 4,158

* * * * * *

SUPPLEMENTAL SCHEDULES

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2006
(In thousands)

ASSETS	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Medical Group LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Coordinated Transport	Eliminations	Total
CURRENT ASSETS:								
Cash and cash equivalents	$ 32,801	$ 6,044	$ 47	$ -	$ 5,439	$188	$ -	$ 44,519
Patient and other trade accounts receivable—net	104,466	2,743	325			318		107,852
Due from related parties					14,565		(14,565)	-
Short-term investments	177							177
Inventories	10,338							10,338
Current portion of restricted assets					7,000			7,000
Prepaid and other current assets	9,795	2,915	1		3,369			16,080
Total current assets	157,577	11,702	373	-	30,373	506	(14,565)	185,966
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:								
Board-designated assets	122,742							122,742
Assets held by trustee under bond indenture agreements	31,301							31,301
Restricted assets	1,138				21,054			22,192
Donor restricted assets for specific purposes	9,169				-			9,169
Donor restricted assets for permanent endowment	23,593				-			23,593
Total assets whose use is limited or restricted	187,943	-	-	-	21,054	-	-	208,997
PROPERTY AND EQUIPMENT—Net	437,168	118				27		437,313
OTHER ASSETS:								
Deferred financing costs—net	19,102							19,102
Notes receivable and other assets	1,580	250					(27)	1,803
Investment in affiliated companies	33,906			3,788			(24,563)	13,131
Pledges receivable	1,626							1,626
Total other assets	56,214	250	-	3,788	-	-	(24,590)	35,662
TOTAL	$838,902	$12,070	$373	$3,788	$51,427	$533	$(39,155)	$867,938

See notes to supplemental schedule

(Continued)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET INFORMATION
AS OF SEPTEMBER 30, 2006
(In thousands)

LIABILITIES AND NET ASSETS	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Medical Group LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Coordinated Transport	Eliminations	Total
CURRENT LIABILITIES:								
Current installments of long-term debt	$ 7,418	$ -	$-	$ -	$ -	$ 32	$ -	$ 7,450
Accounts payable	31,178	375	25		275		(25)	31,828
Accrued expenses and other liabilities	38,157	3,612	75			3	(1)	41,846
Accrued payroll and related benefits	35,543	109				62	(148)	35,566
Estimated third-party payor settlements	9,069							9,069
Due to related parties	13,526	1,267				4,477	(14,417)	4,853
Estimated amounts for incurred but unreported claims	6,154	6,457			7,000			19,611
Total current liabilities	141,045	11,820	100	-	7,275	4,574	(14,591)	150,223
LONG-TERM LIABILITIES:								
Long-term debt—excluding current installments	372,612							372,612
Reserve for outstanding losses on malpractice and workers' compensation claims					19,816			19,816
Pension and other postretirement benefit obligations	10,478							10,478
Other long-term liabilities	1,741	250						1,991
Total long-term liabilities	384,831	250	-	-	19,816	-	-	404,897
Total liabilities	525,876	12,070	100	-	27,091	4,574	(14,591)	555,120
COMMITMENTS AND CONTINGENT LIABILITIES								
NET ASSETS:								
Unrestricted	276,784		273	3,788		(4,041)	(228)	276,576
Temporarily restricted	12,649							12,649
Permanently restricted	23,593							23,593
Retained earnings					24,336		(24,336)	-
Total net assets (deficit)	313,026	-	273	3,788	24,336	(4,041)	(24,564)	312,818
TOTAL	$838,902	$12,070	$373	$3,788	$51,427	$ 533	$ (39,155)	$867,938

See note to supplemental schedule.

(Concluded)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006
(In thousands)

	Fletcher Allen Health Care, Inc.	Fletcher Allen Health Venture, Inc.	Fletcher Allen Medical Group LLC	Fletcher Allen Skilled Nursing Care, LLC	Vermont Managed Care Indemnity Company Ltd.	Fletcher Allen Coordinated Transport	Eliminations	Total
UNRESTRICTED REVENUE AND OTHER SUPPORT:								
Net patient service revenue	$661,305	$ -	$366	$ -	$ -	$ 991	$ (27,965)	$634,697
Premium revenue	4,283	54,597					(2,670)	56,210
Other revenue	20,762				6,469		(6,547)	20,684
Total unrestricted revenue and other support	686,350	54,597	366	-	6,469	991	(37,182)	711,591
EXPENSES:								
Salaries, payroll taxes, and fringe benefits	408,018	2,319				1,813	(2,490)	409,660
Supplies and other	172,234	742	1		61	150	(6,475)	166,713
Purchased services	23,502	2,170	75		1,093	90	(73)	26,857
Depreciation and amortization	34,894	62				104		35,060
Interest expense	16,883		1			6		16,890
Provision for bad debts	14,784		16			72		14,872
Underwriting expenses					3,415			3,415
Medical claims		49,427					(28,144)	21,283
Total expenses	670,315	54,720	93	-	4,569	2,235	(37,182)	694,750
INCOME (LOSS) FROM OPERATIONS	16,035	(123)	273	-	1,900	(1,244)	-	16,841
NONOPERATING REVENUE (EXPENSE):								
Investment income and losses on investments	11,717	209			3,007			14,933
Unrealized gain on interest rate swap contracts	3,963							3,963
Other	3,829			528	29		(4,780)	(394)
Total nonoperating revenue (expense)	19,509	209	-	528	3,036	-	(4,780)	18,502
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	35,544	86	273	528	4,936	(1,244)	(4,780)	35,343
NET UNREALIZED GAINS (LOSSES) ON INVESTMENTS	954				(1,055)		(2,423)	(2,524)
ASSETS RELEASED FROM RESTRICTIONS—For capital purchases	3,106							3,106
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT	18,240							18,240
TRANSFER OF NET ASSETS	4,843							4,843
EQUITY TRANSFER				(500)			500	-
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPL	(861)							(861)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 61,826	$ 86	$273	$ 28	$ 3,881	$(1,244)	$ (6,703)	$ 58,147

See note to supplemental schedule.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2006 AND 2005
(In thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 32,801	$ 19,529
Patient and other trade accounts receivable—net	104,466	88,518
Short-term investments	177	3,515
Inventories	10,338	7,152
Prepaid and other current assets	9,795	8,457
Total current assets	157,577	127,171
ASSETS WHOSE USE IS LIMITED OR RESTRICTED:		
Board-designated assets	122,742	123,620
Assets held by trustee under bond indenture agreements	31,301	30,710
Donor restricted assets for specific purposes	9,169	10,067
Donor restricted assets for permanent endowment	23,593	24,900
Total assets whose use is limited or restricted	186,805	189,297
PROPERTY AND EQUIPMENT—Net	437,168	445,397
OTHER ASSETS:		
Deferred financing costs—net	19,102	20,253
Notes receivable and other assets	1,580	1,296
Investment in affiliated companies	33,906	30,640
Pledges receivable	1,626	2,645
Total other assets	56,214	54,834
TOTAL	$ 837,764	$ 816,699

(Continued)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP BALANCE SHEETS INFORMATION
AS OF SEPTEMBER 30, 2006 AND 2005
(In thousands)

LIABILITIES AND NET ASSETS	2006	2005
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 7,418	$ 6,528
Accounts payable	31,178	20,130
Accrued expenses and other liabilities	38,157	54,927
Accrued payroll and related benefits	35,543	29,537
Estimated third-party payor settlements	9,069	13,798
Due to related parties	13,526	12,313
Estimated amounts for incurred but unreported claims	6,154	5,145
Total current liabilities	141,045	142,378
LONG-TERM LIABILITIES:		
Long-term debt—excluding current installments	372,612	380,065
Pension and other postretirement benefit obligations	10,478	36,485
Other long-term liabilities	1,741	3,865
Total long-term liabilities	384,831	420,415
Total liabilities	525,876	562,793
COMMITMENTS AND CONTINGENT LIABILITIES		
NET ASSETS:		
Unrestricted	275,646	214,281
Temporarily restricted	12,649	14,725
Permanently restricted	23,593	24,900
Total net assets	311,888	253,906
TOTAL	$ 837,764	$ 816,699

See note to supplemental schedule. (Concluded)

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP STATEMENTS OF OPERATIONS INFORMATION
FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005
(In thousands)

	2006	2005
UNRESTRICTED REVENUE AND OTHER SUPPORT:		
Net patient service revenue	$ 661,305	$ 610,499
Premium revenue	4,283	3,959
Other revenue	20,762	6,523
Total unrestricted revenue and other support	686,350	620,981
EXPENSES:		
Salaries, payroll taxes, and fringe benefits	408,018	371,777
Supplies and other	172,234	157,432
Purchased services	23,502	22,164
Depreciation and amortization	34,894	30,429
Interest expense	16,883	6,614
Provision for bad debts	14,784	12,699
Total expenses	670,315	601,115
NET INCOME FROM OPERATIONS	16,035	19,866
NONOPERATING REVENUE (EXPENSE):		
Investment income and losses	11,717	6,451
Unrealized gain (loss) on interest rate swap contracts	3,963	(1,183)
Other	3,368	5,314
Total nonoperating revenue	19,048	10,582
EXCESS OF REVENUES OVER EXPENSES	35,083	30,448
NET UNREALIZED GAINS ON INVESTMENTS	954	4,867
ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL PURCHASES	3,106	2,573
ADDITIONAL MINIMUM PENSION LIABILITY ADJUSTMENT	18,240	(17,175)
TRANSFER OF NET ASSETS	4,843	3,212
INCREASE IN UNRESTRICTED NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	62,226	23,925
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(861)	
INCREASE IN UNRESTRICTED NET ASSETS	$ 61,365	$ 23,925

See note to supplemental schedule.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

OBLIGATED GROUP STATEMENTS OF CHANGES IN NET ASSETS INFORMATION FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005 (In thousands)

	2006	2005
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses	$ 35,083	$ 30,448
Net unrealized gains on investments	954	4,867
Assets released from restrictions for capital purchases	3,106	2,573
Transfer of net assets	4,843	3,212
Additional minimum pension liability adjustment	18,240	(17,175)
Cumulative effect of change in accounting principle	(861)	
Increase in unrestricted net assets	61,365	23,925
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts, grants, and bequests	2,581	2,284
Investment income	1,794	531
Net unrealized (losses) gains on investments	(901)	1,050
Net realized gains on investments	1,486	
Net assets released from restrictions used in operations	(759)	(674)
Net assets released from restrictions used for nonoperating purposes	(232)	(153)
Net assets released from restrictions used for capital purchases	(3,106)	(2,573)
Transfer of net assets	(2,939)	
(Decrease) increase in temporarily restricted net assets	(2,076)	465
PERMANENTLY RESTRICTED NET ASSETS:		
Gifts, grants, and bequests	104	198
Change in beneficial interest in perpetual trusts	493	641
Transfer of net assets	(1,904)	
(Decrease) increase in permanently restricted net assets	(1,307)	839
INCREASE IN NET ASSETS	57,982	25,229
NET ASSETS—Beginning of year	253,906	228,677
NET ASSETS—End of year	$ 311,888	$ 253,906

See note to supplemental schedule.

FLETCHER ALLEN HEALTH CARE, INC. AND SUBSIDIARIES

NOTE TO SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2006 AND 2005

1. FLETCHER ALLEN HEALTH CARE, INC. OBLIGATED GROUP

Fletcher Allen Health Care, Inc. presently is the sole member of the Obligated Group. The accompanying supplemental schedules have been prepared for the purpose of additional analysis of the basic consolidated financial statements of Fletcher Allen Health Care, Inc. and subsidiaries for purposes of complying with certain requirements related to FAHC's debt agreements and are not intended to present the separate financial statements of the Obligated Group.

FAHC accounts for its investments in affiliated companies in its parent company financial statements using the equity method of accounting. Effective in January 2006, Fletcher Allen Outpatient Pharmacies, LLC ("FAOP)" was merged into Fletcher Allen Health Care, Inc. The merger was accounted for as a pooling-of-interests. Prior period financial statements of the Obligated Group were not restated.

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APPENDIX C

DEFINITIONS OF CERTAIN TERMS AND SUMMARIES OF PRINCIPAL LEGAL DOCUMENTS

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DEFINITIONS OF CERTAIN TERMS

The following is a summary of the definitions of certain terms contained in the Loan Agreement, Trust Agreement and the Master Indenture and used in this Official Statement:

"Accounts" means any right to payment for goods sold or leased or for services rendered which is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

"Account Lien Amount" means the product of (x) 50% multiplied by (y) an amount equal to the Obligated Group's net patient accounts (as shown in its Audited Financial Statements for the preceding Fiscal Year).

"Act" means Chapter 131, Sections 3851 to 3862, inclusive, of Title 16, Vermont Statutes Annotated, as amended.

"Affiliate" means a corporation, limited liability company, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or any state thereof which (i) is directly or indirectly controlled by any Member of the Obligated Group or by any Person which directly or indirectly controls any Member of the Obligated Group or (ii) controls, directly or indirectly, any Member of the Obligated Group. For purposes of this definition, control means the ownership of not less than 25% of the voting securities of a Person or the right to designate or elect not less than a majority of the members of its board of directors or other governing board or body by contract or otherwise.

"Agency" means the Vermont Educational and Health Buildings Financing Agency, and any successor thereto.

"Agency Representative" means each of the persons at the time designated to act on behalf of the Agency in a written certificate furnished to the Corporation and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Agency by its Executive Director.

"Audited Financial Statements" means the combined financial statements of the Corporation and its subsidiaries, if any, for a twelve-month period, or for such other period for which an audit has been performed, prepared in accordance with generally accepted accounting principles, which have been audited and reported upon by independent certified public accountants. Audited Financial Statements shall also include, in an additional information section, unaudited combining financial statements for the same twelve-month period from which the accounts of any subsidiary which is not a Member of the Obligated Group have been eliminated and to which the accounts of any Member of the Obligated Group which is not a subsidiary have been added; provided, however, that for purposes of adding the accounts of a Member of the Obligated Group which is not a subsidiary, the balances of such accounts shall be extracted from audited financial statements of such Member of the Obligated Group and its subsidiaries, if any.

"Authorized Denominations" means $5,000 and any integral multiple thereof.

"Average Annual Debt Service" means at any given time of determination, average annual Principal and Interest Requirements for all the Outstanding Bonds until their final maturity.

"Balloon Long-Term Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such Indebtedness is issued to be amortized by redemption prior to such year.

"Beneficial Owner" means the Person in whose name a Bond is recorded as beneficial owner of such Bonds by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person's subrogee.

"Bond Fund" means the Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds (Fletcher Allen Health Care Project) Series 2007A Bond Fund created and so designated by the Trust Agreement.

"Bond Registrar" means the Bond Registrar at the time serving as such under the Trust Agreement whether the original or a successor bond registrar.

"Bond Trustee" means the Bond Trustee at the time serving as such under the Trust Agreement whether the original or a successor trustee.

"Bond Year" means the period commencing on December 1 of any year and ending on November 30 of the following year.

"Bonds" means the Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds (Fletcher Allen Health Care Project) Series 2007A, authorized to be issued pursuant to a resolution of the Agency, including such Bonds issued in exchange for other such Bonds pursuant to the Trust Agreement, or in replacement for mutilated, destroyed, stolen or lost Bonds pursuant to the Trust Agreement.

"Book-Entry System" means a book-entry system established and operated for the recordation of Beneficial Owners of the Bonds pursuant to the Trust Agreement.

"Business Day" means any day other than (i) a Saturday, a Sunday or any other day on which banks located in the city in which the office of the Bond Trustee is located are authorized or required to remain closed or (ii) a day on which the New York Stock Exchange is closed.

"Capitalization" means the sum of the aggregate Long-Term Indebtedness of the Members of the Obligated Group, excluding any Cross-over Refunded Indebtedness, plus the aggregate unrestricted fund balance of the non-profit Members of the Obligated Group and plus the aggregate excess of assets over liabilities of the proprietary Members of the Obligated Group, if any, all as calculated in accordance with generally accepted accounting principles.

"Closing Date" means the date on which the Loan Agreement becomes legally effective, the same being the date on which the Bonds are delivered against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Completion Date" means the date of completion of the acquisition, construction and equipping of the Project, as such date shall be certified pursuant to the Loan Agreement.

"Completion Indebtedness" means any Long-Term Indebtedness incurred for the purpose of financing the completion of facilities for the acquisition, construction or equipping of 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 equipped facility of the type and scope contemplated at the time that such Long-Term Indebtedness theretofore incurred was originally incurred, and, to the extent the same shall be applicable, in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness theretofore incurred was originally incurred.

"Construction Fund" means the Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds (Fletcher Allen Health Care Project) Series 2007A Construction Fund created and so designated by the Trust Agreement.

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

"Corporate Charter" means, with respect to any corporation, the articles of incorporation, certificate of incorporation, corporate charter or other organic document pursuant to which such corporation is organized and existing under the laws of the United States of America or any state thereof.

"Corporate Trust Office" means the office of the Master Trustee at which its principal corporate trust business is conducted, which is currently located in Burlington, Vermont.

"Corporation" means Fletcher Allen Health Care, Inc. (formerly known as Medical Center Hospital of Vermont, Inc.), an eligible institution under Chapter 131, Sections 3851 to 3862, inclusive, of Title 16, Vermont Statutes Annotated and a nonprofit hospital as defined in Section 1902 of Title 18 of Vermont Statutes Annotated, organized and existing under the laws of the State, and its successors and assigns and any surviving, resulting or transferee corporation thereof.

"Cost", as applied to the Project, means, without intending thereby to limit or restrict any proper definition of such word under the Act, all items of cost set forth in the Trust Agreement.

"Cross-over Date" means, with respect to Cross-over Refunding Indebtedness, the date on which the principal portion of the related Cross-over Refunded Indebtedness is to be paid or redeemed from the proceeds of such Cross-over Refunding Indebtedness.

"Cross-over Refunded Indebtedness" means Indebtedness refunded by Cross-over Refunding Indebtedness.

"Cross-over Refunding Indebtedness" means Indebtedness issued for the purpose of refunding other Indebtedness if the proceeds of such Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date of the Refunded Indebtedness, and the earnings on such escrow deposit (i) are required to be applied to pay interest on such Refunding Indebtedness until the Cross-over Date, and (ii) are not to be applied, directly or indirectly, to pay interest on such Refunded Indebtedness.

"Defaulted Interest" means any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

"Defeased Municipal Obligations" means obligations of state or local government municipal bond issuers which are not callable at the option of the obligor prior to maturity or for which irrevocable instructions have been given by the obligor to pay such obligations on the date fixed for redemption and which are rated, based on an irrevocable escrow account or fund, in the highest rating category by each of S&P and Moody's, provision for the payment of the principal of, redemption premium, if any, and interest on which shall have been made by deposit in an irrevocable escrow fund or account with a trustee or escrow agent of Defeasance Obligations or cash, which escrow fund or account shall be applied only to the payment of the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers, when due and payable, and shall be sufficient, as verified by a nationally recognized independent certified public accountant, to pay the principal of, redemption premium, if any, and interest on such obligations of state or local government municipal bond issuers.

"Defeasance Obligations" means, with respect to the Trust Agreement, (1) cash, (2) noncallable Government Obligations, (3) evidences of ownership of proportionate interests in future interest and principal payments on Government Obligations held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying Government Obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated, or (4) Defeased Municipal Obligations, or any combination thereof.

"Defeasance Obligations" means, with respect to the Master Indenture, (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government 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, (iii) Defeased Municipal Obligations or (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal 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.

"Defeased Obligations" means Obligations issued under a Supplement that have been discharged, or provision for the discharge of which has been made, pursuant to their terms and the terms of such Supplement.

"Depositary" means one or more banks or trust companies authorized under the laws of the United States of America, the State of Vermont or the State of New York to engage in the banking business within the State and designated by the Agency, with the approval of the Corporation, as a depositary of money under the provisions of the Trust Agreement.

"Derivative Agreement" means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Member of the Obligated Group entering into such contract or arrangement determines is to be used, or is intended to be used, to manage or reduce the cost of Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"Derivative Indebtedness" means all or a portion of any Indebtedness incurred by a Member of the Obligated Group pursuant to or in connection with a Derivative Agreement.

"Derivative Period" means the period during which a Derivative Agreement is in effect.

"Designated Corporate Trust Office" means, initially, the corporate trust office of the Bond Trustee located at Two Burlington Square, Burlington, Vermont 05402, and thereafter any office designated by the Bond Trustee by notice to the Agency and the Corporation given pursuant to the Trust Agreement.

"Eminent Domain" means the eminent domain or condemnation power by which all or any part of the Property and Equipment may be taken for public use or any agreement that is reached in lieu of proceedings to exercise such power.

"Event of Default" means, with respect to the Loan Agreement, each of those events set forth in the Loan Agreement and summarized under the caption "SUMMARY OF THE LOAN AGREEMENT – Defaults and Remedies" herein, with respect to the Trust Agreement, each of those events set forth in the Trust Agreement and summarized under the caption "SUMMARY OF THE TRUST AGREEMENT – Events of Default" herein, and, with respect to the Master Indenture, each of those events set forth in the Master Indenture and summarized under the caption "SUMMARY OF THE MASTER INDENTURE – Defaults and Remedies -- Events of Default" herein.

"Fiscal Year" means the fiscal year of the Obligated Group, which shall be the period commencing on October 1 of any year and ending on September 30 of the following year unless the Master Trustee is notified in writing by the Obligated Group Representative of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice; provided, however, that each Member of the Obligated Group shall have the same Fiscal Year.

"Fitch" means Fitch Ratings, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Agency, with the approval of the Hospital Representative, by notice to the Bond Trustee.

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

"Government Obligations" means, with respect to the Master Indenture, direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Government Obligations" means, with respect to the Trust Agreement, direct obligations of (including obligations issued or held in book-entry form on the books of) the Department of the Treasury of the United States of America.

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

"Gross Receipts" means all Accounts and all revenues, income, receipts and money (other than proceeds of borrowing) received in any period by or on behalf of any Member of the Obligated Group, including, but without limiting the generality of the foregoing, (a) revenues derived from its operations, (b) gifts, grants, bequests, donations and contributions and the income therefrom, exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Obligations, (c) proceeds derived from (i) insurance, except to the extent otherwise required by the provisions of the Master Indenture, (ii) Accounts, (iii) securities and other investments, (iv) inventory and other tangible and intangible property, (v) medical or hospital insurance, indemnity or reimbursement programs or agreements and (vi) contract rights and other rights and assets now or hereafter owned, held or possessed by each Member of the Obligated Group, and (d) rentals received from the leasing of real or tangible personal property.

"Guaranty" means any obligation of any Member of the Obligated Group guaranteeing in any manner, directly or indirectly, any obligation of any Person that is not a Member of the Obligated Group which obligation of such other Person would, if such obligation were the obligation of a Member of the Obligated Group, constitute Indebtedness under the Master Indenture. For the purposes of the Master Indenture, the aggregate annual principal and interest payments on any indebtedness in respect of which any Member of the Obligated Group shall have executed and delivered its Guaranty shall, so long as no payments are required to be made thereunder and so long as such Guaranty constitutes a contingent liability under generally accepted accounting principles, be deemed to be equal to zero, provided that if there shall have occurred a payment by any Member of the Obligated Group on such Guaranty, then, during the period commencing on the date of such payment and ending on the day which is one year after such other Person resumes making all payments on such guaranteed obligation, (i) with respect to a historical computation, 100% of the amount actually paid by a Member of the Obligated Group for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account and (ii) with respect to a projected computation, either (A) 100% of the amount payable for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account or (B) at the option of the Obligated Group, the amount indicated in a written report of a Consultant that is delivered to the Master Trustee to be the amount that such Consultant estimates that the Obligated Group will have to pay for principal and interest on such guaranteed indebtedness during the period for which the computation is being made shall be taken into account.

"Holder" means, as applicable, the owner of any Obligation issued in registered form, or a person in whose name a Bond is registered in the registration books provided for in the Trust Agreement.

"Hospital Representative" means the Chief Executive Officer, the Chief Financial Officer and each of the other persons at the time designated to act on behalf of the Corporation in a written certificate furnished to the Agency and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Corporation by its Chief Executive Officer or Chief Financial Officer.

"Income Available for Debt Service" means, with respect to the Obligated Group, as to any Fiscal Year, the excess of revenues over expenses before depreciation, amortization and interest expense on Long-Term Indebtedness, as determined in accordance with generally accepted accounting principles consistently applied; provided, however, that (1) no determination thereof shall take into account (a) any gain or loss resulting from either the extinguishment of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business, (b) any unrealized gains and losses on investments or (c) any non-cash nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets, and (2) revenues shall not include income from the

investment of funds held in a Qualified Escrow to the extent that such income has been or is required to be applied to the payment of principal of or interest on Long-Term Indebtedness which is excluded from the determination of Long-Term Debt Service Requirement or Related Bonds secured by such Long-Term Indebtedness. The excess of revenues over expenses shall include realized investment income and amounts required to be set aside for collateral posted in connection with the valuation of Derivative Agreements, but shall not include the non-cash termination value of any Derivative Agreements.

"Indebtedness" means (i) all indebtedness of Members of the Obligated Group for borrowed money, (ii) all installment sales, conditional sales and capital lease obligations, incurred or assumed by any Member of the Obligated Group, and (iii) all Guaranties (other than any Guaranty by any Member of the Obligated Group of Indebtedness of any other Member of the Obligated Group), whether constituting Long-Term Indebtedness or Short-Term Indebtedness. Indebtedness shall not include obligations of any Member of the Obligated Group to another Member of the Obligated Group.

"Insurance Consultant" means a firm or person which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Member of the Obligated Group or an Affiliate, which is qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations and, if being retained to evaluate alternative risk management programs, including self-insurance, which has the skill and experience necessary to render such an evaluation.

"Interest Account" means the account in the Bond Fund created and designated by the Trust Agreement.

"Interest Payment Date" means each June 1 and December 1.

"Interest Requirements" for any Bond Year means the amount that is required to pay interest on all Outstanding Bonds on each Interest Payment Date in such Bond Year and on each Interest Payment Date in the following Bond Year.

"Investment Obligations" means any of the following securities, if and to the extent the same are at the time legal for investment of Agency funds, Government Obligations and (a) the obligations of (i) Export-Import Bank, (ii) Farm Credit System Financial Assistance Corporation, (iii) Rural Economic Community Development Administration (formerly Farmers Home Administration), (iv) General Services Administration, (v) U.S. Maritime Administration, (vi) Small Business Administration, (vii) Government National Mortgage Association, (viii) U.S. Department of Housing & Urban Development (PHA's), (ix) Federal Housing Administration and (x) Federal Financing Bank; (b) senior debt obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation which are rated "AAA" and "Aaa" by S&P and Moody's, respectively; (c) obligations of the Resolution Funding Corporation; (d) senior debt obligations of the Federal Home Loan Bank System; (e) senior debt obligations of other agencies sponsored by the United States of America which have been approved by Ambac Assurance with respect to the 2000B Trust Agreement; (f) United States dollar denominated dollar deposit accounts, federal funds and banker's acceptances maturing not more than 360 days after the date of purchase with any domestic commercial bank whose short-term certificates of deposit on the date of purchase are rated "A-1" or "A-1+" by S&P and "P-1" by Moody's (ratings on a holding company shall not be deemed ratings of a commercial bank); (g) commercial paper which is rated "A-1+" and "P-1" by S&P and Moody's, respectively, on the date of purchase and which matures not more than 270 days after the date of purchase; (h) investments in a money market fund which is rated "AAAm" or "AAAm-G" or better by S&P; (i) Defeased Municipal Obligations; (j) investment agreements approved in writing by Ambac Assurance with respect to the

2000B Trust Agreement with notice to S&P and accompanied by appropriate opinions of counsel; (k) general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P; and (l) repurchase agreements and other forms of investments approved in writing by Ambac Assurance with respect to the 2000B Trust Agreement with notice to S&P.

"Lien" means any mortgage, deed of trust or pledge of, security interest in or encumbrance on any Property of any Member of the Obligated Group which secures any Indebtedness or any other obligation of any Member of the Obligated Group or which secures any obligation of any Person, other than an obligation to any Member of the Obligated Group.

"Loan" means the loan of the proceeds of the Bonds made by the Agency to the Corporation pursuant to the Loan Agreement.

"Loan Agreement" means the Loan Agreement, dated as of January 1, 2007, by and between the Agency and the Corporation, including all amendments or supplements thereto as therein permitted.

"Loan Repayments" means those payments so designated by and set forth in the Loan Agreement.

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

"Long-Term Debt Service Requirement" means, for any period of twelve (12) consecutive calendar months for which such determination is made, the aggregate of the payments to be made in respect of principal of and interest on Outstanding Long-Term Indebtedness of the Obligated Group during such period, also taking into account (i) with respect to Balloon Long-Term Indebtedness (a) if a binding commitment has been provided for the refinancing of such Indebtedness, the amount of principal and interest which would be payable in such period based on the terms of such refinancing, (b) if no such binding commitment has been provided, then the amount of principal which would be payable in such period if such principal were amortized from the date of incurrence thereof over a period of (x) 25 years on a level debt service basis or (y) an amortization schedule set forth in an Officer's Certificate delivered to the Master Trustee, provided (1) such schedule does not extend the original final maturity of such Indebtedness and provides for level payments of principal and interest in each Fiscal Year that (together with the excess of amounts so deposited in each Fiscal Year over the amounts required to be made on such Balloon Long-Term Indebtedness) are not less than the amounts required to be made in each Fiscal Year by the terms of such Balloon Long-Term Indebtedness, and (2) a Member of the Obligated Group enters into a binding commitment with a financial institution (that would otherwise qualify as the Master Trustee under the Master Indenture) to deposit the amount of principal shown on such amortization schedule in each Fiscal Year, net of the amount of principal actually paid on such Balloon Long-Term Indebtedness during such Fiscal Year, using, in the case of (b), an interest rate equal to (A) if such Indebtedness is tax-exempt, the most recently published 30-year Revenue Bond Index as published in The Bond Buyer or (B) if such Indebtedness is not tax-exempt, the rate set forth in an opinion of a banking institution or an investment banking institution knowledgeable in health care finance delivered to the Master Trustee as the interest rate at which the Obligated Group could reasonably expect to borrow the same by issuing an Obligation with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) months of the actual maturity of such Indebtedness, the full amount of principal payable at maturity shall be included in such calculation; (ii) with respect to Variable Rate Indebtedness that is Long-Term Indebtedness, the interest on such Indebtedness shall be calculated at the rate which is equal to the average of the actual interest rates which were in effect (weighted according to the length of the period during which each such interest rate was in effect) for the most recent twelve-

month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a twelve-month period), except that, with respect to new Variable Rate Indebtedness, the interest rate for such Indebtedness for the initial interest rate period shall be the initial rate at which such Indebtedness was incurred and thereafter shall be calculated as set forth above; and (iii) with respect to Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, and has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by a Member of the Obligated Group on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by such Member of the Obligated Group under the Derivative Agreement and subtracting (z) the amount of interest payable by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that to the extent that the provider of any Derivative Agreement does not have a long-term credit rating of at least "A" (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody's, if rated by Moody's, Fitch, if rated by Fitch, and S&P, if rated by S&P, or is in default thereunder, the amount of interest payable by the Member of the Obligated Group shall be the interest calculated as if such Derivative Agreement had not been executed;

provided, however, that interest shall be excluded from the determination of Long-Term Debt Service Requirement to the extent the same is provided from the proceeds of the Long-Term Indebtedness and provided further, however, that notwithstanding the foregoing, the aggregate of the payments to be made with respect to principal of and interest on Outstanding Long-Term Indebtedness shall not include principal and interest payable from funds available in a Qualified Escrow (other than principal and interest so payable solely by reason of the Obligated Group's failure to make payments from other sources).

"Long-Term Indebtedness" means all obligations for borrowed money incurred or assumed by any Member of the Obligated Group, including (a) Guaranties, (b) Short-Term Indebtedness if a binding commitment by an institutional lender exists to provide financing to retire such Short-Term Indebtedness and such commitment provides for the repayment of principal on terms which would, if such commitment were implemented, constitute Long-Term Indebtedness, and (c) the current portion of Long-Term Indebtedness, for any of the following:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one (1) year;

(ii) leases which are required to be capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, longer than one (1) year; and

(iii) installment sale or conditional sale contracts having an original term in excess of one (1) year;

provided, however, that any Guaranty by any Member of the Obligated Group of any obligation of any Person, which obligation would, if it were a direct obligation of such Member of the Obligated Group, constitute Short-Term Indebtedness, shall be excluded.

"Master Indenture" or "Indenture" means the Master Trust Indenture, dated as of January 1, 1993, as amended and restated as of March 1, 2004, by and between the Corporation and the Master Trustee, including any amendments or supplements thereto.

"Master Trustee" means Chittenden Trust Company, Burlington, Vermont, and its successors in the trusts created under the Master Indenture.

"Maximum Annual Debt Service" means the highest Long-Term Debt Service Requirement for the current or any succeeding Fiscal Year.

"Maximum Annual Debt Service on the Bonds" means at any given time of determination, the maximum Principal and Interest Requirements for the Bonds for the then current or any succeeding Bond Year. For purposes of this definition, Principal and Interest Requirements for any Bond Year shall not include any principal, Sinking Fund Requirement or interest due in such Bond Year by reason of the failure of the Agency to pay the same when due in any prior Bond Year.

"Member of the Obligated Group" means, initially, the Corporation, and, thereafter, any other Person which shall become a Member of the Obligated Group pursuant to the Master Indenture and not including any Person which shall have withdrawn from the Obligated Group pursuant to the Master Indenture.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Agency, with the approval of the Hospital Representative, by notice to the Bond Trustee.

"Mortgage" means the Mortgage Deed, dated as of December 17, 2003, executed by the Corporation as security for the repayment of the Obligations, including any amendments to said mortgage.

"Mortgaged Property" means the real property described in the Mortgage, together with all real property acquired as an addition to, in replacement of, or in substitution for, all or any part of the real property described in the Mortgage, less such real property as may be released from the Mortgage pursuant to the terms of the Master Indenture.

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

"Non-Recourse Indebtedness" means any Indebtedness secured by a Lien, the liability for which is effectively limited to the Property, the purchase or acquisition or, in the case of vacant land only, the improvement of which was financed with the proceeds of such Non-Recourse Indebtedness and which is subject to such Lien with no recourse, directly or indirectly, to any other Property of any Member of the Obligated Group.

"Obligated Group" means, collectively, the Members of the Obligated Group.

"Obligated Group Representative" means the Person at the time designated to act on behalf of the Obligated Group in a written certificate furnished to the Master Trustee, which certificate shall contain a specimen signature of such Person and shall be signed on behalf of the Obligated Group by the Chief Executive Officer or Chief Financial Officer of the Corporation or by his designee.

"Obligation" means the evidence of particular Indebtedness issued under the Master Indenture.

"Obligation No. 11" means the Obligation so designated and issued under the Master Indenture and Supplement No. 11 and delivered to the Agency pursuant to the Loan Agreement.

"Officer's Certificate" means, with respect to the Loan Agreement, a certificate signed by an Agency Representative or a Hospital Representative, as the case may be.

"Officer's Certificate" means, with respect to the Master Indenture, a certificate signed by (i) the chairman of the Governing Body, or the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Governing Body of such Member of the Obligated Group as the context requires or (ii) the Obligated Group Representative. Each Officer's Certificate presented under the Master Indenture shall state that it is being delivered pursuant to (and shall identify the section or subsection of) the Master Indenture and shall incorporate by reference and use in all appropriate instances all terms defined in the Master Indenture. Each Officer's Certificate shall state (i) that the terms thereof are in compliance with the requirements of the section or subsection of the Master Indenture pursuant to which such Officer's Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (ii) that it is being delivered together with any opinions, schedules, statements or other documents required in connection therewith.

"Opinion of Bond Counsel" means an opinion in writing signed by an attorney or firm of attorneys acceptable to the Master Trustee and experienced in the field of municipal bonds whose opinions are generally accepted by purchasers of municipal bonds.

"Opinion of Counsel" means, with respect to the Trust Agreement, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Bond Trustee who may be counsel for the Agency or the Corporation or other counsel.

"Opinion of Counsel" means, with respect to the Master Indenture, an opinion in writing signed by an attorney or firm of attorneys, acceptable to the Master Trustee, who may be counsel for any Member of the Obligated Group or other counsel acceptable to the Master Trustee.

"Outstanding" means, when used with reference to Bonds, as of a particular date, all Bonds theretofore issued under the Trust Agreement, except:

(1) Bonds theretofore cancelled by the Bond Registrar or delivered to the Bond Registrar for cancellation;

(2) Bonds for the payment of which money, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid or redeemed, the principal amount of or the Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, has been deposited with the Bond Trustee or the Bond Registrar in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Defeasance Obligations,

when due, will be sufficient to pay on such date the Redemption Price of, and the interest accruing on, such Bonds to such date;

(3) Bonds in exchange for or in lieu of which other Bonds have been issued;

(4) Bonds deemed to have been paid in accordance with the Trust Agreement; and

(5) Undelivered Bonds;

provided, however, that Bonds owned or held by or for the account of the Corporation, any Affiliate or any subsidiary or controlled affiliate of the Corporation or any Affiliate shall not be deemed Outstanding Bonds for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in the Articles in the Trust Agreement entitled "Events of Default and Remedies", "Supplemental Trust Agreements" and "Defeasance" and in the Section in the Loan Agreement entitled "Amendment of Agreement" and neither the Corporation nor any Affiliate as registered owners of such Bonds shall be entitled to consent or take any other action provided for in the above-mentioned provisions of the Trust Agreement or the Loan Agreement.

"Outstanding" when used with reference to Indebtedness means, as of any date of determination, all Indebtedness theretofore issued or incurred and not paid and discharged other than (i) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (ii) Indebtedness deemed paid and no longer Outstanding under the documents pursuant to which such Indebtedness was incurred, (iii) Defeased Obligations and (iv) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of the Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser; provided, however, that for purposes of determining whether the Holders of the requisite principal amount of Obligations have concurred in any demands, direction, request, notice, consent, waiver or other action under the Master Indenture, Obligations or Related Bonds that are owned by any Member of the Obligated Group or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with such Member shall be deemed not to be Outstanding, provided further, however, that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Obligations or Related Bonds which the Master Trustee has actual notice or knowledge as being so owned shall be deemed to be not Outstanding.

"Permitted Liens" means those Liens described under the caption "SUMMARY OF THE MASTER INDENTURE - Particular Covenants -- Limitation on Creation of Liens" below.

"Person" means an individual, association, unincorporated organization, corporation, limited liability company, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity.

"Pledged Assets" means all Gross Receipts of the Members of the Obligated Group, now owned or hereafter acquired, and all proceeds thereof.

"Principal Account" means the account in the Bond Fund created and so designated by this Trust Agreement.

"Principal and Interest Requirements" means for any Bond Year, the sum of the Principal Requirements and Interest Requirements for such Bond Year.

"Principal Requirements" means for any Bond Year the sum of (i) the amount required to pay the principal of all Outstanding Serial Bonds on December 1 of the following Bond Year and (ii) the Sinking Fund Requirement for Term Bonds on December 1 of the following Bond Year.

"Property" means any and all rights, titles and interests in and to any and all property whether real or personal, tangible or intangible and wherever situated.

"Property and Equipment" means all Property of the Members of the Obligated Group which is property and equipment under generally accepted accounting principles.

"Put Indebtedness" means Long-Term Indebtedness twenty-five percent (25%) or more of the principal of which is required, at the option of the owner thereof, to be purchased or redeemed at one time.

"Qualified Escrow" means amounts deposited in a segregated escrow fund or other similar fund or account in connection with the issuance of Long-Term Indebtedness or Related Bonds secured by such Long-Term Indebtedness which fund or account is required by the documents establishing such fund or account to be applied toward the Obligated Group's payment obligations with respect to principal of or interest on (a) the Long-Term Indebtedness or Related Bonds secured thereby which are issued under the documents establishing such fund or account or (b) Long-Term Indebtedness or Related Bonds secured thereby which are issued prior to the establishment of such fund or account.

"Qualified Reserve Fund Substitute" means (i) an irrevocable letter of credit, naming the Bond Trustee as beneficiary, issued by any domestic or foreign bank, or any branch or agency thereof, whose long-term debt obligations are rated in one of the two highest rating categories by S&P and Moody's, respectively, or (ii) a policy of reserve fund insurance naming the Bond Trustee as beneficiary, issued by an insurance company whose claims paying ability is rated in the highest rating category by S&P and Moody's, respectively, in either case (A) in an amount not less than the Reserve Fund Requirement, (B) approved by the Agency, which approval shall not be unreasonably withheld, (C) the terms of which allow the Bond Trustee to make the draws required by the provisions of the Trust Agreement and (D) the issuer of which shall not have been given a lien on any portion of the property of the Corporation unless such lien also secures the Bonds on a parity basis.

"Rating Agency" means Moody's, S&P and Fitch.

"Redemption Fund" means the Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds (Fletcher Allen Health Care Project) Series 2007A Redemption Fund created and so designated by the Trust Agreement.

"Redemption Price" means, with respect to Bonds or a portion thereof, the principal amount of such Bonds or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with the terms of the Trust Agreement.

"Register" means the register of the record owners of Bonds maintained by the Bond Registrar pursuant to the Trust Agreement.

"Regular Record Date" 15th day of the month (whether or not a Business Day) immediately preceding any Interest Payment Date.

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

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

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture.

"Related Bonds" means the revenue bonds or other obligations issued by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof ("governmental issuer"), pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to (i) a Member of the Obligated Group in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or (ii) any Person other than a Member of the Obligated Group in consideration of the issuance to such governmental issuer (A) by such Person of any indebtedness or other obligation of such Person and (B) by a Member of the Obligated Group of a Guaranty in respect of such indebtedness or other obligation, which Guaranty is represented by an Obligation.

"Required Payments under the Loan Agreement" means the payments so designated by and set forth in the Loan Agreement.

"Reserve Fund" means the Vermont Educational and Health Buildings Financing Agency Hospital Revenue Bonds (Fletcher Allen Health Care Project) Series 2007A Reserve Fund created and so designated by the Trust Agreement.

"Reserve Fund Requirement" means the least of (A) the Maximum Annual Debt Service on the Bonds, (B) 125% of Average Annual Debt Service and (C) 10% of the stated principal amount of the Bonds; provided, however, that if the Bonds have original issue discount or premium that exceeds 2% of the stated redemption price at maturity plus any original issue premium attributable exclusively to underwriter's compensation, the initial offering prices to the public shall be used in lieu of the stated principal amount for purposes of calculating the 10% limitation.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., its successors and their assigns, and, if S&P shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Agency, with the approval of the Hospital Representative, by notice to the Bond Trustee.

"Securities Depository" means The Depository Trust Company, New York, New York, and any substitute for or successor to such securities depository that shall maintain a Book-Entry System with respect to the Bonds.

"Securities Depository Nominee" means the Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the Register the Bonds to be delivered to such Securities Depository during the continuation with such Securities Depository of participation in its Book-Entry System.

"Serial Bonds" means Bonds which are stated to mature in consecutive annual installments.

"Short-Term Indebtedness" means all obligations, other than any Guaranty of an obligation of a Person which is a Member of the Obligated Group and the current portion of Long-Term Indebtedness, incurred or assumed by one or more Members of the Obligated Group, for any of the following:

(i) money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one (1) year or less;

(ii) leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one (1) year or less; and

(iii) installment purchase or conditional sale contracts having an original term of one (1) year or less.

"Sinking Fund Account" means the account in the Bond Fund created and so designated by the Trust Agreement.

"Sinking Fund Requirement" means, with respect to the Term Bonds for any Bond Year, the principal amount fixed or computed as hereinafter provided for the retirement of such Term Bonds by purchase or redemption on December 1 of the following Bond Year.

The aggregate amount of such Sinking Fund Requirements for the Term Bonds, together with the amount due upon the final maturity of such Bonds, shall be equal to the aggregate principal amount of the Term Bonds. The Sinking Fund Requirements for the Term Bonds shall begin as provided in the Trust Agreement and shall end with the December 1 immediately preceding the maturity of such Term Bonds (such final installment being payable at maturity and not redeemed). Any principal amount of Term Bonds retired by operation of the Sinking Fund Account by purchase in excess of the total amount of the Sinking Fund Requirement for such Term Bonds to and including such December 1 shall be credited against and reduce the future Sinking Fund Requirements for such Term Bonds in such manner as shall be specified in an Officer's Certificate of the Hospital Representative filed with the Bond Trustee.

"Special Record Date" for the payment of any Defaulted Interest on Bonds means a date fixed by the Bond Trustee pursuant to the Trust Agreement.

"State" means the State of Vermont.

"Subordinated Indebtedness" means Indebtedness of a Member of the Obligated Group that by the terms thereof is specifically junior and subordinate to the Obligations with respect to payment of principal and interest thereon and that is evidenced by an instrument containing provisions substantially the same as those set forth in the Master Indenture.

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

"Supplement No. 11" means Supplemental Indenture for Obligation No. 11, dated as of January 1, 2007, by and between the Corporation and the Master Trustee.

"Tax Certificate" means the Tax Certificate and Agreement, dated the Closing Date, concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by the Agency and the Corporation on the date of initial execution and delivery of the Bonds, including any and all exhibits attached thereto.

"Tax-Exempt Organization" means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code and

exempt from federal income taxes under Section 501(a) of the Code or corresponding provisions of federal income tax laws from time to time in effect.

"Term Bonds" means the Bonds, other than Serial Bonds, stated to be payable by their terms on one or more dates.

"Total Operating Revenues" means, with respect to the Obligated Group, as to any period of time, total operating revenues, as determined in accordance with generally accepted accounting principles consistently applied.

"Total Required Payments" means the sum of Loan Repayments and Required Payments under the Loan Agreement.

"Transfer" means any act or occurrence the result of which is to dispossess any Person of any asset or interest therein, including specifically, but without limitation, the forgiveness of any debt or the lease of any such asset.

"Trust Agreement" means the Trust Agreement securing the Bonds, dated as of January 1, 2007, by and between the Agency and the Bond Trustee, including any trust agreement amendatory thereof or supplemental thereto.

"Value" means the value of any investments calculated as follows:

(a) As to securities:

(1) the closing bid price quoted by Interactive Data System, Inc.; or

(2) a valuation performed by a nationally recognized and accepted pricing service, acceptable to Ambac Assurance with respect to the 2000B Trust Agreement, whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealers or their parent holding companies must be rated at least investment grade by Moody's and S&P and must be market makers in the securities being valued.

(b) As to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest; and

(c) As to any investment not specified above: the value thereof established by prior agreement among the Agency, the Bond Trustee and Ambac Assurance with respect to the 2000B Bonds.

"Variable Rate Indebtedness" means any portion of Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate.

SUMMARY OF THE MASTER INDENTURE

Authorization, Issuance and Terms of Obligations

There is no limit on the principal amount or number of Obligations that may be issued under the Master Indenture or Indebtedness that may be created under other documents, except as limited by the provisions of the Master Indenture or of any Supplement, but no Obligations may be issued unless the provisions of the Master Indenture are followed. Any Member of the Obligated Group proposing to incur Long Term Indebtedness or enter into Derivative Agreements, whether evidenced by Obligations issued hereunder or Indebtedness or Derivative Agreements created under any other documents, shall, at least seven (7) days prior to the date of the incurrence of such Long Term Indebtedness or Derivative Agreements, give written notice of its intention to incur such Long Term Indebtedness or enter into such Derivative Agreement, including in such notice the amount of Indebtedness or the notional amount of the Derivative Agreement to be incurred, to the other Members of the Obligated Group and, in the case of Long-Term Indebtedness in an amount exceeding $5,000,000 or a Derivative Agreement with a notional amount exceeding $5,000,000, to the Master Trustee. Each Member of the Obligated Group is jointly and severally liable for each and every Obligation.

Any Member of the Obligated Group and the Master Trustee may from time to time enter into a Supplement in order to evidence Indebtedness or Derivative Agreements under the Master Indenture. Such Supplement will, with respect to an Obligation evidencing Indebtedness created thereby, set forth the date thereof, and the date or dates on which the principal of, redemption premium, if any, and interest on such Obligation will be payable, and the form of such Obligation and such other terms and provisions as will conform with the provisions and conditions of the Master Indenture.

Particular Covenants

Security; Restrictions on Encumbering Property; Payment of Principal and Interest

(a) Any Obligation issued pursuant to the Master Indenture will be a general obligation of the issuer of such Obligation.

To secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations, and the performance by each Member of the Obligated Group of its other obligations under the Master Indenture, each Member of the Obligated Group pledges, assigns and grants to the Master Trustee a security interest in its Pledged Assets. Prior to its receipt of a request from the Master Trustee as described in subparagraph (d) below, any Member of the Obligated Group may sell, or secure Indebtedness secured by, all or any part of its Pledged Assets free of such security interest, subject to the limitations described under the subcaptions entitled "Limitation on Creation of Liens"; "Limitations on Indebtedness"; "Transfers of Property; Disposition of Cash and Investments; Sale of Accounts" and "Consolidation, Merger, Sale or Conveyance" of this "SUMMARY OF THE MASTER INDENTURE".

Prior to the delivery of the first Obligation under the Master Indenture, there were delivered to the Master Trustee duly executed financing statements evidencing the security interest of the Master Trustee in the Pledged Assets in the form required by the Vermont Uniform Commercial Code with copies sufficient in number for filing in the office of the Secretary of State in Montpelier, Vermont and in the office of the City Clerk of the City of Burlington, Vermont. Continuation statements are required to be filed to maintain the perfection of such security interest.

Without limiting the generality of the foregoing, such security interest will apply to all rights to receive Gross Receipts whether in the form of accounts receivable, contract rights or other rights, and to the proceeds thereof. The security interest will apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter owned or acquired by the Members of the Obligated Group.

To further secure the prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations and the performance by each Member of the Obligated Group of its other obligations hereunder, the Corporation has executed and delivered to the Master Trustee the Mortgage.

(b) Each Member of the Obligated Group covenants that it will not pledge or grant a security interest in (except as provided in subparagraph (a) above and as may be otherwise provided in the Master Indenture) any of its Property.

(c) Each Obligation will be a joint and several general obligation of each Member of the Obligated Group. Each Member of the Obligated Group covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in the Supplement and in said Obligation according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

(d) Each Member of the Obligated Group covenants that, if an Event of Default under the Master Indenture shall have occurred and be continuing, it will, upon request of the Master Trustee, deliver or direct to be delivered to the Master Trustee all Gross Receipts until such Event of Default has been cured.

Tax-Exempt Status

So long as the Master Indenture remains in effect, each Member of the Obligated Group which is a Tax-Exempt Organization at the time it becomes a Member of the Obligated Group agrees that, so long as all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, it will not take any action or fail to take any action which action or failure to act (including any action or failure to act which would result in the alteration or loss of its status as a Tax-Exempt Organization) would, in the Opinion of Bond Counsel, result in the interest on any Related Bond becoming included in the gross income of the holder thereof for federal income tax purposes.

Insurance

Each Member of the Obligated Group agrees that it will maintain, or cause to be maintained, such insurance with respect to the operation and maintenance of its Property (including one or more self-insurance programs considered by an Insurance Consultant to be reasonable and appropriate) of such type and in such amounts as are normally carried by hospital facilities of similar type and size and against such risks as are customarily insured against in connection with hospital operations and hospital facilities of similar type and size, including, but not limited to: (i) comprehensive general public liability insurance, including blanket contractual liability and automobile insurance including owned and hired automobiles (excluding collision and comprehensive coverage thereon), (ii) professional liability or medical malpractice insurance, (iii) fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke and uniform standard coverage and vandalism and malicious mischief endorsements and business interruption insurance covering such periods, (iv) workers' compensation insurance and (v) boiler insurance.

The Obligated Group is required to retain an Insurance Consultant to review the insurance requirements of the Members of the Obligated Group from time to time (but not less frequently than biennially). If the Insurance Consultant makes recommendations for the increase of any coverage, the Obligated Group is required to increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. Notwithstanding anything in the Master Trust Indenture to the contrary, each Member of the Obligated Group will have the right, without giving rise to an Event of Default solely on such account, (i) to maintain insurance coverage below that most recently recommended by the Insurance Consultant, if the Obligated Group furnishes to the Master Trustee a report of the Insurance Consultant to the effect that the insurance so provided affords either the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Insurance Consultant are reasonable in connection with reasonable and appropriate risk management, or the greatest amount of coverage necessary by reason of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or (ii) to adopt alternative risk management programs which the Insurance Consultant determines to be reasonable, including, without limitation, to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved by the Insurance Consultant as reasonable and appropriate risk management by the Obligated Group. If any Member of the Obligated Group is self-insured for any coverage, the report of the Insurance Consultant mentioned above is required to state whether the anticipated funding of any self-insurance fund is actuarially sound, and if not, the required funding to produce such result and such coverage is required to be reviewed by such Consultant not less frequently than annually. If the Insurance Consultant determines that the anticipated funding of any self-insurance fund is not actuarially sound, the Obligated Group covenants that it will fund such self-insurance fund in the manner recommended by the Insurance Consultant.

Insurance and Condemnation Proceeds

Amounts that do not exceed 20% of the Net Book Value of the Property and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards may be used in such manner as the recipient may determine, including, without limitation, applying such moneys to the payment or prepayment of any Indebtedness in accordance with the terms thereof and of any pertinent Supplement.

Amounts that exceed 20% of the Net Book Value of the Property and Equipment of the Obligated Group received by any Member of the Obligated Group as insurance proceeds with respect to any casualty loss or as condemnation awards will be applied in such manner as the recipient may determine; provided, however, that the recipient is required to notify the Master Trustee and within twelve (12) months after the casualty loss or taking, deliver to the Master Trustee:

(i) (A) An Officer's Certificate certifying the expected Long-Term Debt Service Coverage Ratio for each of the two (2) full Fiscal Years following the date on which such proceeds or awards are expected to have been fully applied, which Long-Term Debt Service Coverage Ratio for each such period is not less than 1.50, as shown by pro forma financial statements for each such period, accompanied by a statement of the relevant assumptions including assumptions as to the use of such proceeds or awards, upon which such pro forma statements are based, and (B) if the amount of such proceeds or awards received with respect to any casualty loss or

condemnation exceeds thirty percent (30%) of the Net Book Value of the Property and Equipment of the Obligated Group, a written report of a Consultant confirming such certification; or

(ii) A written report of a Consultant stating the Consultant's recommendations, including recommendations as to the use of such proceeds or awards, to cause the Long-Term Debt Service Coverage Ratio for each of the periods described in clause (i) above to be not less than 1.10, or, if in the opinion of the Consultant the attainment of such level is impracticable, at the highest practicable level.

Each Member of the Obligated Group agrees that it will use such proceeds or awards, to the extent permitted by law, only in accordance with the assumptions described in clause (i), or the recommendations described in clause (ii), of the preceding paragraph.

Limitation on Creation of Liens

(a) Each Member of the Obligated Group agrees that it will not create or suffer to be created or permit the existence of any Lien upon Pledged Assets or on Property now owned or hereafter acquired by it other than Permitted Liens.

(b) Permitted Liens will consist of the following:

(i) The Lien on the Pledged Assets created by the Master Indenture as described in subparagraph (a) under the subcaption above entitled "Security; Restrictions on Encumbering Property; Payment of Principal and Interest";

(ii) Liens arising by reason of good faith deposits with any Member of the Obligated Group in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member of the Obligated Group 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;

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

(iv) Any judgment lien against any Member of the Obligated Group so long as such judgment is being contested in good faith and execution thereon is stayed, unless the amount of such judgment lien is less than $5,000,000, in which case the execution thereon may be unstayed;

(v) (A) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any Property; (B) any liens on any Property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent, or the amount or validity of

which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors have been due for fewer than ninety (90) days; (C) easements, rights-of-way, servitudes, restrictions, oil, gas or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof; (D) to the extent that it affects title to any Property, the Master Indenture; and (E) landlord's liens;

(vi) Any Lien which is existing on the date of authentication and delivery of the first Obligation issued under the Master Indenture provided that no such Lien may be increased, extended, renewed or modified to apply to any Property of any Member of the Obligated Group not subject to such Lien on such date or to secure Indebtedness not Outstanding as of the date of the Master Indenture, unless such Lien as so increased, extended, renewed or modified otherwise qualifies as a Permitted Lien under the Master Indenture;

(vii) Any Lien on Property which is part of the Property and Equipment securing Indebtedness in a principal amount not exceeding fifteen percent (15%) of Total Operating Revenues as shown on the Audited Financial Statements of the prior Fiscal Year;

(viii) Any Lien on pledges, bequests, gifts or grants to be received in the future including any income derived from the investment thereof;

(ix) Any Lien on inventory securing Indebtedness which does not exceed twenty-five percent (25%) of the Net Book Value thereof;

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

(xi) Any Lien securing all Obligations on a parity basis;

(xii) Any Liens subordinate to the lien described in clause (xi) above required by a statute under which a Related Bond is issued;

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

(xiv) Liens on Property received by any Member of the Obligated Group through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests of Property or the income thereon;

(xv) Liens on Property due to rights of third party payors, including the federally funded health insurance programs, for recoupment of amounts paid to any Member of the Obligated Group;

(xvi) Rights of the United States of America under Title 42 United States Code Section 291i;

(xvii) Any Lien securing Non-Recourse Indebtedness permitted by the provisions of the Master Indenture described below in paragraph (g) under "Limitations on Indebtedness";

(xviii) Any Lien on Accounts that are sold pursuant to the provisions of the Master Indenture described below in paragraph (c) under the subcaption entitled "Transfers of Property;

Disposition of Cash and Investments; Sale of Accounts" or that are pledged to secure Indebtedness permitted by the provisions of the Master Indenture described below in paragraph (g) under the subcaption entitled "Limitations on Indebtedness";

(xix) Any Lien on Property acquired by a Member of the Obligated Group if the Indebtedness secured by the Lien is additional Indebtedness permitted under the provisions of the Master Indenture described below under the subcaption entitled "Limitations on Indebtedness", and if an Officer's Certificate is delivered to the Master Trustee certifying that (A) the Lien and the Indebtedness secured thereby were created and incurred by a Person other than the Member of the Obligated Group, and (B) the Lien was not created for the purpose of enabling the Member of the Obligated Group to avoid the limitations hereof on creation of Liens on Property of the Obligated Group; and

(xx) Any Lien on moveable equipment (as such term is defined under generally accepted accounting principles) securing Indebtedness incurred to purchase such moveable equipment, provided that the total of such Indebtedness does not exceed twenty-five percent (25%) of the Net Book Value of the Property of the Obligated Group as shown on the Audited Financial Statements of the prior Fiscal Year.

Limitations on Indebtedness

Each Member of the Obligated Group agrees that after the issuance and delivery of the first Obligation under the Master Indenture, it will not incur any Indebtedness if, after giving effect to all other Indebtedness incurred by the Obligated Group, such Indebtedness could not be incurred pursuant to the provisions of the Master Indenture described in paragraphs (a) through (i), inclusive, below. Any Indebtedness may be incurred only in the manner and pursuant to the terms set forth in the Master Indenture described in paragraphs (a) through (i) below.

(a) Long-Term Indebtedness may be incurred if prior to incurrence of the Long-Term Indebtedness one of the following conditions is met:

(i) there is delivered to the Master Trustee an Officer's Certificate certifying that, immediately after the incurrence of the proposed Long-Term Indebtedness, the aggregate principal amount of all Long-Term Indebtedness does not exceed sixty-seven percent (67%) of Capitalization; or

(ii) there is delivered to the Master Trustee an Officer's Certificate (accompanied by Audited Financial Statements) certifying that the Long-Term Debt Service Coverage Ratio, taking all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then proposed to be incurred into account as if it had been incurred at the beginning of such period, for the most recent Fiscal Year preceding the date of delivery of such Officer's Certificate for which the Audited Financial Statements are available, is not less than 1.25; or

(iii) there is delivered to the Master Trustee an Officer's Certificate certifying that the Long-Term Debt Service Coverage Ratio, taking into account the proposed Long-Term Indebtedness, for (A) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two (2) full Fiscal Years next succeeding the date on which such capital improvements are expected to be placed in operation or (B) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two (2) full Fiscal Years next succeeding the date on which the Indebtedness is incurred, is not less than

1.35; provided, however, that such Officer's Certificate must also certify, in the case of (A) above when interest on the proposed Long-Term Indebtedness has not been capitalized, that the Long-Term Debt Service Coverage Ratio for each of the two (2) full Fiscal Years next succeeding the date on which the Indebtedness is incurred is not less than 1.00; such Officer's Certificate is required to be accompanied by projected balance sheets, statements of revenues and expenses and statements of changes in cash flow for each such Fiscal Year and a statement of the assumptions upon which such projected financial statements are based; or

(iv) (A) there is delivered to the Master Trustee an Officer's Certificate (accompanied by Audited Financial Statements) certifying the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then to be incurred, for the most recent Fiscal Year preceding the date of delivery of the Officer's Certificate for which the Audited Financial Statements are available, is not less than 1.10; and (B) there is filed with the Master Trustee the report of a Consultant to the effect that the forecasted Long-Term Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account, for (I) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the two (2) full Fiscal Years succeeding the date on which such capital improvements are expected to be placed in operation, or (II) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the two (2) full Fiscal Years succeeding the date on which the Indebtedness is incurred, is not less than 1.25; provided, however, that such Consultant's report must also show, in the case of (I) above when interest on the proposed Long-Term Indebtedness has not been capitalized, that the forecasted Long-Term Debt Service Coverage Ratio for each of the two (2) full Fiscal Years succeeding the date on which the Indebtedness is incurred is not less than 1.00, in each case as shown by forecasted balance sheets, statements of revenues and expenses and statements of changes in financial position for each such period, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or

(v) without compliance with any of the tests mentioned in clause (i), (ii), (iii) or (iv) above, Long-Term Indebtedness may be incurred provided that there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative certifying that, immediately after giving effect to any Long-Term Indebtedness incurred pursuant to the provisions of the Master Indenture described in this clause (v), the aggregate of Long-Term Indebtedness incurred under the provisions of the Master Indenture described in this clause (v) does not exceed twenty-five percent (25%) of Total Operating Revenues for the most recent Fiscal Year for which Audited Financial Statements are available.

Notwithstanding any of the Long-Term Debt Service Coverage Ratios specified in clause (ii), (iii) or (iv) above, if the report of a Consultant states that Governmental Restrictions have been imposed or have taken effect which make it impossible for such coverage requirements to be met, then such coverage requirements will be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00.

(b) Completion Indebtedness may be incurred without limitation; provided, however, that prior to the incurrence of Completion Indebtedness, the Obligated Group Representative is required to furnish to the Master Trustee the following: (i) a certificate of an architect estimating the costs of completing the facilities for which Completion Indebtedness is to be incurred; and (ii) a certificate of the chief financial officer of the Member of the Obligated Group for which Completion Indebtedness is to be incurred certifying that the amount of Completion Indebtedness to be incurred will be sufficient, together with

other funds, if applicable, to complete construction of the facilities in respect of which Completion Indebtedness is to be incurred.

(c) Long-Term Indebtedness may be incurred for the purpose of refunding any Outstanding Long-Term Indebtedness without limitation if, prior to the incurrence of such Long-Term Indebtedness, there is delivered to the Master Trustee an Opinion of Counsel stating that upon the incurrence of such proposed Long-Term Indebtedness and application of the proceeds thereof (on the Cross-over Date, in the case of Cross-over Refunding Indebtedness), the Outstanding Long-Term Indebtedness to be refunded thereby will no longer be Outstanding.

(d) Short-Term Indebtedness may be incurred if immediately after the incurrence of such Indebtedness the aggregate Outstanding principal amount of all such Indebtedness does not exceed twenty-five percent (25%) of the Total Operating Revenues for the most recent Fiscal Year for which Audited Financial Statements are available; provided, however, that there must be a period of at least twenty (20) consecutive calendar days during each such Fiscal Year during which all Short-Term Indebtedness, other than Short-Term Indebtedness incurred pursuant to the provisions of the Master Indenture described below in paragraph (h) and Short-Term Indebtedness incurred to offset a temporary delay in the receipt of funds due from third-party payors, does not exceed three percent (3%) of such Total Operating Revenues; provided, further, that the aggregate of the principal amount of Indebtedness Outstanding under the provisions of the Master Indenture described in this paragraph (d) and the provisions of the Master Indenture described above in clause (v) of paragraph (a) must not at any time exceed twenty-five percent (25%) of Total Operating Revenues as reflected in the Audited Financial Statements of the Obligated Group for the most recent Fiscal Year for which Audited Financial Statements are available. At the election of the Obligated Group Representative, Indebtedness that constitutes Short-Term Indebtedness may be excluded from Short-Term Indebtedness for the purpose of meeting the requirements set forth in the proviso of the preceding sentence for any Fiscal Year if such Indebtedness is treated as Long-Term Indebtedness for the purpose of computing the Long-Term Debt Service Requirement for such Fiscal Year.

(e) Indebtedness may be incurred without limitation by any Member of the Obligated Group under a line of credit, letter of credit, standby bond purchase agreement or similar liquidity or credit enhancement facility established in connection with the issuance of any Obligations or Related Bonds; provided, however, if such liquidity facility is used or drawn upon to purchase, but not retire Obligations or Related Bonds, then the liability represented by such use or draw by the Member of the Obligated Group will be included in Indebtedness as of the date of such use or draw and the principal amount of the Obligations or Related Bonds so purchased will be excluded for all other purposes of the Master Indenture.

(f) Put Indebtedness may be incurred, if prior to the incurrence of such Put Indebtedness (i) the conditions described above in clause (i), (ii), (iii) or (iv) of paragraph (a) are met and (ii) a binding commitment from a bank or other financial institution exists to provide financing sufficient to pay the purchase price or principal of such Put Indebtedness on any date on which the owner of such Put Indebtedness may demand payment thereof pursuant to the terms of such Put Indebtedness. Notwithstanding the provisions of the preceding sentence, clause (ii) of such sentence shall be effective only during any period when Related Bonds issued by the Agency that are rated lower than "AA" or "Aa" by any rating agency then rating such Related Bonds or that are not rated are outstanding and, during any such period, the provisions of clause (ii) of such sentence may be waived in writing by the Agency.

(g) Non-Recourse Indebtedness may be incurred without limitation.

(h) Indebtedness secured by Accounts may be incurred if prior to the incurrence of such Indebtedness there is delivered to the Master Trustee an Officer's Certificate of an Obligated Group Representative certifying that immediately after the incurrence of such Indebtedness, the amount of Accounts that have been pledged to secure Indebtedness that has been incurred pursuant to the provisions of the Master Indenture described in this paragraph (h) and is then Outstanding will not exceed 25% of the Obligated Group's net patients accounts, as shown on the Audited Financial Statements for the most recent Fiscal Year for which Audited Financial Statements are available; provided, however, that (A) the determination of whether a disposition of Accounts is a sale or loan shall be made in accordance with generally accepted accounting principles and (B) any Indebtedness incurred pursuant to the provisions of the Master Indenture described in this paragraph (h) will be considered to be Short-Term Indebtedness subject to the incurrence test set forth above in paragraph (d).

(i) Subordinated Indebtedness may be incurred without limitation.

(j) Indebtedness may be classified and incurred under any of the above-referenced paragraphs with respect to which the tests set forth in such paragraphs are met. Each Member may elect to have Indebtedness that was classified and incurred pursuant to one such paragraph, reclassified as having been incurred under another paragraph, by demonstrating compliance with such other paragraph on the assumption that such Indebtedness is being incurred on the date of delivery of any Officer's Certificate, report of a Consultant, Opinion of Counsel or Audited Financial Statements required to be delivered under such other paragraph. From and after such demonstration, such Indebtedness shall be deemed to have been incurred under the paragraph with respect to which such compliance has been demonstrated until any subsequent reclassification of such Indebtedness.

Long-Term Debt Service Coverage Ratio

(a) Each Member of the Obligated Group covenants to set rates and charges for its facilities, services and products such that the Long-Term Debt Service Coverage Ratio, calculated at the end of each Fiscal Year, will not be less than 1.10; provided, however, that in any case where Long-Term Indebtedness has been incurred to acquire or construct capital improvements, the Long-Term Debt Service Requirement with respect thereto will not be taken into account in making the foregoing calculation until the first Fiscal Year commencing after the occupation or utilization of such capital improvements unless the Long-Term Debt Service Requirement with respect thereto is required to be paid from sources other than the proceeds of such Long-Term Indebtedness prior to such Fiscal Year.

(b) If at any time the Long-Term Debt Service Coverage Ratio required by the provisions of the Master Indenture described above in paragraph (a) is less than 1.10, as derived from the most recent Audited Financial Statements for the most recent Fiscal Year, the Obligated Group covenants to retain a Consultant within thirty (30) days to make recommendations to increase such Long-Term Debt Service Coverage Ratio in the following Fiscal Year to the highest level attainable. Each Member of the Obligated Group agrees that it will, to the extent permitted by law, follow the recommendations of the Consultant. So long as a Consultant shall be retained and each Member of the Obligated Group shall follow such Consultant's recommendations to the extent permitted by law, the provisions of the Master Indenture described under this caption shall be deemed to have been complied with even if the Long-Term Debt Service Coverage Ratio for the following Fiscal Year is below the required level; provided, however, the revenues of the Obligated Group shall not be less than the amount required to pay the total operating expenses of the Obligated Group and to pay the debt service on all Indebtedness of the Obligated Group for such Fiscal Year.

(c) If a report of a Consultant is delivered to the Master Trustee, which report shall state that Governmental Restrictions have been imposed or have taken effect which make it impossible for the coverage requirement described above in paragraph (a) to be met, then such coverage requirement shall be reduced to the maximum coverage permitted by such Governmental Restrictions but in no event less than 1.00, and thereafter, for so long as such Governmental Restrictions are in effect, a report of a Consultant stating that Governmental Restrictions which make it impossible for the coverage requirement described above in paragraph (a) to be met are still in effect shall be delivered to the Master Trustee biennially.

(d) If the Long-Term Debt Service Coverage Ratio shall be less than 1.00 for any Fiscal Year, it shall be an Event of Default.

Transfers of Property; Disposition of Cash and Investments; Sale of Accounts

(a) Each Member of the Obligated Group agrees that it will not Transfer in any Fiscal Year Property consisting of Property other than cash and securities except for Transfers as follows:

(i) Each Member of the Obligated Group may transfer Property to any other Member of the Obligated Group, without limit.

(ii) Each Member of the Obligated Group may transfer Property to any Person in the ordinary course of business.

(iii) Each Member of the Obligated Group may transfer Property to any Person for fair and adequate consideration on terms no less favorable to the Member than would be obtained in a comparable arm's-length transaction.

(iv) Each Member of the Obligated Group may transfer Property to any Person if, in the reasonable judgment of such Member, such Property has, or within the next succeeding twenty-four (24) calendar months is reasonably expected to, become inadequate, obsolete or worn out, or otherwise unsuitable, unprofitable, undesirable or unnecessary for the operation of the Member's primary business.

(v) Each Member of the Obligated Group may transfer Property to any Person, if such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with or otherwise unavailable for their use for payment of Long-Term Indebtedness of such Member.

(vi) Each Member of the Obligated Group may transfer Property to any Person if the Property to be transferred is not essential to such Member's primary business operations, and the proceeds of such transfer are used to acquire additional facilities, to repay the principal of Long-Term Indebtedness of such Member, or otherwise used in a productive manner to the benefit of such Member's business operations.

(vii) Each Member of the Obligated Group may transfer Property as part of a merger, consolidation, sale or conveyance permitted under the provisions of the Master Indenture described below under the subcaption entitled "Consolidation, Merger, Sale or Conveyance".

(viii) Each Member of the Obligated Group may transfer Property to any Person, provided that prior to such transfer the Master Trustee receives an Officer's Certificate certifying that, immediately after the proposed disposition, the Obligated Group could meet the conditions of the

Master Indenture described above in subparagraphs (a)(i), (ii), (iii) or (iv) under the subcaption entitled "Limitations on Indebtedness" for the incurrence of one additional dollar of Long-Term Indebtedness after taking into account the effect of the proposed disposition, assuming for the purposes of any historical test that such transaction occurred at the beginning of the most recent Fiscal Year for which Audited Financial Statements are available (which Officer's Certificate must contain any demonstrations required to satisfy said conditions and must have attached the written report of a Consultant, if any, required to satisfy said conditions).

(b) Each Member of the Obligated Group agrees that it will not Transfer Property consisting of cash and securities in any Fiscal Year except for Transfers as follows:

(i) Each Member of the Obligated Group may Transfer Property consisting of cash and securities to any Member of the Obligated Group or any Affiliate, without limit; and

(ii) Each Member of the Obligated Group may Transfer Property consisting of cash and securities to any Person if there shall be filed with the Master Trustee an Officer's Certificate of an Obligated Group Representative, accompanied by and based upon Audited Financial Statements for the most recent Fiscal Year for which Audited Financial Statements are available, demonstrating that the Long-Term Debt Service Coverage Ratio for such Fiscal Year would not be reduced below 1.75 if the amount of investment income on the cash or securities that are the subject of the proposed Transfer were deducted from Income Available for Debt Service for such Fiscal Year.

(c) Each Member of the Obligated Group agrees that it will not Transfer Accounts; provided, however, that prior to its receipt of a request from the Master Trustee pursuant to the provisions of the Master Indenture described above in paragraph (d) under the subcaption entitled "Security; Restrictions on Encumbering Property; Payment of Principal and Interest", any Member of the Obligated Group will have the right to sell, in any Fiscal Year, its Accounts in an amount not to exceed the difference between (i) the Account Lien Amount and (ii) the amount of Accounts that have been pledged to secure Outstanding Indebtedness incurred by any Member of the Obligated Group pursuant to the provisions of the Master Indenture described above in paragraph (h) under the subcaption entitled "Limitations on Indebtedness", if such Member of the Obligated Group (i) receives as consideration for such sale cash, services or Property equal to the fair market value of the accounts receivable so sold, as certified to the Master Trustee in an Officer's Certificate of such Member of the Obligated Group and (ii) delivers to the Master Trustee a statement from the Obligated Group's independent certified public accountants that such sale of accounts receivable constitutes a "sale" under generally accepted accounting principles.

(d) Notwithstanding the foregoing provisions of the Master Indenture, nothing in the Master Indenture shall be construed as limiting the ability of any Member of the Obligated Group to purchase or sell Property or inventory in the ordinary course of business or to transfer cash, securities and other investment properties in connection with ordinary investment transactions where such purchases, sales and transfers are for substantially equivalent value.

Consolidation, Merger, Sale or Conveyance

(a) Each Member of the Obligated Group covenants that it will not merge into or consolidate with, or sell or convey all or substantially all of its assets to any Person that is not a Member of the Obligated Group unless:

(i) Either a Member of the Obligated Group will be the successor corporation or entity, or if the successor corporation or entity is not a Member of the Obligated Group such successor corporation or entity shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee, containing the agreement of such successor corporation or entity to assume the due and punctual payment of the principal of, redemption premium, if any, and interest on all Outstanding Obligations issued under the Master Indenture according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture and any Supplement thereto and granting to the Master Trustee a security interest in the Pledged Assets of such successor corporation or entity; and

(ii) No Member of the Obligated Group immediately after such merger or consolidation, or such sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture and the conditions of the Master Indenture described above in subparagraphs (a)(i), (ii), (iii) or (iv) under the subcaption entitled "Limitations on Indebtedness" would be met for the incurrence of one additional dollar of Long-Term Indebtedness; and

(iii) If all amounts due or to become due on any Related Bond have not been fully paid to the holder thereof, the Master Trustee shall also receive an Opinion of Bond Counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of such Related Bond, would not adversely affect the exclusion from gross income for purposes of federal income taxation of interest payable on such Related Bond.

(b) In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation or entity, such successor corporation or 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 predecessor or had become a Member of the Obligated Group pursuant to the provisions of the Master Indenture described below under the subcaption entitled "Parties Becoming Members of the Obligated Group", as the case may be. Such successor corporation or entity thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation or entity and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation or entity shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued by such successor corporation or entity under the Master Indenture shall in all respects have the same security position and benefit under the Master Indenture as Outstanding Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued thereunder without any such consolidation, merger, sale or conveyance having occurred.

(c) In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

(d) The Master Trustee may accept an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered under the provisions of the Master Indenture described under this caption.

Filing of Financial Statements, Certificate of No Default, Other Information

The Obligated Group covenants that it will:

(a) Within thirty (30) days after receipt of the Audited Financial Statements but in no event later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested in writing or on whose behalf the Master Trustee may have so requested, a copy of such Audited Financial Statements.

(b) Within thirty (30) days after receipt of the Audited Financial Statements but in no event later than one hundred twenty (120) days after the end of each Fiscal Year, file with the Master Trustee and with each Holder who may have so requested or in whose behalf the Master Trustee may have so requested, an Officer's Certificate and a report of independent certified public accountants stating the Long-Term Debt Service Coverage Ratio for the Fiscal Year and stating whether, to the best knowledge of the signers, any Member of the Obligated Group is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signers may have knowledge and whether each such default has been corrected. If any default has not been remedied, then such Officer's Certificate, to the best knowledge of the signer, shall identify what, if any, corrective action will be taken to cure such default.

(c) If an Event of Default shall have occurred and be continuing, (i) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including its consolidated or combined subsidiaries, including any Member of the Obligated Group) as the Master Trustee may from time to time reasonably request, excluding specifically donor records, patient records and personnel records, and (ii) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably request, subject to patient confidentiality and safety concerns.

(d) Within thirty (30) days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture requires to be prepared by a Consultant or an Insurance Consultant.

(e) Within thirty (30) days after the beginning of each Fiscal Year, file with the Master Trustee an Opinion of Counsel which shall state whether there are required to be filed in any office, within the period of twelve (12) full consecutive calendar months following the date of such Opinion of Counsel, financing statements, including continuation statements, in order to continue the perfection of the security interests granted under the Master Indenture.

Parties Becoming Members of the Obligated Group

Persons which are not Members of the Obligated Group may, with the written prior consent of the current Members of the Obligated Group, become Members of the Obligated Group, if:

(a) The Person which is becoming a Member of the Obligated Group shall execute and deliver to the Master Trustee an appropriate instrument, satisfactory to the Master Trustee containing the agreement of such Person (i) to become a Member of the Obligated Group under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to a Member of the Obligated Group, including the pledge and security interest provided for in the Master Indenture, the filing or recordation of all financing statements and continuation statements in such places as are required by law and the performance and observance of all covenants and obligations of a Member of the

Obligated Group under the Master Indenture, and (ii) to guarantee, unconditionally and irrevocably, to the Master Trustee and each other Member of the Obligated Group that all Obligations issued and then Outstanding or to be issued and Outstanding under the Master Indenture will be paid in accordance with the terms of such Obligations and of the Master Indenture when due.

(b) Each instrument executed and delivered to the Master Trustee in accordance with the provisions of the Master Indenture described in paragraph (a) above shall be accompanied by an Opinion of Counsel, addressed to and satisfactory to the Master Trustee, to the effect that such instrument has been duly authorized, executed and delivered by such Person and constitutes a valid and binding obligation enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy laws, insolvency laws, other laws affecting creditors' rights generally, equity principles and laws dealing with fraudulent conveyances.

(c) There is filed with the Master Trustee an Officer's Certificate demonstrating that, immediately following the admission of such Person as a Member of the Obligated Group, the Obligated Group could meet the conditions of the Master Indenture described above in subparagraphs (a)(i), (ii), (iii) or (iv) under the subcaption entitled "Limitations on Indebtedness" for the incurrence of one additional dollar of Long-Term Indebtedness.

(d) If all amounts due or to become due on any Related Bond have not been paid to the holders thereof, there shall be filed with the Master Trustee an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that the consummation of such transaction would not adversely affect the exclusion from gross income for purposes of federal income taxation of the interest on any such Related Bond.

(e) If such Person is not a non-profit corporation, the Obligated Group Representative shall have delivered to the Master Trustee an Opinion of Counsel to the effect that the addition of such Person to the Obligated Group will not necessitate the registration of any Obligations under the Securities Act of 1933, as amended, or cause the qualification of the Master Indenture or any Supplement under the Trust Indenture Act of 1939, as amended, to be required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said acts have been complied with.

Withdrawal from the Obligated Group

(a) No Member of the Obligated Group may withdraw from the Obligated Group unless, prior to the taking of such action, there is delivered to the Master Trustee:

(i) (A) An Officer's Certificate demonstrating that (I) all Obligations issued by such Member are no longer Outstanding or (II) an amount of cash or Defeasance Obligations sufficient to accomplish the requirement of clause (i)(A)(I) above has been paid by such Member to the Master Trustee or all Outstanding Obligations issued by such Member have been assumed by another Member of the Obligated Group, and (B), in either case, if all amounts due on any Related Bond which bears interest which is not includable in the gross income of the recipient thereof under the Code have not been paid to the holder thereof, an Opinion of Bond Counsel, in form and substance satisfactory to the Master Trustee, to the effect that under then existing law such Member's withdrawal from the Obligated Group, whether or not contemplated on any date of delivery of any Related Bond, would not cause the interest payable on such Related Bond to become includable in the gross income of the recipient thereof under the Code; and

(ii) An Officer's Certificate certifying that, immediately following the withdrawal of such Member of the Obligated Group, the Obligated Group could meet the conditions of the Master Indenture described above in subparagraphs (a)(i), (ii), (iii) or (iv) under the subcaption entitled "Limitations on Indebtedness" for the incurrence of one additional dollar of Long-Term Indebtedness.

(b) Upon the withdrawal of any Member from the Obligated Group, any guaranty by such Member pursuant to the provisions of the Master Indenture described above under the subcaption entitled "Parties Becoming Members of the Obligated Group" will be released and discharged in full and all liability of such Member of the Obligated Group with respect to all Obligations Outstanding under the Master Indenture shall cease.

Replacement Master Indenture

Each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds will surrender such Obligation to the Master Trustee and each Related Bond Trustee for Related Bonds will, with the prior written consent of the bond insurer or credit facility provider, if any, for such Related Bonds and with the consent of a majority of the Series 2007A Holders (so long as the Series 2007A Bonds are Outstanding), surrender any Obligation issued to secure such Related Bonds to the Master Trustee, upon presentation to the Holder or the Related Bond Trustee, as the case may be, of the following:

(a) an original replacement note or similar obligation (the "Substitute Obligation") duly authenticated and issued under and pursuant to an existing or new master trust indenture, trust agreement, bond order, bond resolution or similar instrument (the "Replacement Master Indenture") by which the party or parties purported to be obligated thereby (the "New Group") have agreed to be bound; provided, however, that:

(i) the trustee serving as master trustee under such Replacement Master Indenture (the "New Trustee") shall be an independent corporate trustee (which may be the Master Trustee or the Related Bond Trustee) meeting the eligibility requirements of the Master Trustee as set forth in the Master Indenture; and

(ii) for so long as any Related Bonds issued by the Agency are outstanding, the Replacement Master Indenture shall have been approved by the Agency, unless the Replacement Master Indenture is an existing master trust indenture, trust agreement, bond order, bond resolution or similar instrument by which any member of the New Group is already bound and the issuance of bonds secured thereby has already been authorized or approved by the Agency, in which case the consent of the Agency will not be required;

(b) an original counterpart or certified copy of the Replacement Master Indenture pursuant to which each member of the New Group has agreed (i) to become a member of the New Group and thereby to become subject to compliance with all provisions of the Replacement Master Indenture and (ii) 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) to jointly and severally make payments upon each note and obligation, including the Substitute Obligation, issued under the Replacement Master Indenture at the times and in the amounts provided in each such note or obligation;

(c) an Opinion of Counsel addressed to the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee, as the case may be, and the Obligated Group Representative to the effect that: (1) the Replacement Master Indenture has been duly authorized, executed and delivered or has been duly adopted, as the case may be, by each member of the New Group, the Substitute Obligation has been duly authorized, executed and delivered by the Obligated Group, and the Replacement Master Indenture and the Substitute Obligation are each a legal, valid and binding obligation of each member of the New Group, enforceable in accordance with their terms, subject in each case to customary exceptions for bankruptcy, insolvency, fraudulent conveyance and other laws generally affecting enforcement of creditors' rights and application of general principles of equity; (2) all requirements and conditions to the issuance of the Substitute Obligation set forth in the Replacement Master Indenture have been complied with and satisfied; and (3) the registration of the Substitute Obligation under the Securities Act of 1933, as amended, and the qualification of the Replacement Master Indenture under the Trust Indenture Act of 1939, as amended, is not required, or, if such registration or qualification is required, that all applicable registration and qualification provisions of said Acts have been complied with;

(d) an Officer's Certificate certifying that (i) the New Group could, after giving effect to the Substitute Obligation, meet the conditions of the Master Indenture for the incurrence of one dollar of additional Long-Term Indebtedness as described above in paragraph (a) under the subcaption entitled "Limitations on Indebtedness", as demonstrated in such certificate, and (ii) the New Group would not be in default under the provisions of the Master Indenture described above under the subcaption entitled "Limitation on Creation of Liens";

(e) an Opinion of Bond Counsel that the surrender of the Obligation and the acceptance by the Bond Trustee of the Substitute Obligation will not adversely affect the validity of any Related Bonds or any exemption for the purposes of federal or state income taxation to which interest on any Related Bonds would otherwise be entitled;

(f) evidence that (i) written notice of such substitution, together with a copy of such Replacement Master Indenture, has been given by the New Group to each rating agency then maintaining a rating on any Obligation or Related Bonds and (ii) the then current rating category on each such Obligation or Related Bonds will not be withdrawn or reduced (without regard to any rating refinement or gradation by numerical modifier or otherwise) by any such rating agency as a result of such substitution;

(g) evidence that written notice of such substitution and rating confirmation, together with a copy of such Replacement Master Indenture, has been given by the New Group to each Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or to the Related Bond Trustee under each Related Bond Indenture, as the case may be, not less than forty-five (45) days prior to the execution and delivery of the Replacement Master Indenture; and

(h) such forecasts and other opinions and certificates as the Agency may require and such other opinions and certificates as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee or the bond insurer or credit facility provider, if any, may reasonably require, together with such reasonable indemnities as the Holder of an Obligation evidencing and securing Indebtedness other than Related Bonds or the Related Bond Trustee, as the case may be, the Master Trustee, the Agency or the bond insurer or credit facility provider, if any, may request.

Notwithstanding such provisions of the Master Indenture, no Substitute Obligation may extend the stated maturity of or time for paying interest on any Obligation surrendered to the Master Trustee or

reduce the principal amount of or the redemption premium or rate of interest payable on such Obligation without the consent of each Holder of such Obligation evidencing and securing Indebtedness other than Related Bonds or the registered owners of all Related Bonds then outstanding, as the case may be.

Defaults and Remedies

Events of Default

An Event of Default under the Master Indenture is any of the following events: (a) the failure by the Members of the Obligated Group to make any payment of the principal of, the premium, if any, or interest on any Obligations issued and Outstanding under the Master Indenture when due and payable, whether at maturity, by proceedings for redemption, by acceleration or otherwise in accordance with the terms of such Obligations, of the Master Indenture or of any Supplement; (b) the failure by any Member of the Obligated Group to perform, observe or comply with any covenant or agreement under the Master Indenture and such failure continues for a period of thirty (30) days after written notice of such failure, requiring the same to be remedied, shall have been given to the Members of the Obligated Group by the Master Trustee or to the Members of the Obligated Group and the Master Trustee by the Holders of at least twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding; provided, however, that if said failure is such that it cannot be corrected within such 30-day period but can reasonably be expected to be fully remedied, no Event of Default shall exist if corrective action is instituted within such 30-day period and diligently pursued until the event of default is corrected; (c) an Event of Default under a Related Bond Indenture or upon a Related Bond occurs and continues beyond any applicable cure period provided for therein; (d) failure by any Member of the Obligated Group to make any required payment of any Indebtedness except Non-Recourse Indebtedness (other than Obligations issued and Outstanding under the Master Indenture), whether such Indebtedness now exists or shall hereafter be created, and any applicable grace period shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be issued, or by which there may be secured or evidenced, any Indebtedness, whether such Indebtedness now exists or shall hereafter be created, shall occur, which event of default shall not have been waived by the holder of such mortgage, indenture or instrument, and as a result of such failure to pay or other event of default such Indebtedness shall have been accelerated; provided, however, that such default shall not constitute an Event of Default under the Master Indenture for so long as such payment shall be contested in good faith if within thirty (30) days written notice is delivered to the Master Trustee, signed by the Obligated Group Representative, that such Member of the Obligated Group is contesting the payment of such Indebtedness and the amount of such Indebtedness is less than one-half of one percent (0.5%) of Income Available for Debt Service for the immediately preceding Fiscal Year, or if such Indebtedness is equal to or greater than one-half one percent (0.5%) of Income Available for Debt Service of the immediately preceding Fiscal Year, within the time allowed for service of a responsive pleading if a proceeding to enforce payment of the Indebtedness is commenced, any Member of the Obligated Group in good faith shall commence proceedings to contest the obligation to pay or alleges the nonexistence or payment of such Indebtedness; (e) the entry of a decree or order by a court having jurisdiction in the premises for an order for relief against any Member of the Obligated Group, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of such Member under the United States Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, custodian, assignee, or sequestrator (or other similar official) of such Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of ninety (90) consecutive days; and (f) the institution by any Member of the Obligated Group of proceedings for an order for relief, or the consent by it to an order for relief against it, or the filing by it of a petition or answer or consent seeking reorganization, arrangement, adjustment, composition or relief under the United States Bankruptcy Code or any other

similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, custodian, assignee, trustee or sequestrator (or other similar official) of such Member of the Obligated Group or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

Acceleration; Annulment of Acceleration

Upon the occurrence and during the continuation of any Event of Default under the Master Indenture, the Master Trustee may and, upon the written request of (i) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations Outstanding or (ii) any Person properly exercising the right given to such Person under any Supplement to require acceleration of the Obligations issued pursuant to such Supplement, shall, by notice to the Members of the Obligated Group, declare all Obligations Outstanding immediately due and payable, whereupon such Obligations shall become and be immediately due and payable, anything in the Obligations or in the Master Indenture to the contrary notwithstanding; provided, however, that if the terms of any Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to said Supplement, the Obligations issued pursuant to such Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplement. In the event Obligations are accelerated, there will be due and payable on such Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon to the date of acceleration and, to the extent permitted by applicable law, which accrues to the date of payment.

If, at any time after the principal of the Obligations has been so declared due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money or Defeasance Obligations sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices then due (other than the principal then due only because of such declaration) of all Obligations Outstanding; (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee money sufficient to pay the charges, compensation, expenses, disbursements, advances, fees and liabilities of the Master Trustee; (iii) all other amounts then payable by the Obligated Group under the Master Indenture shall have been paid or a sum sufficient to pay the same shall have been deposited with the Master Trustee; and (iv) every Event of Default (other than a default in the payment of the principal of such Obligations then due only because of such declaration) shall have been remedied, then the Master Trustee may, and upon the written request of Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding shall, annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations Outstanding, together with indemnification of the Master Trustee to its satisfaction, shall, proceed forthwith to protect and enforce its rights and the rights of the Holders by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient.

Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Obligations

then Outstanding, shall, when indemnified to its satisfaction, institute and maintain such suits and proceedings necessary or expedient to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or to preserve or protect the interests of the Holders, provided that such request and action are not in conflict with any applicable law or the Master Indenture and, in the Master Trustee's sole judgment, are not unduly prejudicial to the interest of the Holders not making such request.

Application of Gross Receipts and Other Moneys After Default

During the continuance of an Event of Default all Gross Receipts and other moneys received by the Master Trustee, after payment of (i) the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture and (ii) in the sole discretion of the Master Trustee, the payment of the expenses of operating any Member of the Obligated Group, shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations shall have become or have been declared due and payable: First: to the payment to the Persons entitled thereto of all installments of interest then due on Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due, without discrimination or preference; and Second: to the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations then due, whether at maturity or by call for redemption, in the order of their due dates, and if amounts available shall not be sufficient to pay in full all Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference.

(c) If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of clause (b) above in the event that the principal of all Outstanding Obligations shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of clause (a) above.

Moneys to be applied by the Master Trustee during a continuance of an Event of Default shall be applied as the Master Trustee shall determine, having due regard for the amount available and the likelihood of additional moneys becoming available in the future. Whenever the Master Trustee applies such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Master Trustee shall give 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 is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Holders' Control of Proceedings

If an Event of Default shall have occurred and be continuing, the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding shall have the right, subject to the terms of the Master Indenture, to direct the method and place of conducting any enforcement proceedings.

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given to the Master Trustee and the Holders, respectively, may be exercised from time to time and as often as may be deemed expedient by them. The Master Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture or before the completion of the enforcement of any other remedy under the Master Indenture. The Master Trustee, upon the written request of the Holders of not less than a majority in aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default under the Master Indenture and its consequences, except payment defaults which have not been cured, which may be waived only by written consent of the Holders of all the Obligations (with respect to which such payment default exists) then Outstanding. In case of a waiver by the Master Trustee of an Event of Default under the Master Indenture, all parties shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

Appointment of Receiver

Upon the occurrence of any Event of Default, the Master Trustee shall be entitled to the appointment of a receiver or receivers of the Property of the Obligated Group with such powers as the court shall confer.

Notice of Default

The Master Trustee shall, within ten (10) days after it has knowledge of the occurrence of an Event of Default, mail to all Holders as the names and addresses of such Holders appear upon the books of the Master Trustee, notice of such Event of Default known to the Master Trustee, unless such Event of Default shall have been cured or properly waived before the giving of such notice; provided that, except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified above in clauses (e) and (f) under the caption entitled "Defaults and Remedies - Events of Default", the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or a responsible officer of the Master Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Supplements and Amendments

Supplements Not Requiring Consent of Holders

The Master Indenture may be supplemented or amended without the consent of or notice to any of the Holders for one or more of the following purposes: to cure an ambiguity or formal defect or omission therein; to correct or supplement any provision which may be inconsistent with any other provision, or to make any other provisions with respect to matters or questions arising under the Master

Indenture and which shall not materially and adversely affect the interests of the Holders; to grant or confer ratably upon all Holders any additional rights, remedies, powers or authority that may lawfully be granted or conferred upon them; to qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect; to create and provide for the issuance of Indebtedness as permitted under the Master Indenture; to obligate a successor to any Member of the Obligated Group; and to comply with any state or federal securities law.

Supplements Requiring Consent of Holders

Other than supplements referred to under the preceding subcaption, the Holders of not less than 51% in aggregate principal amount of the Obligations then Outstanding shall have the right to approve the execution of Supplements modifying, altering, amending, adding to or rescinding, in any particular, the Master Indenture except a Supplement which would:

(i) Effect a change in the times, amounts or currency of payment of the principal of, premium, if any, and interest on any Obligation or a reduction in the principal amount or redemption price of any Obligation or the rate of interest thereon, without the consent of the Holder of such Obligation;

(ii) Permit the preference or priority of any Obligation over any other Obligation, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplement without the consent of the Holders of all Obligations then Outstanding.

All Supplements executed pursuant to the Master Indenture will be binding on all Holders of Obligations.

Satisfaction and Discharge of Master Indenture

If (i) the Obligated Group Representative shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated and not theretofore cancelled, or (ii) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and money sufficient to pay the same shall have been deposited with the Master Trustee, or (iii) all Obligations that have not become due and payable and have not been cancelled or delivered to the Master Trustee for cancellation shall be Defeased Obligations, and if in all cases the Members of the Obligated Group shall also pay or cause to be paid all other sums payable by the Members of the Obligated Group, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members of the Obligated Group, and at the cost and expense of the Members of the Obligated Group, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

Evidence of Acts of Holders

In the event that any request, direction or consent is requested or permitted under the Master Indenture of the Holders, the registered owners of Related Bonds then outstanding shall be deemed to be such Holders for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Related Bonds then outstanding held by each such owner of Related Bonds bears to the aggregate principal amount of all Related Bonds then outstanding.

Removal of the Master Trustee

The Master Trustee may resign on its own motion or may be removed at any time by a written instrument signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding, or so long as no Event of Default has occurred and is continuing, by an instrument in writing signed by the Obligated Group Representative.

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement.

Various Funds and Accounts Created by the Trust Agreement

The Trust Agreement creates the following funds:

1. the Construction Fund,

2. the Bond Fund,

3. the Reserve Fund and

4. the Redemption Fund.

The Trust Agreement also creates three separate accounts in the Bond Fund, which accounts are designated the "Interest Account", the "Principal Account" and the "Sinking Fund Account."

The money in each of the aforementioned funds and accounts will be held in trust and will be subject to a lien and charge in favor of the Holders of the Bonds and for the further security of such Holders until paid out or transferred as provided in the Trust Agreement.

Construction Fund

Payment of the Cost of the Project will be made from the Construction Fund. All issuance costs, within the meaning of Section 147(g) of the Code, incurred in connection with the Bonds to be paid from the initial proceeds of the Bonds will be paid only from the Construction Fund (collectively, "Issuance Costs"). All money received by the Agency from any source for Issuance Costs will be deposited immediately upon its receipt to the credit of the Construction Fund.

Requisitions signed by the Hospital Representative and approved by the Agency Representative will be filed with the Bond Trustee before payments from the Construction Fund are made in accordance with the Trust Agreement. Upon receipt of such requisition, the Bond Trustee will pay the obligations set forth in such requisition out of money in the Construction Fund.

When the acquisition, construction and equipping of the Project is completed, which fact is required to be evidenced to the Bond Trustee by an Officer's Certificate of the Hospital Representative delivered to the Bond Trustee pursuant to the Loan Agreement together with an opinion of Independent Counsel to the effect that there are no mechanics', workers', repairmen's, architects', engineers', surveyors', carriers', laborers', contractors' or materialmen's liens on any property constituting a part of the Project on file in any public office where the same should be filed in order to be perfected liens against any part of the Project and that the time within which such liens can be filed has expired, the

balance in the Construction Fund will be applied by the Bond Trustee, subject to the provisions of the Trust Agreement, for any purpose permitted by the Act which, in the opinion of Bond Counsel, will not cause interest on the Bonds to become includable in the gross income of the Holders thereof for federal income tax purposes pursuant to the provisions of the Code.

Deposits to the Bond Fund and Reserve Fund

The Bond Trustee will deposit all amounts received as Loan Repayments and Required Payments under the Loan Agreement in the following order, subject to the credits provided in the Trust Agreement:

(i) into the Interest Account, on May 25, 2007, and on the 25th day of each May and November thereafter, the entire amount of interest payable on the Bonds on the next ensuing Interest Payment Date;

(ii) into the Principal Account, on November 25, 2009, and on each November 25 thereafter, the entire amount of principal of all Serial Bonds due on the next ensuing December 1;

(iii) on November 25, 2022, and on each November 25 thereafter, into the Sinking Fund Account, that amount which is sufficient to retire all of the Term Bonds to be called by mandatory redemption or to be paid at maturity on the next ensuing December 1; and

(iv) unless a Qualified Reserve Fund Substitute shall be in effect, beginning on the twenty-fifth (25th) day of the month following the month in which money is transferred from the Reserve Fund to any account in the Bond Fund to cure a deficiency therein pursuant to the Trust Agreement, into the Reserve Fund, one-twelfth (1/12) of the amount or amounts so transferred until the amount then on deposit in the Reserve Fund is equal to the Reserve Fund Requirement; and, beginning on the twenty-fifth (25th) day of the month following a valuation made in accordance with the Trust Agreement in which the amount on deposit in the Reserve Fund is less than 95% of the Reserve Fund Requirement due to a loss resulting from a decline in the value of Investment Obligations held for the credit of the Reserve Fund, into the Reserve Fund, one-sixth (1/6) of the amount by which the Reserve Fund Requirement exceeds such balance until the amount on deposit to the credit of the Reserve Fund is equal to the Reserve Fund Requirement; provided, however, that if the amount on deposit in the Reserve Fund is continuously less than 95% of the Reserve Fund Requirement for more than one year due to a loss resulting in a decline in the value of the Investment Obligations held for the credit of the Reserve Fund, then such 95% shall become 100%.

If, after giving effect to the credits specified below, any installment of Total Required Payments is insufficient to enable the Bond Trustee to make the deposits required above, the Bond Trustee will notify the Corporation and request it increase each future installment of the Total Required Payments to make up any previous deficiency in any of the required payments and to make up any deficiency or loss in any of the above-mentioned accounts and funds.

To the extent that investment earnings are credited to the Interest Account, the Principal Account or Sinking Fund Account in accordance with the Trust Agreement, or amounts are credited thereto as a result of the application of Bond proceeds or a transfer of investment earnings on any other fund or account held by the Bond Trustee, or otherwise, future deposits to such accounts will be reduced by the amount so credited, and the Loan Repayments due following the date of the credit will be reduced by the amounts so credited.

All amounts received by the Bond Trustee as principal of or interest accruing on the Bonds to be redeemed as a result of a prepayment of Obligation No. 11 will be deposited in the Redemption Fund and the Interest Account, respectively, when received. All amounts received by the Bond Trustee as redemption premiums will be deposited in the Redemption Fund when received.

Bond Fund Accounts

If the Bonds are not in a Book-Entry System, not later than 1:00 p.m. on each Interest Payment Date, or date for the payment of Defaulted Interest, or date upon which Bonds are to be redeemed, the Bond Trustee will withdraw from the Interest Account and remit by mail, or, to the extent permitted by the Trust Agreement, by wire transfer, to each Holder which is not a Securities Depository Nominee the amount required for paying interest on such Bonds when due and payable.

If the Bonds are in a Book-Entry System, at such time as to enable the Bond Trustee to make payments of interest on the Bonds in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Interest Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the Bonds on the next ensuing Interest Payment Date or date the payment of Defaulted Interest or date upon which Bonds are to be redeemed; provided, however, that in no event will the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding each Interest Payment Date or date the payment of Defaulted Interest or date upon which Bonds are to be redeemed, and provided further that such wire transfer will be made not later than 1:00 p.m. on each Interest Payment Date or date the payment of Defaulted Interest or date upon which Bonds are to be redeemed.

In the event the balance in the Interest Account on the second Business Day next preceding an Interest Payment Date or date on which Bonds are to be redeemed, is insufficient for the payment of interest becoming due on the Bonds on next ensuing Interest Payment Date or date upon which Bonds are to be redeemed, the Bond Trustee shall notify the Corporation of the amount of the deficiency. Upon notification, the Corporation shall immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Interest Account, the Bond Trustee shall transfer to such account such amount as may be necessary to remedy the deficiency therein from the Reserve Fund, to the extent that any moneys are on deposit therein, in accordance with the Trust Agreement.

If the Bonds are not in a Book-Entry System, not later than 1:00 p.m. on each December 1, the Bond Trustee shall withdraw from the Principal Account and remit by mail, or, to the extent permitted by Section 203 hereof, by wire transfer, to each Holder which is not a Securities Depository Nominee the amount required for paying the principal of all Bonds maturing on such December 1.

If the Bonds are in a Book-Entry System, at such time as to enable the Bond Trustee to make payment of the principal of all Bonds maturing on such December 1 in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee shall withdraw from the Principal Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee the principal of all Bonds maturing on such December 1; provided, however, that in no event shall the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding each such December 1, and provided further that such wire transfer shall be made not later than 1:00 p.m. on each such December 1.

In the event that the balance in the Principal Account on the second Business Day next preceding December 1 is insufficient for the payment of principal of all Bonds becoming due on such December 1, the Bond Trustee shall notify the Hospital of the amount of the deficiency. Upon notification, the Hospital shall immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Principal Account, the Bond Trustee shall transfer to such account such amount as may be necessary to remedy the deficiency therein from the Reserve Fund, to the extent that any moneys are on deposit therein, in accordance with the Trust Agreement.

Money held for the credit of the Sinking Fund Account will be applied during each Bond Year to the retirement of Bonds then Outstanding as follows:

At the direction of the Hospital Representative, the Bond Trustee will attempt to purchase and cancel Bonds or portions thereof then subject to redemption by operation of the Sinking Fund Account at the market price obtainable with reasonable diligence, such price not to exceed the Redemption Price provided in the Trust Agreement which would be payable on the next ensuing December 1 to the Holders of such Bonds under the provisions of the Trust Agreement if the Bonds or portions were to be called for redemption on such date, plus accrued interest to the date of purchase. The Bond Trustee will pay the interest accrued on such Bonds or portions thereof to the date of settlement therefor from the Interest Account and from other funds provided by or on behalf of the Corporation and the purchase price from the Sinking Fund Account, but no such purchase shall be made by the Bond Trustee from money in the Sinking Fund Account within the period of forty-five (45) days immediately preceding the next December 1 on which the Bonds are subject to redemption. The aggregate purchase prices of the Bonds so purchased shall not exceed the amount deposited in the Sinking Fund Account on account of the Sinking Fund Requirement for the Bonds; provided, however, that if in any Bond Year the amount held for the credit of the Sinking Fund Account plus the principal amount of all the Bonds purchased during such Bond Year exceed the aggregate Sinking Fund Requirements for all the Bonds then Outstanding for such Bond Year, the Bond Trustee will, at the written direction of the Hospital Representative, endeavor to purchase any Bonds then Outstanding with such excess money.

The Bond Trustee shall call for redemption on the December 1 immediately following such Bond Year, as provided in the Trust Agreement, Bonds or portions thereof then subject to redemption in a principal amount equal to the aggregate Sinking Fund Requirement for the Bonds for such Bond Year, less the principal amount of any Bonds retired by purchase as described in the preceding paragraph. Such redemption shall be made pursuant to the provisions of the Trust Agreement. If such December 1 is the stated maturity date of any of the Bonds, the Bond Trustee will not call such Bonds for redemption but, on such maturity date, will withdraw from the Sinking Fund Account and, not later than 10:00 a.m. on such date, set aside the amount required for paying the principal of such Bonds when due and payable. Not later than 10:00 a.m. on each such redemption date, the Bond Trustee will withdraw from the Sinking Fund Account and set aside the respective amounts required for paying the Redemption Price of the Bonds or portions thereof so called for redemption.

In the event the balance in the Sinking Fund Account on the second Business Day next preceding December 1 is insufficient for the payment of the Sinking Fund Requirement on the Bonds on such December 1, the Bond Trustee will notify the Corporation of the amount of such deficiency. Upon notification, the Corporation will immediately deliver to the Bond Trustee an amount sufficient to cure the same. If the amount so delivered is not sufficient to cure the deficiency in the Sinking Fund Account, the Bond Trustee will transfer to such account such amount as may be necessary to remedy the deficiency therein from the Reserve Fund, to the extent that any moneys are on deposit therein, in accordance with the Trust Agreement.

If, in any Bond Year, by the application of money in the Sinking Fund Account, the Bond Trustee should purchase and cancel Bonds in excess of the aggregate Sinking Fund Requirements for such Bond Year, the Bond Trustee shall file with the Agency and the Corporation not later than the 20th day prior to the next December 1, on which Bonds are to be redeemed a statement identifying the Bonds purchased or delivered during such Bond Year and the amount of such excess. The Corporation shall thereafter cause an Officer's Certificate of the Hospital Representative to be filed with the Bond Trustee and the Agency not later than the 10th day prior to such December 1, setting forth with respect to the amount of such excess the years in which the Sinking Fund Requirements are to be reduced and the amount by which the Sinking Fund Requirements so determined are to be reduced.

Redemption Fund

Money or Available Moneys held for the credit of the Redemption Fund will be applied to the purchase or redemption of Bonds (other than redemption by operation of the Sinking Fund Account) as provided in the Trust Agreement. The expenses in connection with the purchase or redemption of Bonds are required to be paid by the Corporation as part of the Required Payments under the Loan Agreement.

Reserve Fund

On the Closing Date, an amount equal to the Reserve Fund Requirement will be deposited in the Reserve Fund.

The Bond Trustee will use amounts in the Reserve Fund or draw on a Qualified Reserve Fund Substitute to make transfers to the Interest Account, the Principal Account or the Sinking Fund Account to the extent necessary to pay interest on and principal of (whether at maturity, by acceleration or in satisfaction of the Sinking Fund Requirement therefor) the Bonds, whenever and to the extent that the money on deposit in the Interest Account, the Principal Account or the Sinking Fund Account is insufficient for such purposes.

If on any date of valuation the money held in the Reserve Fund exceeds the Reserve Fund Requirement, including any excess created in whole or in part by the interest earnings on such Fund, an amount equal to such excess will be transferred by the Bond Trustee, as the Hospital Representative shall direct, to the Interest Account, the Principal Account or the Sinking Fund Account. Any such excess transferred to either the Interest Account, the Principal Account or the Sinking Fund Account will be credited against future transfers to such accounts, unless transferred to cure deficiencies therein, and will be credited by the Bond Trustee against future Loan Repayments to be made by the Corporation.

The Corporation may, at any time, deliver to the Bond Trustee a Qualified Reserve Fund Substitute. In such event, if the Corporation shall also deliver to the Bond Trustee a written statement setting forth the use which the Corporation proposes to make of the cash and Investment Obligations then on deposit to the credit of the Reserve Fund, accompanied by an opinion of bond counsel to the Agency addressed to the Agency and the Bond Trustee to the effect that such proposed use will not cause the interest on the Bonds to be includable in the gross income of the recipients thereof for purposes of federal income taxation, the Bond Trustee will transfer to the Corporation all amounts on deposit to the credit of the Reserve Fund.

If any Qualified Reserve Fund Substitute shall be in effect, the Bond Trustee agrees to give such notices and execute such documents as shall be required to assure that funds are available in such amounts and at such times to assure timely payment of principal of and interest on the Bonds.

Investment of Money

Money held for the credit of all funds and accounts will be continuously invested and reinvested by the Bond Trustee in Investment Obligations. Any such Investment Obligations shall mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended; provided, however, that Investment Obligations deposited in the Reserve Fund shall mature no later than ten years from the date on which such Investment Obligations were deposited therein. The Agency shall not be required to cause the Corporation to reimburse the Reserve Fund for any loss resulting from a decline in the value of any of such Investment Obligations so long as the market value of the Reserve Fund does not become less than 90% of the Reserve Fund Requirement. However, if the market value of such Investment Obligations is less than ninety percent (90%) of the Reserve Fund Requirement, the Agency shall cause the Corporation to reimburse the Reserve Fund in accordance with the provisions of the Loan Agreement for any loss resulting from a decline in the value of Investment Obligations in which money held for the credit of the Reserve Fund is invested.

No Investment Obligations in any fund or account may mature beyond the latest maturity date of any Bonds Outstanding at the time such Investment Obligations are deposited.

Investment Obligations acquired with money and credited to any fund or account established under the Trust Agreement will be held by or under the control of the Bond Trustee and will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment shall be credited to or charged against such fund or account; provided, however, that the interest accruing on any Investment Obligation credited to the Interest Account and any profit realized or any loss realized upon the maturity or disposition of such Investment Obligation prior to the Completion Date, as evidenced in accordance with the provisions of the Trust Agreement, shall be credited to, or charged against, the Construction Fund. Any interest accruing and any profit realized or loss resulting from such Investment Obligation subsequent to such Completion Date shall be credited to, or charged against, the fund or account of which it is a part. The Bond Trustee will sell at the best price obtainable or reduce to cash a sufficient amount of such Investment Obligations whenever it is necessary to provide money to make any payment or transfer of money from any such fund or account. The Bond Trustee will not be liable or responsible for any loss resulting from any such investment.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Investment Obligations in which money in such fund or account is invested will be valued (a) at face value if such Investment Obligations mature within six months from the date of valuation thereof, and (b) if such Investment Obligations mature more than six months after the date of valuation thereof, at the price at which such Investment Obligations are redeemable by the holder at his option if so redeemable, or, if not so redeemable, at the lesser of (i) the cost of such Investment Obligations minus the amortization of any premium or plus the amortization of any discount thereon and (ii) the Value of such Investment Obligations.

The Bond Trustee will value the Investment Obligations in the funds and accounts established under the Trust Agreement two Business Days prior to each Interest Payment Date. In addition, the Investment Obligations will be valued by the Bond Trustee at any time requested by the Agency Representative on reasonable notice to the Bond Trustee (which period of notice may be waived or reduced by the Bond Trustee), except that the Bond Trustee will not be required to value the Investment Obligations more than once in any calendar month.

If upon valuation of the Reserve Fund, the balance of the Reserve Fund, including accrued interest, is less than the Reserve Fund Requirement, the Bond Trustee will immediately notify the Agency and the Corporation of such deficiency and the amount, if necessary, to cure the same.

Events of Default

Each of the following events is an Event of Default:

(a) payment of any installment of interest on any Bond shall not be made when the same shall become due and payable; or

(b) payment of the principal or the redemption premium, if any, of any Bond shall not be made when the same shall become due and payable, whether at maturity or by proceedings for redemption or pursuant to a Sinking Fund Requirement or otherwise; or

(c) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any agreement supplemental thereto and such default shall continue for thirty (30) days or such further time as may be granted in writing by the Bond Trustee after receipt by the Agency of a written notice from the Bond Trustee specifying such default and requiring the same to be remedied; or

(d) an "Event of Default" shall have occurred under the Loan Agreement, and such "Event of Default" shall not have been remedied or waived.

Remedies on Default

Upon the happening and continuance of any Event of Default under the Trust Agreement, the Bond Trustee may, and shall upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, by notice in writing to the Agency and the Corporation, declare the principal of all Bonds then Outstanding (if not then due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds or in the Trust Agreement to the contrary notwithstanding; provided, however, that if at any time after the principal of Bonds shall have been so declared to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, or before the completion of the enforcement of any other remedy under the Trust Agreement, money shall have accumulated in the Bond Fund sufficient to pay the principal of all matured Bonds and all arrears of interest, if any, upon all Bonds then Outstanding (except the principal of any Bonds not then due and payable by their terms and the interest accrued on such since the last interest payment date), and the charges, compensations, expenses, disbursements, advances and liabilities of the Bond Trustee and all other amounts then payable by the Agency under the Trust Agreement shall have been paid or a sum sufficient to pay the same shall have been deposited with the Bond Trustee or whenever applicable, and every other default known to the Bond Trustee in the observance or performance of any covenant, condition or agreement contained in the Bonds or in the Trust Agreement (other than a default in the payments of the principal of such Bonds then due only because of a declaration under the Trust Agreement) shall have been remedied to the satisfaction of the Bond Trustee, then and in every such case, the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds not then due and payable by their terms (Bonds then due and payable only because of a declaration under the Trust Agreement shall not be deemed to be due and payable by their terms) and then Outstanding, shall, by written notice to the Agency and the Corporation, rescind and annul such declaration and its consequences, but no such rescission or

annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Upon the happening and continuance of any Event of Default under the Trust Agreement, then and in every such case the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding, shall, proceed, subject to the indemnification provisions of the Trust Agreement, to protect and enforce its rights and the rights of the Holders under the laws of the State or under the Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in aid or execution of any power therein granted or for the enforcement of any proper legal or equitable remedy, as the Bond Trustee, being advised by counsel chosen by the Bond Trustee, shall deem most effectual to protect and enforce such rights.

No Holder may institute any suit, action or proceeding in equity and at law on any Bonds for any remedy under the Trust Agreement unless he previously has given to the Bond Trustee written notice of the Event of Default under the Trust Agreement on account of which suit, action or proceeding is to be instituted, and unless the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding have requested in writing the Bond Trustee to act and have furnished the Bond Trustee reasonable security and indemnity as required in the Trust Agreement and the Bond Trustee has refused or neglected to comply with such request within a reasonable time; except that the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders. Except as provided in the Trust Agreement, no Holder will have any right in any manner whatever to enforce any right thereunder, and any individual rights given to such Holders by law are restricted by the Trust Agreement to the rights and remedies therein granted.

Notice to Bondholders

The Bond Trustee will, upon notice of an Event of Default, immediately notify the Agency and the Corporation of such Event of Default. The Bond Trustee will mail to all Holders at their addresses as they appear on the registration books written notice of the occurrence of any Event of Default under the Trust Agreement, within ten (10) days after the Bond Trustee has notice of the same, that any such Event of Default has occurred; provided that, except upon the happening of an Event of Default with respect to the payment of the principal of and interest on or redemption premium on Bonds when due, the Bond Trustee may withhold such notice from the Holders if in its opinion such withholding is in the interest of the Holders; and provided further that the Bond Trustee will not be subject to any liability to any Holder by reason of its failure to mail any such notice.

Payment of Bond Trustee's and Bond Registrar's Fees

If the Agency fails to cause required payments to be made to the Bond Trustee or the Bond Registrar for compensation and expenses, the Bond Trustee or the Bond Registrar may make such payment from any money in its possession and will be entitled to a preference therefor over any Bonds Outstanding.

Holders of Obligation No. 11

In the event that any request, direction or consent is requested or permitted by the Master Indenture of the registered owners of Obligations issued thereunder, including Obligation No. 11, the

Holders of Bonds then Outstanding shall be deemed to be registered owners of Obligation No. 11 for the purpose of any such request, direction or consent in the proportion that the aggregate principal amount of Bonds then Outstanding held by each such Holder of Bonds bears to the aggregate principal amount of all Bonds then Outstanding.

Modification of the Trust Agreement

The Agency and the Bond Trustee may from time to time execute such supplemental trust agreements as shall be consistent with the terms and provisions of the Trust Agreement and the Loan Agreement and, in the opinion of the Bond Trustee, who may rely conclusively on a written Opinion of Counsel, will not materially and adversely affect the Holders: to cure any ambiguity or formal defect or omission, to correct or supplement any inconsistent provision, or to make any other provisions with respect to matters or questions arising under the Trust Agreement; to grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee; to add other conditions, limitations and restrictions thereafter to be observed; to add other covenants and agreements to be observed by the Agency or to surrender any right or power reserved to or conferred upon the Agency; to comply with any federal or state securities law; or to provide for the issuance of Bonds in bearer form; to provide for the maintenance of Bonds under a book-entry system.

The Trust Agreement may be amended in any particular, with the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds Outstanding; provided, that nothing contained in the Trust Agreement will permit (a) any extension of the maturity of principal or interest of any Bonds without the consent of the Holders of such Bonds, (b) a reduction in the principal amount of or the redemption premium or the rate of interest on any Bonds without the consent of the Holders of such Bonds, (c) the creation of a pledge of receipts and revenues to be received by the Agency under the Loan Agreement superior to the pledge created under the Trust Agreement without the consent of the Holders of all Bonds Outstanding, (d) a preference or priority or any Bonds over any other Bonds without the consent of the Holders of all Bonds Outstanding, or (e) a reduction in the aggregate principal amount of Bonds required for consent to such supplemental trust agreement without the consent of the Holders of all Bonds Outstanding.

Defeasance

When (a) the Bonds shall have become due and payable in accordance with their terms or as provided in the Trust Agreement, the whole amount of the principal and the interest and premium, if any, so due and payable upon all Bonds shall be paid, and (b) if the Bonds shall not have become due and payable in accordance with their terms, the Bond Trustee or the Bond Registrar shall hold, sufficient (i) money or (ii) Defeasance Obligations or a combination of (i) and (ii) of this clause (b), the principal of and the interest on which, when due and payable, will provide sufficient money to pay the principal of, and the interest and redemption premium, if any, on all Bonds then Outstanding to the maturity date or dates of such Bonds or to the date or dates specified for the redemption thereof, and (c) if Bonds are to be called for redemption, irrevocable instructions to call the Bonds for redemption shall have been given by the Agency to the Bond Trustee, and (d) sufficient funds shall also have been provided or provision made for paying all other obligations payable under the Trust Agreement by the Agency, then and in that case the right, title and interest of the Bond Trustee in the funds and accounts mentioned in the Trust Agreement shall thereupon cease, determine and become void and, on demand of the Agency and upon being furnished with an opinion, in form and substance satisfactory to the Bond Trustee, of counsel approved by the Bond Trustee, to the effect that all conditions precedent to the release of the Trust Agreement have been satisfied, the Bond Trustee shall release the Trust Agreement and shall execute

such documents to evidence such release as may reasonably be required by the Agency and shall turn over to the Agency, for the benefit of the Corporation, any surplus in, and all balances remaining in, all funds and accounts, other than money held for the redemption of payment of Bonds. Otherwise, the Trust Agreement shall be, continue and remain in full force and effect; provided, that, in the event Defeasance Obligations shall be deposited with and held by the Bond Trustee as hereinabove described, (i) in addition to the requirements regarding redemption of Bonds set forth in the Trust Agreement, the Bond Trustee, within thirty (30) days after such Defeasance Obligations shall have been deposited with it, shall cause a notice signed by the Bond Trustee to be mailed, postage prepaid, to all Holders, setting forth (a) the date or dates, if any, designated for the redemption of the Bonds, (b) a description of the Defeasance Obligations so held by it, and (c) that the Trust Agreement has been released in accordance with the provisions of the Trust Agreement described under this caption, and (ii) (a) the Bond Trustee shall nevertheless retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient in respect of the Bonds for the payment of the principal, interest and any premium for which such Defeasance Obligations have been deposited and (b) the Bond Registrar shall retain such rights, powers and privileges under the Trust Agreement as may be necessary and convenient for the registration, transfer and exchange of Bonds.

Recourse Against the Agency

The members, officers and employees of the Agency are not personally liable for any costs, losses, damages or liabilities caused or incurred by the Agency in connection with the Trust Agreement, or for the payment of any sum or for the performance of any obligation under the Trust Agreement.

SUMMARY OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement.

Loan Repayments; Required Payments Under the Loan Agreement

The Corporation is required to make Total Required Payments under the Loan Agreement when due. Loan Repayments and Required Payments under the Loan Agreement relating to deposits to the Reserve Fund are to be paid, when due and payable, directly to the Bond Trustee or, in the name of the Bond Trustee, to any Depositary for deposit in the Bond Fund, the Redemption Fund or the Reserve Fund. All other Required Payments under the Loan Agreement are to be paid by the Corporation directly, when due and payable, to the persons, firms, governmental agencies and other entities entitled thereto.

The Loan Repayment shall be due and payable as follows:

(a) to the credit of the Interest Account beginning May 25, 2007, and on each May 25 and November 25 thereafter, the entire amount of the interest payable on the Bonds on the next Interest Payment Date;

(b) to the credit of the Principal Account, beginning November 25, 2009 and on each November 25 thereafter, that amount which is sufficient to pay the principal of all Bonds maturing on the next ensuing December 1;

(c) to the credit of the Sinking Fund Account, beginning on November 25, 2022 and on each November 25 thereafter, that amount which is sufficient to retire all of the Bonds to be called by mandatory redemption or to be paid at maturity on the next ensuing December 1; and

(d) Any amount that may from time to time be required to enable the Agency to pay redemption premiums as and when Bonds are called for redemption.

Loan Repayments are required to be sufficient in the aggregate to repay the Loan and interest thereon and to pay in full all Bonds when due (whether by maturity, redemption, acceleration or otherwise) together with the total interest and redemption premium, if any, thereon. The Corporation is required to repay the Loan in installments as provided in the Loan Agreement, each installment being deemed a Loan Repayment. The Corporation may prepay all or any part of the Loan as provided in the Loan Agreement.

Unless a Qualified Reserve Fund Substitute shall then be in effect, there shall be due and payable as a Required Payment under the Loan Agreement, on the 25th day of each month, (i) beginning in the month following the month in which money is transferred from the Reserve Fund to any account in the Bond Fund to cure a deficiency therein pursuant to the Trust Agreement, into the Reserve Fund, one-twelfth (1/12) of the amount or amounts so transferred until the amount then on deposit in the Reserve Fund is equal to the Reserve Fund Requirement and (ii) beginning in the month following a valuation made in accordance with the Trust Agreement in which the amount on deposit in the Reserve Fund is less than 95% of the Reserve Fund Requirement due to a loss resulting from a decline in the value of Investment Obligations held for the credit of the Reserve Fund, into the Reserve Fund, one-sixth (1/6) of the amount by which the Reserve Fund Requirement exceeds the amount on deposit to the credit of the Reserve Fund until the amount on deposit to the credit of the Reserve Fund is equal to the Reserve Fund Requirement; provided, however, that if the amount on deposit in the Reserve Fund is continuously less than 95% of the Reserve Fund Requirement for more than one year due to a loss resulting in a decline in

the value of the Investment Obligations held for the credit of the Reserve Fund, then such 95% shall become 100%.

The Corporation shall also pay, when due and payable, as Required Payments under the Loan Agreement, the following costs and expenses, exclusive of costs and expenses payable from the proceeds of the Bonds:

(i) the fees and other costs payable to the Bond Registrar, the Bond Trustee and the Master Trustee;

(ii) all costs incurred in connection with the purchase or redemption of Bonds to the extent money is not otherwise available therefor;

(iii) the fees and other costs incurred for services of such attorneys, management consultants, insurance advisers, and accountants as are employed to make examinations, provide services, render opinions or prepare reports required under the Loan Agreement, the Master Indenture, or the Trust Agreement; and

(iv) reasonable fees and other costs that the Corporation is obligated to pay, not otherwise paid under the Loan Agreement or the Trust Agreement, incurred by the Agency in connection with its administration and enforcement of, and compliance with, the Loan Agreement or the Trust Agreement, including, but not limited to, the initial administration fee of the Agency, and the annual administration fee presently imposed by the Agency, which the Corporation acknowledges may be increased from time to time, in an annual amount not to exceed 1/10 of 1% of the original aggregate principal amount of the Bonds and is payable on December 1 of each calendar year commencing December 1, 2007, and reasonable attorney's fees.

Absolute Obligation to Make Total Required Payments

The obligation of the Corporation to make the Loan Repayments and to make all other Required Payments under the Loan Agreement and Obligation No. 11 and to perform the other agreements contained in the Loan Agreement is absolute and unconditional and will not be abated, diminished or subject to deduction (whether for taxes or otherwise) regardless of any cause or circumstance whatsoever including, without limitation, any defense, setoff, recoupment or counterclaim that the Corporation may have against the Agency or the Bond Trustee or any other person.

Security for the Loan

As collateral security for repayment of the Loan and the performance by the Corporation of its obligations under the Loan Agreement, the Corporation has executed and delivered to the Agency Obligation No. 11 which the Agency has assigned to the Bond Trustee. Obligation No. 11 is issued under and secured by the Master Indenture and Supplement No. 11. The Master Indenture provides that any Member of the Obligated Group may issue additional indebtedness or enter into Derivative Agreements secured by the security for Obligation No. 11 on a pari passu basis for the purposes, under the terms and conditions and to the extent described in the Master Indenture.

Covenants of the Corporation

The Loan Agreement provides that the Corporation will comply with each covenant, condition and agreement in the Master Indenture and the Loan Agreement. The Loan Agreement also sets forth certain other agreements of the Corporation with respect to: merger, sale and transfer of assets;

examination of books and records of the Corporation by the Bond Trustee, and the Agency; furnishing to the Agency, the Bond Trustee and the registered owners of the Bonds, financial statements and certain other information required to be furnished under the Master Indenture to the Master Trustee; the execution and delivery of supplements, amendments and other corrective instruments as may reasonably be required with respect to the performance of the Loan Agreement; and the filing and recording of financing statements and other instruments relating to the rights of the Bond Trustee as against other creditors of, or purchasers for value from, the Agency or the Corporation.

Secondary Market Disclosure

The Corporation covenants for the benefit of the persons who from time to time are the owners of the Bonds for federal income tax purposes (the "beneficial owners"):

(a) (x) to file within 60 days after the end of each quarter of each Fiscal Year, beginning with the Fiscal Year ending on September 30, 2007, with each nationally recognized municipal securities information repository and to any Vermont state information depository, its unaudited quarterly financial statements and (y) to file within 150 days after the end of each Fiscal Year, beginning with the Fiscal Year ending on September 30, 2007, with each nationally recognized municipal securities information repository and to any Vermont state information depository, core financial information for such Fiscal Year, including (i) the Audited Financial Statements and (ii) the financial and statistical data of the type generally included in the Official Statement for the Bonds, including financial and statistical data under the following headings in Appendix A to the Official Statement for the Bonds to the extent that such data are not included in the Audited Financial Statements referred to in clause (i) above:

(1) "Medical Staff – Medical Staff Profile and - Statistics";

(2) "Market Overview – Market Areas and Market Share and – Physician Market Share";

(3) "Historical Operational Results — Hospital Activities and — Physician Activities";

(4) "Outstanding Indebtedness and Interest Rate Swap Agreements";

(5) "Investment Policy"; and

(6) "Historical Financial Performance" (including the two tables contained therein); and

(b) to file in a timely manner, with each nationally recognized municipal securities information repository or with the Municipal Securities Rulemaking Board, and with any Vermont state information depository, notice of any failure of the Corporation to comply with paragraph (a) above and notice of any of the following events with respect to the Bonds, if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(vii) modifications to rights of the beneficial owners;

(viii) bond calls other than mandatory sinking fund redemptions;

(ix) defeasances;

(x) release, substitution, or sale of property securing repayment of the Bonds; and

(xi) rating changes.

No beneficial owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of any covenant in paragraph (a) above (the "Disclosure Covenant") or for any remedy for breach thereof, unless such owner shall have filed with the Corporation written notice of and request to cure such breach, and the Corporation shall have refused to comply within a reasonable time; provided, however, that failure to comply with the Disclosure Covenant shall not be an event of default under the Loan Agreement and shall not result in any acceleration of payment of the Bonds. All Proceedings shall be for the equal benefit of all beneficial owners of the outstanding Bonds benefited by the same or a substantially similar covenant, and no remedy shall be sought or granted other than specific performance of the Disclosure Covenant at issue. Notwithstanding the foregoing, no challenge to the adequacy of the information provided in accordance with the filings mentioned in paragraph (a) above may be prosecuted by any beneficial owner except in compliance with the remedial and enforcement provisions of the Loan Agreement.

Any amendment or modification to the Disclosure Covenant may only take effect if:

(1) the amendment or modification is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Corporation;

(2) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of the Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(3) any such amendment or modification does not materially impair the interests of the beneficial owners, as determined either by parties unaffiliated with the Corporation (such as the Bond Trustee or bond counsel), or by approving vote of the registered owners of not less than a majority in principal amount of the Bonds then Outstanding pursuant to the terms of the Trust Agreement, as it may be amended from time to time.

In the case of any amendment, the annual financial information containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

These provisions of the Loan Agreement shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Bonds.

Defaults and Remedies

Events of Default are defined in the Loan Agreement to include: (a) failure of the Corporation to make any payment under the Loan Agreement (including, but not limited to, Loan Repayments) or Obligation No. 11 when due, whether at maturity, redemption, acceleration or otherwise, (b) failure of the Corporation to perform, observe or comply with any covenant, condition or agreement on its part under the Loan Agreement (other than a failure to make any Loan Repayment or Required Payment under the Loan Agreement), including any covenant, condition or agreement in the Master Indenture applicable to any Member of the Obligated Group and incorporated by reference in the Loan Agreement, and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Corporation by the Bond Trustee or to the Corporation and the Bond Trustee by the Holders of at least 25% in aggregate principal amount of the Bonds then Outstanding; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default shall be deemed to have occurred or to exist if, and so long as the Corporation shall commence such performance, observation or compliance within such period and shall diligently and continuously prosecute the same to completion, or (c) an Event of Default described in clause (e) or (f) under the caption "SUMMARY OF THE MASTER INDENTURE – Defaults and Remedies -- Events of Default" above shall have occurred and be continuing or the Master Trustee shall have declared the aggregate principal amount of Obligation No. 11 and all interest due thereon immediately due and payable in accordance with the provisions of the Master Indenture described in the first paragraph under the caption "SUMMARY OF THE MASTER INDENTURE – Defaults and Remedies -- Acceleration; Annulment of Acceleration" above.

Whenever any Event of Default under the Loan Agreement shall have happened and be continuing, the Agency may take the following remedial steps: (i) in the case of an Event of Default described in (a) in the preceding paragraph, the Agency may take whatever action at law or in equity is necessary or desirable to collect the payments then due under Obligation No. 11; (ii) in the case of an Event of Default described in (b) in the preceding paragraph, the Agency may take whatever action at law or in equity is necessary or desirable to enforce the performance, observance or compliance by the Corporation with any covenant, condition or agreement by the Corporation under the Loan Agreement; and (iii) in the case of an Event of Default described in (c) in the preceding paragraph, the Agency may take such action, or cease such action, as the Master Trustee directs, but only to the extent such directions are consistent with the provisions of the Master Indenture.

Notwithstanding any other provision of the Loan Agreement or any right, power or remedy existing at law or in equity or by statute, the Agency shall not under any circumstances declare the entire unpaid aggregate amount of the Loan to be immediately due and payable except in accordance with the directions of the Master Trustee in the event that the Master Trustee shall have declared the aggregate principal amount of Obligation No. 11 and all interest due thereon immediately due and payable in accordance with the Master Indenture.

Prepayment of Loan

The Corporation has the option to prepay, together with accrued interest, all or any portion of the unpaid aggregate amount of the Loan in accordance with the terms and provisions of the Trust

Agreement. Such prepayment shall be made by the Corporation taking, or causing the Agency to take, the actions required (i) for payment of the Bonds, whether by redemption or purchase prior to maturity or by payment at maturity, or (ii) to effect the purchase, redemption or payment at maturity of less than all of the Bonds according to their terms.

The Corporation shall have the option to prepay all or a portion of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, from amounts received by the Corporation or another Member of the Obligated Group as insurance proceeds with respect to any casualty loss or failure of title or as condemnation awards, provided that such prepayment shall not be less than $100,000, upon the occurrence of the following event:

> Damage to or destruction of all or any part of the Property and Equipment by fire or casualty, or loss of title to or use of all or any part of the Property and Equipment as a result of the failure of title or as a result of Eminent Domain proceedings or proceedings in lieu thereof (if such damage, destruction, loss of title or loss of use causes such Property and Equipment to be impracticable to operate, as evidenced by an Officer's Certificate filed with the Agency and the Bond Trustee).

The Corporation shall have the option to prepay all of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, upon the occurrence of the following event:

> Changes in the Constitution of the United States of America or of the State or legislation or administrative action, or failure of administrative action by the United States or the State or any agency or political subdivision of either thereof, or by reason of any judicial decision to such extent that in the opinion of the Board of Trustees of the Corporation (expressed in a resolution) and in the opinion of an independent management consultant, both filed with the Agency and the Bond Trustee, (i) the Loan Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed on the date of the Loan Agreement are imposed on the Corporation.

Subject to the provisions of the Master Indenture, the Loan Agreement shall not be construed to prohibit the Corporation from applying insurance proceeds with respect to any casualty loss or condemnation awards or payments in lieu thereof to the optional prepayment in part of the Loan in accordance with the provisions of the Loan Agreement.

To make a prepayment as described in the preceding paragraphs under this caption, the Hospital Representative must give written notice to the Agency and the Bond Trustee which will specify therein (i) the date of the intended prepayment of the Loan, (ii) the aggregate principal amount of the Bonds to be purchased, redeemed or paid at maturity and the date or dates on which the purchase, redemption or payment is to occur, (iii) the source of the money that will be used by the Corporation to make such prepayment of the Loan and (iv) subject to the requirements of the Trust Agreement the maturities of the Bonds to be called.

The Corporation has the right to revoke any notice of prepayment given pursuant to the Loan Agreement if, on or prior to the tenth (10th) Business Day preceding any date fixed for redemption of Bonds pursuant to the Trust Agreement, the Hospital Representative notifies the Bond Trustee in writing that the Corporation has elected to revoke its election to redeem such Bonds because it has determined that the source of money for such redemption specified in the notice given by the Hospital Representative pursuant to the Loan Agreement is not available.

Amendments to Agreement

The Loan Agreement may, without the consent of or notice to any of the Holders, be amended, from time to time, to:

(a) cure any ambiguity or formal defect or omission in the Loan Agreement or in any supplement thereto;

(b) correct or supplement any provisions in the Loan Agreement which may be inconsistent with any other provisions in the Loan Agreement or make any other provisions with respect to matters which do not materially or adversely affect the interest of the Holders;

(c) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee; or

(d) add conditions, limitations and restrictions on the Corporation to be observed thereafter.

Any other amendments to the Loan Agreement require the consent of the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding.

Exclusion from Gross Income Covenant

The Corporation covenants that it will not take, and will cause each other Member of the Obligated Group not to take, any action which will, or fail to take, or allow any other Member of the Obligated Group to fail to take, any action which failure will, cause interest on the Bonds to become includable in the gross income of the Holders for federal income tax purposes pursuant to the provisions of the Code.

Members, Officers and Employees of the Agency and the Corporation Not Liable

Neither the members, officers and employees of the Agency nor the members of the Board of Trustees or the officers and employees of the Corporation shall be personally liable for any costs, losses, damages or liabilities caused or subsequently incurred by the Corporation or any officer, director or agent thereof in connection with or as a result of the Loan Agreement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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FOUNDED 1866

January 25, 2007

Vermont Educational and Health
Buildings Financing Agency
Montpelier, Vermont

Ladies and Gentlemen:

We have examined Title 16, Chapter 131, Sections 3851-3862, Vermont Statutes Annotated, as amended (the "Act"), and certified copies of the proceedings of the Board of the Vermont Educational and Health Buildings Financing Agency (the "Board"), a body corporate and politic constituting a public instrumentality of the State of Vermont (the "Agency"), authorizing the issuance of revenue bonds of the Agency hereinafter described and other proofs submitted relative to the issuance of the following bonds (the "Bonds"):

$56,260,000

VERMONT EDUCATIONAL AND HEALTH BUILDINGS FINANCING AGENCY
HOSPITAL REVENUE BONDS
(FLETCHER ALLEN HEALTH CARE PROJECT)
SERIES 2007A

The Bonds are issued under and pursuant to the Act and a Trust Agreement, dated as of January 1, 2007 (the "Trust Agreement"), between the Agency and Chittenden Trust Company, as bond trustee (the "Bond Trustee"), for the purpose of providing funds, together with other available funds, to (i) pay, or reimburse Fletcher Allen Health Care, Inc. (the "Corporation") for paying, the cost of the Project (as described in the hereinafter defined Loan Agreement), (ii) fund a reserve fund for the Bonds under the Trust Agreement, and (iii) pay certain expenses incurred in connection with the authorization and issuance of the Bonds.

The Agency will lend the proceeds of the Bonds to the Corporation under a Loan Agreement, dated as of January 1, 2007 (the "Loan Agreement"), between the Agency and the Corporation. The Bonds are secured by, among other things, payments to be made by the Corporation on its Obligation No. 11, dated as of January 1, 2007 ("Obligation No. 11"), issued by the Corporation under an Amended and Restated Master Trust Indenture, dated as of March 1, 2004 (the "Master Trust Indenture"), between the Corporation and Chittenden Trust Company, as master trustee (the "Master Trustee"), as such Master Trust Indenture is supplemented by Supplemental Indenture for Obligation No. 11, dated as of January 1, 2007 (the "Supplemental Indenture" and, together with the Master Trust Indenture, the "Master Indenture"), between the

Corporation and the Master Trustee. Obligation No. 11 is being delivered to the Agency as evidence of the Corporation's obligations to repay the loan of the proceeds of the Bonds, and assigned by the Agency to the Bond Trustee as security for the payment of the Bonds. Obligation No. 11 is a direct, general and unconditional obligation of the Corporation secured by, among other things, a security interest in Pledged Assets (as defined in the Master Indenture) and a mortgage on substantially all of the real property of the Corporation at its Medical Center Campus.

The Bonds are dated the date hereof, bear interest from their date and are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth therein. The Bonds are issuable in fully registered form in authorized denominations.

We have also examined one of the Bonds as executed and authenticated.

Based upon such examinations, we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.

2. The Trust Agreement has been duly authorized and executed by the Agency and is a valid, binding and enforceable agreement in accordance with its terms.

3. The Bonds are valid and binding limited obligations of the Agency payable in accordance with their terms from payments to be made by the Corporation pursuant to Obligation No. 11 and the Loan Agreement, funds held by the Trustee under the Trust Agreement and money attributable to the proceeds of the Bonds and the income from the investment thereof, and, under certain circumstances, proceeds of insurance, condemnation awards and remedial action taken pursuant to the Master Indenture, the Trust Agreement or the Loan Agreement.

4. The Loan Agreement has been duly authorized and executed by the Agency and the Corporation and is a valid, binding and enforceable agreement in accordance with its terms.

5. The Master Indenture has been duly authorized and executed by the Corporation and is a valid, binding and enforceable agreement in accordance with its terms.

6. The Bonds shall not be deemed to constitute a debt or liability of the State of Vermont, and neither the faith and credit nor the taxing power of the State of Vermont is pledged for the payment of the principal of or the interest on the Bonds.

7. Based on existing law and assuming compliance by the Corporation and the Agency with their respective covenants to comply with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on the Bonds is not includible in gross income for federal income tax purposes. Interest on the Bonds will not be treated as a specific preference item in calculating the alternative minimum tax on individuals and corporations imposed by the Code; however, such interest will be included in the computation of the

alternative minimum tax on corporations imposed by the Code. Failure by the Agency or the Corporation to comply with their respective covenants to comply with the provisions of the Code regarding use, expenditure, and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the Treasury of the United States may cause interest on the Bonds to be includible in gross income for federal income tax purposes retroactive to their date of issuance. The covenant of the Agency described above does not require the Agency to make any financial contribution for which it does not receive funds from the Corporation. The opinion expressed in the first sentence of this paragraph may not be relied upon to the extent that the exclusion from gross income of the interest on the Bonds for federal income tax purposes is adversely affected as a result of the taking of any action in reliance upon the opinion of counsel other than this firm. In rendering the opinion set forth in the first sentence of this paragraph, we have relied upon the representations made by the Corporation with respect to certain material facts within the knowledge of the Corporation, which we have not independently verified, and the opinion of Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, counsel for the Corporation, that the Corporation is exempt from federal income taxation under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code. Other than as described herein, we have not addressed and we are not opining on the tax consequences to any investor of the investment in, or receipt of any interest on, the Bonds.

The Act provides that bonds of the Agency and the income therefrom shall at all times be exempt from taxation in the State of Vermont, except for transfer and estate taxes.

The enforceability of the Master Indenture, the Trust Agreement and the Loan Agreement and the obligations of the aforementioned parties with respect to such documents and the security interest and mortgage described above are subject to bankruptcy, insolvency and other laws affecting creditors' rights generally. To the extent that the remedies under the Master Indenture, the Trust Agreement and the Loan Agreement require enforcement by a court of equity, the enforceability thereof may be limited by such principles of equity as the court having jurisdiction may impose.

In rendering this opinion we have relied, without independent investigation, upon the opinion of Dinse, Knapp & McAndrew, P.C., Burlington, Vermont, counsel for the Corporation, with respect to the due organization and valid existence of the Corporation, its power and authority with respect to the transactions contemplated by, and its due authorization, execution and delivery of, the Loan Agreement, Obligation No. 11 and the Master Indenture.

Respectfully submitted,

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